



中華證券交易服務有限公司  

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CHINA EXCHANGES SERVICES  
COMPANY LIMITED

# **CES SCHK High Yield Low Volatility Index Methodology**

**Aug 2023**



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## Preface

The index is compiled by China Exchanges Services Company Ltd. (CESC) and jointly maintained by CESC and Shenzhen Securities Information Co., Ltd. (SSIC).

The CES SCHK High Yield Low Volatility Index (CES SCHK HYLV) is a price return index, aims to track the performance of high yield and low volatility stocks, using forecast dividend yield as an indicator.

Index Name	Launch Date	Constituents
CES SCHK HYLV	16-07-2018 <sup>1</sup>	Selecting the 40 most profitable, most liquid, and lowest fluctuating stocks listed on the Main Board of SEHK and eligible for Southbound Trading under Stock Connect

<sup>1</sup> The CES SCHK HYLV is calculated on real-time basis starting from 22 Aug 2023.

## 1. Index Name and Code

Index Name	Abbreviation	Index Currency	Index Code
CES SCHK High Yield Low Volatility Index	CES SCHK HYL V	HKD	CESYLV
CES SCHK High Yield Low Volatility Total Return Index	CES SCHK HYL V TR	HKD	YLVHKDG

## 2. Base Date and Base Value

The base date is December 30, 2011. The base value is 2000.

## 3. Index Eligibility

### 3.1 Index Universe

The index universe for CES SCHK HYL V is composed as follows:

- Stocks listed on the Main Board of SEHK and eligible for Southbound Trading under Stock Connect.
- Listing history more than 3 months.
- Average stock price per share in the past 12 months above \$1.

### 3.2 Selection Criteria

The constituents are selected as follows:

- **Liquidity Screen:** Any stocks with average daily turnover (ADT) less than HK\$10M in the past 12 months will be excluded.
- **DPS Screen:** Any stocks with zero dividends per share (DPS) in the past 3 years will be excluded.
- **EPS Screen:** Any stocks with negative Earnings per share (EPS) in the latest fiscal year will be excluded.
- **Inflation Screen:** Any stocks with 12-months dividend yield forecast lower

than Latest average of the last 12-month Hong Kong Composite CPI YoY % change will be excluded.

*Note: If remaining stocks are extremely insufficient for index construction, appropriate adjustments might be made to the principles.*

- **Analyst Screen:** Exclude stocks without 3 or more analysts' forecast on dividends per share.
- **Low Volatility Screen:** Following above screens, remaining stocks will be ranked in ascending order in terms of historical volatility (i.e., 1-year annualized standard deviation of daily returns). Top 40 securities are chosen for inclusion in the index.

## 4. Index Calculation

The indices are calculated according to the Paasche weighted method, real-time calculation is carried out daily according to the following formula:

real time index = last trading day closing index

$$\times \frac{\sum (\text{constituent's real time stock price} \times \text{No. of shares} \times \text{adjustment factor})}{\sum (\text{constituent's last trading day closing price} \times \text{No. of shares} \times \text{adjustment factor})}$$

For adjustment method of No. of shares, please refer to *Index Calculation and Maintenance Methodology*. For adjustment factor, please refer to “6. Adjustment for Constituents' Weights”.

## 5. Periodic Review of Constituents

### 5.1 Periodic Review

The indices are reviewed semi-annually. Periodic reviews are implemented on the next trading day after market closing of the second Friday in June and December each year. Announcements of periodic reviews are published two weeks before implementation. The number of new constituents in each periodic review shall not

exceed 20% of the total number of index constituents.

After new constituents are determined, remaining stocks will be ranked by factor weight in descending order and 5% of the total number of index constituents will be selected as reserved stocks.

## 5.2 Ongoing Adjustment

If a constituent is subject to delisting or no longer eligible for Trading under Stock Connect, it will be removal from the index, and the top-ranking stock in the reserve list shall be added into the index accordingly.

## 6. Adjustment for Constituents' Weights

The index is forecast dividend yield weighted.

In index calculation, the adjustment factor is designed to set the weight of individual constituent no more than 10% in each period review.

The adjustment factor is recalculated twice a year and implemented in periodic reviews. The adjustment factor generally remains constant before next periodic review.

## 7. Amendments and Supplements to Index Methodology

In response to market development and clients' feedback, CESC and SSIC will amend or supplement the Index Methodology from time to time as appropriate. Proposed changes will be announced to the market prior to implementation.

## 8. Information Disclosure

To maintain the objectiveness, independence and authority of the index, CESC has adopted a stringent information disclosure policy to ensure transparency, openness and fairness.



- Any personnel of CESC and SSIC are forbidden to divulge any information to any third party, including private media interviews before such information is disclosed to the public.
- Media used for information disclosure includes but not limited to website of CESC and SSIC.

## Contact Us

**For further details, please contact:**

### **Index Licensing Enquiries**

#### **China Exchanges Services Company Limited**

50/F, One Exchange Square 8 Connaught Place, Central, Hong Kong

Tel: 852 2803 8200

Fax: 852 2868 3770

Email: [cescinfo@cesc.com](mailto:cescinfo@cesc.com)

Website: <https://www.cesc.com/>

### **Customer Service**

#### **Shenzhen Securities Information Co., Ltd.**

Shenye Center, 5054 Shennan East Road, Shenzhen

Tel: 0086 755 8324 3719

Fax: 0086 755 8324 3723

Email: [index.service@cninfo.com.cn](mailto:index.service@cninfo.com.cn)

Website: <http://www.cnindex.com.cn/>