



# CSI MarketGrader

## China New Economy Index

August 2018

## Investment Objective

The CSI MarketGrader China New Economy Index seeks to follow the most fundamentally sound companies domiciled and traded in China that belong to the Consumer Discretionary, Consumer Staples, Health Care and Technology sectors\*.

\*Sector classification is based on China Securities Index Company's 1<sup>st</sup> level sector classification.



## Investment Thesis

China's economy is undergoing a profound transformation in which its service and consumer-oriented sectors are gradually replacing fixed investing, heavy industry and low cost manufacturing as the country's economic engines.

At MarketGrader we believe that capital markets will play an instrumental role in channeling the country's vast savings into private enterprise, achieving the twin goals of a developed economy; namely to ensure that its citizens partake in the country's economic prosperity through broad share ownership and to create a stable and dependable source of financing for the country's economic engine.

# CSI MarketGrader China New Economy Index Methodology

## Underlying Universe

All A shares listed in the Shanghai and Shenzhen Stock Exchanges classified by CSI as Consumer Discretionary, Consumer Staples, Health Care or Technology companies.

## Underlying Universe

- Stock must be covered and rated by MarketGrader
- Stock cannot be classified as “ST” or “restricted” by CSI
- Stock’s listing cannot be suspended

## Size, Liquidity & Reporting Requirements

- Minimum market cap of RMB 1.38 billion on selection date
- Minimum three-month average daily traded value of RMB 13.8 million
- Minimum trailing 12-month aggregate trading volume of RMB 345 million
- At least six companies in each sector sub-index must be designated as ‘large cap’ by MarketGrader\*
- All companies must have filed quarterly or annual financial statements with their local regulator within the 12 months preceding the index rebalance date

\*MarketGrader classifies annually all China A-shares that comprise the top 85% of the country’s aggregate market capitalization as ‘large cap.’

# CSI MarketGrader China New Economy Index Facts

Index Code: **930984**

Index Calculation: **China Securities Index Co.**

Constituent Ratings & Selections: **MarketGrader**

Index Base Data and Base Level: **Dec. 31, 2007 / 1000<sup>\*</sup>**

Constituent Weighting: **Equal Weighting at Rebalance**

Rebalance Dates: **First trading day after the second Friday of June and December**

\*The CSI MarketGrader China New Economy Index was first published on March 20, 2015. All prior data is back tested.

# MarketGrader's Stock Selection: Focus on Fundamentals

MarketGrader grades approximately 2,900 A Shares based on 24 fundamental factors, grouped in **Growth**, **Value**, **Profitability** and **Cash Flow** categories. See example below:

HUBEI JUMPCAN PHARMACEUTICAL CO., LTD Class A(600566.CN) Overall Grade: ● 86.6

1. GROWTH	A-	2. VALUE	A-	3. PROFITABILITY	A	4. CASH FLOW	A+
Market Growth LT	B+	Capital Structure	A	Asset Utilization	A+	Cash Flow Growth	A+
Market Growth ST	A	P/E Analysis	B+	Capital Utilization	B+	EBIDTA Margin	B
EPS Weighted Growth	A+	Price/Book Ratio	A-	Operating Margins	A-	Debt/Cash Flow Ratio	A+
Growth Potential	b	Price/Cash Flow Ratio	B+	Relative Margin	A+	Interest Coverage Ratio	A+
Earnings Impact	A-	Price/Sales Ratio	B-	Return on Equity	A	Economic Value Added	A+
Earnings Surprise	B	Market Value	B+	Gross Profitability	A+	Working Capital Ratio	A+

Grades and ratings for Gree Electric Appliances (000651.CN), a member of the CSI MarketGrader China New Economy Index, as of November 9, 2018.  
Source: MarketGrader Research.

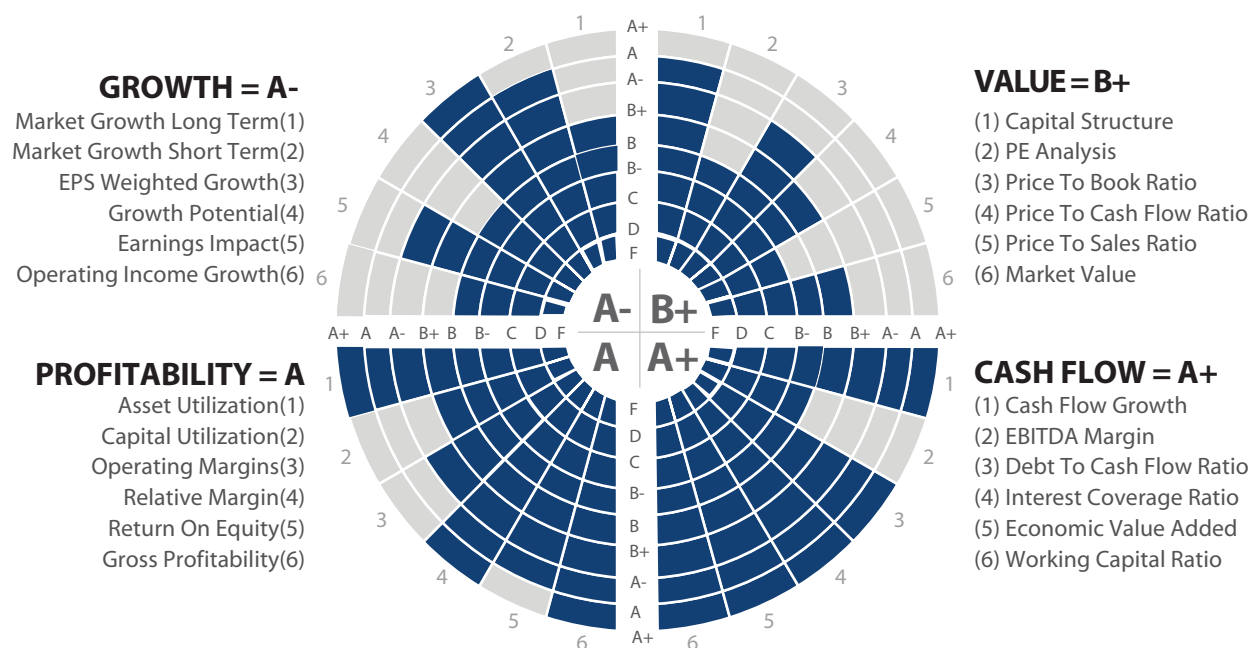
# Fundamental Difference: Index Selection Is Driven by Overall Rating

Example of the difference in fundamental grades for two A Share companies according to MarketGrader

HUBEI JUMPCAN PHARMACEUTICAL CO., LTD

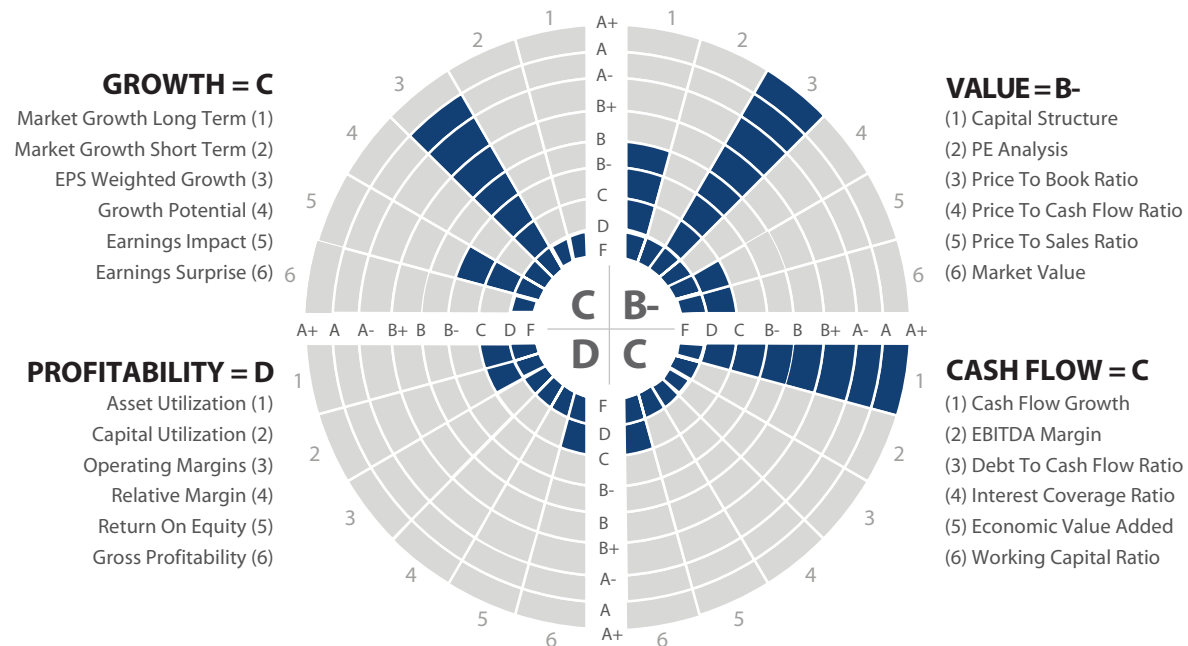
Class A(600566.CN)

Overall Grade: 86.6, Rating: ● BUY



China Shipbuilding Industry Company Ltd. Class A(601989.CN)

Overall Grade: 18.2, Rating: ● SELL



Grades and ratings for HUBEI JUMPCAN PHARMACEUTICAL CO., LTD Class A(600566.CN) as of Nov 9, 2018 & China Shipbuilding Industry Co. (601989.CN) as of Aug. 9, 2018. Source: MarketGrader Research.

# CSI MarketGrader China New Economy Index Selection Process





# CSI MarketGrader China New Economy Index Snapshot

## Index Bio

Average Market Cap	<b>RMB 46,451.04</b>
Median Market Cap	<b>RMB 14,348.90</b>
Average 3 Mo. RMB Volume	<b>RMB 274,738,013.76</b>
Average 3 Mo. Trading Volume	<b>9,712,467.00</b>
Last Rebalance Date	<b>6/11/18</b>
Companies Replaced	<b>50</b>
Largest Co: Kweichow Moutai, Co. – RMB 853 billion	
Smallest Co.: Shanghai Carthane Co. – RMB 2.2 billion	

## Fundamental Attributes

Trailing P/E Ratio	<b>27.1</b>
Forward P/E Ratio	<b>20.1</b>
Earnings Yield	<b>3.8%</b>
Price/Book Ratio	<b>5.9</b>
Revenue Change - 3 Years	<b>98.8%</b>
Operating Income Change - 3 Years	<b>177.4%</b>
Operating Margin	<b>24.5%</b>
Earnings per Share (EPS) 3-Year Growth	<b>30.4%</b>
Long-Term Debt to Capital	<b>6.6%</b>
Return on Equity	<b>20.4%</b>
Dividend Yield	<b>1.03%</b>

All figures as of June 30, 2018. Source: MarketGrader Research

# CSI MarketGrader China New Economy Index Constituents

## Top 10 Fundamental Grades

002626.CN	Xiamen Kingdomway Group Co	90.2 ●
002001.CN	Zhejiang NHU Co Ltd	83.0 ●
300113.CN	Hangzhou Shunwang Tech.	82.7 ●
300176.CN	GuangDong HongTeo Tech.	81.4 ●
300296.CN	Leyard Optoelectronic Co.,Ltd.	81.4 ●
600566.CN	HUBEI JUMPCAN PHARMACEUT.	80.4 ●
603808.CN	SHENZHEN ELLASSAY FASHION	80.2 ●
603589.CN	Anhui Kouzi Distillery Co., Ltd.	80.0 ●
002680.CN	Changsheng Bio-technology Co.	79.9 ●
002019.CN	YIFAN PHARMACEUTICAL CO.	79.0 ●
000813.CN	Xinjiang Tianshan Wool Tex Stock	78.7 ●

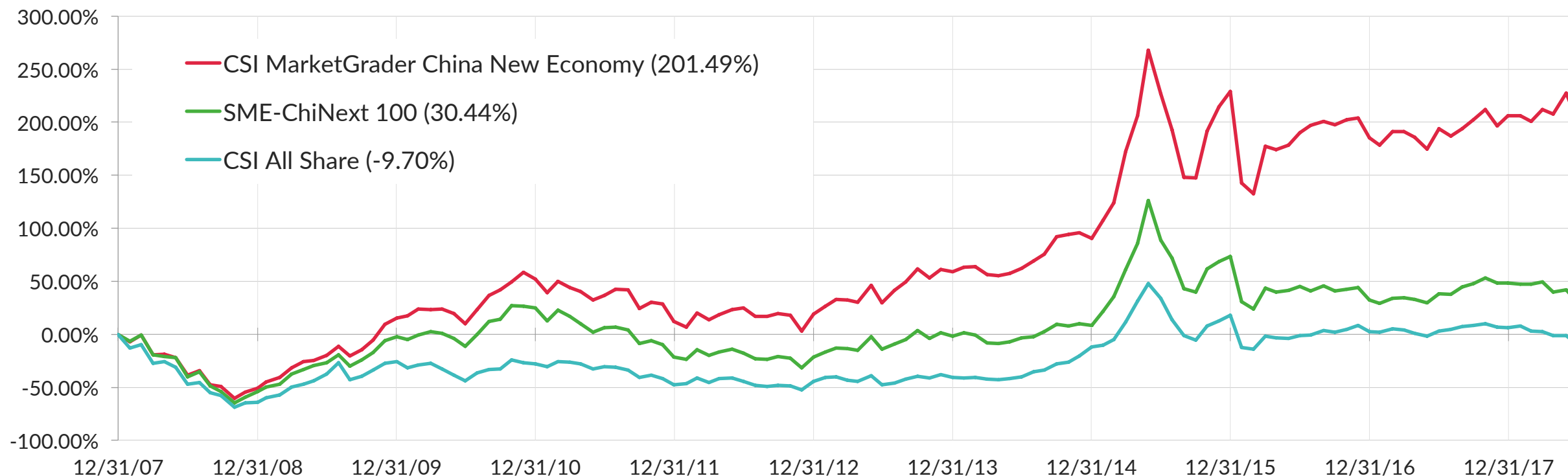
## Most Selections Since Inception

600519.CN	Kweichow Moutai Co Ltd	23
000568.CN	Luzhou Lao Jiao Co Ltd	20
000858.CN	Wuliangye Yibin Co Ltd	20
000848.CN	He Bei Cheng De Lolo Co Ltd	19
600887.CN	Inner Mongolia Yili Industrial Group	18
600809.CN	Shanxi Xinghuacun Fen Wine Fact.	17
600763.CN	Top Choice Medical Investment Co.	16
600197.CN	Xinjiang Yilite Industry Co Ltd	16
002304.CN	Jiangsu Yanghe Brewery Joint-Stock	16
002032.CN	Zhejiang Supor Co.,Ltd	16
002001.CN	Zhejiang NHU Co Ltd	14

Company grades as of June 30, 2018.Source: MarketGrader Research

# CSI MarketGrader China New Economy Index Performance

Cumulative Total Return, Dec. 2007 – Jun. 2018



## Annualized Returns

	CSI MG NE	SME ChiNext	ChiNext	CSI All Share
3-Years	-1.00%	-9.50%	-15.40%	-10.80%
5 -Years	18.40%	8.60%	10.20%	11.60%
Since 12/31/07	11.10%	2.60%	-	-1.00%

## Cumulative Returns

	CSI MG NE	SME ChiNext	ChiNext	CSI All Share
3-Years	-2.90%	-26.00%	-39.30%	-29.00%
5 -Years	132.20%	51.30%	62.40%	72.80%
Since 12/31/07	201.50%	30.40%	-	-9.70%

All values in RMB; all performance figures are based on total returns. The CSI MarketGrader China New Economy Index was first published on March 20, 2015. All data prior to that date is based on an index back test. Sources: China Securities Index Co., MarketGrader Research, Bloomberg.