

# China Government Bond Indices: Different Exposures

- Chinese government bonds have enjoyed strong inflows as China has been included in more EM and global government bond indices.
- Standalone allocations to China bonds are also becoming increasingly common as investors seek to both enhance returns and reduce the volatility of their bond holdings via diversification.
- For those seeking to meet these goals through ETFs, understanding how indices differentiate themselves is important in being able to better understand how to integrate Chinese exposure into bond portfolios.

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## Overview

This paper compares the construction of the Bloomberg Barclays China Treasury 100BN Index with the Bloomberg China Treasury + Policy Bank Total Return Index, the Bloomberg China Treasury Total Return Index and the FTSE Chinese Government Bond Index LCL. These are some of the strategies that have attracted the greatest value of ETF assets.

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## Key Criteria

In terms of composition, all of the above indices include fixed-rate Chinese Treasury bonds. However, there are some specific exclusions, most notably for Special bonds issued by the Ministry of Finance (see Figure 1 for a full list of exclusions). The only index that delves outside of a purely Treasury remit is the Bloomberg China Treasury + Policy Bank Index, which, as the name suggests, also includes Policy Bank bonds. As a result, this index is far broader than the others with well over double the number of issues and value of bonds outstanding (see Figure 2).

The other key difference revolves around minimum issue size requirements. The Bloomberg Barclays China Treasury 100BN Index focuses on bonds with high liquidity by requiring a par value of at least CNY 100 billion. The FTSE China GBI LCL also requires this threshold to be met for bonds issued prior to 1 January 2020 but, for more recent issues, the minimum outstanding drops to CNY 35 billion. For the other two indices, the minimum size required is only CNY 5 billion.<sup>1</sup>

Figure 1  
**Summary of Bond  
 Inclusion Rates**

Name	Bloomberg Barclays China Treasury 100BN Index Unh CNY	Bloomberg China Treasury + Policy Bank Index CNY	FTSE China GBI LCL	Bloomberg China Treasury Index CNY
<b>Minimum Amount Outstanding</b>	Par value of at least CNY100bn	Par value of at least CNY5bn	CNY 35bn (issued on or after 01 Jan 2020); CNY 100bn (issued before 1 Jan 2020)	Par value of at least CNY5bn
<b>Sector</b>	Treasury Bonds only	Treasury and Policy Bank bonds only	Treasury Bonds only	Treasury Bonds only
<b>Maturity</b>	At least one year until final maturity, regardless of optionality	At least one year until final maturity, regardless of optionality	At least one year until final maturity. Excludes bonds with a maturity of greater than 30 years	At least one year until final maturity, regardless of optionality
<b>Security Types</b>	<b>Included:</b> Fixed-Rate coupon securities. <b>Excluded:</b> Floating-rate and zero coupon securities <ul style="list-style-type: none"> <li>• Bonds with equity type features (e.g., convertibles, warrants)</li> <li>• Inflation-linked bonds</li> <li>• Derivatives, structured products</li> <li>• Securitised bonds</li> <li>• Private placements, retail bonds</li> <li>• Bonds issued on Shanghai and Shenzhen exchanges</li> <li>• Special bonds issued by Ministry of Finance</li> </ul>	<b>Included:</b> Fixed-Rate coupon securities. <b>Excluded:</b> Floating-rate and zero coupon securities <ul style="list-style-type: none"> <li>• Bonds with equity type features (e.g., convertibles, warrants)</li> <li>• Inflation-linked bonds</li> <li>• Derivatives, structured products</li> <li>• Securitised bonds</li> <li>• Private placements, retail bonds</li> <li>• Bonds issued on Shanghai and Shenzhen exchanges</li> <li>• Special bonds issued by Ministry of Finance in 2007</li> </ul>	<b>Included:</b> Fixed-Rate book entry. <b>Excluded:</b> zero coupon bonds <ul style="list-style-type: none"> <li>• Savings bonds</li> <li>• Special government bonds</li> <li>• Bonds issued prior to January 1 2005</li> </ul>	<b>Included:</b> Fixed-Rate coupon securities. <b>Excluded:</b> Floating-rate and zero coupon securities <ul style="list-style-type: none"> <li>• Bonds with equity type features (e.g., convertibles, warrants)</li> <li>• Inflation-linked bonds</li> <li>• Derivatives, structured products</li> <li>• Securitised bonds</li> <li>• Private placements, retail bonds</li> <li>• Bonds issued on Shanghai and Shenzhen exchanges</li> <li>• Special bonds issued by Ministry of Finance in 2007</li> </ul>

Source: Bloomberg Finance L.P., FTSE Russell, as of 30 September 2021.

## Key Characteristics

While the indices consist of largely the same types of bonds, the different criteria used for selection means there are some meaningful differences in the index characteristics (see Figure 2).

Figure 2  
**Bond Index Characteristics**

	Bloomberg Barclays China Treasury 100BN Index Unh CNY	Bloomberg China Treasury + Policy Bank Total Return Index CNY	FTSE China GBI LCL	Bloomberg China Treasury Total Return Index CNY
<b>Market Value (USD bn)</b>	1,637	4,888	1,590	2,312
<b>Number of Constituents</b>	50	302	48	139
<b>Coupon</b>	3.124	3.503	3.12	3.335
<b>Yield to worst</b>	2.76	2.91	2.75	2.82
<b>OAD</b>	6.23	5.86	5.67	7.36
<b>OAC</b>	0.93	0.77	0.72	1.29
<b>Maturity</b>	8.47	7.82	7.29	10.69
<b>Current Yield</b>	3.06	3.39	3.06	3.20
<b>LQA</b>	98.78	96.07	98.76	97.65
<b>Index Rating</b>	A1	A1	A1	A1

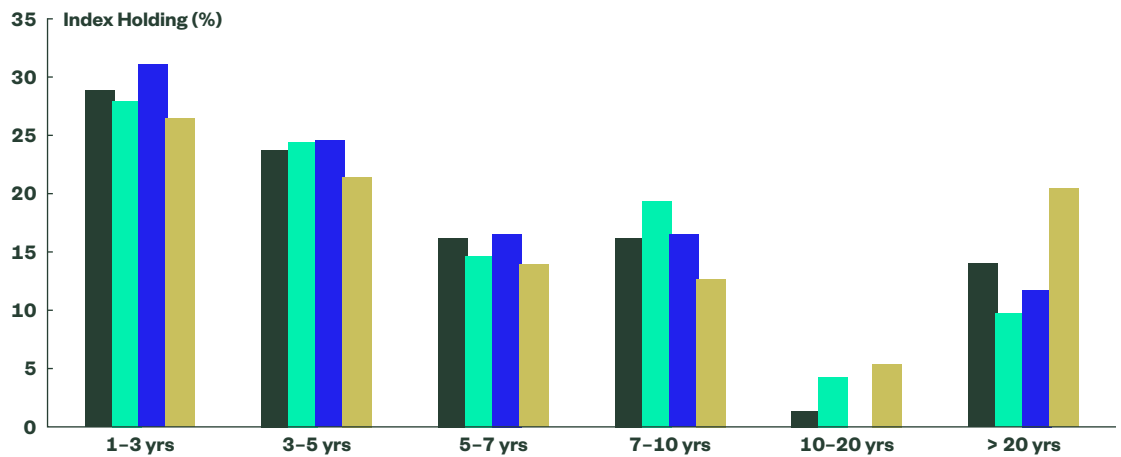
Source: Bloomberg Finance L.P., FTSE Russell, as of 30 September 2021. Characteristics are as of the date indicated and should not be relied upon as current thereafter.

The Bloomberg Barclays China Treasury 100BN Index and the FTSE China GBI LCL have similar index characteristics, although the Bloomberg Barclays China Treasury 100BN Index does have a marginally higher yield to worst and longer maturity. Also, the requirement that bonds have at least CNY 100 billion outstanding means the Bloomberg Barclays China Treasury 100BN Index has the highest Bloomberg LQA score.<sup>2</sup>

As already noted, the Bloomberg China Treasury + Policy Bank Total Return Index is drawn from a far larger pool of bonds, which results in its yields being higher and duration shorter than its peer group. However, this comes at the cost of liquidity, with a Bloomberg liquidity score that is lower than any of the other indices.

The Bloomberg China Treasury Total Return Index also has slightly higher levels of yield than the Bloomberg Barclays China Treasury 100BN Index but this is the result of around a year of additional duration risk. This longer maturity profile also means it has the highest level of convexity within the group.

Figure 3  
Index Maturity Profiles



Source: Bloomberg Finance L.P., FTSE Russell, as of 30 September 2021. Profiles are as of the date indicated and should not be relied upon as current thereafter.

Indeed, the Bloomberg China Treasury Total Return Index has a substantially longer maturity profile as a result of a far higher weighting to the over-20-year maturity bucket. The maturity and duration of the FTSE China GBI LCL is the shortest, in part because of a more than 30% allocation to the 1-3 year maturity bucket but also because it caps maturity at 30 years. Otherwise, all indices have a 1-year minimum maturity.

## Risk-Adjusted Returns

A key reason for flows into Chinese bond strategies is the stability that they can bring to a portfolio. Not only is the market liquid but also, during the peak of the COVID crisis, China bonds behaved more like US Treasuries than emerging market debt. Even in a less turbulent environment there are diversification benefits; see the State Street Global Advisors note, [Chinese Sovereigns May Enhance Global Bond Portfolios](#).

Figure 4

**Risk vs. Return  
Characteristics**

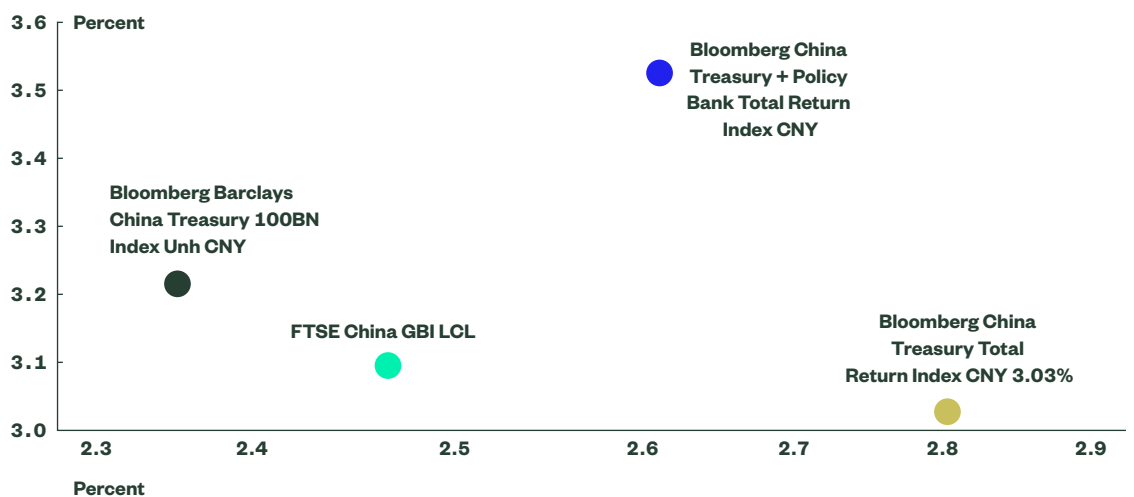
		1 Year	3 Years	5 Years
<b>Annualised Return (%)</b>	Bloomberg Barclays China Treasury 100BN Index Unh CNY	5.18	4.64	3.22
	Bloomberg China Treasury + Policy Bank Total Return Index CNY	5.79	5.09	3.53
	FTSE China GBI LCL	5.11	4.68	3.10
	Bloomberg China Treasury Total Return Index CNY	5.87	5.05	3.03
<b>Annualised Volatility (%)</b>	Bloomberg Barclays China Treasury 100BN Index Unh CNY	1.63	2.40	2.35
	Bloomberg China Treasury + Policy Bank Total Return Index CNY	1.58	2.51	2.64
	FTSE China GBI LCL	1.45	2.57	2.48
	Bloomberg China Treasury Total Return Index CNY	1.91	2.78	2.81
<b>Risk-Adjusted Return (Sharpe Ratio)</b>	Bloomberg Barclays China Treasury 100BN Index Unh CNY	3.18	1.93	1.37
	Bloomberg China Treasury + Policy Bank Total Return Index CNY	3.66	2.03	1.34
	FTSE China GBI LCL	3.54	1.82	1.25
	Bloomberg China Treasury Total Return Index CNY	3.08	1.82	1.08

Source: Bloomberg Finance L.P., FTSE Russell, as of 30 September 2021. Past performance is not a guarantee of future results. It is not possible to invest directly in an index.

Figure 4 shows the risk and return characteristics for the four indices. The Bloomberg China Treasury + Policy Bank Total Return Index has so far provided higher returns than the three Treasury-only strategies, which will be in part a reflection of the higher yield on the index. The Bloomberg China Treasury Total Return Index has also provided some high returns over the 1- and 3-year time periods but it consistently has had the highest level of volatility. Both the Bloomberg Barclays China Treasury 100BN Index and the FTSE China GBI LCL have had slightly lower returns than the other two indices over the last 1 and 3 years but this is commensurate with lower levels of volatility.

Figure 5

**Risk vs. Return  
Trade-Off During  
Past 5 Years**



Source: Bloomberg Finance L.P., FTSE Russell, as of 30 September 2021.

Returns versus volatility over the past 5 years are plotted in Figure 5. The Bloomberg China Treasury + Policy Bank Total Return Index has the highest annual returns while the Bloomberg Barclays China Treasury 100BN Index has the second highest returns and the lowest volatility.

In terms of the Sharpe ratio, the Bloomberg China Treasury + Policy Bank Total Return Index has the highest risk-adjusted returns over the past 12 months and 2 years, but over 5 years the Bloomberg Barclays China Treasury 100BN Index looks better.

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## Conclusion

Chinese government bonds have enjoyed strong inflows over the past few years and, with their inclusion in an increasing number of indices, we expect buying interest to persist. For those investors looking at standalone allocations, understanding what is in an index is important given the differences in characteristics and ultimately how that affects the performance.

For some investors, Chinese Treasuries will be viewed as a useful risk diversifier and, for this group, how volatile an index is will be important. For instance, the Bloomberg China Treasury + Policy Bank Total Return Index has the highest annual returns but is more volatile and less liquid than both the Bloomberg Barclays China Treasury 100BN Index and the FTSE China GBI LCL. The Bloomberg Barclays China Treasury 100BN Index offers the next highest returns but with lower volatility.

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## Endnotes

- 1 Source: Bloomberg Finance L.P., as at 30 September 2021. The amount is approximately USD 775 million.
- 2 The Bloomberg Liquidity Score compares securities based on their relative liquidity rather than absolute metrics. This normalised score compares the expected average liquidation cost for a range of volumes, assuming a one day liquidation horizon. The Liquidity Score reflects the security's centile rank within a peer group, and is represented with a value between 1 and 100. A score of 100 is the most liquid, reflecting the lowest average liquidation cost for a range of volumes.

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\* Pensions & Investments Research Center, as of December 31, 2020.

<sup>†</sup> This figure is presented as of September 30, 2021 and includes approximately \$59.84 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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