

# Which Chinese Stocks Are Eligible in Your Index?

Published September 8, 2015

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On June 9, 2015, MSCI announced that it was not ready to include Chinese A-shares in their global indexes. In that announcement the company voiced a series of concerns that need to be addressed before inclusion and a roadmap of how it plans to include these shares. Part of that roadmap toward full adoption includes opening up MSCI's indexes to Chinese companies that are listed in overseas markets. MSCI will potentially include 17 overseas listed stocks between November 2015 and May 2016, which they estimate to represent 12.9% of the eligible Chinese market cap.<sup>1</sup> WisdomTree has also been monitoring the continued openness of the Chinese A-share market to foreign investors for potential inclusion in the [WisdomTree China ex-State-Owned Enterprises Index \(CHXSOE\)](#). Unlike MSCI, WisdomTree has already allowed overseas Chinese equities for inclusion in CHXSOE as well as the [WisdomTree Emerging Markets Consumer Growth Index \(WTEMCG\)](#). To WisdomTree, the traditional Hong Kong-listed [Chinese market](#) is saturated with the large state-owned Chinese companies, particularly in the Financials, Energy and Telecom sectors. This is noticeable when we examine the current MSCI China Index (MXCN), which has over 60% weight in those three sectors and approximately 70% weight in companies we would consider state owned.<sup>2</sup> Although the Chinese state-owned Financials are some of the lowest-priced stocks globally, there is a demand for exposure to the Chinese private sector, which is why WisdomTree decided to include these stocks in select Indexes focused on the emerging market consumer. Over the past few years, we have witnessed Chinese companies decide to list their shares on the U.S. market, which we believe reflects an effort to more easily access global capital. One noticeable similarity between most of the companies is that they tend to be a part of the Information Technology or Consumer Discretionary sector and their business is focused on the emerging Chinese consumer. Below, we list the 20 largest Chinese companies that are listed on a U.S. stock exchange and their respective weights in CHXSOE and MXCN. **Twenty Largest Chinese Companies Listed in U.S.**

| Ticker | Name                                          | Sector                 | WisdomTree<br>China ex-State-<br>Owned<br>Enterprises | MSCI China |
|--------|-----------------------------------------------|------------------------|-------------------------------------------------------|------------|
| BABA   | Alibaba Group Holding Ltd                     | Information Technology | 7.14%                                                 | N/A        |
| BIDU   | Baidu Inc                                     | Information Technology | 6.28%                                                 | N/A        |
| JD     | JD.com Inc                                    | Consumer Discretionary | 4.26%                                                 | N/A        |
| NTES   | NetEase Inc                                   | Information Technology | 2.36%                                                 | N/A        |
| VIPS   | Vipshop Holdings Ltd                          | Consumer Discretionary | 2.06%                                                 | N/A        |
| CTRP   | Ctrip.com International Ltd                   | Consumer Discretionary | 3.29%                                                 | N/A        |
| QIHU   | Qihoo 360 Technology Co Ltd                   | Information Technology | 1.09%                                                 | N/A        |
| WUBA   | 58.com Inc                                    | Information Technology | N/A                                                   | N/A        |
| QUNR   | Qunar Cayman Islands Ltd                      | Consumer Discretionary | N/A                                                   | N/A        |
| ATHM   | Autohome Inc                                  | Information Technology | N/A                                                   | N/A        |
| CMCM   | Cheetah Mobile Inc                            | Information Technology | N/A                                                   | N/A        |
| YOKU   | Youku Tudou Inc                               | Information Technology | 0.82%                                                 | N/A        |
| EDU    | New Oriental Education & Technology Group Inc | Consumer Discretionary | 0.79%                                                 | N/A        |
| JIDG   | Joyman International Development Group Inc    | Health Care            | N/A                                                   | N/A        |
| MR     | Mindray Medical International Ltd             | Health Care            | 0.99%                                                 | N/A        |
| YY     | YY Inc                                        | Information Technology | 0.40%                                                 | N/A        |
| CBPO   | China Biologic Products Inc                   | Health Care            | N/A                                                   | N/A        |
| MOMO   | Momo Inc                                      | Information Technology | N/A                                                   | N/A        |
| WX     | WuXi PharmaTech Cayman Inc                    | Health Care            | 1.40%                                                 | N/A        |
| WB     | Weibo Corp                                    | Information Technology | N/A                                                   | N/A        |
| Sum    |                                               |                        | 30.89%                                                | 0.00%      |

Sources: WisdomTree, Bloomberg, as of 7/31/15. Holdings are subject to change.

• **MSCI China Under-weight Information Technology:** By not including these U.S.-listed Chinese securities, MXCN is under-weight Information Technology compared to CHXSOE, with 13.8% exposure, compared to 31.7%. The largest company MXCN is excluding is Alibaba, an Internet-based e-commerce business considered the Amazon and eBay of China, but with (currently) higher revenues. Another is Baidu, a Chinese search engine often thought of as the Google of China. Although MXCN will be adding weight to the Information Technology sector, we expect MXCN to remain under-weight compared to CHXSOE and heavily invested in the many state-owned companies that still dominate China's market. One could potentially expect volume and buying pressure to pick up in many of these names as we get closer to November.<sup>3</sup> As these securities are added to various MSCI indexes, many active managers and other investment vehicles that track these indexes should be inclined to also purchase these securities. It is difficult to determine the exact dollar amount that will flow into these securities, but we believe it will be noticeable. <sup>1</sup>Source: MSCI, "Consultation on China A-Shares Index Inclusion Roadmap", June 2015. <sup>2</sup>Sources: WisdomTree, Bloomberg, as of 7/31/15. <sup>3</sup>MSCI will potentially include 17 overseas-listed stocks between November 2015 and May 2016, so November could mark the beginning of increased activity in these names.

## Important Risks Related to this Article

Investments in emerging, offshore or frontier markets are generally less liquid and less efficient than investments in developed markets and are subject to additional risks, such as risks of adverse governmental regulation and intervention or political developments.

Investments focused in China increase the impact of events and developments associated with the region, which can adversely affect performance.

Investments focusing on certain sectors and/or smaller companies increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility.