MarketGrader China New Economy Index

Rulebook and Methodology Guide

2024

Introduction

The MarketGrader China New Economy Index (the "Index"), created and maintained by MarketGrader, is designed to provide investors with exposure to the most financially sound companies domiciled in China and listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, also known as "A Shares."

MarketGrader reconstitutes and rebalances the Index on a semi-annual basis according to the methodology described in this document. The MarketGrader China New Economy Index is calculated and disseminated by Refinitiv and denominated in AUD, CNY, and USD.

MarketGrader Research Universe

In order to define the universe from which the Index components are selected, it is necessary to first define the coverage of the MarketGrader Research Universe since the Index methodology performs security selection based on the company ratings calculated and published by MarketGrader Research.

The MarketGrader Research Universe is defined as the set of companies traded on public stock exchanges globally that meet the criteria necessary for MarketGrader to perform an in-depth comprehensive fundamental analysis on every company as defined in its proprietary ratings methodology. This methodology is based on 24 indicators, each graded independently, across four fundamental categories: Growth, Value, Profitability and Cash Flow. After grading each company on the 24 indicators, the sum of the grades is normalized into a MarketGrader Score (MG Score) ranging between zero and 100. This MG Score is the basis of the company ratings. To be able to compute the MG Score, MarketGrader therefore requires that a minimum number of fundamental indicators be available for every company in its universe. Furthermore, a minimum number of them must be available consistently over time for a company to be eligible for coverage by MarketGrader. The following criteria are implemented by MarketGrader in the maintenance of its research universe within each of MarketGrader's primary geographic regions.

Americas:

The MarketGrader Research Universe includes all public issues defined as common shares and ADRs (American Depositary Receipts) that are listed in non-OTC (over the counter) exchanges. This includes Limited Partnerships (LPs) and Real Estate Investment Trusts (REITs). LPs and REITs are ineligible for inclusion to some indexes on a case-by-case basis. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Asia Pacific:

The MarketGrader Research Universe includes all public issues defined as common shares where, according to FactSet, entity types are defined as "public" or "holding companies". Also, all entity sub-types defined as "Limited Partnership". All issues eligible for universe inclusion must have at least one active trading day within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Europe & Middle East:

The MarketGrader Research Universe includes all public issues defined as common shares where, according to FactSet, entity types are defined as "public" or "holding companies". Also, all entity sub-types defined as "Limited Partnership". Only primary listing issues in this region are included in its research universe. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Across all geographic regions, the MarketGrader Research Universe excludes:

- Companies with zero trailing 12-month revenue and a total market capitalization below USD 500 million.
- Companies with zero annual revenue and a total market capitalization below USD 500 million.
- Companies with zero trailing 12-month revenue and annual sales older than two years prior to the universe evaluation date.
- Companies missing trailing 12-month revenue and annual revenue from most recently reported financial statement.
- Companies with ratings in less than 22 of MarketGrader's 24 fundamental indicators.
- Companies whose most recently filed financials statements are over 12 months old from the date of the universe evaluation date.

Review Frequency

The MarketGrader Research Universe is reviewed on a weekly basis, following the last weekly close of equity markets in the U.S.

MarketGrader's China New Economy Index Selection Universe

The selection universe for the Index is comprised of all public issues from the MarketGrader Research Universe trading on Mainland China Exchanges with the issuing company domiciled in China according to the entity "ISO Country" code defined by FactSet.

Companies within the selection universe for the Index must have received a MarketGrader overall rating consistently for at least six months and must have reported their most recent financials within the last six months to be eligible for selection into the Index.

Since the Index focuses on the growth sectors of China's economy, only companies from the Consumer Discretionary, Consumer Staples, Health Care and Technology sectors, as identified by the MarketGrader Global Classification System, are eligible for the selection to the Index's selection universe.

Finally, the companies within the selection universe must satisfy the following requirements:

- The company's stock cannot be classified as a "ST" (special treatment) stock by the China Securities Regulatory Commission (CSRC).
- If a company's stock is temporarily suspended from trading, it is ineligible from inclusion in the Index's selection universe.
- The company's stock Foreign Ownership on the selection date cannot exceed 26% of its free float adjusted market capitalization[1].
- The company may not appear in any of the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) Sanctions Lists.
- The company may not appear in the U.S. Department of Defense list of "Qualifying Entities Prepared in Response to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999."

Companies from the MarketGrader Research Universe passing the above criteria comprise the MarketGrader China New Economy Index Selection Universe.

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[1] Foreign Ownership Limit Thresholds are based on figures published daily by the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The MarketGrader China New Economy Index Rules

Introduction

The MarketGrader China New Economy Index consists of 120 fundamentally sound companies domiciled in China and traded publicly in the Shanghai Stock Exchange or the Shenzhen Stock Exchange. The index constituents are selected based on the strength of their fundamentals as measured by the MarketGrader Score (0 to 100).

Index Name and Index Codes

Price Return Series

- Index Name: MarketGrader China New Economy Index – Price Return
- Short Name: MG China New Economy
- Index Codes: MGCNEAUP (AUD Series); MGCNECNP (CNY Series) ; MGCNEUSP (USD Series).

Net Total Return Series

- Index Name: MarketGrader China New Economy Index – Net Total Return
- Short Name: MG China New Economy – NTR
- Bloomberg and Reuters Code: MGCNEAUN (AUD Series)
- Other Index Codes: MGCNECNN (CNY Series); MGCNEUSN (USD Series).

Total Return Series

- Index Name: MarketGrader China New Economy Index – Total Return
- Short Name: MG China New Economy – TR
- Index Code: MGCNEAUT (AUD Series); MGCNECNT (CNY Series); MGCNEUST (USD Series).

Base Date and Base Index Level

The Index's base date is December 31, 2007. Its base level is 100.

Index Reconstitution and Rebalance Dates

The Index is reconstituted and rebalanced after the close of trading on Chinese exchanges on the second Friday of June and December. The Index constituents are selected on the Tuesday of the previous week (the Selection date), or ten (10) calendar days prior to the reconstitution and rebalance date. Constituents are equally weighted on the Friday following the selection date and one week prior to the Index's official rebalance date.

Index Methodology

1.   Investable Universe

All companies in the MarketGrader China New Economy Index Selection Universe (as defined above) are eligible for selection to the Index, provided they meet the investability criteria that are applicable at the time of the Index's reconstitution and rebalance as defined below.

Starting at inception (December 31, 2007) and through the June 2021 reconstitution and rebalance, all companies in the MarketGrader China New Economy Index Selection Universe were eligible for selection to the Index provided they met the following investability criteria:

- The company had a market capitalization of at least USD 200 million.
- The company's stock had a 3-month average trading volume of at least USD 2 million.
- The company's float factor was greater than 10%.

Starting in the December 2021 reconstitution and rebalance, all companies in the MarketGrader China New Economy Index Selection Universe are eligible for selection to the Index provided they meet the following investability criteria at the time of the Index's reconstitution and rebalance:

- The company has a market capitalization of at least USD 500 million.
- The company's stock has a 3-month average trading volume of at least USD 5 million.
- The company's float factor is greater than 10%.

The companies from the MarketGrader China New Economy Index Selection Universe passing the above criteria comprise the MarketGrader China New Economy Index Investable Universe.

2. Selection of Index Constituents

MarketGrader implements a proprietary methodology based on 24 indicators, each graded independently, across four fundamental categories: Growth, Value, Profitability and Cash Flow, which seeks to identify the companies with the strongest fundamentals. After grading each company on the 24 indicators, the sum of the grades is normalized into a MarketGrader Score (MG Score) ranging between zero and 100. Each company in the MarketGrader China New Economy Index Investable Universe has a MG Score.

On the Index Selection date MarketGrader selects the 30 highest ranking MG Score companies in each of the four 'New Economy' sectors (Consumer Discretionary, Consumer Staples, Health Care, and Technology) from the Investable Universe and creates four sub-indexes, one for each sector. Then all four sub-indexes are combined to form the MarketGrader China New Economy Index.

3. Foreign Ownership Limit Rules

If at any time the free float adjusted market capitalization of an Index constituent reaches a foreign ownership percentage of 26%, the stock will be put on a Foreign Ownership Limit (FOL) watch list for possible deletion at the 28% threshold. If the stock reaches the 28% threshold, it will be deleted from the Index on the fourth trading day following the first day it reached such threshold. The stock will be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and the proceeds will be reinvested across the remaining Index constituents proportionally to their weights on the date the deletion is announced.

4. Ownership Restrictions

If at any time an Index constituent is added to the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) Sanctions Lists, or the U.S. Department of Defense's list of "Qualifying Entities Prepared in Response to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999," it will be deleted from the Index on the fourth trading day following its inclusion in any of these lists. The stock will be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and the proceeds will be reinvested across the remaining Index constituents proportionally to their weights on the date the deletion is announced.

5. Trading Suspensions

If at any time an Index constituent is suspended from trading, MarketGrader will evaluate the suspension on a case-by-case basis in order to determine the appropriate way to handle it. In cases where the suspension is temporary as a result of a pending corporate action such as a merger or acquisition, no further action will be taken,

and the constituent will remain in the Index through the suspension period. In the event the suspension is indefinite and/or as a result of a regulatory action, or if the stock is added to the "ST" (special treatment) list by the local regulator, the stock will be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and the proceeds will be reinvested across the remaining Index constituents proportionally to their weights on the date the suspension is announced.

6. Constituent Weighting Methodology

All Index constituents are equally weighted on the Friday following the selection date and one week prior to the Index's official rebalance date.

Index Calculation Agent, Index Calculation Methodology and Corporate Actions

The Index's calculation agent is Refinitiv Indices. The Index is calculated according to the Refinitiv Global Equity Indices divisor driven methodology, available here. Corporate actions are handled according to the Refinitiv Equity Indices Corporate Action Methodology, available here.