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MSCI

Index Review

MSCI China A Index History - A Summary

August 2011

MSCI Equity Indices

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MSCI China A History - Introduction

Analysis of the Historical Index Returns for the MSCI China A Indices

Highlights

- Following the launch of the MSCI China A Investible Market Indices (IMI) based on Global Investible Market Indices (GIMI) methodology in November 2009, MSCI is now making available back-calculated index levels and security level history for this index.
- The back-calculated history covers the period November 2004 to November 2009 for the various GIMI size segments (Large Cap, Mid Cap, Standard, SMID, Small Cap and IMI).

I – Methodology for the back-calculated MSCI China A Index

Replicating the GIMI methodology in the back-calculated history

The approach for the back-calculation of the MSCI China A Index history is to closely replicate the MSCI China A methodology. The full list of specific methodology rules for the MSCI China A history is included in Appendix I. For a full description of the MSCI China A Methodology, please refer to the section in the Appendix related to the transition of MSCI China A Index in the MSCI Global Investable Market Indices at http://www.msci.com/products/indices/country_and_regional/all_country/methodology.html

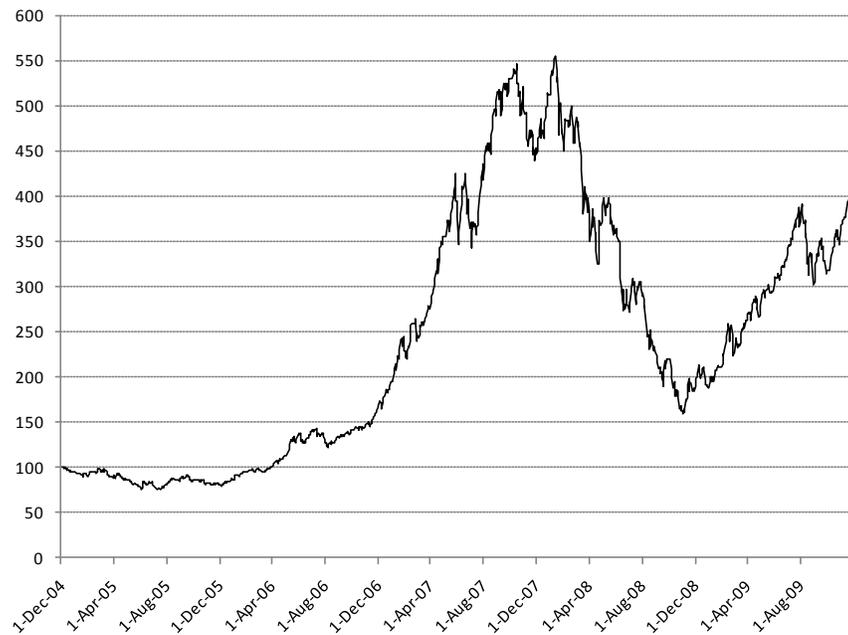
II – Overview of MSCI China A Index

MSCI China A Index Performance

MSCI China A history available from November 30, 2004

Exhibit 1 depicts the performance of the back-calculated history for the MSCI China A Investable Market Index (IMI). The history covers the period from November 30, 2004 till data ends in November 30, 2009.

Exhibit 1: Performance of the back-calculated MSCI China A IMI, Gross Total Return (2004-2009)



Performance of size segments

Exhibit 2 describes the annualized returns for the different size segments of the back-calculated MSCI China A IMI.

It can be observed from Exhibit 2 that the Small Cap segment has outperformed the other size segments over the short run as well as over a 5 year period.

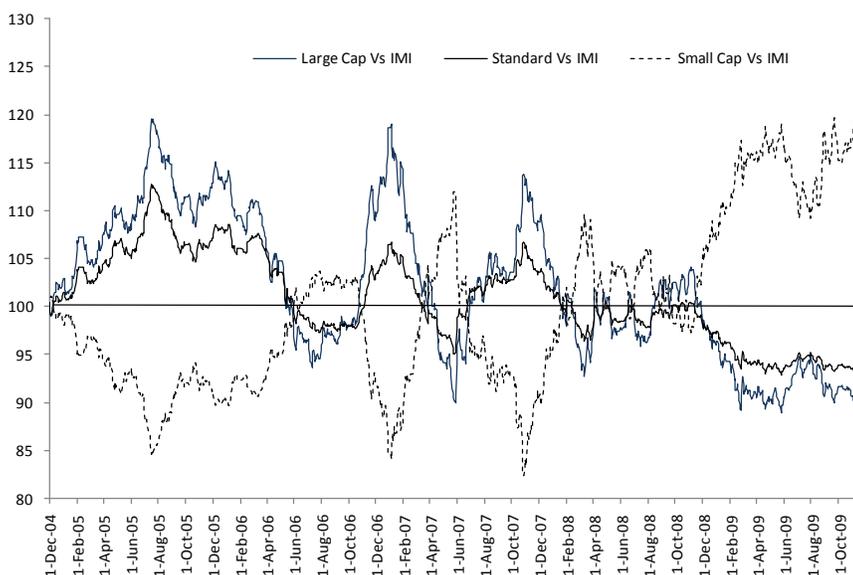
Exhibit 2: Annualized Gross Total Returns (in CNY) of Size Segments

Small Cap has outperformed all the other size segments

	Annualized Returns			
	1 Year	2 Years	3 Years	5 Years
Large Cap	87.44%	-20.38%	13.71%	28.43%
Standard	94.79%	-17.48%	19.78%	30.03%
Small Cap	138.25%	-1.22%	42.67%	38.86%
IMI	105.25%	-13.41%	25.58%	32.48%

* Based on data ending in Nov 30, 2009

Exhibit 3: Relative Performance of back-calculated Size Segment Indices, Gross Total Return (in CNY)



Different size segments have outperformed over the back-calculated history

The performance of the different size segments of the back-calculated MSCI China A index has varied over the period November, 2004 – November 2009. The MSCI China A Large Cap Index and Standard Index outperformed the MSCI China A IMI from Dec 2004 throughout mid 2006. The MSCI China A Small Cap Index exhibits a strong underperformance over this period. By contrast, the MSCI China A Small Cap Index exhibits a strong recovery from mid-2008 which leads to a continuous outperformance relative to the MSCI China A Investable Market Index for the rest of the period ending in November, 2009.

Number of constituents across size segments

As shown in Exhibit 4, the number of constituents in the back-calculated history across different size segments evolves over the period 2004 – 2009. The back-calculated history of the MSCI China A IMI covers 475 securities in November, 2004 and this coverage expands to 1364 securities in May, 2009.

The constituents increase from 113 to 550 for the Standard size segment over the back-calculated history.

Exhibit 4: Number of Companies in the back-calculated MSCI China A IMI

	Nov-04	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Large Cap	42	35	34	48	58	93	117	135	116	189
Standard	113	111	101	161	210	291	326	407	331	550
Small Cap	362	376	387	362	379	599	668	749	883	814
IMI	475	487	488	523	589	890	994	1,156	1,214	1,364

Size segment characteristics

Exhibit 5 summarizes the characteristics of the size segments over time. It describes the Global Minimum Size References used to define the size segments and the coverage of the Investable Universe reached. The Global Minimum Size References have gradually increased over the back-calculated history till November, 2007 after which it starts decreasing.

Exhibit 5: Size Segments of the back-calculated MSCI China A IMI

	Global Minimum Size References			Market Coverage		
	Large Cap	Standard	IMI	Large Cap	Standard	IMI
Nov-04	2401	869	151	26.8%	57.3%	99.0%
May-05	2410	848	151	29.1%	58.8%	98.6%
Nov-05	2617	900	166	29.2%	55.9%	98.5%
May-06	2762	955	173	31.5%	63.8%	99.4%
Nov-06	3027	994	171	39.0%	70.3%	99.1%
May-07	5982	2031	185	38.4%	66.9%	98.5%
Nov-07	6289	2083	189	50.3%	72.9%	99.2%
May-08	5658	1734	146	48.1%	73.9%	99.4%
Nov-08	3789	1190	98	50.3%	71.6%	99.5%
May-09	3535	1120	89	54.7%	78.8%	99.9%

Note : All market caps are in USD millions.

Gradual increase of the Global Minimum Size References over time

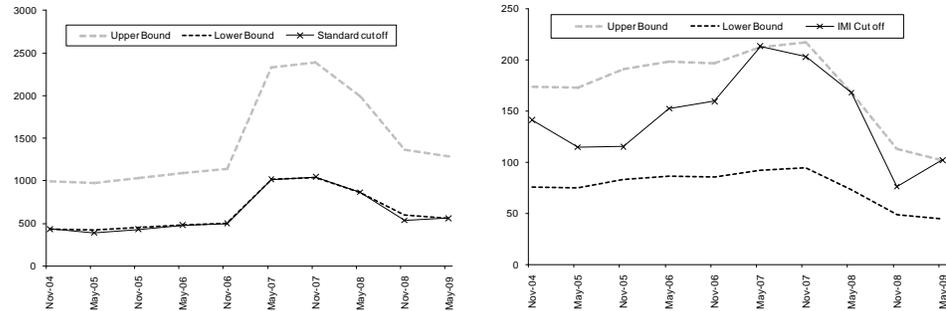
Global Minimum Size Reference and Size Integrity

The Global Minimum Size Reference is reviewed at each Semi-Annual Index Review and is used to determine a Global Minimum Size Range. The range is defined as 0.5 times to 1.15 times the Global Minimum Size Reference. Exhibit 6 shows the evolution of the Global Minimum Size Range for the back-calculated MSCI China A Index. It evolves continuously with market performance.

The size integrity thresholds have evolved with market conditions

Exhibit 6 also depicts the evolution of the Standard size segment cut off and IMI cut off for the back-calculated MSCI China A IMI. It can be observed that the Standard cut off is trailing the lower bound of the Global Minimum Size Reference.

Exhibit 6: Back-calculated MSCI China A and MSCI China A IMI Global Minimum Size Range and Market Standard size Cut offs and IMI Cut offs

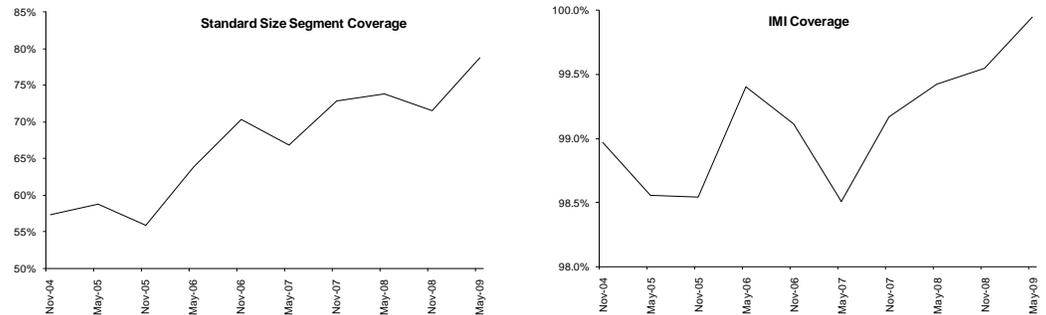


Market Coverage

Use of a Market Coverage Target Range ensures consistent coverage over time

Exhibit 7 shows the evolution of the market coverage for the back-calculated MSCI China A Index from 2004 to 2007. The GIMI methodology aims to ensure consistency in coverage over time. However, in order to prevent unnecessary turnover, the coverage is allowed to vary within a band of 80% to 90%. When the coverage at a Semi-Annual Index Review increases above 90%, a decrease in number of companies is triggered. Conversely, when the coverage falls below 80%, an increase in number of companies is triggered. Only when an increase or decrease in number of companies would result in the size integrity requirements described above being breached is the coverage allowed to stay outside the 80%-90% band. Exhibit 7 shows that in order to meet the size integrity, the coverage is allowed to remain below 80% for the Standard size segment.

Exhibit 7: Back-calculated MSCI China A and China A IMI Market Coverage



Sectoral Distribution across Size segments

Exhibit 8 and 9 show the evolution of sector weights across different size segments from November, 2004 – May, 2009.

The top initial sectors for the back-calculated MSCI China A Index include Industrials, Materials and Financials. The weight of Financials in the Index has increased over time with Financials having the maximum weight in last semi-annual rebalancing in May,2009.

Compared to the Standard segment, Financials have a relatively lower weight in the Small Cap segment. Industrials, Materials and Consumer Discretionary have the highest weight in the Small Cap segment over the back-calculated history.

Sectoral Distribution based on number of securities for different size segments for back-calculated MSCI China A IMI can be found in Appendix II.

Exhibit 8: Sectoral Distribution of the back-calculated MSCI China A Index

Financials, Materials and Industrials have the highest weight in the Standard segment in May,2009.

Sector	Nov-04	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Energy	5%	6%	6%	6%	5%	4%	9%	9%	7%	8%
Materials	18%	18%	18%	19%	18%	18%	17%	20%	16%	16%
Industrials	19%	19%	17%	19%	19%	21%	17%	17%	18%	18%
Consumer Discretionary	13%	13%	12%	14%	11%	12%	9%	9%	8%	10%
Consumer Staples	4%	5%	6%	9%	8%	6%	5%	6%	6%	5%
HealthCare	2%	2%	1%	2%	2%	2%	2%	3%	4%	4%
Financials	15%	16%	19%	16%	25%	26%	31%	26%	31%	32%
Information Technology	8%	6%	5%	4%	4%	3%	2%	3%	2%	3%
Telecommunication	5%	4%	5%	3%	2%	2%	2%	2%	2%	1%
Utilities	12%	11%	11%	7%	5%	6%	5%	5%	6%	4%

Exhibit 9: Sectoral Distribution of the back-calculated MSCI China A Small Cap Index

Materials, Industrials and Consumer Discretionary have the highest weight in the Small cap segment in May,2009.

Sector	Nov-04	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Energy	1.1%	3.2%	4.9%	1.9%	1.9%	1.6%	2.7%	1.8%	1.6%	2.3%
Materials	21.3%	20.3%	21.5%	21.9%	20.7%	19.4%	20.5%	19.4%	20.1%	20.1%
Industrials	30.9%	27.3%	27.2%	26.8%	23.8%	22.2%	23.3%	24.2%	24.7%	22.9%
Consumer Discretionary	15.4%	14.1%	13.7%	14.5%	17.2%	19.0%	18.2%	17.8%	17.9%	17.7%
Consumer Staples	4.9%	6.6%	6.2%	6.8%	7.1%	7.9%	7.3%	9.1%	8.1%	7.5%
HealthCare	7.3%	7.9%	6.8%	6.3%	8.5%	10.5%	9.2%	7.7%	8.3%	8.7%
Financials	7.4%	8.1%	7.0%	7.2%	6.5%	6.1%	6.7%	5.8%	5.9%	5.9%
Information Technology	7.7%	8.5%	8.4%	9.3%	9.6%	8.7%	7.7%	9.7%	8.7%	10.4%
Telecommunication	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Utilities	4.1%	4.1%	4.4%	5.3%	4.7%	4.6%	4.5%	4.4%	4.7%	4.4%

Turnover Analysis

The average one way turnover for the different size segments of back-calculated MSCI China A history is shown in Exhibit 10. The turnover includes only additions and deletions, excluding the turnover due to changes in float and in the number of shares.

Exhibit 10: Historical Average One Way Index Turnover

Turnover	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Large Cap	6.2%	1.8%	26.5%	11.2%	24.2%	13.9%	5.6%	3.4%	19.5%
Standard	2.0%	4.1%	23.3%	13.6%	15.8%	8.4%	9.0%	4.9%	16.0%
Small Cap	14.3%	13.2%	32.5%	16.4%	41.1%	11.1%	19.0%	18.7%	41.9%
IMI	6.2%	4.2%	8.6%	9.3%	16.6%	8.4%	5.4%	1.8%	3.9%

The average semi-annual one way turnover is 10.8% for the back-calculated MSCI China A index and 7.2% for the back-calculated MSCI China A IMI respectively.

Appendix I: Methodology used to construct the Back-Calculated History for MSCI China A Index

The methodology rules applied for the back-calculation of the MSCI China A Index history incorporates few modifications and special treatments as detailed below:

Eligibility

The security eligibility rules applied to the back-calculated MSCI China A Index history are as specified in the section in the Appendix related to the transition of the MSCI China A Index of the MSCI Global Investable Indices Methodology. All China A shares listed on the Shanghai and Shenzhen stock exchange are eligible for inclusion. Securities with a “ST”, “*ST” or “PT” status are excluded from the Equity Universe.

Investability Criteria and Global Minimum Size Reference

The Equity Universe Minimum Size applied to the MSCI China A Index is based on the Global Minimum Size Reference of the Emerging Markets under the MSCI Global Investable Market Indices Methodology.

Prior to May 2007, a relaxed Global Minimum Size Reference (one half of the MSCI Emerging Markets Minimum Size Reference) is applied to improve the coverage of the Standard size segment.

No reduction in the Global Minimum Size Reference is applied for the Small Cap size segment.

Liquidity

To be included in the Investable Equity Universe, a security must have an adequate liquidity level. The Annualized Traded Value Ratio (ATVR) and Frequency of Trading is used to measure liquidity.

The MSCI China A Index methodology requires a security to have a minimum liquidity level of 15% of 3-month ATVR and 80% of 3-month Frequency of Trading over the last 4 consecutive quarters, as well as 15% of 12-month ATVR for inclusion of a security in the Investable Equity Universe.

Corporate Events

The back-calculated MSCI China A Index history reflects the impact of corporate events such as IPOs, Delistings, Acquisitions and Dividends and Stock splits as per the MSCI Corporate Actions Methodology.

Appendix II: Sector Distribution

Exhibit 11 and Exhibit 12 show the sector distribution of the back-calculated MSCI China A Index and MSCI China A Small Cap index by number of securities.

Exhibit 11: Sector Distribution in back-calculated MSCI China A Index

Sector	Nov-04	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Energy	4	6	6	10	12	12	18	24	20	26
Materials	24	22	20	36	46	60	72	96	72	113
Industrials	23	23	22	37	53	77	79	93	79	131
Consumer Discretionary	20	20	19	26	27	38	37	45	34	72
Consumer Staples	6	6	6	12	17	22	24	28	24	35
HealthCare	3	2	1	6	7	9	12	23	21	35
Financials	9	11	11	14	24	38	49	57	50	69
Information Technology	11	9	6	9	11	14	13	17	11	35
Telecommunication	1	1	1	1	1	1	1	1	1	2
Utilities	12	11	9	10	12	20	21	23	19	32

Exhibit 12: Sector Distribution in back-calculated MSCI China A Small Cap Index

Sector	Nov-04	May-05	Nov-05	May-06	Nov-06	May-07	Nov-07	May-08	Nov-08	May-09
Energy	4	10	16	7	8	10	17	13	16	17
Materials	86	83	85	80	82	121	131	142	174	165
Industrials	87	93	96	87	85	134	154	184	212	182
Consumer Discretionary	57	53	54	57	65	116	126	133	163	155
Consumer Staples	26	27	28	26	29	43	48	60	67	63
HealthCare	28	28	27	24	30	57	58	53	66	67
Financials	27	30	27	26	23	33	44	48	57	45
Information Technology	35	37	38	36	38	55	57	83	87	85
Telecommunication	0	0	0	0	0	0	0	0	0	2
Utilities	12	15	16	19	19	30	33	33	41	33

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