MSCI A Clear View of Risk and Return

China´s Changing Equity Market Landscape

July 2013

Executive Summary

- Since the end of 2011, the Chinese authorities have embarked on a series of efforts to **accelerate the opening of the Chinese domestic capital market**

  ➯ *What are the recent developments of the China QFII and RQFII schemes and their implications to global investors?*

- In an extreme hypothetical case, if China's domestic equity market were to fully open up to foreign investors with no major accessibility restriction, **A-share could potentially comprise up to 14% of the MSCI Emerging Markets (EM) Index** and alter the landscape of emerging markets investing

  ➯ *What are the key accessibility restrictions that prevent China A-shares from a reclassification to emerging markets status?*

- For an increasing number of global investors the question is no longer whether to gain exposure to China but rather **how to implement such exposure**

- The diversity of China opportunity set and existence of various investment restrictions can add significant **complexity to the implementation decision**

  ➯ *What are the implementation options available to international investors?*
  ➯ *How they differ in terms of their exposure to the China opportunity set?*

China QFII & RQFII Schemes and Their Recent Revisions

Key Milestones of the China QFII and RQFII Schemes

…2011	2012			2013		
QFII Developments						
Dec 2002 *Launch of the QFII Scheme (US$20bn)*	**Apr 2012** *QFII Quota increased from US$30bn to US$80bn*	**Jul 2012** *QFII entry requirements significantly lowered with faster QFII application process* *FOL increased to 30%* *Allowed QFIIs to invest in other financial products*	**Dec 2012** *Abolished US$1bn quota per QFII limit for SWF and central banks* *Shortened repatriation window of "Open-ended China Funds" from monthly to weekly*	**Feb 2013** *CSRC's Chairman Guo revealed an intention to further expand the QFII to USD800bn*	**Mar 2013** *Allowed Hong Kong, Taiwan, and Macau residents to invest in A-shares*	**Jul 2013** *CSRC Expanded QFII quota to US$150bn*
RQFII Developments						
Dec 2011 *Launch of the RQFII Scheme (RMB20bn)* *Only opened to HK subsidiaries of PRC fund management with allocation restriction of 20% equities & 80% fixed income*	**Apr 2012** *RQFII Quota increased from RMB20bn to RMB70bn but only limited to China A ETF products*	**Jul to October 2012** *Listing of RQFII ETFs (AMC, E-fund, CSOP, Harvest)*	**Nov 2012** *RQFII Quota increased to RMB270bn*	**Jan 2013** *CSRC revealed am intention to extend RMB100bn RQFII quota to Taiwan investors*	**Mar 2013** *Allowed licensed financial institutions in HK to apply for RQFII qualification* *Removed 80%20% fixed income/equity allocation restriction and allowed RQFIIs to trade broader financial products such as index futures*	**Jun-Jul 2013** *RQFII Scheme expanded to London and Singapore*

Source: CSRC and SAFE

Notes:

1. *The RQFII refers to a program that permits Chinese asset managers to offer Renminbi-denominated funds/ETFs in Hong Kong for investment in the mainland. Investors in these RQFII funds need not be a QFII.*
2. *As of end June, 2013, there were 229 QFIIs with a total allocated QFII quota of USD43.4bn. On the RQFII front, RMB105n quota has been deployed to 37 RQFII licensees.*
3. *In March 2013, Xiao Gang took over Guo Shuqing to become the new CSRC Chairman*

Lowering of the QFII Qualification Requirements

- In April 2012, China increased the total QFII & Renminbi-QFII (RQFII) **quotas to USD80bn from USD30bn** and to RMB70bn from RMB20bn, respectively
- On July 27, 2012, CSRC announced a **revision of the institutional requirements** for QFII investors
- In November 2012, the **RQFII quota was raised to RMB 270bn**
- In July 2013, CSRC announced the increase of the **QFII quota to USD150bn**

China QFII Qualification Requirements

Types of QFIIs	Existing Requirements	Revised Requirements
Banks	Top 100 Banks	10 years exp, Capital > USD300m, AUM > USD5bn
Insurance companies	5 years exp, AUM > USD5bn	2 years exp, AUM > USD0.5bn
Asset management institutions	5 years exp, AUM > USD5bn	2 years exp, AUM > USD0.5bn
Other institutional investors (pension, trust, foundations)	5 years exp, AUM > USD5bn	2 years exp, AUM > USD0.5bn
Securities companies	30 years exp, AUM > USD10bn	5 years exp, Net Assets > USD500m AUM > USD5bn

The maximum USD1bn quota for individual QFII investors remain unchanged and subject to the approval of China State Administration of Foreign Exchange (SAFE).

Source: CSRC

Recent Revisions to China A QFII Scheme (as of July 2013)

Rules	Before	Current
Total QFII Quota	• US$80bn	• US$150bn (July 2013)
Individual QFII Quota	• Min quota : USD50m • Max quota: USD1bn	• SWF, central banks and monetary authorities can now apply for a quota greater than USD1bn
Capital Remittance/ Repatriations for Open-Ended Chinese Funds*	• Monthly remittance/repatriation equal to net subscriptions/ redemptions is allowed for "Open ended China funds" after the initial lock up period • Requires approval from SAFE (10 days in advance) if the amount repatriated is greater than USD 50bn	• **Weekly remittance/repatriation (5 working days) equal to net subscriptions/redemption is allowed for "Open-ended China funds" after the initial lock up period** • **Weekly repatriations within a month cannot exceed 20% of the total assets in China as of the previous year** • **No pre-approval is required from SAFE**
Capital Remittance/ Repatriation for other QFIIs	• Each capital repatriation requires an approval from SAFE with no clear time-frame on the frequency of repatriation	• Pre-approval is still required from SAFE (but can be administered by custodians) • Monthly repatriation is allowed after the lock up • Monthly repatriation cannot exceed 20% of the total assets in China as of the previous year
Account Administration	• One security trading account in RMB	• QFIIs can apply for up to 6 security trading accounts

** "Open-ended China Funds" are defined as investment funds that are have over 70% of the assets invested in China.*

Major Revisions to China A RQFII Scheme (as of Jul 2013)

- In July 2013, CSRC decided to further expand the RQFII scheme to **Singapore and London** followed by the launch of a similar pilot scheme in **Taiwan** in June 2013
- In addition, **qualified foreign institutional investors domiciled in Hong Kong can also participate in the RQFII program**
- The **removal of the asset allocation restriction** is also a positive development making investments in the China capital market more flexible and manageable
  - As of March 2013, the RQFII quota amounts to be RMB270bn (USD43bn) which is more than half of the current announced QFII quota of USD80bn.
- Although the RMB270bn RQFII quota is not yet fully allocated, the fast **development in the RQFII space is providing investors an alternative access to the China A-share market**

	Before	Current
RQFII Locations	Hong Kong	**Hong Kong, Taiwan, Singapore, London**
RQFII Qualifications	Only opened to HK subsidiaries of PRC fund management and securities companies	**Expanded to include financial institutions incorporated in HK. Applicants must have an asset management license from SFC and existing asset management business**
Asset Allocation Restriction	No more than 20% in equity and 80% in fixed income	**Removed**
Investment Scope	Mainly fixed income, stocks and China A ETFs	**Expanded to include index futures and fixed income in China interbank bond market**

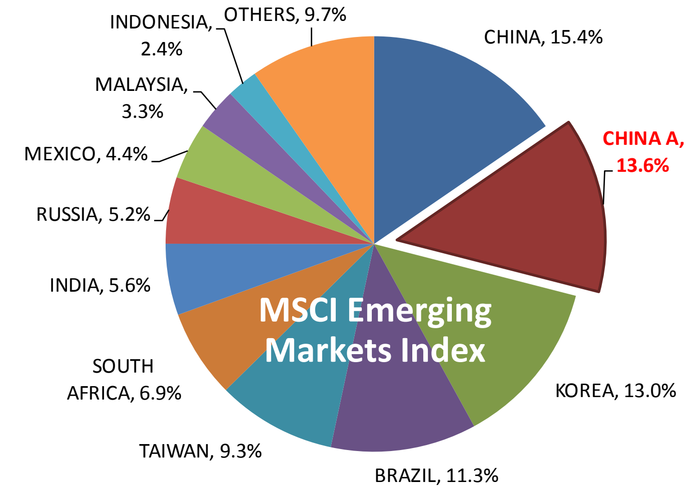
Source: CSRC

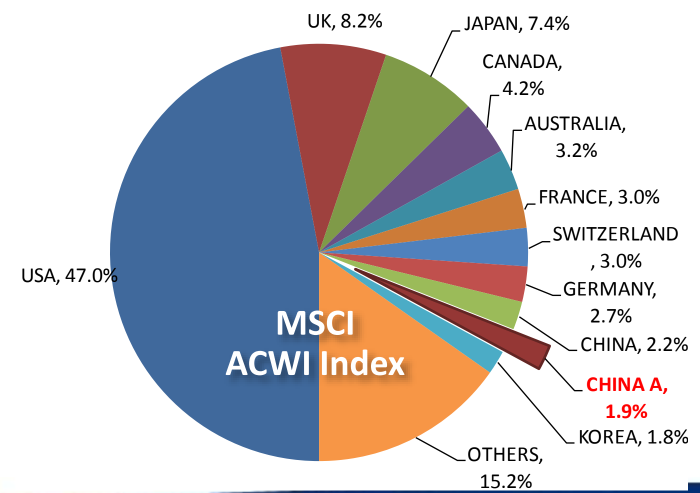
Implications of Opening A-shares to Global Investors

Hypothetical Inclusion of China A in MSCI EM and MSCI ACWI

- In the extreme hypothetical case, if the QFII system were to be abolished and various accessibility restrictions lifted,
  - **China A-shares** could represent up to **14%(1) of MSCI Emerging Markets Index**
  - In combination with the MSCI China Index, **China as a market** could have a total index weight of close to **30% in the MSCI Emerging Markets Index**

Simulated Country Weight Distribution Assuming Full Inclusion of MSCI China A Index To MSCI EM and MSCI ACWI(2)



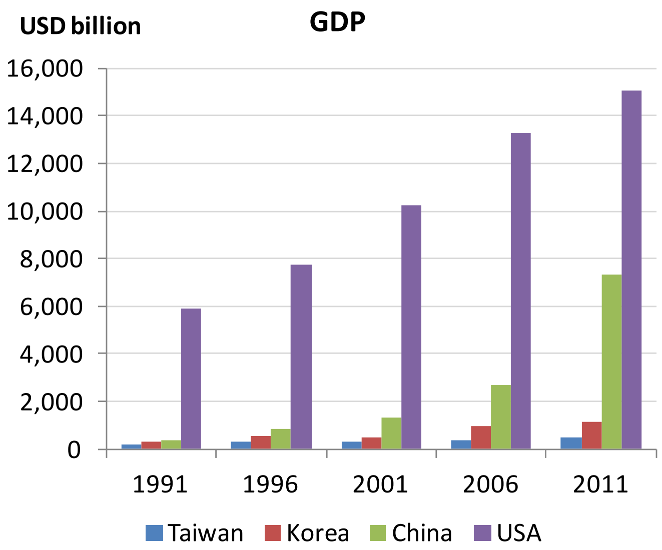


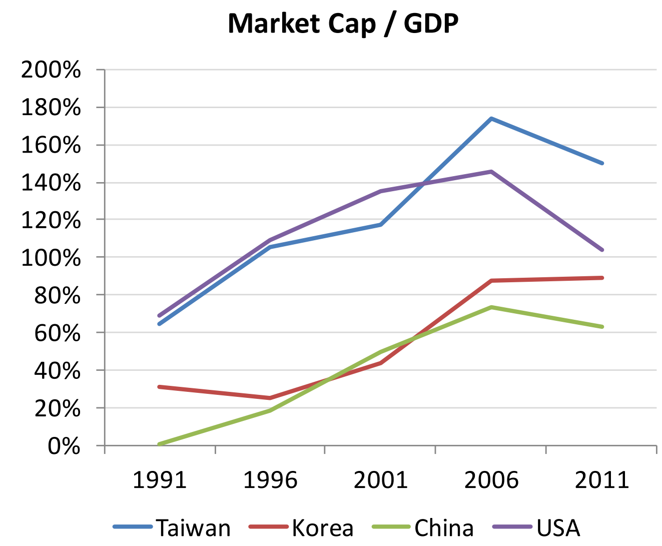
(1)The pro forma index weight of 14% is estimated based on the free float-adjusted market capitalization (after applying a 30% foreign ownership restriction)of the existing MSCI China A Index.

(2) source: MSCI, data as of July 24, 2012. Weight of China A is derived based on the existing MSCI China A I index mcap with a foreign ownership restriction of 30%.

The Growing Role of Public Capital Market as Economy Develops

- While the market capitalization to GDP ratio of China has grown overtime, it is **still low when compared to other emerging and developed economies**
  - 2011 market capitalization to GDP ratio ratios:
    - Korea: 93%
    - Taiwan: 150%
    - USA: 100%
    - China only 60%





- Based on the experience of other countries, it may suggest that there are **still potential room for China's capital market to grow**

Source: GDP data based on World Bank and IMF. Market capitalization to GDP data for Korea and USA is based on World Bank. Market capitalization of Taiwan is based on Taiwan Stock Exchange, while market capitalization for China includes both domestically listed and Hong Kong listed companies, and is calculated based on Shanghai and Shenzhen Stock Exchanges and Hong Kong Stock Exchange.

MSCI's Approach to Equity Market Classification

- The **classification of markets is a key input** in the process of index construction as it drives the composition of the investment opportunity sets to be represented
- The approach used by MSCI aims to reflect the views and practices of the international investment community by striking a balance between a **country's economic development** and the **accessibility of its market** while preserving **index stability**
- In order to be classified in a given investment universe, a country must **meet the requirements of all three criteria** as described in the table below

Criteria	Frontier	Emerging	Developed
A Economic Development			
A.1 Sustainability of economic development	No requirement	No requirement	Country GNI per capita 25% above the World Bank high income threshold* for 3 consecutive years
B Size and Liquidity Requirements			
B.1 Number of companies meeting the following Standard Index criteria	2	3	5
Company size (full market cap) **	USD 453 mm	USD 906 mm	USD 1811 mm
Security size (float market cap) **	USD 33 mm	USD 453 mm	USD 906 mm
Security liquidity	2.5% ATVR	15% ATVR	20% ATVR
C Market Accessibility Criteria			
C.1 Openness to foreign ownership	At least some	Significant	Very high
C.2 Ease of capital inflows / outflows	At least partial	Significant	Very high
C.3 Efficiency of the operational framework	Modest	Good and tested	Very high
C.4 Stability of the institutional framework	Modest	Modest	Very high

* High income threshold for 2011: GNI per capita of USD 12,476 (World Bank, Atlas method)
** Minimum in use for the November 2012 Semi-Annual Index Review, updated on a semi-annual basis

- Based on our current assessments, there are several **major market accessibility obstacles** that **need to be addressed** before the inclusion of the China A-shares into the MSCI Emerging Markets Index can be considered

Recent Announcement on MSCI Market Classification Review

- On June 11. 2013, MSCI announced ***the start of the review of China A-shares for a potential inclusion in the MSCI Emerging Markets Index***
- Driven primarily by a series of positive market opening measures and strong regulatory momentum over the past 12 months
- The initiation of the consultation does not, in any way, indicate that the China A-shares have already met the standards of Emerging Markets in terms of market accessibility criteria as a large number of key obstacles in the areas of capital mobility, quota allocation and taxation continue to exist
- However, given the significant size of the China A-share market and the possibility of further regulatory reforms in the short term, MSCI believes that it is important to actively engage with the international investment community on this matter
- ***Any hypothetical inclusion will be entirely dependent on the speed and magnitude of actual progress*** in the opening of the market and the resulting experience of international investors

Key Obstacle: Capital Mobility Restrictions

- Capital Remittance & Repatriation Restrictions
  - Capital must be remitted within six months once the quota is allocated
  - Lock-up period from 3month to one year depending on types of QFIIs
  - For non "Open-ended China Funds", monthly repatriation is allowed after the lock up period but cannot exceed 20% of their total assets in China as of the previous year. For "Open-ended China Fund", the rule was recently modified to allow weekly repatriation

- Such capital mobility restrictions can severely impact the liquidity and hamper the flow of funds
  - Limit the investor's flexibility in timing and getting into the market
  - Impact the investor's ability to service redemptions and rebalance portfolios
  - Impede smooth fund operations and lead to increased tracking errors

- Although the recent revision to allow weekly repatriation for "Open-ended China Funds" is a welcoming development, the current definition of "Open-ended China Funds" which requires funds to invest no less than 70% assets in China is too restrictive. This effectively precludes all global mutual funds from being able to operate with weekly repatriation

Key Obstacle: Allocation of QFII Quota

- Global investors rely on the China QFII or RQFII scheme to gain direct access to mainland's capital market. The quota system needs to provide a **consistent, dependable and reliable experience** and a level playing field for all international investors.
- The limited size of the total QFII/RQFII quota as well as the cap imposed on the individual QFII quota (US$1 billion) effectively constrain the amount of quota that can be allocated to investors.
- In addition, there is currently **no explicit mechanism to link the size of investors and their investment processes to the size of quota allocation**. Large investors will potentially require a quota size corresponding to their assets under management in order to obtain a meaningful investment exposure. Similarly, passive investors will require a quota size corresponding to their passive exposure to replicate the index.
    - *In our previous hypothetical scenario, where the MSCI China A Index was included in the MSCI Emerging Markets Index, many large institutional investors would have found it difficult, or nearly impossible, to align their portfolios to the increased hypothetical market weights*
    - *For the largest ETF tracking the MSCI Emerging Markets Index (AUM of $45bn, March 2013) to replicate a full inclusion of the MSCI China A in the MSCI Emerging Markets Index, it would require an individual quota of greater than USD5bn, which is not possible today*
    - *If we take the largest asset manager today with an equity allocation of $1.77tr (September 2012), an allocation to emerging markets based on the MSCI ACWI Index weight will be approximately USD230bn. As such, a USD1bn quota can only translate to less than 50bp of allocation in the China A-shares*

Tax Regime

- The other issue that has frequently surfaced from our conversations with global investors is a **lack of clarity on the implementation of Enterprise Income Tax** for A-share investors outside mainland China
- While the lack of clarity on tax does not necessarily constitute a major obstacle for market reclassification, it is important to stress that it weighs highly among investors' list of concerns and in some cases, **de-motivates investors** from applying for the QFII qualification
- In addition, there were also several instances where the tax issue is indirectly causing a **capital mobility problem** for international investors.
  - Because of the lack of clear taxation rules on gains from securities trades, QFII investors were not able to obtain the necessary audit approval for profit repatriation

Implementing China Exposure

Overview of the MSCI China A Index

- Launched in 2005, the **MSCI China A Index is constructed based on the same methodology as the MSCI Global Investable Market Indices** (GIMI) that is widely used by international investors
- The MSCI GIMI methodology features exhaustive coverage of the investable opportunity set with **no gaps and overlaps**, allowing consistent asset allocation across Large, Mid and Small cap segments
- The MSCI China A Index achieves a **proper balance** between size integrity and market coverage and is **aligned with international equity markets** in terms of size/industry/style segments
- This **consistency of methodology** allows institutional investors to analyze the opportunity set of China A in the same manner as other global equity asset classes

Characteristics	MSCI China A	MSCI China A IMI
Free float market cap (USDbn)	759	1,068
Number of constituents	463	1,830
Market coverage (%)	68	96

Sector Distribution of MSCI China A and MSCI China A Small Cap Indices

Sectors Distribution	MSCI China A		MSCI China A Small Cap	
	Weight	# constituents	Weight	# constituents
Consumer Discretionary	10.8%	53	17.1%	256
Consumer Staples	7.3%	36	7.2%	103
Energy	5.4%	27	2.1%	28
Financials	34.5%	72	7.4%	90
Health Care	8.3%	44	7.0%	76
Industrials	15.3%	107	23.4%	342
Information Technology	4.1%	25	12.7%	157
Materials	10.1%	74	18.9%	268
Telecommunication Services	0.8%	2	0.3%	3
Utilities	3.5%	23	3.8%	44
Total	100.0%	463	100.0%	1,367

Top 10 Securities in MSCI China A

MSCI China A	Weight (%)	Sector
CHINA MINSHENG BANK A	3.1%	Financials
CHINA MERCHANTS BANK A	2.9%	Financials
PING AN INSURANCE A	2.1%	Financials
INDUSTRIAL BANK A	2.0%	Financials
SHANGHAI PUDONG DEV BK A	1.8%	Financials
CHINA VANKE CO A	1.7%	Financials
BANK OF COMMUNICATIONS A	1.5%	Financials
KWEICHOW MOUTAI A	1.5%	Consumer Staples
CITIC SECURITIES CO A	1.5%	Financials
ICBC A	1.4%	Financials

Data as of 6/28/2013

Implementing China Exposure

- The China A-share market is characterized by:
  - A very **flat market structure**
  - **Rapid expansion** over the last 20 years
  - Existence **A/H premium**

- Due to the unique structure of the China A-share market, in the short run, with constraints of a limited QFII quota allocation, **investors may explore** the options of:
  - Gaining **initial exposure via a narrow tradable portfolio** such as the one based on the **MSCI China A 50** Index but attention is required as to how best to structure such a portfolio
  - **An A-shares "completion" portfolio** that takes into account the overlapping exposures and valuation differences of A- and H-shares

- **Over the long run, a broad-based portfolio based on the MSCI China A Index is the most effective option for capturing the diverse and dynamic opportunities of A-shares**

A Very Flat Structure of the China A-share Market

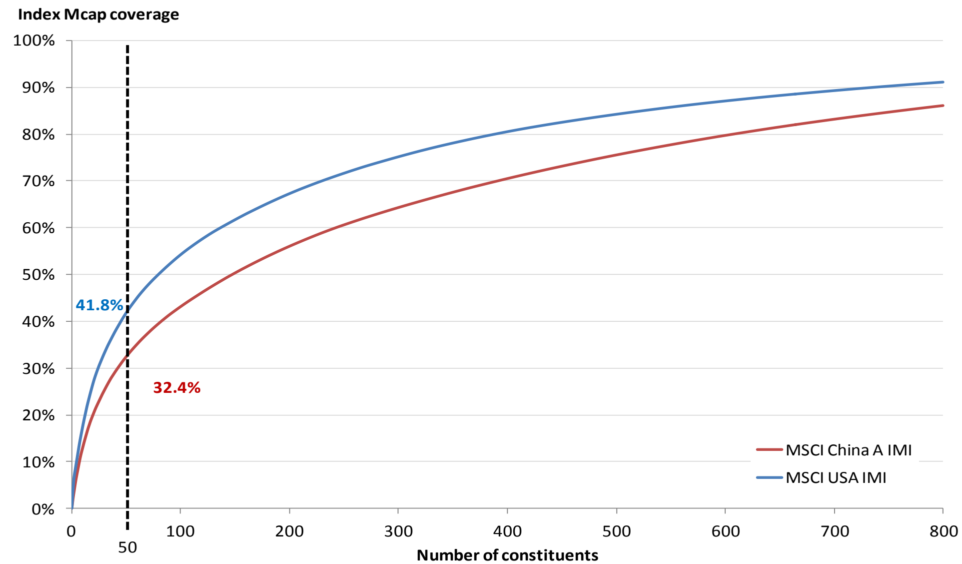
- For a given number of securities, the MSCI China A Index has a lower free float mcap coverage than the MSCI USA Index

- The **top 50 stocks** today represent:
  - **Less than 1/3 of the A-share free float mcap**
  - Achieved a representation of 40% in USA

- An investor who wishes to capture the **full diversity** of companies (say, with at least 80% coverage of the total market) would require:
  - A portfolio of **at least 600 stocks** (before screening for investability requirements) in MSCI China A
  - Compared to 400 stocks for the USA

- Given this unique structure of China's A-share market, an **A-share portfolio would need to be broad-based in nature to be representative**

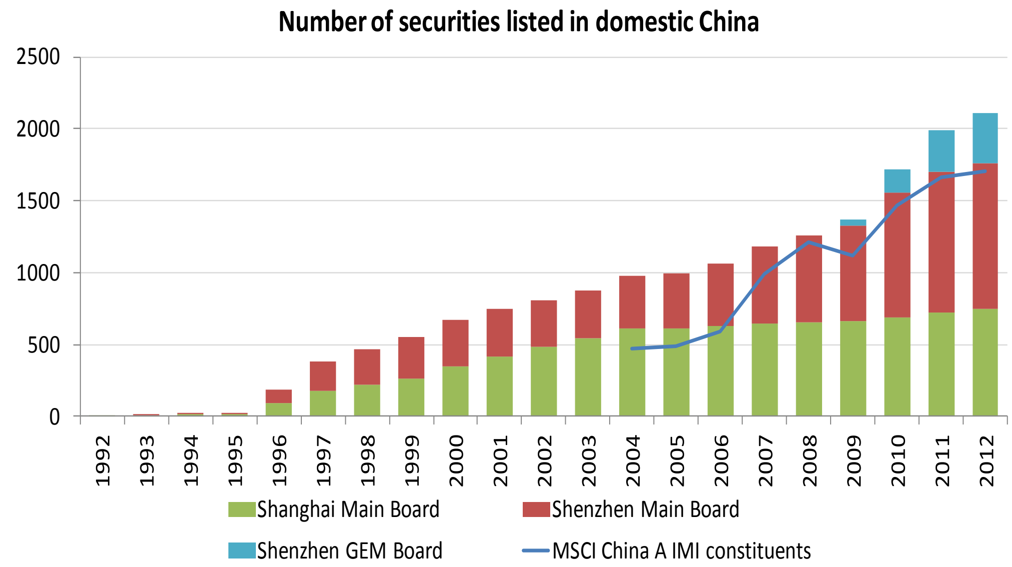
Cumulative Free Float Market Capitalization
MSCI China A vs MSCI USA



Source: MSCI, Bloomberg, data as of October 23, 2012

Limitation of a Fixed Number Portfolio in a Rapid Expanding China Equity Market

- A result of this fast-paced growth is that a **fixed number stock portfolio** may initially capture a significant proportion of the total stock market, but it **will likely lose its effectiveness** (i.e., its breadth, coverage, and representativeness) over time
- For example, a top **300 stock portfolio**
  - In **2005**: Captured **86%** of the free float-adjusted market capitalization in 2005,
  - In **2012**: its representation shrunk by almost one-third, or to **60%**.
- Today, a **300-stock portfolio in the A-share market is unlikely to be considered representative** and would only become less and less effective should the market continue its expansion



	Float mcap	Weight	Number of constituents
Large Cap	540,553	50.6%	181
Mid Cap	218,371	20.4%	282
Standard	758,924	71.1%	463
Small Cap	309,005	28.9%	1367
IMI	1,067,929	100.0%	1830

Data as of June 28, 2013

Source: MSCI, Bloomberg

Evolution of China A-shares Sector Exposures

- China's unique industry profile and fast-changing industry structure pose particular **challenges and risks for narrow portfolios such as one consisting of just the top 50 largest stocks**
  - While Financials would have represented 25% of a top 50 portfolio in 2005, today it would represent 60%
  - In addition, **this top 50 portfolio would have no representation in IT and would significantly underweight two of the other largest sectors in the China A market** (i.e., Industrials and Materials)
- While a narrowly designed portfolio may be an efficient tool for achieving quick exposure to the underlying market, it suffers from **critical limitations in the context of building a representative portfolio**

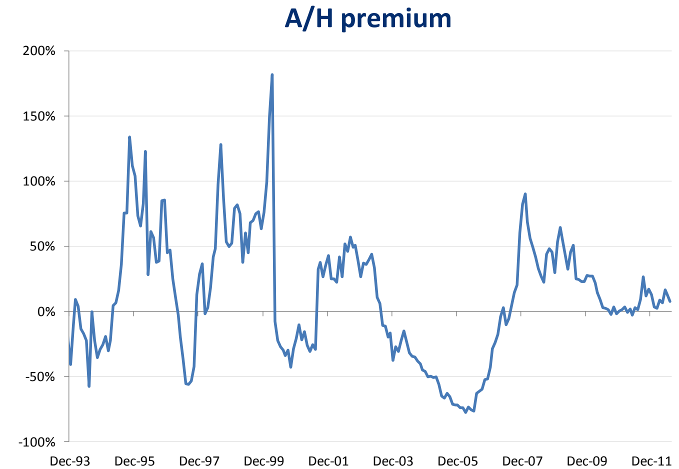
Historical sector weight evolution of MSCI China A vs. MSCI China A 50

	Oct-05		Oct-12	
Sector weight	**MSCI China A**	**MSCI China A 50**	**MSCI China A**	**MSCI China A 50**
Consumer Discretionary	13%	7%	10%	7%
Consumer Staples	6%	7%	9%	11%
Energy	5%	5%	7%	7%
Financials	15%	24%	31%	55%
Health Care	3%	1%	7%	2%
Industrials	22%	15%	16%	6%
Information Technology	6%	5%	4%	0%
Materials	19%	16%	14%	8%
Telecommunication Services	3%	6%	1%	1%
Utilities	9%	14%	3%	2%

Source: MSCI

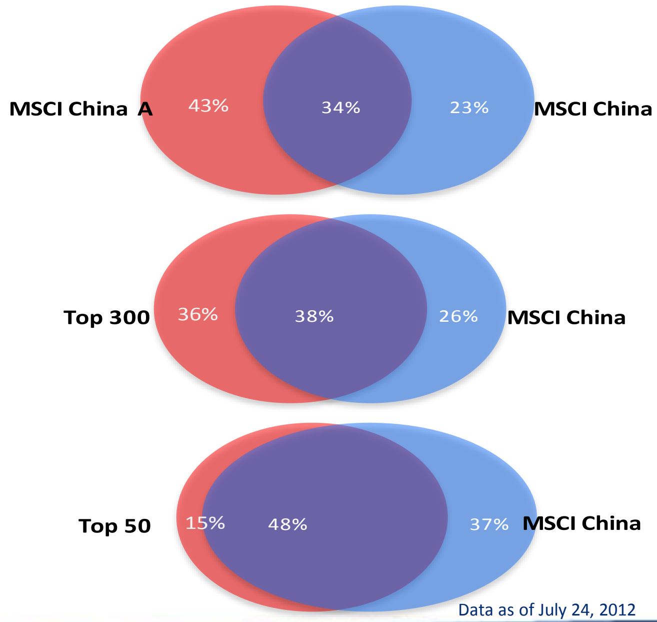
A/H Premium

- If we examine the A/H premium of securities with both A-Share and H-Share listings we find that:
  - The premium is **volatile and not always positive**
  - This A/H premium is currently a **modest (8%)**
- An investor can **acquire more than 70% of the largest 50 China A-share companies by purchasing their often cheaper Hong Kong listed counterparts**
- A broad-based portfolio, such as one that is proxied by the **MSCI China A Index, has less overlapping exposure and is more effective in capturing the unique A-share investment opportunities**



Source: MSCI

Overlapping Exposure between the Onshore MSCI China A Index and the Offshore MSCI China Index



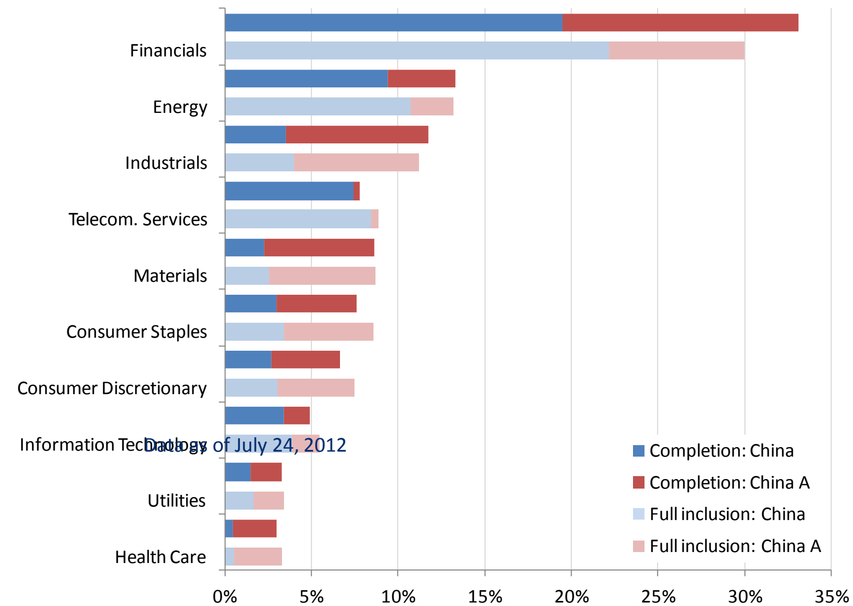
Data as of July 24, 2012

China A-shares Completion Portfolio

- For investors with a limited QFII quota allocation and who wish to deploy capital efficiently, **an A-shares completion portfolio with no overlapping exposure to their existing China portfolio may serve as an appealing alternative**

- Interestingly, the **combination of the MSCI China Index plus the A-shares completion portfolio** produces a very similar sector profile to the MSCI China Index plus the MSCI China A Index and can therefore serve as a **framework for gaining comprehensive China exposure**

Sector Exposure of a Completion China A Portfolio Compared to One Assuming Full Inclusion of the MSCI China A Index



	MSCI China	MSCI China A completion	MSCI China A	MSCI China + MSCI China A completion	MSCI China + MSCI China A
Consumer Discretionary	5.0	11.2	8.5	7.5	6.6
Consumer Staples	5.6	13.0	9.8	8.5	7.6
Energy	17.8	6.1	8.2	13.2	13.3
Financials	36.7	19.8	29.4	30.0	33.2
Health Care	0.9	6.9	5.3	3.3	3.0
Industrials	6.6	18.2	17.4	11.2	11.7
Information Technology	6.4	3.9	3.2	5.4	4.9
Materials	4.3	15.3	13.5	8.7	8.6
Telecommunication Services	14.0	1.1	0.8	8.9	7.8
Utilities	2.8	4.4	3.9	3.4	3.3

Conclusions

- Over the last two decades, the **China capital market has been transformed** in terms of size, issuance, and access
- The latest QFII revisions represent a welcome step in this respect
- However, some **market accessibility restrictions** particularly with regards to capital mobility continue to affect many global investors and **prevent China from formal recognition as part of the investable opportunity set in major global benchmark indices**
- In the context of building a **representative China portfolio**, investors should fully understand the structure and dynamics of the Chinese equity market
  - The China A-share market has expanded rapidly and is likely to continue to grow in terms of size and issuance. To successfully capture these diversified opportunities, an **A-share portfolio should ideally be broad-based and dynamic in nature**
  - A narrow portfolio could be viewed as a way to gain initial access to the market. However, a **narrow portfolio may be less effective in capturing the economic exposure of the underlying market** and could submit investors to considerable concentration and tracking risk
  - **Investors should explore how an A-shares completion portfolio** can help to exploit the historical existence of an A/H shares premium and lead to a **more efficient use of limited QFII quotas**

Appendix I:

MSCI China A Index Series Methodology

MSCI China A Index Methodology Overview

- The MSCI China A Index is constructed based on the MSCI Global Investable Market Indices (GIMI) Methodology

Features	MSCI China A Index	CSI 300 Index
Index Construction Methodology	The Standard Index (Large + Mid Cap) target to cover 85% of its investable equity universe, **defined by security float-adjusted market cap**. As of June 28, 2013, there are 463 constituents	The largest 300 A shares by **company full market cap**
Eligible Universe	Shanghai and Shenzhen listed A share securities based on MSCI China A Index (Parent Index), Exclude ST Securities	Shanghai and Shenzhen listed A share securities based on MSCI China A Index (Parent Index), Exclude ST Securities
Index Review	2 semi-annual reviews (SAIR) 2 quarterly reviews (QIR)	2 semi-annual rebalancing in Jun and Dec
Buffer zones for Rebalancing	+50% and -33% of cutoff for SAIR +80% and -50% of cutoff for QIR	Priority addition when rank >= 240 Priority deletion when rank <= 361
Index mcap (USD)*	825	693
Market Coverage*	72%	61%

Source: MSCI,& CSI

*Data as of December 31, 2012

MSCI China A 50 Index Methodology Overview

- Whilst investors may seek initial exposure to the A-shares market via a narrow portfolio such as the MSCI China A 50 Index, attention is required as to how best to structure such products

Features	MSCI China A 50 Index	FTSE A 50 Index
Index Construction Methodology	The largest 50 China A shares by **security float market capitalization** Number of constituents is fixed at 50 during rebalancing	The largest 50 China A shares by **company full market capitalization** Number of securities is fixed at 50 at all time
Eligible Universe	Shanghai and Shenzhen listed A share securities based on MSCI China A Index (Parent Index) Exclude ST Securities	Shanghai and Shenzhen listed A share securities Exclude ST Securities
Early Inclusion	No early inclusion. Large IPOs will be typically included at next Quarterly Index Review	Any new issue with full mcap > 0.5% of Parent Index mcap shall be included as determined by the AP Regional committee
Index Review	2 semi-annual reviews (SAIR) 2 quarterly reviews (QIR)	QIR in Mar, Jun, Sep and Dec Annual Review of Parent Index in March
Buffer zones for Rebalancing	Priority addition when rank >= 35 Priority deletion when rank < 65	Priority addition when rank >= 40 Priority deletion when rank < 60

Source: MSCI & FTSE

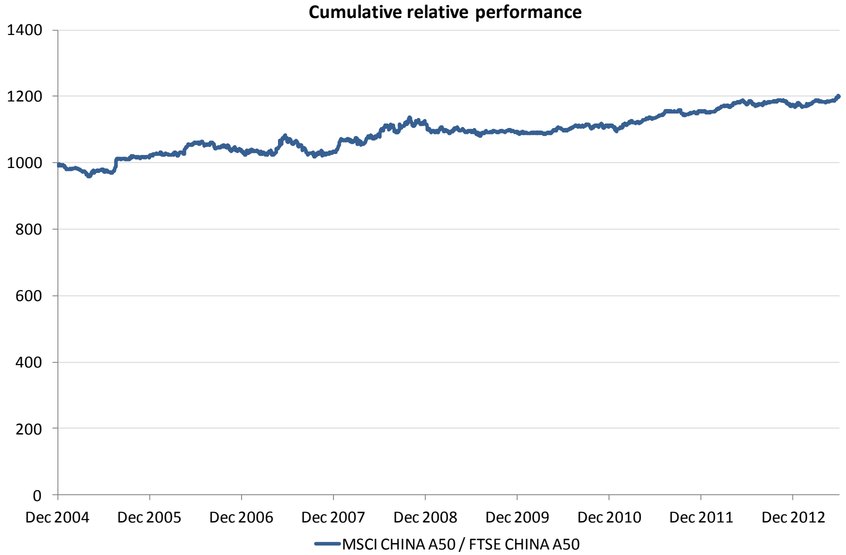
Performance of the MSCI China A 50 Index

Absolute Performance Dec 2004 - Jun 2013

	FTSE CHINA A50	MSCI CHINA A50
Return (% pa)	5.8%	8.0%
Risk (% pa)	30.1%	28.0%
Risk adjusted return	0.19	0.29
Maximum drawdown	-74.8%	-71.8%
1-year return (% pa)	-11.1%	-9.4%
3-year return (% pa)	-6.4%	-3.7%
5-year return (% pa)	-7.6%	-5.6%
1-year risk (% pa)	22.0%	21.2%
3-year risk (% pa)	20.3%	20.0%
5-year risk (% pa)	26.6%	25.8%
1-year risk adjusted return	-0.51	-0.44
3-year risk adjusted return	-0.32	-0.18
5-year risk adjusted return	-0.29	-0.22

Price return in USD

Source: MSCI, Bloomberg



- From December 2004 to June 2013, the MSCI China A 50 Index has an annualized return of 8%, outperformed the FTSE A 50 Index by 2.2% p.a.
- The MSCI China A 50 Index has a superior performance in terms of return, risk and risk-adjusted return over the recent 1, 3 and 5-year periods

Advantages of the MSCI China A 50 Index

- The MSCI China A 50 Index produces
  - Less concentration & less fat tail
  - A more balanced representation of the underlying market in most sectors
  - A smaller sector bias in Financials

Characteristics	MSCI China A 50	FTSE China A 50
Free float market cap (USDbn)	337	310
Number of constituents	50	50
Weight of largest security	7.0%	7.4%
Top 10 security weight	44.1%	48.7%
Bottom 10 security weight	8.1%	4.7%

Data as of June 28, 2013

Sectors Distribution	MSCI China A 50	FTSE China A 50
Consumer Discretionary	6.4%	4.9%
Consumer Staples	8.0%	7.4%
Energy	5.4%	5.3%
Financials	61.7%	67.7%
Health Care	3.7%	-
Industrials	5.5%	7.1%
Information Technology	-	0.5%
Materials	5.9%	4.0%
Telecommunication Services	1.3%	1.4%
Utilities	2.1%	1.7%
Total	100.0%	100.0%

Data as of June 28, 2013

Source: MSCI, Bloomberg

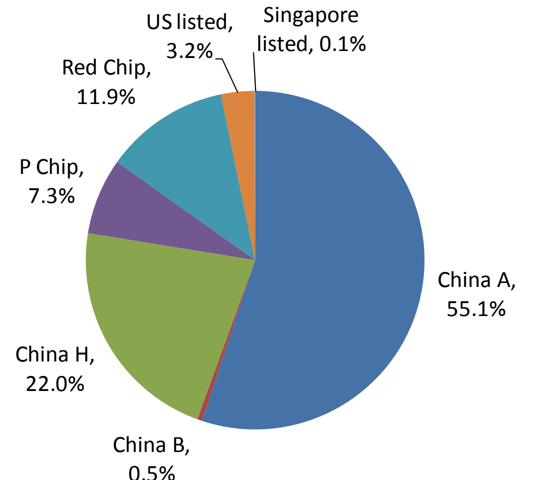
Appendix II:

Landscape of China Equity Investment Opportunities

Understanding China's Equity Opportunity Set

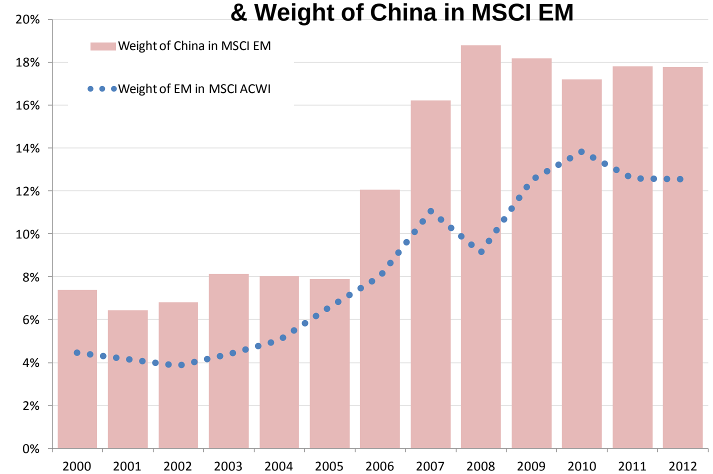
- **MSCI China Index**
  - A component of the MSCI Emerging Markets (EM) Index, As of July 2012, the MSCI China Index has a weight of 18% in the MSCI EM Index
  - Consists of H shares, Red-chips and P-chips traded in Hong Kong and B Shares traded in Shanghai/Shenzhen that are fully accessible to international investors
- **MSCI China A Index**
  - Not part of the MSCI EM Index
  - Consists of A shares traded in mainland China
  - Qualified Foreign Institutional Investors (QFII) are allowed to invest directly in A shares subject to certain rules, which include investment quotas that restrict the amount an investor can allocate
  - Non-QFII investors could access A shares via RQFII products listed in Hong Kong
- **MSCI Overseas China Index**
  - Not part of the MSCI EM Index
  - Consist of common stock or ADRs of Chinese companies listed in US and Singapore
  - Fully accessible to international investors

MSCI All China Index – Share Class Weights



Data as of July 24, 2012. The weight of the MSCI China A Index in the pie chart is calculated based on the domestic free float-market capitalization which does not factor in the restriction on foreign ownership. Today, China A-shares have a foreign ownership limit of 30%.

Weight of Emerging Markets in MSCI ACWI & Weight of China in MSCI EM



Source: MSCI. Left chart: based on year end data for each year except for year 2012, which is as of July 31, 2012.

Definitions of MSCI China Share Classes

MSCI China A

- **A shares** are Chinese securities incorporated in China and listed on the Shanghai or Shenzhen Stock Exchange (in RMB)

MSCI China

- **B shares** are Chinese securities incorporated in China and listed on the Shanghai Stock Exchange (in US$) or Shenzhen Stock Exchange (in HK$)
- **H shares** are Chinese securities incorporated in China and listed on the Hong Kong Stock Exchange (in HK$)
- **Red-Chips** refer to companies that are not incorporated in the PRC but listed on the Hong Kong Stock Exchange and (directly or indirectly) controlled by organizations or enterprises that are owned by the state, provinces, or municipalities of the PRC
- **P-Chips** refer to companies that are not incorporated in the PRC but listed on the Hong Kong Stock Exchange provided that they satisfy the majority of the following conditions:
  - The company is controlled by PRC individuals
  - The company derives more than 80% of its revenue from PRC China
  - The company allocates more than 60% of its assets in PRC China
- The MSCI China universe excludes companies which satisfy the above conditions but derive more than 80% of their revenues and profits from he Hong Kong Special Administrative Region

MSCI Overseas China

- Chinese securities outside Greater China, covering Chinese securities (including ADRs) listed on the NYSE Euronext - New York, NASDAQ, New York AMEX and the Singapore Exchange

Key Characteristics of MSCI China Indices

MSCI Index	MSCI China A	MSCI China				MSCI Overseas China
Share Class	A	H	B	Red Chip	P Chip	Common
Characteristics	--	--	--	PRC government linked	PRC enterprises deriving majority of assets and revenue from PRC	PRC enterprises deriving majority of assets and revenue from PRC
Country of Incorporation	PRC	PRC	PRC	Outside PRC	Outside PRC	--
Stock Exchange	SSE and SZSE	HKeX	SSE and SZSE	HKeX	HKeX	NYSE, NASDAQ, NYSE AMEX. SGX
Quoted Currency	RMB	HKD	USD/ HKD	HKD	HKD	USD/ SGD
# constituents Standard/ Small Cap	540/1165	65/43	4/59	29/47	45/181	8/52
Index mcap Standard/ Small Cap (USD bn)	771/241	308/8	6/8	167/13	102/38	45/8
Index wgt in MSCI EM Standard/ Small Cap	--	9.4%/1.8%	0.2%/1.8%	5.1%/3.0%	3.1%/8.9%	--
Top 3 sectors	Financials 30.7% Industrials 16.3% Materials 13.8%	Financials 36.7% Energy 17.8% Telecom. Services 14.0%				IT 86.5% Cons Disc11.8% Industrials 1.7%
Weight of top 10 securities	17.1%	53.4%				100.0%
Inception date	Nov 30, 2004	Dec 31, 1992				Sep 7, 2011
History since	Dec 31, 2000	Dec 31, 1992				May 31, 2008

Source: MSCI, data as of July 24, 2012.

Appendix III:

Evolution of the MSCI Emerging Markets Index

Evolution of the MSCI Emerging Markets Index

Main Changes in the MSCI Emerging Markets Index since Inception (January 1, 1988)

Date	Country	Weight at the time of Addition	Weight at the time of Deletion
January 1, 1988	Argentina	1.81%	
	Brazil	18.91%	
	Chile	8.93%	
	Greece	5.29%	
	Jordan	2.93%	
	Malaysia	33.78%	
	Mexico	7.65%	
	Philippines	3.12%	
	Portugal	8.52%	
	Thailand	9.06%	
Setpember 1, 1989	Indonesia	0.97%	
	Turkey	2.11%	
January 7, 1992	Korea at 20% of its weight	4.58%	
February 2, 1994	Colombia	1.20%	
	India	7.82%	
	Pakistan	1.23%	
	Peru	0.67%	
	Sri Lanka	0.19%	
	Venezuela	0.62%	
March 2, 1995	Israel	2.35%	
	Poland	0.29%	
	South Africa	14.81%	
September 3, 1996	China	0.46%	
	Czech Republic	1.43%	
	Hungary	0.35%	
	Korea from 20 to 50% of its weight	3.40%	
	Taiwan at 50% of its weight	8.46%	

Date	Country	Weight at the time of Addition	Weight at the time of Deletion
December 1, 1997	Russia	5.70%	
	Portugal		4.00%
September 1, 1998	Korea at full weight	2.98%	
December 1, 1998	Malaysia		4.25%
June 1, 2000	Malaysia	7.24%	
	Taiwan from 50 to 65% weight	3.05%	
	New China Free Universe	5.59%	
December 1, 2000	Taiwan from 65 to 80% weight	2.88%	
June 1, 2001	Egypt	0.28%	
	Morocco	0.21%	
	Greece		4.60%
December 1, 2001	Sri Lanka		0.04%
December 1, 2004	Taiwan Limited Investability Factor (LIF) from 0.55 to 0.75	3.44%	
June 1, 2005	Taiwan LIF from 0.75 to 1	4.41%	
January 23, 2006	Launch of the MSCI GCC Countries Indices		
June 1, 2006	Venezuela		0.10%
June 1, 2007	Launch of the MSCI Emerging Markets Small Cap Indices		
November 26, 2008	Jordan		0.11%
December 31, 2008	Pakistan		0.09%

1. Taiwan was first added in the MSCI EM Index at 50% of its weight due to restrictive Qualified Foreign Institutional Investor (QFII) and quota system and took nine years before it was included in full weight
2. Korea's inclusion was over three steps from 1992 to 1998 as foreign ownership limits were progressively raised

MSCI 24 Hour Global Client Service

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+1.404.551.3212
Boston	+1.617.532.0920
Chicago	+1.312.706.4999
Monterrey	+52.81.1253.4020
Montreal	+1.514.847.7506
New York	+1.212.804.3901
San Francisco	+1.415.836.8800
São Paulo	+55.11.3706.1360
Stamford	+1.203.325.5630
Toronto	+1.416.628.1007

Europe, Middle East & Africa

Cape Town	+27.21.673.0100
Frankfurt	+49.69.133.859.00
Geneva	+41.22.817.9777
London	+44.20.7618.2222
Milan	+39.02.5849.0415
Paris	0800.91.59.17 (toll free)

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+852.2844.9333
Seoul	00798.8521.3392 (toll free)
Singapore	800.852.3749 (toll free)
Sydney	+61.2.9033.9333
Tokyo	+81.3.5226.8222

clientservice@msci.com | www.msci.com

Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be reproduced or redisseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indices, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- You cannot invest in an index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any investment or financial product that may be based on or linked to the performance of any MSCI index.
- MSCI's indirect wholly-owned subsidiary Institutional Shareholder Services, Inc. ("ISS") is a Registered Investment Adviser under the Investment Advisers Act of 1940. Except with respect to any applicable products or services from ISS (including applicable products or services from MSCI ESG Research, which are provided by ISS), neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and neither MSCI nor any of its products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
- The MSCI ESG Indices use ratings and other data, analysis and information from MSCI ESG Research. MSCI ESG Research is produced by ISS or its subsidiaries. Issuers mentioned or included in any MSCI ESG Research materials may be a client of MSCI, ISS, or another MSCI subsidiary, or the parent of, or affiliated with, a client of MSCI, ISS, or another MSCI subsidiary, including ISS Corporate Services, Inc., which provides tools and services to issuers. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indices or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, ISS, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

 Apr 2013