恒生投資
HANG SENG INVESTMENT

Hang Seng Investment – The Evolution of Hang Seng Index over the past half century 15/02/2023

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Hang Seng Index ("HSI") was first introduced in 1969. It has been an important benchmark of the Hong Kong stock market for over half a century. Yet, did you know the HSI has undergone several rounds of reforms?

The first reform took place in 2006 when the HSI included H-shares and increased the number of constituents from 33 to 38. For more than a decade, HSI has further undergone multiple enhancements. In 2012, the number of constituents increased to 50. While in 2020, the HSI included weighted voting right companies and secondary-listed companies, thus increasing to 52 constituents.

On 1st March 2021, the Hang Seng Indexes Company announced the consultation conclusions on the proposed enhancements to HSI. As of today, most of the adjustments have been completed except for two ongoing enhancement projects. One ongoing enhancement project is to increase the number of HSI constituents to 80 through the regular index reviews by 2022 and, ultimately, to fix the number at 100. However, after 4 constituents being included to the index in September 2022, the total number of HSI constituents has only reached 73, thus missing the target.

Moreover, to achieve a more balanced representation of the Hong Kong stock market, HSI constituents have been categorized into seven Industry Groups with the aim to achieve a market capitalization coverage of not less than 50% for each Industry Group. So far, Healthcare with a coverage rate of 32%, is the only Industry Group that has not met the target yet.

We believe that the slower-than-expected progress in adding new constituents is mainly due to the meticulous constituents selection process. We understand that the Hang Seng Indexes Company would not simply lower the selection standard just to reach the target

of 80 constituents. On the contrary, it is difficult to select appropriate constituents under the recent stock market and economic environment.

In conclusion, this round of enhancements of the HSI have timely reflected the transition of the Hong Kong stock market. Before the enhancements, HSI was heavily focused on Financials, mainly consisted of traditional banks and insurance companies. The requirement of the market capitalisation coverage allows new economy companies, such as technology and healthcare companies, to be included to the HSI. In the long run, the representativeness of the HSI will be further strengthened, while becoming more balanced and diversified at the same time, and continue to grow and evolve with the market.

Lastly, investors need to be mindful of the risks of investing in a single asset class and market. Investors need to manage risk, asset allocation and diversification according to their risk appetite. Please remember to read product-related sales documentation carefully before any investment.

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