
MSCI To Increase the Weight of China A Shares in its Indexes

Earlier this year, MSCI announced it will increase the weight of China A shares in the MSCI Indexes by increasing the inclusion factor from 5% to 20% by November 2019. This decision follows the successful 5% initial inclusion of China A shares implemented in May and August 2018.

When is this Happening?

MSCI will increase the weight of China A shares in the MSCI Indexes in three steps — rather than two steps as initially proposed. The three-step process will help to alleviate potential execution pressure on the implementation dates.

May 2019 — MSCI will increase the index inclusion factor of all China A Large Cap shares in the MSCI indices from 5% to 10% and add ChiNext Large Cap shares with a 10% inclusion factor¹

August 2019 — MSCI will increase the inclusion factor of all China A Large Cap shares in the MSCI indices from 10% to 15%

November 2019 — MSCI will increase the inclusion factor of all China A Large Cap shares in the MSCI indices from 15% to 20% and add China A Mid Cap Shares, including eligible ChiNext shares, with a 20% inclusion factor to the MSCI indices

Upon completion, there will be 253 Large and 168 Mid Cap China A shares, including 27 ChiNext shares, representing a weight of 3.33% in the proforma MSCI Emerging Markets Index. This weight is over quadruple the current weight of 0.72%. The MSCI ACWI Index will have a China A weight of 0.42% compared to its current weight of 0.09% and the MSCI China Index will have a 10.43% weight to China A compared to its current weight of 2.32%.²

What is the Future of China A Share Inclusion?

Any future weight increase of China A shares in MSCI Indexes beyond 20% would require Chinese authorities to address a number of remaining accessibility questions related to restrictions on access to hedging and derivatives instruments as well as concerns regarding the short settlement cycle of China A shares, the trading holidays of Stock Connect and the availability of an Omnibus trading mechanism.

How Does this Differ From S&P's Inclusion of China A Shares?

Effective prior to market open on September 23, 2019, S&P DJI will add eligible China A shares to the S&P DJI's Global Benchmarks Indices. The inclusion will see China A shares with a reduced weight factor of 25% of each company's investable weight factor. S&P will be increasing the weight of China A shares on a single date and ChiNext shares will not be included.

What is the Impact on SPDR ETFs?

Various market restrictions had historically made A shares uncommon investments outside China, but now investors in funds tracking the relevant indices can seamlessly gain exposure. For ETF investors, the inclusion of China A shares will be automatic from the date of MSCI review. State Street Global Advisors has a history of managing China A shares and first accessed the A Shares market in 2009 through the Qualified Foreign Institutional Investor Program (QFII). Since then, State Street has tapped into the market when MSCI first officially added A shares to its indices in May 2018.

The following US-domiciled SPDR funds will be potentially affected by MSCI's announced change:

- 1 SPDR MSCI ACWI ex-US ETF [CWI]
- 2 SPDR Portfolio MSCI Global Stock Market ETF [SPGM]
- 3 SPDR MSCI Emerging Markets StrategicFactors ETF [QEMM]
- 4 SPDR MSCI ACWI Low Carbon Target ETF [LOWC]
- 5 SPDR MSCI Emerging Markets Fossil Fuel Reserves Free ETF [EEMX]

The State Street SPDR ETF business will continue to provide information on the impacted ETFs and indices as they become available.

Endnotes

- 1 ChiNext is a NASDAQ-style board of the Shenzhen stock exchange. ChiNext aims to attract innovative and fast-growing enterprises, especially high-tech firms.
- 2 Source: MSCI, as of 02/28/2019.

ssga.com

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Glossary

Chinese Securities A shares involves certain investments risks and investment considerations including, (i) the small size of the market for Chinese securities relative to the US market, low volume of trading relative to US securities, lack of liquidity and in price volatility, (ii) currency devaluations and other currency exchange rate fluctuations or blockage, (iii) the nature and extent of intervention by the Chinese government in the Chinese securities markets, whether such intervention will continue and the impact of such intervention or its discontinuation, (iv) the ability of Chinese issuers to unilaterally suspend trading of their securities, and (v) custody risks associated with investing through a ROFII.

Concentrated Investments in a particular industry or sector may be more vulnerable to adverse changes in that industry or sector.

Foreign (non-US) Securities may be subject to greater political, economic, environmental, credit and information risk. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in emerging markets.

Equity Securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Non-diversified Funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

Index-based Funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

State Street Global Advisors Worldwide Entities

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