20th Anniversary

FTSE China A50 Index
Introduction

The FTSE China A50 Index was launched 20 years ago in 2003, when most skyscrapers were not even built in Shanghai Pudong. This index is one of the first China A Share indices offered by an international index provider.

The FTSE China A50 Index is designed to track the largest 50 Chinese A Share companies eligible under the Northbound Stock Connect scheme. The index has historically displayed high correlation with the broader China A Share market.

Since 2003, the FTSE China A50 Index has evolved with market development. The index now accounts for foreign ownership limits as well as sanctioned stock treatment, enhancing its investability among international investors.

Despite this evolution, FTSE China A50’s Index methodology has continued to follow a transparent, well understood free float market cap adjusted index methodology a standard for indices with a modest number of constituents.

Used by multiple ETFs and backed by liquid derivatives, the well built FTSE China A50 Index ecosystem, provides investors with both a means to access the largest Chinese companies in the A Share market, as well as a tool for risk management.
# FTSE China A50 Index

Remaining relevant to investors looking for China A Share market exposure

The FTSE China A50 Index comprises the 50 largest A Share securities listed on the Shanghai and Shenzhen exchanges. The number 50, relative to the 908 large and mid-cap stocks in the FTSE China A Index, may at first appear somewhat narrow.

**So, how is this index, comprising a “narrow” set of stocks relevant to investors looking for broad China A share exposure?**

Because these are the 50 largest Chinese companies. The FTSE China A50 Index still represents over a third of the broader China A Share market based on full market cap. Additionally, the FTSE China A50 Index is highly correlated to the broader China A Share market hovering mostly above 90% historically.

<table>
<thead>
<tr>
<th>FTSE China A50</th>
<th>FTSE China A Stock Connect</th>
<th>FTSE China A</th>
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<tbody>
<tr>
<td>Largest 50</td>
<td>755 large-&amp; mid-cap</td>
<td>908 large-&amp; mid-cap</td>
</tr>
<tr>
<td>FOL adjusted</td>
<td>FOL adjusted</td>
<td>FOL adjusted</td>
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<tr>
<td>Sanctioned stock treatment applicable</td>
<td>Sanctioned stock treatment applicable</td>
<td>Sanctioned stock treatment applicable</td>
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<tr>
<td>Northbound Stock Connect eligibility</td>
<td>Northbound Stock Connect eligibility</td>
<td>QFIs &amp; Northbound Stock Connect eligibility</td>
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Source: FTSE Russell; as of 30 December 2022. Past performance is no guarantee of future returns.

Note. 2017 is a year for mega-cap stocks FTSE China A50 recorded a total return of +34.4% in renminbi terms, versus FTSE China A at +133% and FTSE China A Stock Connect at +14.5%.
FTSE China A50 Index
A study on return & volatility against the broader China A share market

**Higher total return vs. broader China A share market over the long term**

- **Myth**
  The FTSE China A50 Index contains only 50 stocks. Given this narrow set of constituents, when compared against a much wider set of stocks in the broad China A Share market, investors assume:
  1. Returns cannot be in line with the broader China A share market
  2. The index provides a more volatile performance vs. the broader China A share market

- **Reality**
  When comparing the history of the FTSE China A50 Index vs. the FTSE China A Index, the A50 shows:
  1. Similar higher total returns to the broader China A Share market over the long term
  2. Consistent volatility against the broader China A Share market

**Volatility consistent with broader China A share market**

**Conclusion**
Myth debunked!
FTSE China A50 Index
A transparent methodology leading to a highly predictable index composition

Simple is beautiful
The FTSE China A50 Index has followed a free float market cap adjusted weighting approach since its launch. Nothing complicated. Nothing hidden. In fact, such an approach is standard for indices that have modest numbers of constituents.

This simple approach leads to a clear, preferable outcome:
- Low idiosyncratic risk: No alteration of weights or the introduction of undesired risks which you might see with a sector balanced approach
- Highly predictable composition: Bigger stocks get bigger weights, no surprises
- Low turnover: The largest stocks typically remain as the largest stocks, resulting in a low index turnover which can benefit passive portfolio management approaches
- Appropriate balance: A balance between tradability and representativeness

Recent methodology enhancements
In 2022, FTSE Russell proceeded with two upgrades to the FTSE China A50 Index methodology, improving investability as well as enhancing operational efficiency.

- Foreign ownership limit: Starting with the March 2022 index review, a 28% FOL has been consistently applied, which resulted in the extra benefit of a better industry diversification of the index
- Stock Connect: Starting with the June 2022 index review, all constituents have been subject to Northbound Stock Connect eligibility, mitigating operational hurdles for investment managers
Conclusion

The FTSE China A50 Index has transformed into an important tradable subset of the FTSE Global Equity Index Series with the latest enhancements in 2022.

By continuing to follow a simple, transparent methodology, the FTSE China A50 Index benefits from a highly predictable index composition and is a popular A Share index choice among ETF issuers.

Together with hugely liquid futures associated with the index, the established ecosystem is precisely what makes the FTSE China A50 Index so attractive today's investors.
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