

PAVING THE WAY TO CHINA



As a result of recent market liberalization efforts, China – the world’s second largest economy – has become more accessible for international institutional investors. China accounts for more than one-fifth of the MSCI Emerging Markets Index weight, yet the majority of global institutional investors today own an incomplete China equity portfolio. China A-shares, which make up 34% of the total China equity investment opportunity set, are often missing from a typical institutional investor’s portfolio.

The reason why A-shares are not yet included in some mainstream global indexes is not difficult to understand. Market accessibility is the overriding issue. The existence of quota systems for overseas asset managers and capital mobility restrictions make it challenging for foreign

investors to access the market freely. Understanding the differences between the various share classes in China is crucial for making informed investment decisions within its complex equity markets. The infographic below includes key information that investors should know about the different types of China share classes.

The MSCI China Indexes consist of a range of country, composite and non-domestic indexes for the Chinese market, intended for both international and domestic investors, including Qualified Domestic Institutional Investors (QDII) and Qualified Foreign Institutional Investors (QFII) licensees. The indexes are calculated according to the MSCI Global Investable Market Indexes (GIMI) Methodology.

CHINA MARKET OVERVIEW

INDEX	SHARE CLASS	DEFINITION	STOCK EXCHANGE (CURRENCY)	MARKET CAP (\$B USD)*	
				STANDARD	SMALL CAP
 MSCI China A	A	China securities incorporated in Mainland China, listed on the Shanghai or Shenzhen Stock Exchange and traded in Renminbi (RMB).	Shanghai (RMB) Shenzhen (RMB)	\$926.29	\$567.08
	B	China securities incorporated in Mainland China, listed on the Shanghai Stock Exchange (USD) and Shenzhen Stock Exchange (HKD).	Shanghai (USD) Shenzhen (HKD)	\$3.65	\$10.33
	H	China securities incorporated in Mainland China, listed on the Hong Kong Stock Exchange (HKD).	Hong Kong (HKD)	\$387.94	\$13.97
 MSCI China	Red-Chips	China securities of state-owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD).	Hong Kong (HKD)	\$200.04	\$21.76
	P-Chips	China securities of non-government owned companies incorporated outside Mainland China, listed on the Hong Kong Stock Exchange (HKD).	Hong Kong (HKD)	\$168.07	\$70.72
Listed Overseas**		China securities (including ADRs) incorporated outside Greater China (mainland China, Hong Kong, Macao and Taiwan), listed on the NYSE Euronext–New York, NASDAQ, NYSE AMEX (N-Shares) traded on USD, and Singapore (S-Shares) Exchanges traded on Singapore Dollars (SGD).	New York (USD)	\$90.67	\$14.38
			Singapore (SGD)		

* As of September 30, 2014 (Billion USD) Share Type Standard Small Cap. China A market cap is calculated based on Domestic Inclusion Factor (DIF) and the rest is calculated based on Foreign Inclusion Factor (FIF).
 ** As per the MSCI Overseas China Index Methodology.

MSCI INDEXES	METHODOLOGY/COVERAGE	USE CASES	INVESTORS
MSCI CHINA	<p>Methodology: GIMI</p> <p>Construction Universe: H, B, R, P</p> <p>Index Representation: H, B, R, P</p> <p>Weighting: FIF based</p> <p>140 Stocks</p>	<ul style="list-style-type: none"> ■ The de-facto China benchmark for international investors who use the MSCI ACWI/EM as their policy benchmark - the “no decision” option ■ If and when A-shares or other China share classes become eligible, they may be included in this index 	<p>ALL INTERNATIONAL INVESTORS</p> <p>Asset Owners, Asset Managers, Broker Dealers</p>
MSCI CHINA ALL SHARES	<p>Methodology: GIMI</p> <p>Construction Universe: H, B, R, P, A</p> <p>Index Representation: H, B, R, P, A</p> <p>Weighting: FIF¹ based</p> <p>384 Stocks</p>	<ul style="list-style-type: none"> ■ Depicts China opportunity for international investors if A shares are included in the MSCI EM Index - the future MSCI China ■ For international investors whose China opportunity set is defined as HK/PRC listed China securities 	<p>ALL INTERNATIONAL INVESTORS</p> <p>Asset Owners, Asset Managers and Broker Dealers seeking to pre-position for the benchmark inclusion of A-shares in the MSCI EM Index</p>
MSCI CHINA A INTERNATIONAL	<p>Methodology: GIMI</p> <p>Construction Universe: H, B, R, P, A</p> <p>Index Representation: A only</p> <p>Weighting: FIF¹ based</p> <p>220 Stocks</p>	<ul style="list-style-type: none"> ■ Represents the A share component of the MSCI EM benchmark after full inclusion ■ Standalone benchmark for China A specialist mandates (i.e., QFII mandates) 	<p>Asset Owners investing in A-shares ahead of benchmark inclusion, and for whom the ACWI consistency matters</p>
MSCI CHINA A	<p>Methodology: GIMI compatible</p> <p>Construction Universe: A only</p> <p>Index Representation: A only</p> <p>Weighting: DIF² based</p> <p>441 Stocks</p>	<ul style="list-style-type: none"> ■ The broadest representation of the China A opportunity, as a standalone allocation ■ The broadest benchmark for China A specialist mandates (e.g., QFII mandates) ■ A-share benchmark for domestic China investors 	<p>Asset Owners investing in A-shares ahead of the benchmark inclusion, who are comfortable with the benchmark misfit, and want to give more freedom to their managers</p> <p>Private Banks investing for A-share exposure</p> <p>Domestic Chinese Investors (e.g., a Chinese Insurance Company)</p>
MSCI OVERSEAS CHINA	<p>Methodology: Select constituents based on GIMI parameters</p> <p>Construction Universe: Overseas China (OC)</p> <p>Index Representation: OC</p> <p>Weighting: FIF¹ based</p> <p>9 Stocks</p>	<ul style="list-style-type: none"> ■ Standalone benchmark for investors seeking investment opportunity of China companies listed in the US and Singapore (outside Hong Kong and Mainland PRC) ■ Can be combined with other China indexes to offer global China exposure 	<p>Asset Managers offering China specialist mutual funds/ETFs</p> <p>Private Banks wanting to invest in China companies currently not listed on HK & PRC</p>
MSCI ALL CHINA	<p>Methodology: Composite index</p> <p>Construction Universe: 3 separate universes H, B, R, P / A / OC</p> <p>Index Representation: H, B, R, P, A, OC</p> <p>Weighting: Composite DIF² + FIF¹ based</p> <p>590 stocks</p>	<ul style="list-style-type: none"> ■ The broadest opportunity set of all Chinese companies listed anywhere in the world ■ Benchmark for investors seeking a broad definition of “China” without geographical and benchmark constraints 	<p>Managers offering China specialist mutual funds/ETFs</p> <p>Private Banks seeking to capture the broadest China exposure</p> <p>Potentially as specialist institutional mandates focus on China - as a carve out of EM mandates</p>

¹ The Foreign Inclusion Factor (FIF) reflects the free float available to international investors. For global index such as GIMI, MSCI adjusts the market capitalization of each security for free float using an adjustment factor referred to as the Foreign Inclusion Factor (FIF).

² The Domestic Inclusion Factor (DIF) reflects the free float available to domestic investors. For domestic index such as China A, MSCI adjusts the market capitalization of each security for free float using an adjustment factor referred to as the Domestic Inclusion Factor (DIF).

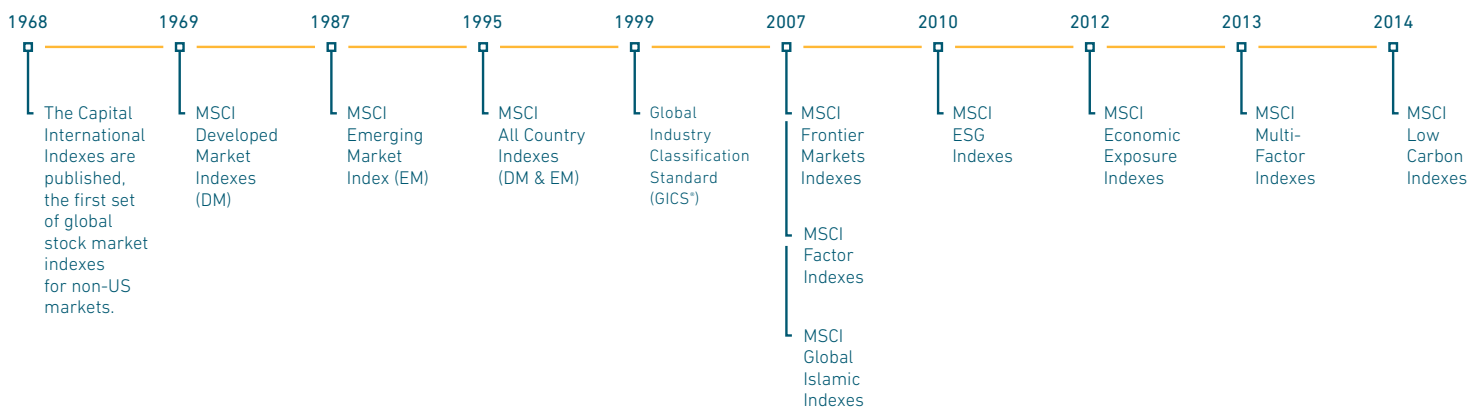
KEY FEATURES AND BENEFITS

- **Comprehensive Coverage** — The MSCI China Indexes cover all China share classes through various index combinations, as depicted in the table below, and are designed to provide a comprehensive, global representation of the China equity investment opportunity set.
- **Flexible Range** — Over 240 indexes are calculated, reflecting a variety of investment approaches to China, including the flagship MSCI China, MSCI China All Shares, MSCI China A International and MSCI China A.
- **Rigorous Index Construction** — As with all MSCI Global Equity Indexes, the MSCI China Indexes reflect a rigorous approach to index construction, incorporating broad sector diversification, free float adjustment, minimum float, liquidity and size guidelines, annual and quarterly index reviews.
- **Index Licensing** — All the MSCI China Indexes may be licensed for use by institutional investors around the world for portfolio management and benchmarking purposes. The indexes may also be licensed to serve as the basis of structured products and other index-linked investment vehicles such as ETFs.

MSCI OVERVIEW

MSCI has been at the forefront of index construction and maintenance for more than 40 years, launching its first global equity indexes in 1969. Globalization and the rapid integration of markets have led MSCI to explore alternative approaches to categorizing the global equity universe and product development. MSCI has remained a market leader by expanding and enhancing its index offering to reflect the evolving and complex needs of the institutional investment community with ground breaking new products, innovative research, high quality data and dedicated client support.

95 OF THE TOP 100
GLOBAL INVESTMENT
MANAGERS ARE
MSCI CLIENTS¹



¹ Based on P&I AUM data as of December 2013 & internal MSCI data as at September 2014

Today, MSCI offers a family of more than 160,000 consistent and comparable indexes which are used by investors around the world to develop and benchmark their global equity portfolios. MSCI indexes are also licensed as the basis for financial products such as exchange traded funds and structured products.

More than 670 ETFs³ from many of the world's leading ETF providers including iShares, Deutsche Bank, UBS, Lyxor, Amundi, SSgA, Source, HSBC, Commerzbank and Barclays are based on MSCI indexes.

Exchanges around the world have chosen MSCI equity indexes as the basis for numerous listed derivatives. These include: DGCX, EUREX, ICE Futures US, ICE Futures Europe, Johannesburg Stock Exchange and Singapore Exchange.

OVER \$9.5 TRILLION
IN ASSETS IS
ESTIMATED TO
BE BENCHMARKED
TO MSCI INDEXES²

MORE THAN 670
ETFs ARE BASED ON
MSCI INDEXES³

² As at June 30, 2014 as reported in September 30, 2014 by eVestment, Morningstar & Bloomberg.

³ Data as at September 30, 2014, calculated by aggregating the number of share classes of all exchange traded funds tracking an MSCI index as identified by separate Bloomberg tickers. Only primary listings, and not cross-listings are counted.

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ABOUT MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and ESG data and research.

The company's flagship product offerings are: the MSCI indexes with over USD 9.5 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

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¹ As at June 30, 2014, as reported in September 30, 2014, by eVestment, Morningstar and Bloomberg.