

MSCI China A 50 Connect Index

A powerful tool to capture exposure to sector
leaders of China A shares market





Fueled by technological innovation, growing domestic wealth and financial reform, China has enjoyed high levels of economic growth over the past 40 years. It is expected to contribute 24% of global gross domestic product (GDP) by 2030.¹ Since December 2009, its weight in the MSCI Emerging Markets Index increased from 18% to 35% in June 2022², helped by the partial inclusion of China A shares in 2018 and 2019.

The **MSCI China A 50 Connect Index** follows an innovative approach by selecting 50 of the largest China A shares investable through Stock Connect³ and ensuring diversified sector allocation and balanced representation of the broader China A market. The Index seeks to reflect the performance of the 50 largest companies representing each Global Industry Classification Standard (GICS®) sector—the global standard for industry sector analysis. It aligns its sector-weight allocation with that of our flagship MSCI China A Index (the Parent Index). Compared with a simple top-50 approach, the MSCI China A 50 Connect Index mitigates the risk of over-concentration in the Financial and Consumer Staples sectors.

The Index enables investors to track and gain exposure to China's sector leaders. With at least two stocks from each sector, the MSCI China A 50 Connect Index seeks diversified sector exposures across the Chinese economy, helping investors to track and gain exposure to the country's sector leaders. As is the case with all our Indexes, it applies all of our investability requirements (see **MSCI Global Investable Market Indexes methodology**).

1 <https://www.worldeconomics.com/World%20Markets%20of%20Tomorrow/Year-2030.aspx#TopCountries>

2 MSCI data as of June 2022

3 The Stock Connect program was established for connectivity of trading and clearing between mainland China's (Shanghai and Shenzhen) and Hong Kong's securities markets. The mechanism involves Northbound Trading and Southbound Trading; with Northbound trading, international investors will be able to trade eligible securities in mainland China through the Hong Kong Exchanges, whereas with Southbound Trading, mainland investors will be able to trade eligible securities in the Hong Kong through the Shanghai and Shenzhen exchanges.

Key Features

- » A flagship China A 50 index that is based on Stock Connect and reflective of China's economic development
- » Exhibits similar sector weight allocation and risk to the broader MSCI China A Index
- » An index built from the flagship MSCI China A Index which accounts for all GIMI investability requirements
- » A representative index that targets at least two stocks from each of the 11 GICS sectors
- » A sector-diversified index with sector weights that align with those of MSCI China A Index
- » The MSCI China A 50 Connect Index can be integrated effortlessly into the investment process—from research to portfolio construction and asset allocation.
- » Construction of both the Parent and MSCI China A 50 Connect indexes employ a transparent, rules-based methodology to help investors understand and consistently measure the full opportunity set.



Why institutional investors may consider the MSCI China A 50 Connect Index?



Liquidity: Exposure to liquid large cap names



Small number of index constituents: Easy to replicate, measure and report



Large average market cap and traded value: Reflects a highly selective opportunity set



Strong fundamentals: Relatively high performance compared with MSCI China A market

How can you use this index?

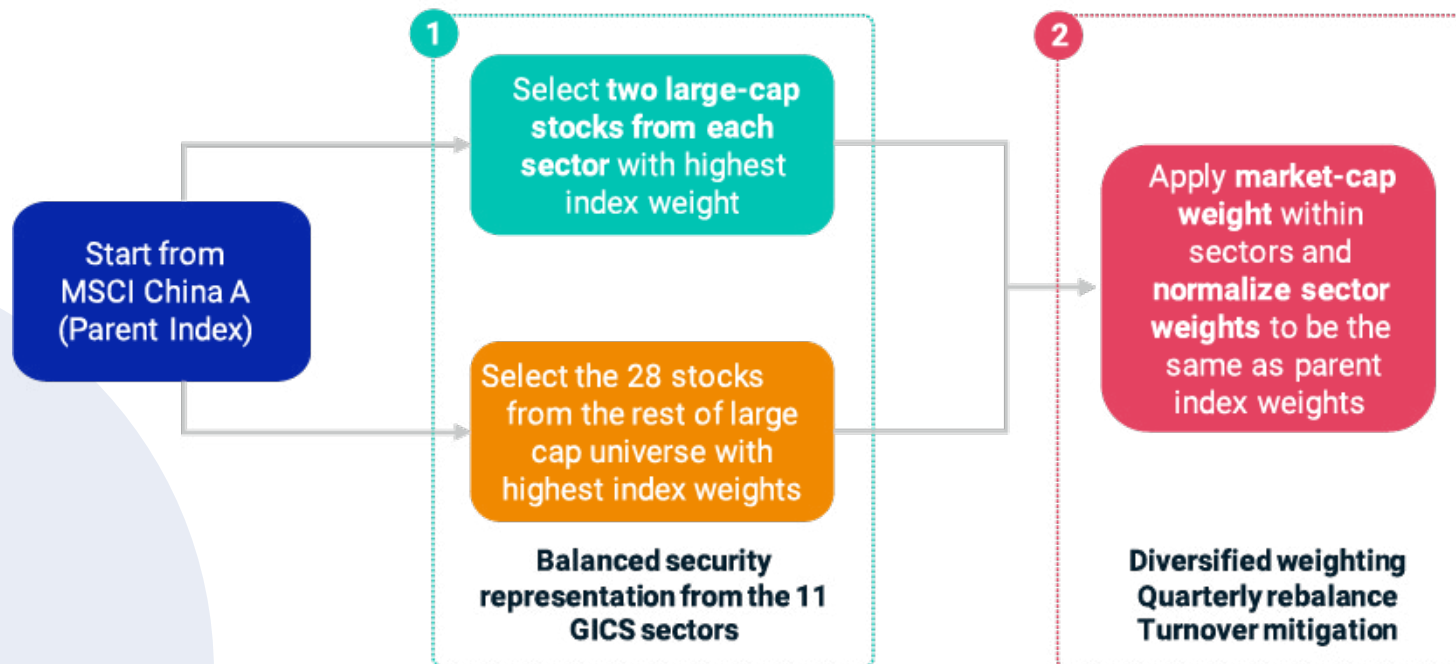
 Portfolio construction	 Asset Allocation	 Financial Instruments	 Research	 Performance Benchmark
As part of the portfolio creation process, the index offers broad diversification across the Chinese economy	As a policy benchmark for strategic asset allocation	May be licensed to create financial products such as ETFs or mutual funds	As a research resource to support China investing strategies	As a benchmark to measure performance of active managers



Index Methodology

The MSCI China A 50 Connect Index uses a transparent, rules-based construction process for which MSCI is recognized globally. Using an index in the investment process that consistently measures the full opportunity set is key to fully understanding and capturing the unique drivers of risk and return. With a focus on larger companies with high index weights, the MSCI China A 50 Connect Index targets companies with high levels of liquidity. It also seeks both high correlation and low tracking error with market benchmarks, such as the MSCI China A Index.⁴ The Index is constructed by applying the following steps:

- » **Step 1:** We first select the two largest securities from each of the 11 GICS® sectors based on the index weights of the MSCI China A Index (Parent Index).
- » **Step 2:** The remaining 28 securities are selected from the Parent Index by index weight until the total count reaches 50. We use a selection buffer of 15 securities designed to mitigate index turnover. Finally, the selected securities are weighted based on the free-float market cap weights of the Parent Index within each sector and reflect the sector weight allocation of the Parent Index.



This summary is provided for illustrative purposes only and does not include all material elements of the index or its methodology. For a complete description of the index methodology, please see [Index methodology - MSCI](#).

⁴ Correlation measures how assets and markets move in relation to each other, and can be used to manage risk, while tracking error measures the fluctuation of returns of a portfolio relative to the fluctuation of returns of a reference index.

Conclusion

The MSCI China A 50 Connect Index is comprised of some of China's largest and liquid growth opportunities across the country's economic sectors. Based on [MSCI's research analysis](#), this index tool could help refine the size exposure in an existing portfolio, manage the systematic risk of the China A market and implement a core dedicated China A allocation.

Further reading

- » To learn more, read our blog post, [A Sector-Balanced Approach to China A Mega-Cap Exposure](#)
- » Listen to an [interview](#) with MSCI Managing Director of APAC Index Solutions Research Dr. Zhen Wei as he discusses the uniqueness of MSCI China A 50 Connect index, how it is constructed, and why the sector-balanced approach in the index design is essential to reflect the broader Chinese economy.
- » Watch our [video](#) that highlights the unique features of the index and its implication for international investors.

ABOUT MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit www.msci.com.

The information contained herein (the "Information") may not be reproduced or disseminated in whole or in part without prior written permission from MSCI. The Information may not be used to verify or correct other data, to create indexes, risk models, or analytics, or in connection with issuing, offering, sponsoring, managing or marketing any securities, portfolios, financial products or other investment vehicles. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information or MSCI index or other product or service constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy. Further, none of the Information or any MSCI index is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. The Information is provided "as is" and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF MSCI INC. OR ANY OF ITS SUBSIDIARIES OR ITS OR THEIR DIRECT OR INDIRECT SUPPLIERS OR ANY THIRD PARTY INVOLVED IN THE MAKING OR COMPILING OF THE INFORMATION (EACH, AN "MSCI PARTY") MAKES ANY WARRANTIES OR REPRESENTATIONS AND, TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH MSCI PARTY HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. WITHOUT LIMITING ANY OF THE FOREGOING AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, IN NO EVENT SHALL ANY OF THE MSCI PARTIES HAVE ANY LIABILITY REGARDING ANY OF THE INFORMATION FOR ANY DIRECT, INDIRECT, SPECIAL, PUNITIVE, CONSEQUENTIAL (INCLUDING LOST PROFITS) OR ANY OTHER DAMAGES EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.

©2022 MSCI Inc. All rights reserved | CFS0822