

MARKET CONSULTATION ON THE INCLUSION OF CHINA A SHARES INTO THE UPCOMING GBS EMERGING MARKETS INDEX

11 February 2019



Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to the inclusion of China A Shares into the upcoming Solactive GBS Emerging Markets Index:

Key developments with regard to China A shares:

- Market accessibility improved: Since the launch of Stock Connect in 2014, the barrier to invest into China A-shares has been continuously lowered. In May 2018 the Stock Connect Northbound daily quota was increased from RMB 13 billion to RMB 52 billion and the Southbound daily quota was increased from RMB 10.5 billion to RMB 42 billion for each of the Shanghai Connect and the Shenzhen Connect. In addition to this, the quota for QFII has been increased from USD 150 billion to USD 300 billion and the RQFII program further expanded to Japan.
- Capital mobility improved: The monthly fund remittance limit for QFII and the capital lock-up period for QFII and RQFII redemptions has been removed in June 2018, giving foreign institutional investors higher flexibility with regard to their capital flows. Furthermore, foreign investors are allowed to make forex hedges on their mainland assets.
- Stock connect reliability: Since the Introduction of the Stock Connect, the daily quota has only been breached three times which happened back in 2014 and 2015. The maximum northbound amount that has been reached on one day was RMB 36.2 billion on 19 Jun 2018. This still leaves room for additional inflows into the China A share market considering the limit of RMB 52 billion for the northbound or RMB 42 billion for the southbound.

Proposed inclusion roadmap:

- China A shares will be included into the Solactive GBS Series with the semi-annual reconstitution in May 2019 and November 2019.
- China A shares will be considered as being a part of the regular China universe and hence, the largest 85% in terms of free float market capitalization within China will enter the large & mid cap size segment. This methodology will also be applied to the other size segments.
- Solactive proposes an inclusion factor of 20% for China A shares applied on their free float market capitalization which is adjusted for foreign ownership limits. The inclusion factor will be increased in a two-stage process from 10% in May 2019 to 20% in November 2019.
- Solactive will conduct additional market consultations in case the market circumstances for China A shares continue to improve and an increased inclusion factor can be considered.



Consultation Questions:

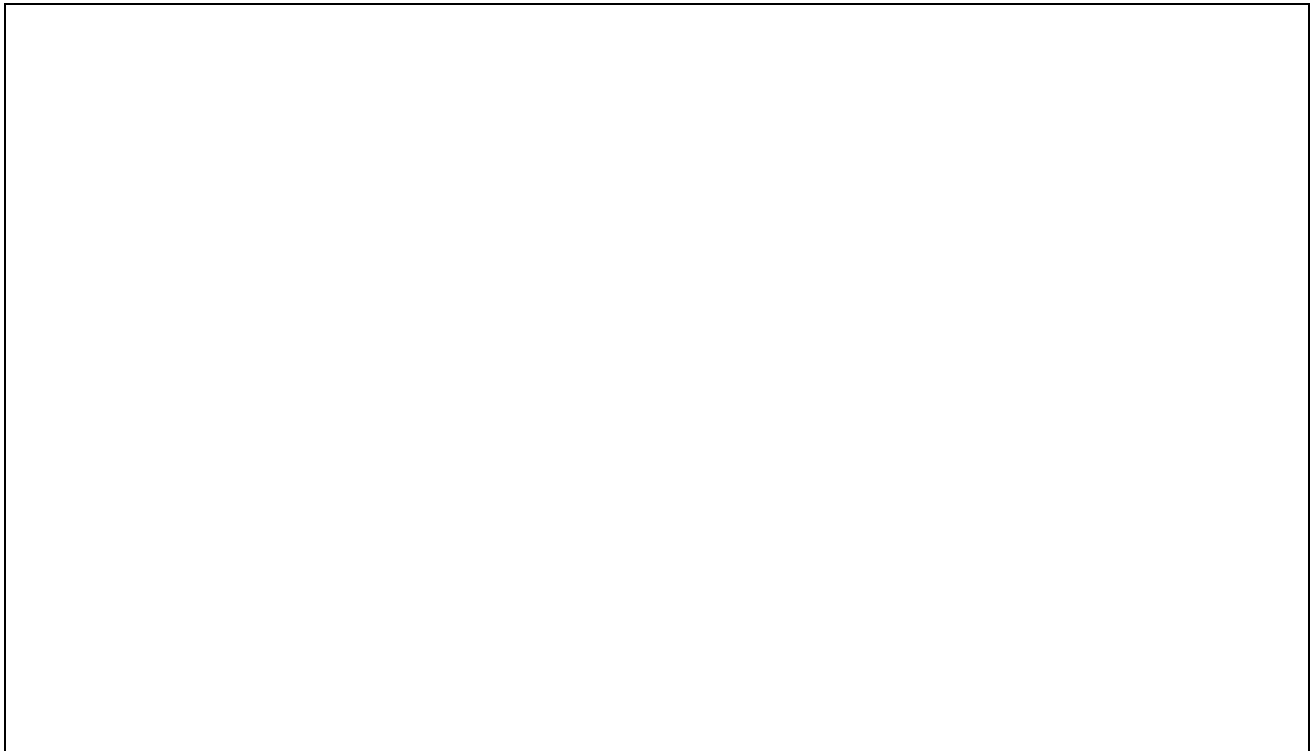
- Do you agree with the overall structure of the China A share inclusion to the upcoming Solactive GBS Emerging Markets Index? Would you prefer a full inclusion of 20% in the May 2019 rebalancing over a two-stage approach?
- Do you have any concerns regarding the inclusion factor of 20%? Would you prefer a different inclusion factor?
- Do you see any issues with the inclusion of mid and small cap China A shares into the respective size segments of the Solactive Global Benchmark Series?

Feedback on the proposed roadmap

If you would like to share your thoughts with Solactive, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Solactive is inviting all stakeholders and interested third parties to evaluate the proposed roadmap of the inclusion of the China A share and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.



Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until 28 February 2019.

Please send your feedback via email to compliance@solactive.com, specifying "market consultation on the inclusion of China A shares into the upcoming GBS emerging markets index" as the subject of the email, or

via postal mail to: Solactive AG
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Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address.

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