

The CSI MarketGrader China New Economy Index

Rebalance Notes – June 2019

The CSI MarketGrader China New Economy Index completed its most recent semi-annual reconstitution and rebalance on Friday, June 14th at the close of trading on Mainland China’s stock exchanges. The newly reconstituted index replaced 57 of its 120 constituents, equivalent to a turnover of 47.5%, somewhat higher than its historical average turnover of 42.3%.

Sector Adjustments

According to the Index’s methodology, MarketGrader selects every six months the 30 companies domiciled and listed in Mainland China with the highest fundamental scores in each of China’s ‘new economy’ sectors, as defined by CSI and MarketGrader: Consumer Discretionary, Consumer Staples, Health Care and Technology. The resulting 30 stocks are then equally weighted into four single sector indexes, which are then combined to form the CSI MarketGrader China New Economy Index. Figure 1 illustrates this semi-annual process.

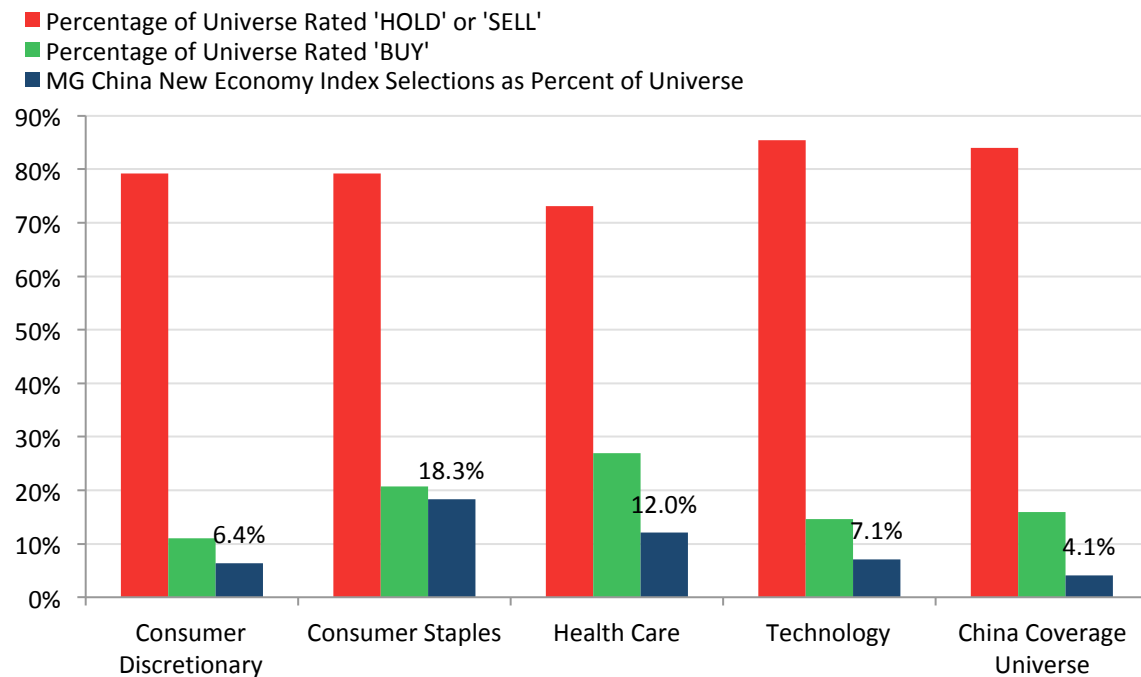
Figure 1. Stock Selection Process and Index Construction



Among the four sectors represented in the Index, Technology had the largest constituent turnover, with 17 companies being replaced, or 56.7% of the 30-company total. It was followed by Consumer Discretionary, where 16 companies were replaced (53.3%), Health Care with 14 (46.7%) replacements and Consumer Staples with 10 (33.3%). The difference in turnover counts among the four underlying sectors can be

attributed in large part to the size of the underlying universe from which these are selected, with Consumer Discretionary and Technology having, by far, the highest company counts among these four sectors in China (in terms of publicly traded companies, of course). It is also worth noting that the percentage of companies rated 'BUY' according to MarketGrader's fundamental analysis methodology varies—significantly in some cases—by sector, which contributes to each segment's turnover. For example, among 472 Consumer Discretionary companies covered by MarketGrader in China during the most recent Index reconstitution, only 11% were rated 'BUY'; while among 249 Health Care companies under coverage, 26.9% were given a MarketGrader 'BUY' recently. Figure 2 illustrates the percentage of companies in each of the Index's four sectors relative to all 'BUY', 'HOLD' and 'SELL' rated companies in MarketGrader's Chinese coverage universe.

Figure 2. CSI MarketGrader China New Economy Index - Constituents Relative to Universe, June 2019 Selections

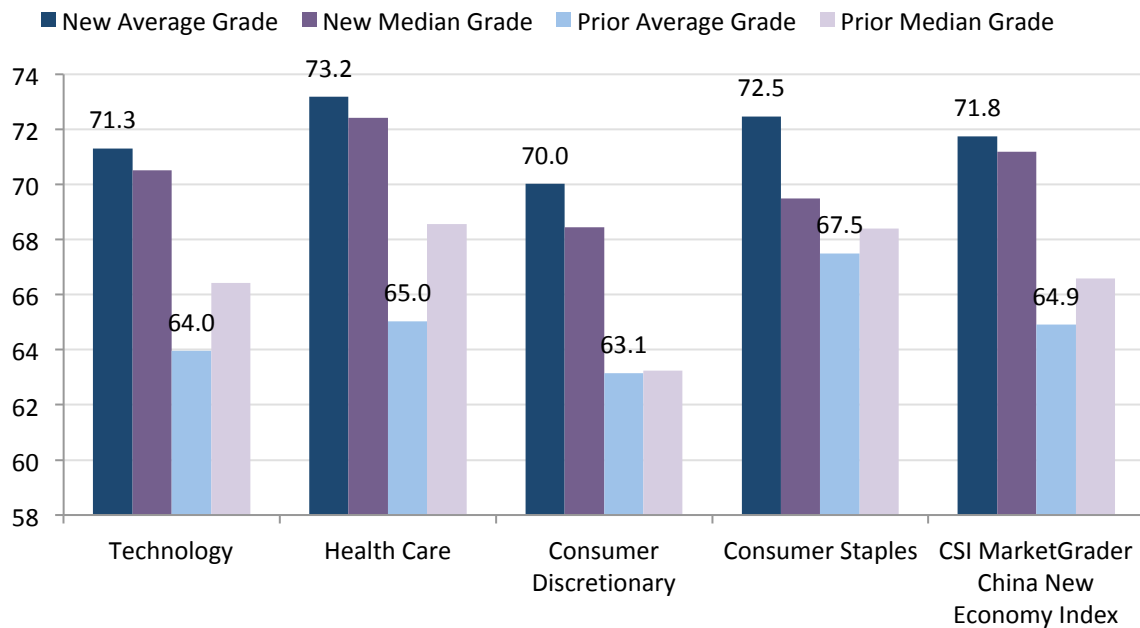


Source: MarketGrader Research

Not all of the Index's turnover can be attributed to the size of the underlying universe, of course. Much has to do with the changes in company fundamentals over the course of the last six months, which is reflected in the companies' overall grades. More specifically, the average grade of all Index constituents one week prior to its rebalance had fallen by 10% from 72.1 (out of 100) on their selection date in December, 2018, to 64.9 now. Meanwhile, the replenished Index's incoming average overall grade is 71.8, restoring the overall fundamental quality of the portfolio. And even though the index is

trading below its 2019 high reached on April 10th, valuation has no doubt played a role in both its turnover and in the erosion of company grades across most of the names being replaced. More specifically, between the Index’s last rebalance on December 17, 2018 and a week before its most recent rebalance (on June 7, 2019), 66% of its constituents (79 companies) had an average price increase of over 25% in the last six months while only 34% of all index constituents had experienced a share price decline, which averaged -13%. Yet, given recent weakness in global equity prices, and Chinese equities in particular given unresolved trade issues with the United States, the incoming Index is trading at a median trailing P/E ratio of 24, below the April valuation of 27 times 12-month trailing earnings. Figure 3 illustrates the overall grade improvement for the newly reconstituted Index relative to outgoing class of December 2018.

Figure 3. Average and Median Overall MarketGrader Scores for June 2019 and December 2018 Selections to the CSI MarketGrader China New Economy Index



Source: MarketGrader Research

Size Breakdown

The newly reconstituted CSI MarketGrader China New Economy Index sports an average market capitalization of AUD 8.0 billion and a median market cap of AUD 2.4 billion. This is little changed from the AUD 8.8 billion average and AUD 2.3 billion median of the outgoing Index. What’s most interesting from a size breakdown perspective, in our view, is the differences in average and median market caps across the four sectors. Notably, the average market cap of the Index constituents in the Consumer Staples sector, at AUD 18.3 billion, is over six times as large as the average market cap for the constituents from the Technology sector (average AUD 3.0 billion). This illustrates, in part, how large

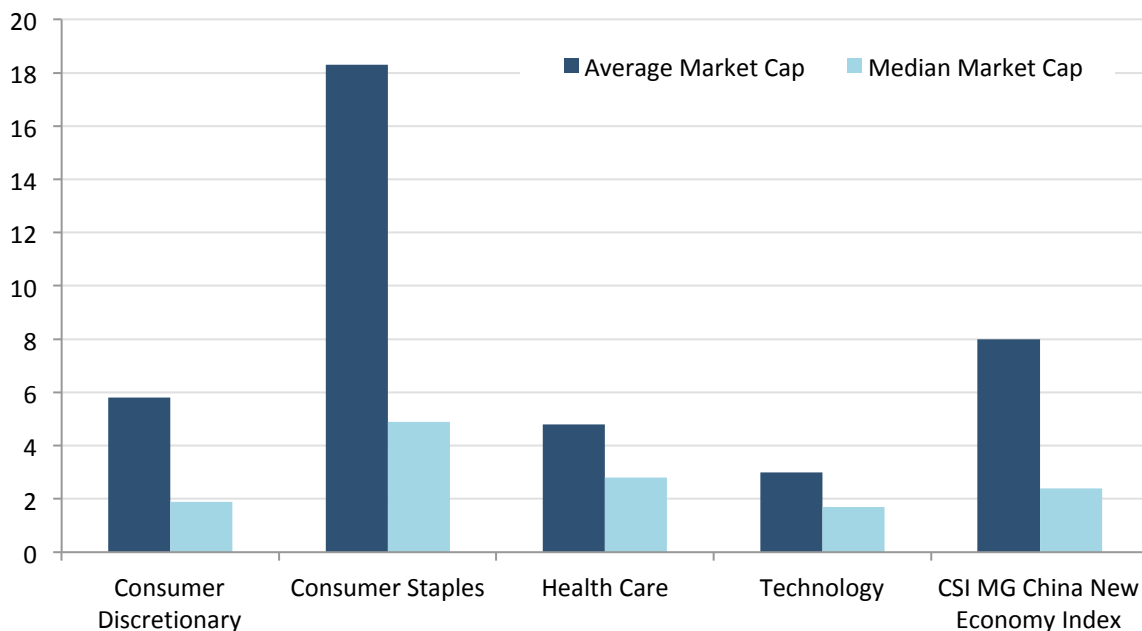
some of China’s consumer brands are, especially in everyday staples (assuming one includes alcoholic beverages among these) as the population’s living standards continue to rise across the country. In fact, five of the newly reconstituted Index's Consumer Staples names have market caps of at least AUD 23 billion, with six of the Index's ten largest companies belonging to the sector. They appear in Figure 4 while Figure 5 illustrates the difference in average and median market caps across the Index’s four sectors.

Figure 4. The 10 Largest Companies in the CSI China MarketGrader New Economy Index, June 2019

Ticker	Company Name	Sector	Market Cap (billions of AUD)
600519.CN	Kweichow Moutai Co., Ltd. Class A	Consumer Staples	233.5
000858.CN	Wuliangye Yibin Co., Ltd. Class A	Consumer Staples	84.8
000651.CN	Gree Electric Appliances, Inc. of Zhuhai	Consumer Discretionary	67.8
603288.CN	Foshan Haitian Flavouring & Food Co., Ltd.	Consumer Staples	52.7
002304.CN	Jiangsu Yanghe Brewery Joint-Stock Co.	Consumer Staples	37.5
601888.CN	China International Travel Service Co	Consumer Discretionary	31.2
000568.CN	Luzhou Laojiao Company Limited Class A	Consumer Staples	22.8
002475.CN	Luxshare Precision Industry Co. Ltd. Class A	Technology	17.3
000895.CN	Henan Shuanghui Investment & Dev.	Consumer Staples	17.2
600332.CN	Guangzhou Baiyunshan Pharmaceutical H.	Health Care	14.4

Sources: MarketGrader Research, FactSet

Figure 5. CSI MarketGrader China New Economy Index - Average and Median Market Cap at June 2019 Rebalance (in billions of AUD)



Sources: MarketGrader Research, FactSet

The New Economy ‘Honor Roll’

While the New Economy Index rebalances semi-annually to ensure it retains only the companies with the highest fundamental scores, several companies seem to make it regularly, and two groups among them are worth highlighting. The first is a list of 17 companies that have now been selected to the Index at least two consecutive years (or four semi-annual selections). Among them, 11 have been selected three years in a row and three have been selected consecutively in at least five years. These 17 ‘Honor Roll’ members appear in Figure 6.

Figure 6. Companies Selected to CSI MG China New Economy Index In at Least Two Consecutive Years

Ticker	Company Name	Consecutive Years	Overall Grade
600519.CN	Kweichow Moutai Co., Ltd. Class A	5	76.5
002304.CN	Jiangsu Yanghe Brewery Joint-Stock Co., Ltd. Class A	5	68.9
603288.CN	Foshan Haitian Flavouring & Food Co., Ltd. Class A	5	68.4
002677.CN	Zhejiang Meida Industrial Co. Ltd. Class A	3	83.8
000858.CN	Wuliangye Yibin Co., Ltd. Class A	3	80.9
000596.CN	Anhui Gujing Distillery Co., Ltd. Class A	3	79.9
603589.CN	Anhui Kouzi Distillery Co., Ltd. Class A	3	78.9
002507.CN	Chongqing Fuling Zhacai Group Co., Ltd. Class A	3	72.8
600566.CN	HUBEI JUMPCAN PHARMACEUTICAL CO., LTD Class A	3	72.4
002572.CN	Suofeiya Home Collection Co. Ltd Class A	3	66.1
603898.CN	Guangzhou Holike Creative Home Co., Ltd. Class A	3	65.7
600779.CN	Sichuan Swellfun Co., Ltd. Class A	2	82.3
000568.CN	Luzhou Laojiao Company Limited Class A	2	79.6
603444.CN	G-Bits Network Technology (Xiamen) Co., Ltd. Class A	2	77.9
603369.CN	Jiangsu King's Luck Brewery Joint-stock Co., Ltd. Class	2	69.5
600872.CN	Jonjee Hi-Tech Industrial and Commercial Holding Co.	2	62.3
600298.CN	Angel Yeast Co., Ltd. Class A	2	62.2

Another notable list we track among New Economy Index constituents is comprised of the 30 companies in the new Index constituent list that have been selected the most times since the Index’s based date on December 31, 2007, displayed in Figure 7. Unlike the list above, these aren’t companies that have been members of the Index continuously but rather those that have made the ‘cut’ the most times, even if there have been occasional interruptions to their selection. A single one of them—and worth a special mention—Kweichow Moutai Co. Ltd. (600519.CN), has been selected to the New Economy Index a record 25 times; which means, essentially, during every single reconstitution period. When it was first selected, the company’s total shareholders’ equity was AUD 1.3 billion; since then, it has grown 20-fold to AUD 26 billion, a true mark of long-term shareholder capital appreciation. Identifying such creators of value is, ultimately, the goal of the CSI MarketGrader China New Economy Index.

Figure 7. Current Constituents with Most Historical Selections to CSI MG China New Economy Index Since Inception

Ticker	Company Name	Times Selected
600519.CN	Kweichow Moutai Co., Ltd. Class A	25
000568.CN	Luzhou Laojiao Company Limited Class A	22
000858.CN	Wuliangye Yibin Co., Ltd. Class A	22
600809.CN	Shanxi Xinghuacun Fen Wine Factory Co. Ltd. Class A	19
000895.CN	Henan Shuanghui Investment & Development Co., Ltd. Class A	18
002304.CN	Jiangsu Yanghe Brewery Joint-Stock Co., Ltd. Class A	18
600763.CN	Topchoice Medical Investment Corp. Class A	18
000999.CN	China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. Class A	14
600298.CN	Angel Yeast Co., Ltd. Class A	14
002035.CN	Vatti Corp. Ltd. Class A	14
600161.CN	Beijing Tiantan Biological Products Corporation Limited Class A	13
600436.CN	Zhangzhou Pientzehuang Pharmaceutical Co., Ltd. Class A	13
603288.CN	Foshan Haitian Flavouring & Food Co., Ltd. Class A	11
002507.CN	Chongqing Fuling Zhacai Group Co., Ltd. Class A	11
300146.CN	By-health Co., Ltd. Class A	11
000661.CN	Changchun High & New Technology Industry (Group) Inc. Class A	11
600252.CN	Guangxi Wuzhou Zhongheng Group Co., Ltd. Class A	11
000596.CN	Anhui Gujing Distillery Co., Ltd. Class A	10
002007.CN	Hualan Biological Engineering Inc. Class A	10
300144.CN	Songcheng Performance Development Co., Ltd. Class A	10
002572.CN	Suofeiya Home Collection Co. Ltd Class A	10
600062.CN	China Resources Double-Crane Pharmaceutical Co., Ltd. Class A	9
601888.CN	China International Travel Service Corporation Limited Class A	9
600566.CN	HUBEI JUMPCAN PHARMACEUTICAL CO., LTD Class A	9
000799.CN	Jiugui Liquor Co., Ltd. Class A	9
002195.CN	Shanghai 2345 Network Holding Group Co., Ltd. Class A	9
600779.CN	Sichuan Swellfun Co., Ltd. Class A	9
300357.CN	Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd. Class A	9
603898.CN	Guangzhou Holike Creative Home Co., Ltd. Class A	8
600702.CN	Shede Spirits Co., Ltd. Class A	8

Appendix. The CSI MarketGrader China New Economy Index – June 2019 Selections

Ticker	Company Name	Market Cap (AUD, 000)	Overall Grade
Consumer Discretionary			
000651.CN	Gree Electric Appliances, Inc. of Zhuhai Class A	\$66,803.1	68.6
601888.CN	China International Travel Service Corporation Limited Class A	\$30,723.9	76.9
300413.CN	Mango Excellent Media Co., Ltd. Class A	\$8,370.5	71.9
600398.CN	HLA Corp., Ltd. Class A	\$8,283.9	65.6
600655.CN	Shanghai Yuyuan Tourist Mart Co. Ltd. Class A	\$6,805.4	67.1
300144.CN	Songcheng Performance Development Co., Ltd. Class A	\$6,333.3	67.4
002563.CN	Zhejiang Semir Garment Co., Ltd. Class A	\$5,860.1	66.9
600699.CN	Ningbo Joyson Electronic Corp. Class A	\$4,156.5	66.1
601799.CN	Changzhou Xingyu Automotive Lighting Systems Co., Ltd Class A	\$3,950.5	73.7
002572.CN	Suofeiya Home Collection Co. Ltd Class A	\$3,603.5	66.1
603816.CN	Jason Furniture (Hangzhou) Co., Ltd. Class A	\$3,597.5	73.4
002035.CN	Vatti Corp. Ltd. Class A	\$2,217.8	72.3
002614.CN	Xiamen Comfort Science & Technology Group Co. Ltd. Class A	\$2,000.5	66.1
002776.CN	Guangdong Bobaolon Co., Ltd. Class A	\$1,887.5	67.8
601900.CN	Southern Publishing & Media Co. Ltd. Class A	\$1,873.2	66.4
002677.CN	Zhejiang Meida Industrial Co. Ltd. Class A	\$1,818.5	83.8
600828.CN	Maoye Commercial Co., Ltd. Class A	\$1,764.1	68.4
002832.CN	BIEM.L.FDLKK Garment Co., Ltd. Class A	\$1,659.3	69.8
600987.CN	Zhejiang Hangmin Co., Ltd. Class A	\$1,481.3	72.8
300577.CN	Anhui Korrun Co., Ltd. Class A	\$1,426.3	66.8
600136.CN	Wuhan DDMC Culture Co., Ltd. Class A	\$1,219.4	65.1
603898.CN	Guangzhou Holike Creative Home Co., Ltd. Class A	\$1,038.3	65.7
603808.CN	Shenzhen Ellassay Fashion Co., Ltd. Class A	\$1,033.8	71.7
002283.CN	Tianrun Crankshaft Co., Ltd. Class A	\$929.0	66.6
002605.CN	Shanghai Yaoji Playing Card Co., Ltd. Class A	\$894.6	77.6
600070.CN	Zhejiang Furun Co., Ltd. Class A	\$889.3	74.1
002406.CN	Xuchang Yuandong Drive Shaft Co., Ltd. Class A	\$711.9	75.4
002087.CN	Hennan Xinye Textile Co., Ltd. Class A	\$691.6	64.0
002687.CN	Zhejiang Giuseppe Garment Co., Ltd. Class A	\$479.7	71.2
603037.CN	Shanghai Carthane Co. Ltd. Class A	\$414.7	71.9
Consumer Staples			
600519.CN	Kweichow Moutai Co., Ltd. Class A	\$230,145.8	76.5
000858.CN	Wuliangye Yibin Co., Ltd. Class A	\$83,572.6	80.9
603288.CN	Foshan Haitian Flavouring & Food Co., Ltd. Class A	\$51,990.6	68.4
002304.CN	Jiangsu Yanghe Brewery Joint-Stock Co., Ltd. Class A	\$36,985.5	68.9
000568.CN	Luzhou Laojiao Company Limited Class A	\$22,469.9	79.6
000895.CN	Henan Shuanghui Investment & Development Co., Ltd. Class A	\$16,995.2	64.8
000596.CN	Anhui Gujing Distillery Co., Ltd. Class A	\$11,715.3	79.9
600809.CN	Shanxi Xinghuacun Fen Wine Factory Co. Ltd. Class A	\$10,428.7	75.6
603589.CN	Anhui Kouzi Distillery Co., Ltd. Class A	\$7,254.1	78.9
603369.CN	Jiangsu King's Luck Brewery Joint-stock Co., Ltd. Class A	\$6,884.9	69.5
002299.CN	Fujian Sunner Development Co., Ltd. Class A	\$6,879.5	82.2
300146.CN	By-health Co., Ltd. Class A	\$6,279.2	74.9
600872.CN	Jonjee Hi-Tech Industrial and Commercial Holding Co., Ltd. Class A	\$5,929.0	62.3
603866.CN	Toly Bread Co., Ltd. Class A	\$5,341.5	64.5
600779.CN	Sichuan Swellfun Co., Ltd. Class A	\$4,884.1	82.3
600298.CN	Angel Yeast Co., Ltd. Class A	\$4,775.2	62.2
002507.CN	Chongqing Fuling Zhacai Group Co., Ltd. Class A	\$4,538.0	72.8
002511.CN	C&S Paper Co., Ltd. Class A	\$2,728.8	68.6
002458.CN	Shandong Yisheng Livestock & Poultry Breeding Co., Ltd. Class A	\$2,659.7	81.7
002557.CN	Chacha Food Co Ltd. Class A	\$2,316.5	62.1

600305.CN	Jiangsu Hengshun Vinegar-Industry Co., Ltd Class A	\$2,230.4	62.5
600559.CN	Hebei Hengshui Laobaigan Liquor Co., Ltd. Class A	\$2,226.2	66.3
002234.CN	Shandong Minhe Animal Husbandry Co.,Ltd Class A	\$2,052.3	86.4
600702.CN	Shede Spirits Co., Ltd. Class A	\$1,816.7	69.5
002746.CN	Shandong Xiantan Co., Ltd. Class A	\$1,716.4	86.8
000799.CN	Jiugui Liquor Co., Ltd. Class A	\$1,581.5	65.4
603886.CN	Ganso Co., Ltd. Class A	\$1,188.0	68.4
603299.CN	Jiang Su Suyan Jingshen Co., Ltd. Class A	\$1,159.5	67.3
300132.CN	Fujian Green Pine Co., Ltd. Class A	\$998.7	75.2
600097.CN	Shanghai Kaichuang Marine International Co., Ltd. Class A	\$519.7	70.0
Health Care			
600332.CN	Guangzhou Baiyunshan Pharmaceutical Holdings Company L	\$14,217.0	71.3
300122.CN	Chongqing Zhifei Biological Products Co., Ltd. Class A	\$14,170.3	70.4
600436.CN	Zhangzhou Pientzhuang Pharmaceutical Co., Ltd. Class A	\$13,285.7	73.1
000963.CN	Huadong Medicine Co., Ltd. Class A	\$10,665.2	77.3
000661.CN	Changchun High & New Technology Industry (Group) Inc. Class A	\$10,441.2	76.7
300003.CN	Lepu Medical Technology (Beijing) Co., Ltd. Class A	\$9,014.5	73.5
002007.CN	Hualan Biological Engineering Inc. Class A	\$8,307.3	75.1
603658.CN	Autobio Diagnostics Co., Ltd. Class A	\$5,706.5	71.2
000999.CN	China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. Class A	\$5,698.7	73.1
600566.CN	HUBEI JUMPCAN PHARMACEUTICAL CO., LTD Class A	\$5,499.8	72.4
300529.CN	Jafron Biomedical Co., Ltd. Class A	\$5,069.9	74.5
600763.CN	Topchoice Medical Investment Corp. Class A	\$4,991.8	75.6
600161.CN	Beijing Tiantan Biological Products Corporation Limited Class A	\$4,625.9	69.8
300357.CN	Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd. Class A	\$3,080.6	72.2
600062.CN	China Resources Double-Crane Pharmaceutical Co., Ltd. Class A	\$2,792.6	71.7
002099.CN	Zhejiang Hisoar Pharmaceutical Co., Ltd. Class A	\$2,711.2	71.3
002755.CN	Beijing New Oriental Star Petrochemical Engineering Co Ltd Class A	\$2,474.9	86.2
002262.CN	Jiangsu Nhwa Pharmaceutical Co., Ltd. Class A	\$2,325.3	75.4
300482.CN	Guangzhou Wondfo Biotech Co., Ltd. Class A	\$2,290.1	73.6
600252.CN	Guangxi Wuzhou Zhongheng Group Co., Ltd. Class A	\$2,158.3	69.3
002737.CN	Sunflower Pharmaceutical Group Co., Ltd. Class A	\$1,858.3	70.0
002675.CN	Yantai Dongcheng Biochemicals Co., Ltd. Class A	\$1,797.0	71.6
002020.CN	Zhejiang Jingxin Pharmaceutical Co., Ltd. Class A	\$1,761.0	72.9
600781.CN	Furen Group Pharmaceutical Co., Ltd. Class A	\$1,709.9	75.7
600557.CN	Jiangsu Kanion Pharmaceutical Co. Ltd. Class A	\$1,681.9	69.5
300401.CN	Zhejiang Garden Bio-chemical High-tech Co Ltd Class A	\$1,549.9	70.6
300396.CN	Dirui Industrial Co., Ltd. Class A	\$984.0	74.8
300016.CN	Beijing Beilu Pharmaceutical Co., Ltd. Class A	\$890.8	76.6
603669.CN	Lionco Pharmaceutical Group Co., Ltd. Class A	\$838.0	70.2
002728.CN	Teyi Pharmaceutical Group Co., Ltd. Class A	\$664.6	70.3
Technology			
002475.CN	Luxshare Precision Industry Co. Ltd. Class A	\$17,036.4	70.8
002841.CN	Guangzhou Shiyuan Electronic Technology Co. Ltd. Class A	\$10,134.1	71.2
002624.CN	Perfect World Co., Ltd. Class A	\$6,735.6	71.0
600845.CN	Shanghai Baosight Software Co., Ltd. Class A	\$5,447.8	70.2
002195.CN	Shanghai 2345 Network Holding Group Co., Ltd. Class A	\$4,621.8	82.3
603228.CN	Shenzhen Kinwong Electronic Co., Ltd. Class A	\$4,536.1	67.1
300418.CN	Beijing Kunlun Tech Co., Ltd. Class A	\$4,058.9	70.4
603444.CN	G-Bits Network Technology (Xiamen) Co., Ltd. Class A	\$3,274.2	77.9
002463.CN	WUS PRINTED CIRCUIT (KUNSHAN) CO., LTD. Class A	\$3,120.0	72.5
603508.CN	Henan Thinker Automatic Equipment Co Ltd Class A	\$2,788.0	67.7
300166.CN	Business-Intelligence of Oriental Nations Corporation Ltd. Class A	\$2,678.0	70.5
000636.CN	Guangdong Fenghua Advanced Technology (Holding) Co., Ltd. Cl	\$2,396.4	75.0
300567.CN	Wuhan Jingce Electronic Group Co., Ltd. Class A	\$2,209.3	76.8

603678.CN	Fujian Torch Electron Technology Co Ltd	\$1,874.2	70.3
002402.CN	Shenzhen HT Intelligent Control Co., Ltd. Class A	\$1,641.7	70.2
300130.CN	XGD, Inc. Class A	\$1,635.0	70.5
002449.CN	Foshan Nationstar Optoelectronics Co., Ltd Class A	\$1,628.7	67.6
300232.CN	Unilumin Group Co., Ltd. Class A	\$1,590.9	71.4
300349.CN	Goldcard Smart Group Co Ltd Class A	\$1,514.2	74.4
002189.CN	Lida Optical and Electronic Co., Ltd. Class A	\$1,184.1	67.6
300559.CN	Chengdu Jafaantai Education Technology Co. Ltd. Class A	\$1,145.6	68.2
300395.CN	Hubei Feilihua Quartz Glass Co Ltd Class A	\$1,112.1	75.2
300571.CN	Hangzhou Anysoft Information Technology Co., Ltd. Class A	\$1,022.8	72.0
300031.CN	Wuxi Boton Technology Co. Ltd. Class A	\$1,015.3	74.2
002222.CN	Castech Inc. Class A	\$995.7	67.5
300137.CN	Hebei Sailhero Environmental Protection High-Tech Co., Ltd. Cl	\$922.4	68.7
300389.CN	Shenzhen Absen Optoelectronic Co Ltd Class A	\$906.2	73.0
300525.CN	Fujian Boss Software Development Co. Ltd. Class A	\$722.7	67.4
300341.CN	Motic (Xiamen) Electric Group Co., Ltd. Class A	\$616.8	70.9
002806.CN	Guangdong Huafeng New Energy Technology Co., Ltd. Class A	\$612.3	67.1