FactSet Equity Model—Domestic China

The FactSet Equity Model – Domestic China is a cross-sectional regression-based model that is built with Chinese market characteristics in mind.

MODEL SUMMARY

The FactSet Equity Model – Domestic China encompasses detailed common market, style, and local Shenwan industry factors. The model splits the market into state-owned (SOE) and private enterprises to account for their unique risk and return profiles. In addition, export-oriented companies are succinctly captured through the Foreign Revenue factor while the much-discussed Chinese stocks' return reversal phenomenon is described with Mean Reversal factor. As the Chinese equity market becomes more accessible to foreign institutional investors, the FactSet Equity Model – Domestic China can uniquely help investors capture the distinctive features of this dynamic market.

ASSET COVERAGE

The FactSet Equity Model – Domestic China covers A shares and H shares for a total of more than 6,000 securities, including secondary listings.

RISK FACTORS

The model is a cross-sectional risk model that consists of the following risk factors:

Styles: 12	Value, Leverage, Earnings Yield, Volatility, Size, Growth, Beta, Dividend Yield, Mean Reversal, Long Momentum, Foreign Revenue, Liquidity
Markets: 2	State-Owned Enterprises, Non-State-Owned Enterprises
Industries: 28	Agriculture, Banking, Building Decoration, Building Materials, Chemical, Commerce & Trade, Communication, Computer, Conglomerate, Defense Military, Electrical Equipment, Electronics, Equipment, Food & Beverage, Household Appliances, Leisure Service, Light Manufacturing, Media, Medical Biology, Mining, Non-Bank Finance, Non-Ferrous Metal, Public Utility, Real Estate, Steel, Textile & Apparel, Transportation, Vehicle
Currencies: 2	CNY, HKD

## CUMULATIVE RETURN FOR STATE-OWNED ENTERPRISES (SOE) & NON-STATE-OWNED ENTERPRISES (NON_SOE) MARKET FACTORS

In the year prior to COVID-19, state-owned enterprises showed superior performance. We observed a systematic change in the return driver after COVID-19 in 2020 where private companies outperformed state-owned enterprises. The model's two-market-factors approach (SOE & NON_SOE) makes it easy to analyze the return and risk profile of these two distinct groups of companies.

FOREIGN REVENUE FACTOR EXPOSURE

During the U.S.-China trade war and COVID-19 pandemic, industries that relied on exports were expected to suffer financially. The model shows that certain industries such as chemicals benefited by more exposure to foreign revenue, while other industries such as construction materials and food & beverages did not. This granularity is enabled by using the SWS industry classification scheme that is designed to capture the unique characteristics of the China market.
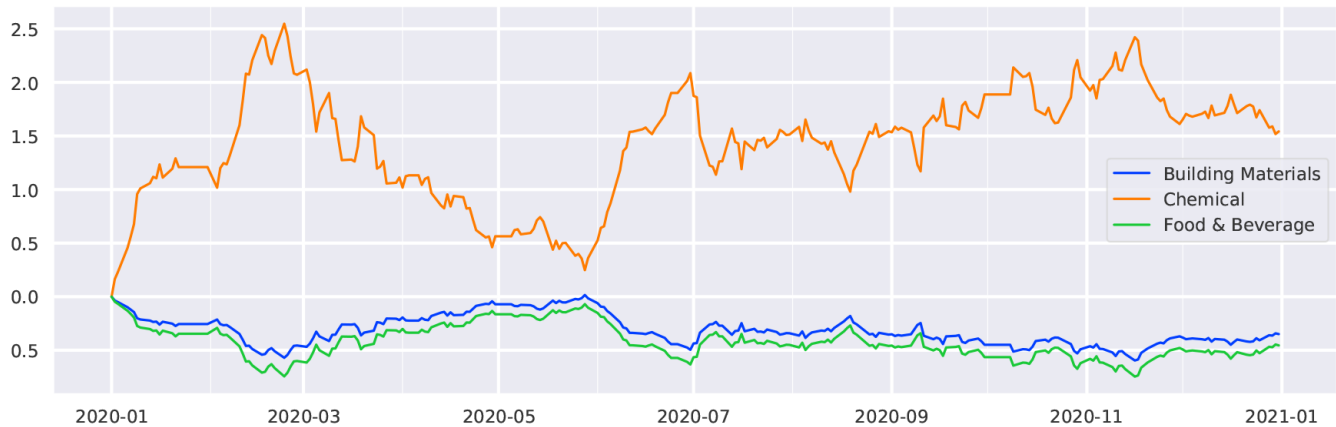
CUMULATIVE RETURN FOR MEAN REVERSAL FACTOR

The factor shows short-term underperformers tend to outperform overperformers. There is an obvious positive performance from 2012 until 2020, when the pattern changed as shown by the flat cumulative return curve. Momentum picked back up again at the beginning of 2021. Mean reversal is another unique factor that works consistently in the China market.

INTEGRATION WITH FACTSET PORTFOLIO OPTIMIZER

The FactSet Equity Model – Domestic China can be combined with FactSet Portfolio Optimizer to construct a rebalanced and optimal portfolio. Specify your objectives and constraints to review a trade list that minimizes market risk.

CONDUCT CORRELATED STRESS TESTS

Leverage comprehensive stress testing capability to see the impact of market-based and historical scenarios to decompose portfolio risk in different stressed environments.

The approach described throughout this overview will be covered in further detail in our white paper, available August 2021. To request a copy, contact sales@factset.com.