



Where there's a market, there's a FTSE Index

Global Trends

Small Caps, China and Hedge Funds

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FTSE and Global Trends

## Content

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Financial Innovation and FTSE

Global Trends

Global Small Caps

China

Hedge Funds

## What is driving the interest on Small Caps

### Growth of Real GDP, 1971-2015\*

	Current Forecasts		
	2003	2004-2005	2006-2015
<b>World</b>	2.0	2.9	3.2
<b>High Income countries</b>	1.5	2.5	2.7
Industrial Countries	1.5	2.4	2.6
<b>Low and middle income economies</b>	4.0	4.9	4.6
East Asia and Pacific	6.1	6.6	6.2
South Asia	5.4	5.4	5.4
Latin America and Caribbean	1.8	3.8	3.8
Europe and Central Asia	4.3	4.3	3.4
Middle East and North Africa	3.3	3.7	4.3

Source: World Bank's Global Economic Prospects 2003

\* GDP in 1995 prices and exchange rates, average annual growth (%)

## Global growth should accelerate

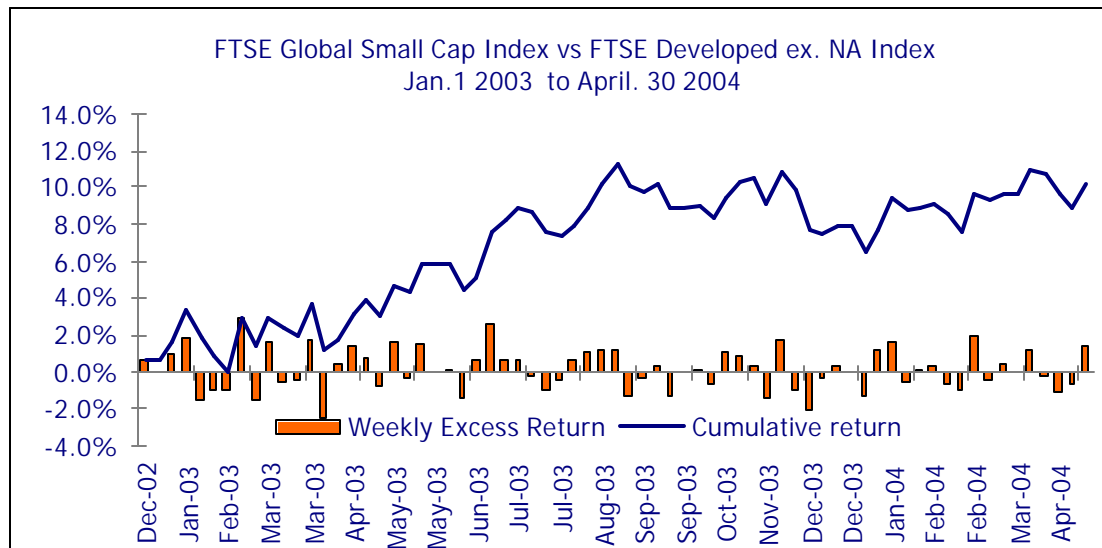
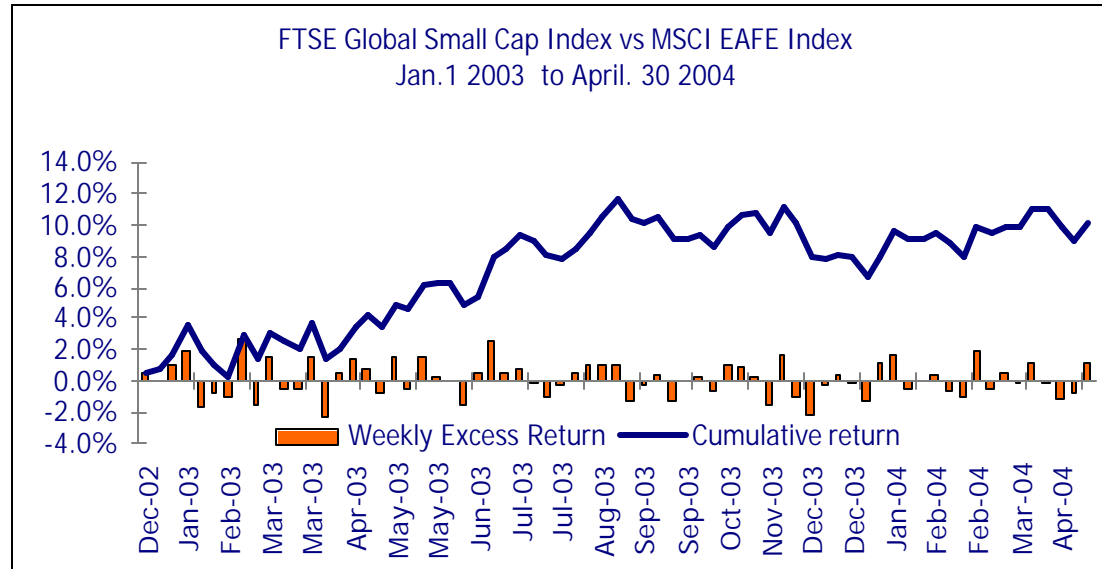
	Current Forecasts		
	2003	2004	2005
GDP growth d			
World	2.0	3.0	2.9
<b>High Income countries</b>	1.5	2.5	<b>2.4</b>
United States	2.2	3.4	<b>2.8</b>
Japan	0.8	1.3	1.3
Euro Area	0.7	1.7	2.1
Non-OECD Countries	2.1	4.1	4.4
<b>Developing countries</b>	4.0	4.9	4.8
East Asia and Pacific	6.1	6.7	6.6
Europe and Central Asia	4.3	4.5	4.1
Latin America and the Caribbean	1.8	3.7	3.8
Middle East and North Africa	3.3	3.9	3.5
South Asia	5.4	5.4	5.4
Sub-Saharan Africa	2.8	3.5	3.8

d GDP in 1995 constant dollars: 1995 prices and market exchange rates

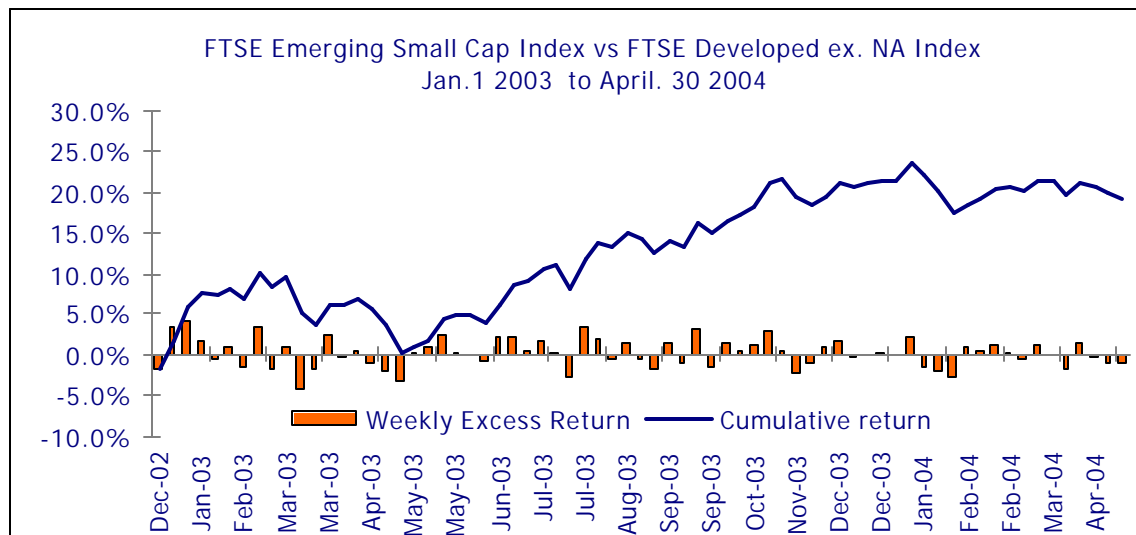
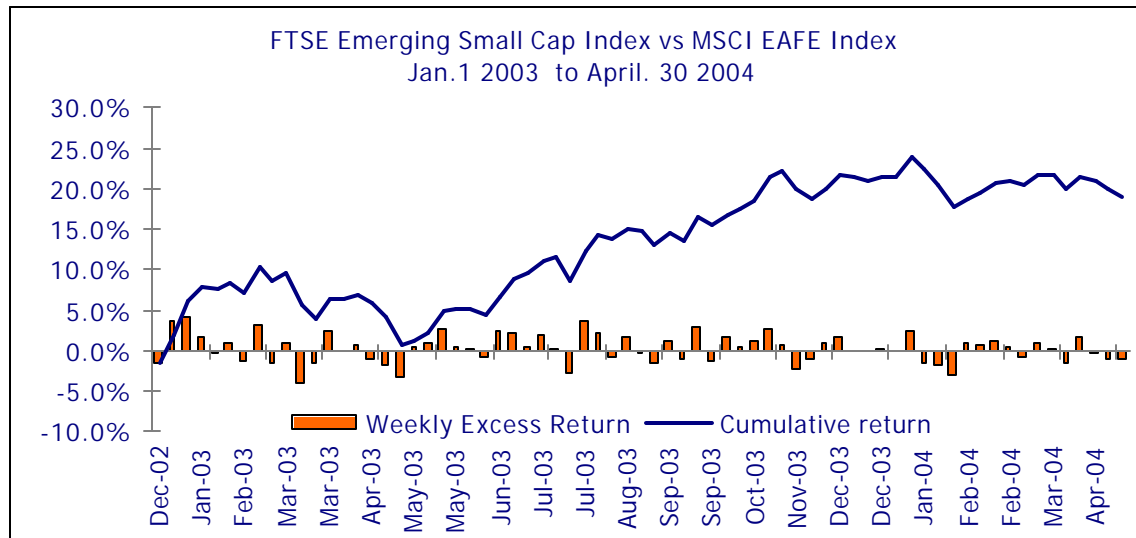
e GDP measured at 1995 PPP (international dollar) weights

Source: World Bank's Global Economic Prospects 2003

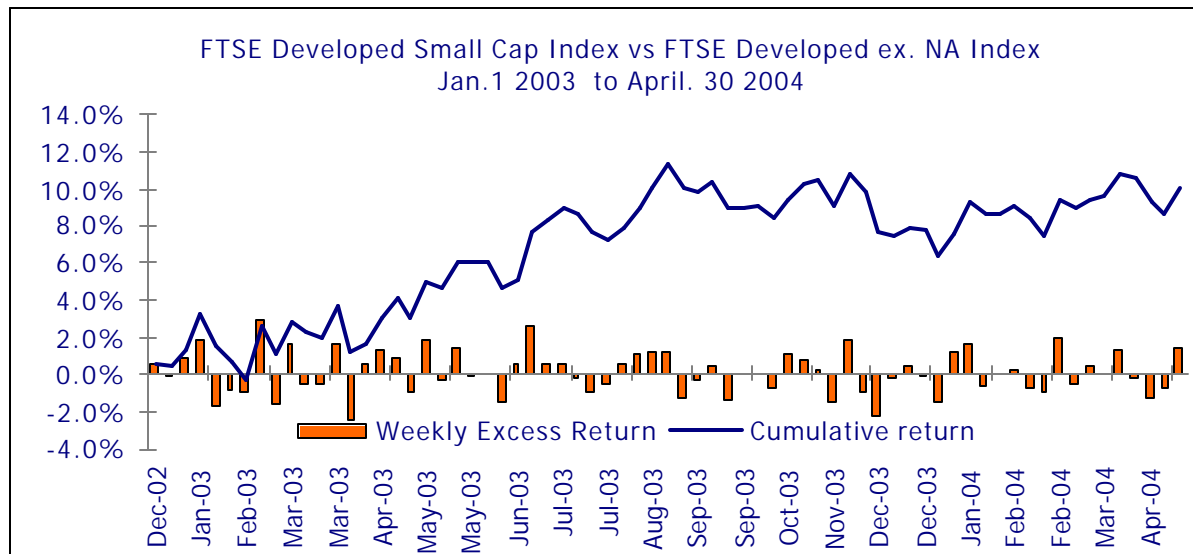
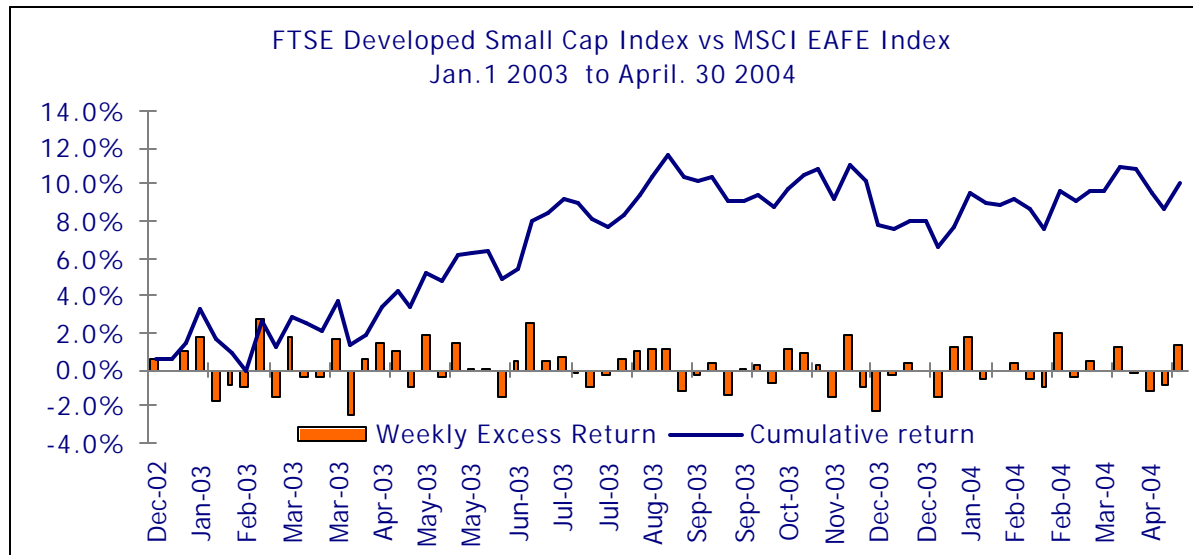
# FTSE Global Small Cap Index Performance



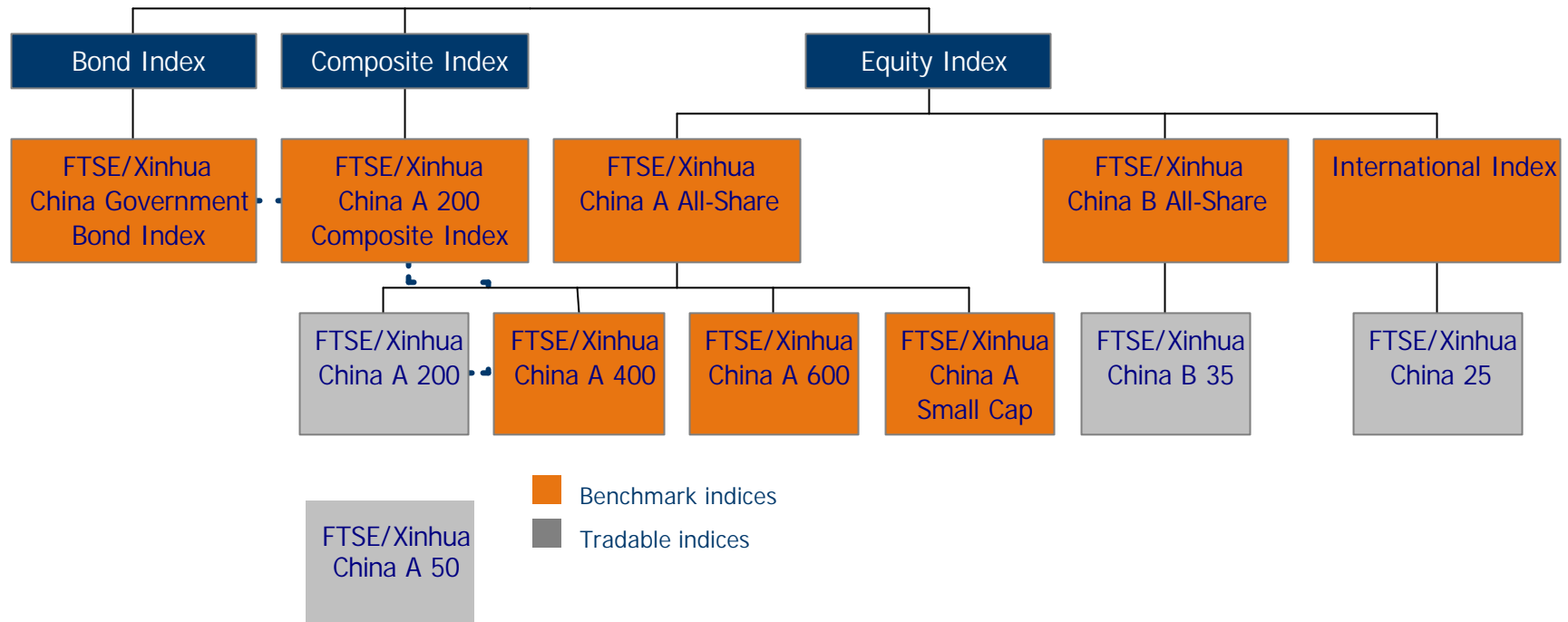
# FTSE Global Small Cap Index Performance



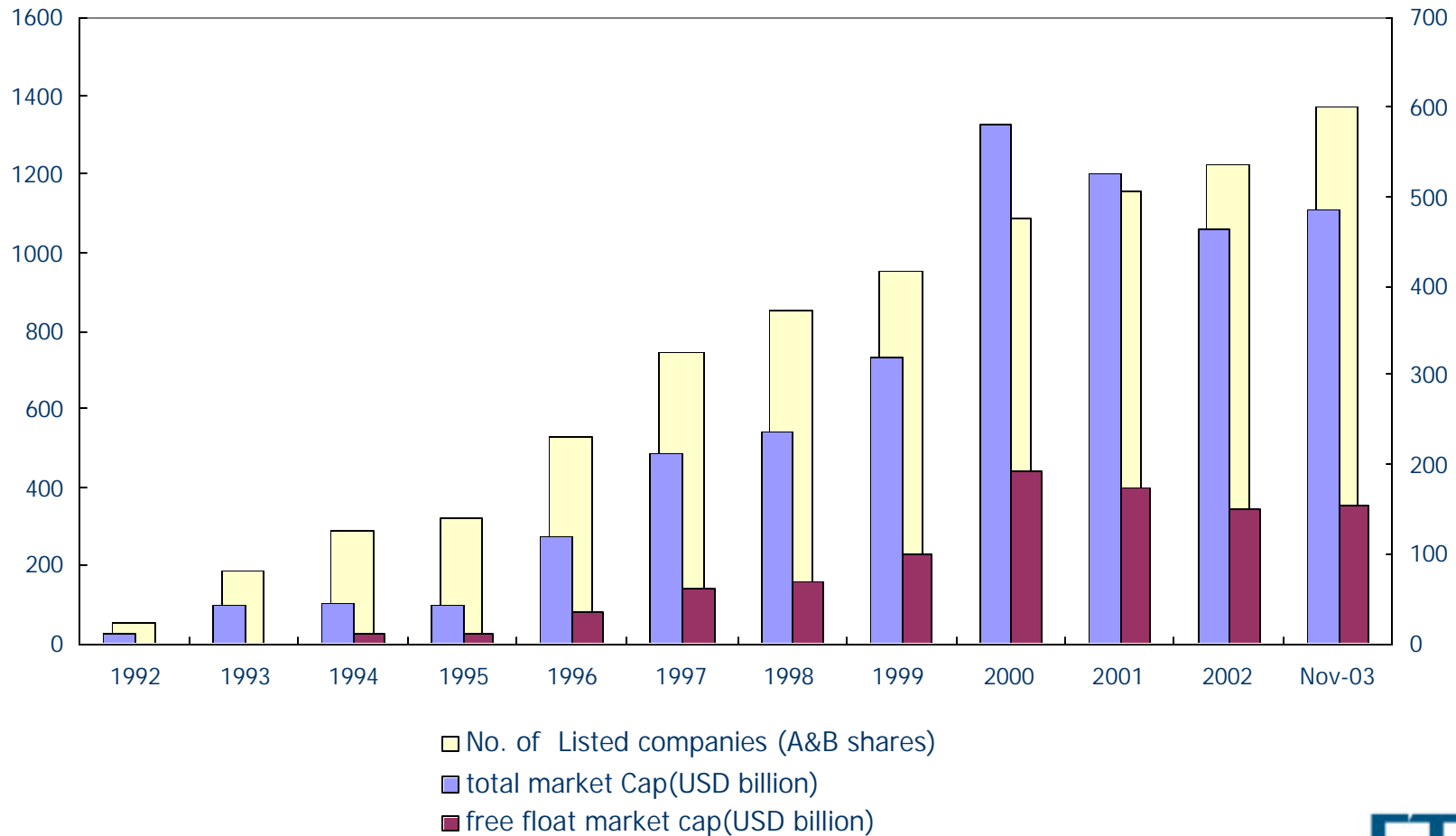
# FTSE Global Small Cap Index Performance



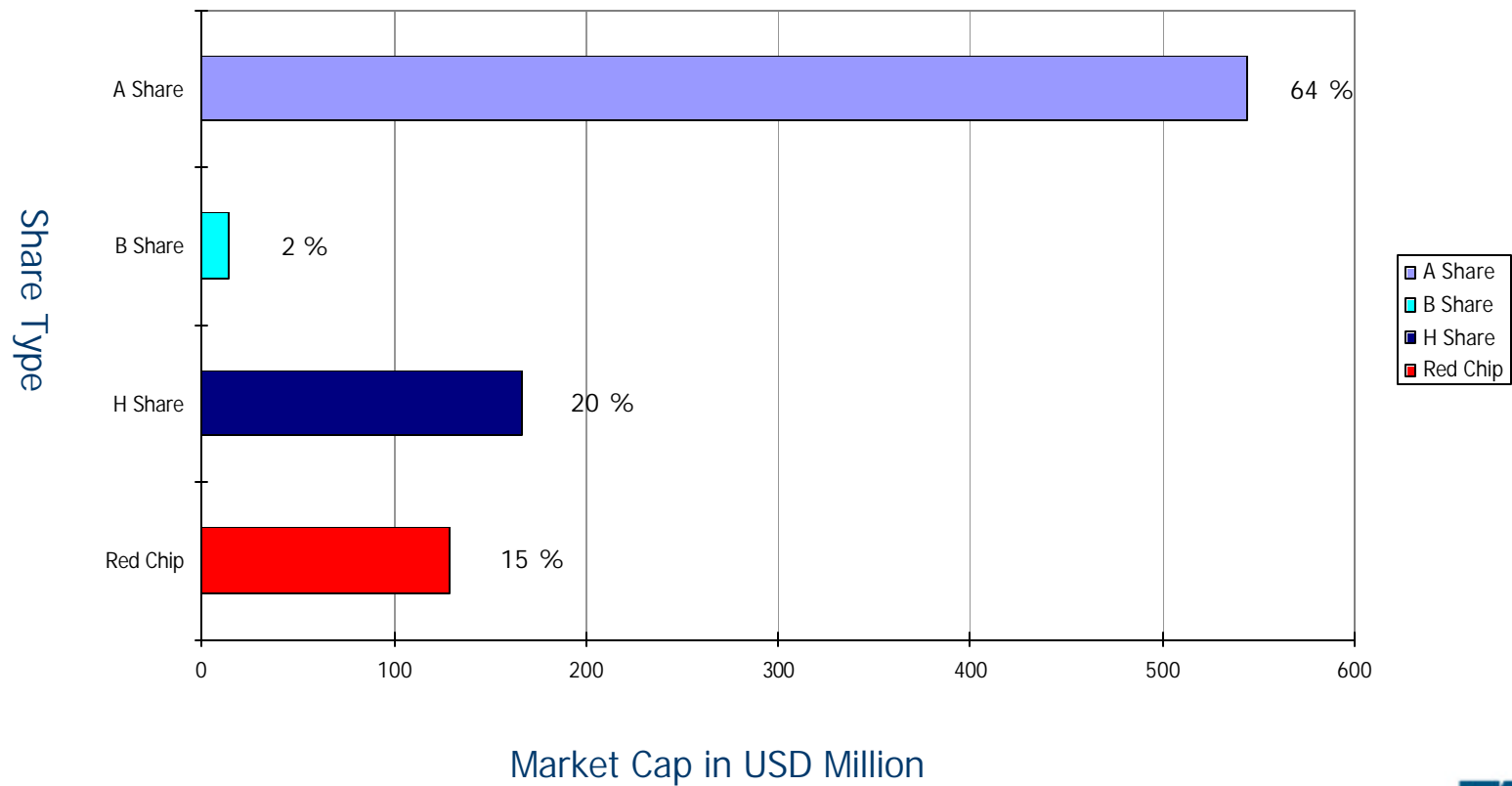
# FTSE/Xinhua Index - Family



## China's Stock Market – development



## China's Stock Market - Capitalization by Share Type



## Chinese Share Description

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### **A shares**

- are securities of Chinese incorporated companies that trade on either the Shanghai or Shenzhen stock exchanges. They are quoted in Chinese Renminbi (RMB) Yuan. They can only be traded by residents of the People's Republic of China (PRC).



### **B shares**

- are securities of Chinese incorporated companies that trade on either the Shanghai or Shenzhen stock exchanges. They are quoted in US dollars (USD) on the Shanghai Stock Exchange and Hong Kong dollars (HKD) on the Shenzhen Stock Exchange. They can be traded by non-residents of the PRC and also residents of the PRC with appropriate foreign currency dealing accounts.



### **H shares**

- are securities of companies incorporated in the PRC and nominated by the Chinese Government for listing and trading on the Hong Kong Stock Exchange. They are quoted and traded in Hong Kong dollars. Like other securities trading on the Hong Kong Stock Exchange, there are no restrictions on who can trade H shares.



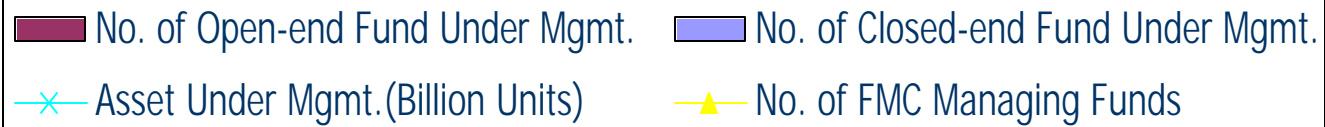
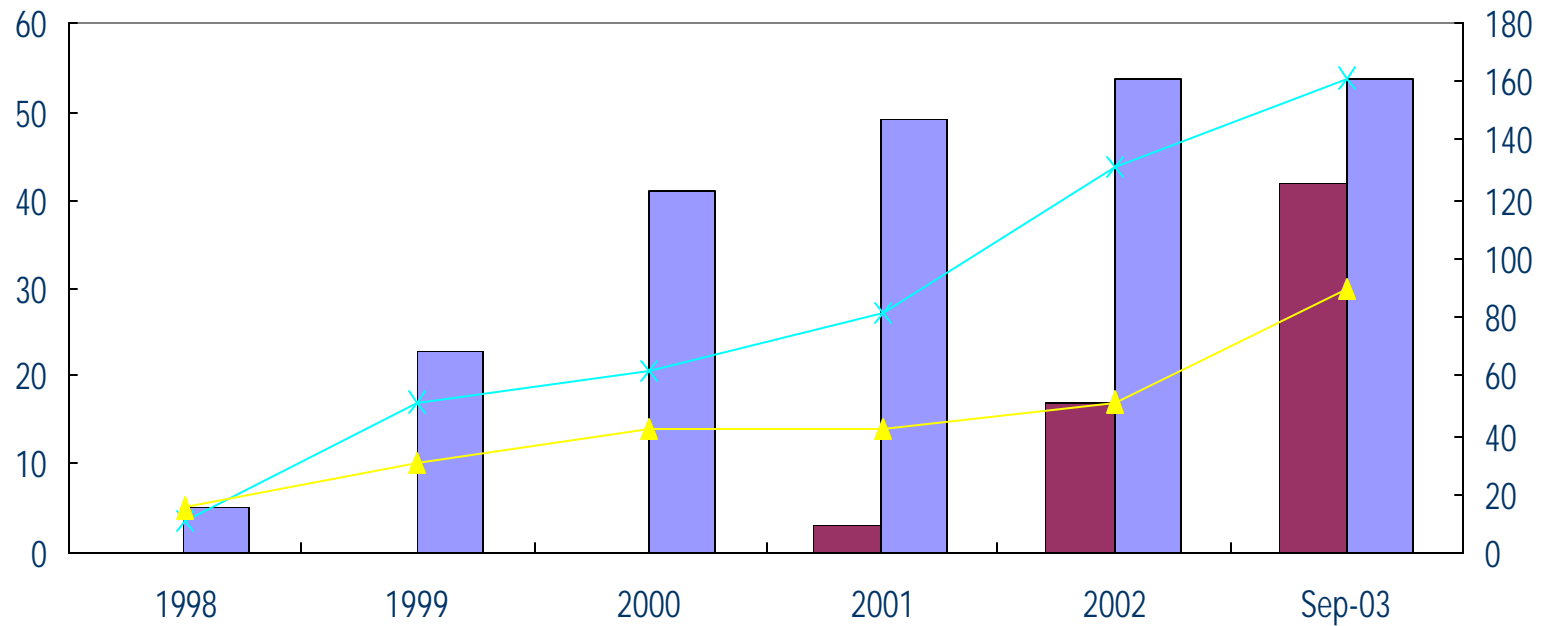
### **Red Chip**

- shares are securities of Hong Kong incorporated companies that trade on the Hong Kong Stock Exchange. They are quoted in Hong Kong dollars. Red Chips are companies that are substantially owned directly or indirectly by the Chinese Government and have the majority of their business interests in mainland China.

## China's Stock Market – QFII (by 5<sup>th</sup> Dec, 2003)

QFII	Investment quota (Million USD)	Custodian Bank
UBS Limited	600	Shanghai Branch, Citibank
Nomura Securities	50	Shanghai Branch, Citibank
Morgan Stanley	300	Shanghai Branch, HSBC
Citigroup Global Markets Limited	200	Shanghai Branch, Standard Chartered
Goldman Sachs	50	Shanghai Branch, HSBC
Deutsche Bank AG	200	Shanghai Branch, Citibank
HSBC Hong Kong	100	China Construction Bank
ING Bank N.V.	100	Shanghai Branch, Standard Chartered
JP Morgan Chase Bank	50	Shanghai Branch, HSBC
CSFB(HK)	50	ICBC

## Development of Investment Funds



## FTSE/Xinhua Index - China 25

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-  The FTSE/Xinhua China 25 Index is a real-time, tradable index designed for use as the basis for both on-exchange and OTC derivative products, mutual funds and ETFs.
-  The index includes the top 25 Chinese companies including B Share, H Share and Red Chip by total market cap.
-  The index is designed to meet fund regulatory requirements worldwide, with constituent weightings capped at 10% to avoid over-concentration in any one stock.

## Performance and Tracking Stats

### Correlation and Tracking Error

	China 25 vs MSCI China	China 25 vs FTSE China
Correlation	84%	57%
Tracking Error	21%	35%

### Annualized Return

	China 25	MSCI China	FTSE China
1 yr performance	65%	60.2%	69.1%
3 yr performance	12.3%	2%	20.3%
5 yr performance	15.4%	-6.2%	40.8%

### Standard Deviations (volatility)

	China 25	MSCI China	FTSE China
5 yr	33.4%	37.4%	40.2%



\*Data as of 31/12/2003

## FTSE/Xinhua Index - China 25 Composition

	Market Cap Allocation in FTSE/Xinhua China 25 Index	No. of Stocks
Red Chip Stocks	52.65%	10
H Share Stocks	42.19%	12
B Share Stocks	5.16%	3

Source: FTSE; November 2003

## FTSE and Global Trends

### FTSE/Xinhua China 25 vs. MSCI China TRI performance



Source: FTSE; 30<sup>th</sup> April 2004

## FTSE and Global Trends

# FTSE/Xinhua and other providers

	FTSE/Xinhua China 25	Hang Seng Mainland 25	MSCI China Free
<b>Universe</b>	FTSE All-World B, H and Red Chips	Hang Seng Mainland Freefloat HK stocks , H and Red Chips	MSCI AC B, H and Red Chips
<b>Eligible Companies</b>	Top 25 by full market cap	Top 25 by investable mcap	Free float adjusted mcap
<b># Companies</b>	25	25	42
<b>Liquidity</b>	trade at least 2% of market cap for last 10 of 12 months	must have trade in any 20 days out of 12 months	subjective criteria
<b>Reviews</b>	Quarter – Jan, Apr, Jul & Oct	Semi-annual – Jun & Dec	Annual, quarter rebalance
<b>Free Float Adjusted</b>	banding structure to minimize turnover	round up to 5% or 10%	narrow banding structure
<b>Capping</b>	10%	15% at composite index level	NIL
<b>New Issue</b>	Fast entry	NIL	NIL
<b>Top 5 stocks weighting</b>	< 40%	> 57%	> 52%
<b>Aver Index weighted liquidity</b>	14.50%	14.05%	14.13%
<b>History</b>	31 Dec 1998	03 Jan 2000	31 Dec 1992
<b>Branding</b>	Global	Domestic	Global

Source: FTSE, HSI & MSCI, Nov 2003

FTSEand Global Trends

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