

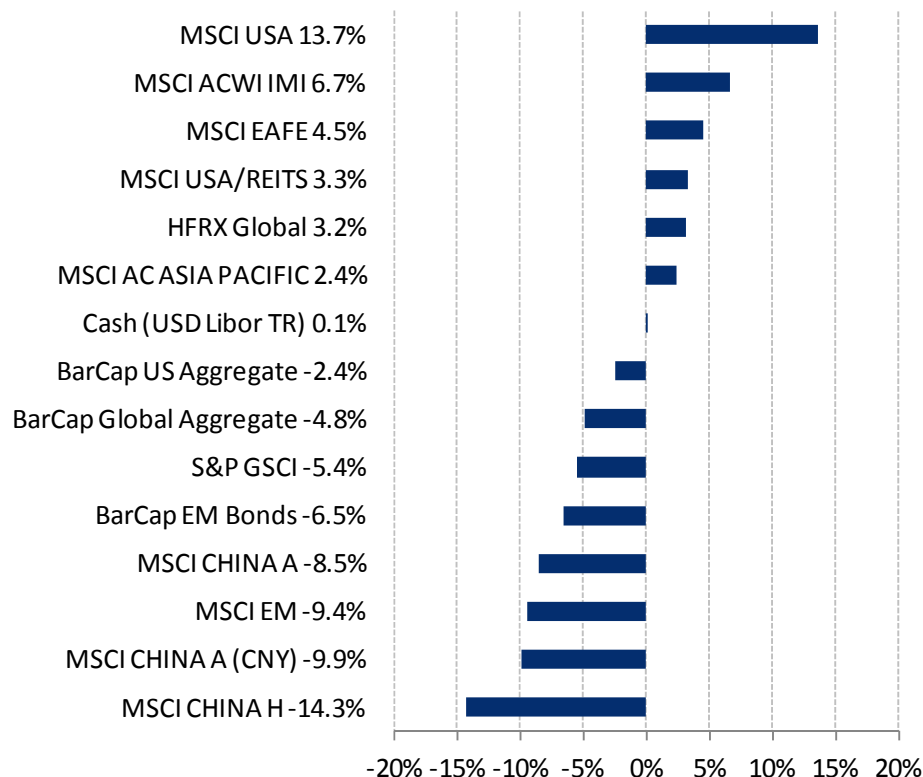
MSCI Risk Monitor: China Equities

July 2013

Insights from the Barra China Equity Model (CNE5S)

Performance of Equities and Other Asset Classes

YTD returns



YTD range: December 31, 2012 - June 30, 2013.
All returns in USD, unless noted otherwise.

Highlights

- **Absolute Performance:** The MSCI USA Index remained the best performer YTD with a +13.7 percent return, while MSCI China H was the worst performer with a -14.3 percent return. Hedge funds, as measured by HFRX Global, were up 3.2 percent; Commodities, as measured by S&P GSCI, were down by -5.4 percent (see page 1).
- **Risk Forecast:** The forecast risk of the MSCI China A Index increased from 20.58 percent on May 31 to 22.6 percent on June 30 (see page 3).
- **Risk Adjusted Factor Returns (1 Month):** Significant style shifts were observed in June 2013. Among Style factors, Momentum (1.96) had the highest Sharpe ratio, while Non-linear Size (-1.55) had the lowest. Among Industry factors, Media (2.81) became the best, while Diversified Metals (-2.03) continued to be the worst performing factor in June 2013 (see page 4).
- **Style Factor Returns (12 Months):** During the past 12 months, Momentum delivered the strongest cumulative return, while Liquidity delivered the lowest. On a risk-adjusted basis, Momentum had the highest Sharpe ratio of 3.35, while Liquidity had the lowest Sharpe ratio of -3.92 (see pages 6 and 7).
- **Specific Returns:** Shanghai Mechanical & Electrical Industry, (manufacturer and distributor of mechanical and electrical equipment), had the highest Sharpe ratio of 8.85 in June 2013, while Tianma Bearing Group had the lowest Sharpe ratio of -2.36 (see page 8).
- **Volatility Regime Adjustment:** The Volatility Regime Multiplier dropped at the beginning of June 2013, but increased after June 20, indicating significant market volatility in the past month (see page 12).

Sector Weights for Various Indices

Portfolio	Energy (%)	Materials (%)	Industrials (%)	Consumer Discretionary (%)	Consumer Staples (%)	Health Care (%)	Financials (%)	Information Technology (%)	Telecommunication Services (%)	Utilities (%)
MSCI ACWI IMI	9.31	6.38	11.33	12.21	9.71	10.00	21.63	12.24	3.83	3.37
MSCI USA	10.55	3.30	10.13	12.66	10.27	12.58	16.44	17.96	2.84	3.28
MSCI Europe	9.73	7.91	11.31	9.53	14.77	13.19	20.83	3.16	5.57	4.01
MSCI Japan	1.11	6.21	18.29	21.73	6.55	6.14	21.11	10.69	5.09	3.08
MSCI EM	11.40	9.54	6.32	8.33	9.44	1.51	27.49	14.71	7.89	3.37
MSCI AC Asia Pacific	4.07	7.76	12.08	13.40	6.69	3.77	30.77	12.75	5.45	3.25
MSCI China A	5.37	10.08	15.26	10.76	7.26	8.33	34.55	4.14	0.80	3.46

Analysis date: June 30 2013.

Benchmarks Metrics

1. Risk, Beta and Correlation of Benchmarks

Portfolio	Total Risk (annual, %)	Active Risk (annual, %)	Predicted Beta	Predicted Correlation
MSCI China A	22.6	0.0	1.00	1.00
MSCI China A Large Cap	22.6	3.6	0.99	0.99
MSCI China A Mid Cap	24.9	8.9	1.03	0.93
MSCI China A Small Cap	25.9	12.7	1.00	0.87

Active Risk, Beta, and Correlation are calculated relative to the MSCI China A Index, on June 30, 2013.

2. Performance Attribution of Benchmarks

Portfolio	Total Active (%)	Industry (%)	Country (%)	Styles (%)	Specific (%)
MSCI China A Large Cap	0.61	-0.13	0.00	0.41	0.32
MSCI China A Mid Cap	-1.48	0.30	0.00	-0.99	-0.78
MSCI China A Small Cap	-1.80	-0.01	0.00	-1.81	0.02

Active Return is calculated relative to the MSCI China A Index for the period May 31, 2013 – June 30, 2013.

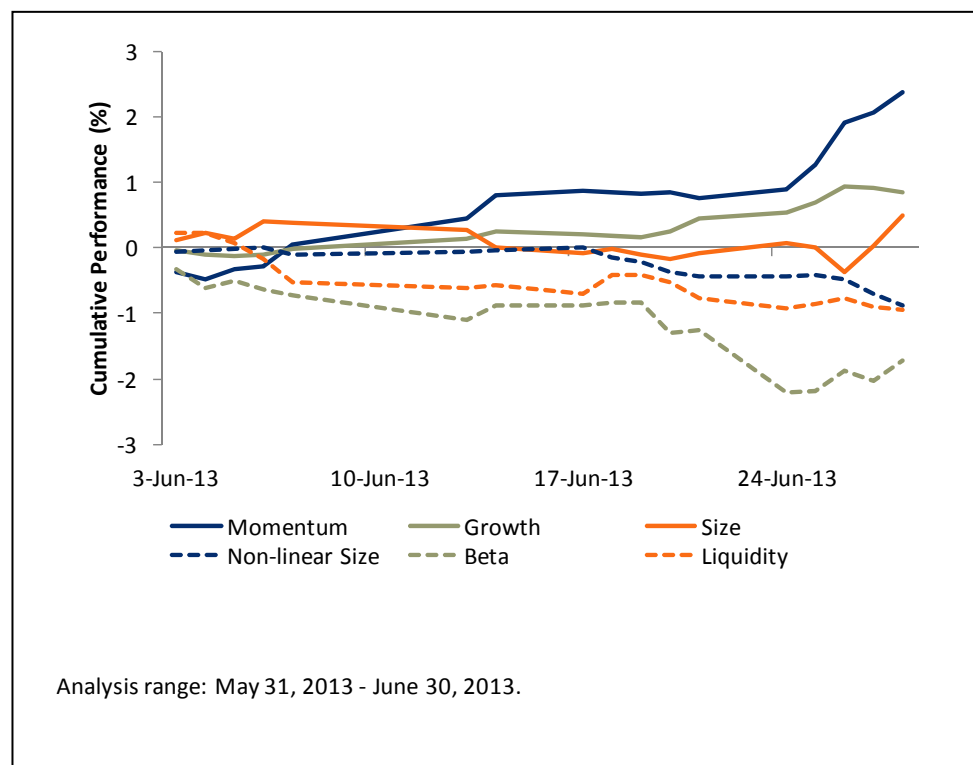
Risk Adjusted Factor Returns

Top/Bottom Risk Adjusted Factor Returns by Factor Groups During the Last Month

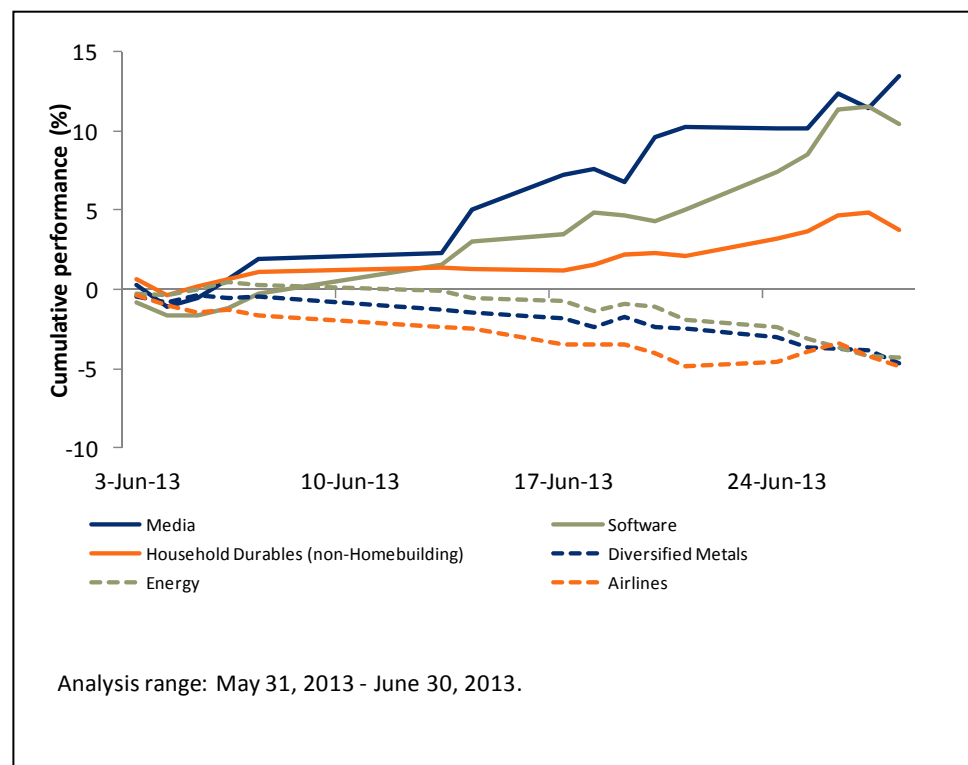
Style Factor Name	Monthly Return (%)	Volatility Forecast (monthly, %)	Sharpe Ratio	Industry Factor Name	Monthly Return (%)	Volatility Forecast (monthly, %)	Sharpe Ratio
Top 5 Factors				Top 5 Factors			
Momentum	2.36	1.21	1.96	Media	13.44	4.79	2.81
Growth	0.85	0.49	1.72	Software	10.41	4.06	2.57
Size	0.50	1.21	0.41	Household Durables (non-Homebuilding)	3.77	2.54	1.49
Book-to-Price	0.15	0.61	0.25	Hardware and Semiconductors	4.31	3.07	1.41
Residual Volatility	-0.02	0.98	-0.02	Banks	2.65	4.03	0.66
Bottom 5 Factors				Bottom 5 Factors			
Non-linear Size	-0.87	0.56	-1.55	Diversified Metals	-4.70	2.32	-2.03
Beta	-1.72	1.11	-1.54	Energy	-4.34	2.65	-1.64
Liquidity	-0.95	0.64	-1.49	Airlines	-4.85	3.82	-1.27
Earnings Yield	-0.63	0.63	-1.01	Chemicals	-2.06	1.77	-1.16
Leverage	-0.25	0.58	-0.43	Marine	-3.54	3.38	-1.05
Last month range: May 31, 2013 - June 30, 2013.							

Factor Returns

1. Top/Bottom Three Style Factor Returns During the Last Month



2. Top/Bottom Three Industry Factor Returns During the Last Month



Graphs 1 and 2: The top/bottom three factors are defined with respect to risk adjusted performance; see page 4.

Style Factor Sharpe Ratios

Return Over Lookback Period Divided by Scaled Volatility Forecast

1. Market Data Related Styles

Lookback (months)	Beta	Liquidity	Momentum	Residual Volatility	
1	-1.54	-1.49	1.96	-0.02	One-month range: May 31, 2013 – June 30, 2013.
3	0.43	-1.69	2.27	0.29	Three-month range: March 31, 2012 - June 30, 2013.
6	0.20	-2.59	2.93	-0.16	Six-month range: December 31, 2012 – June 30, 2013.
12	1.11	-3.92	3.35	0.08	Twelve-month range: June 30, 2012 – June 30, 2013.

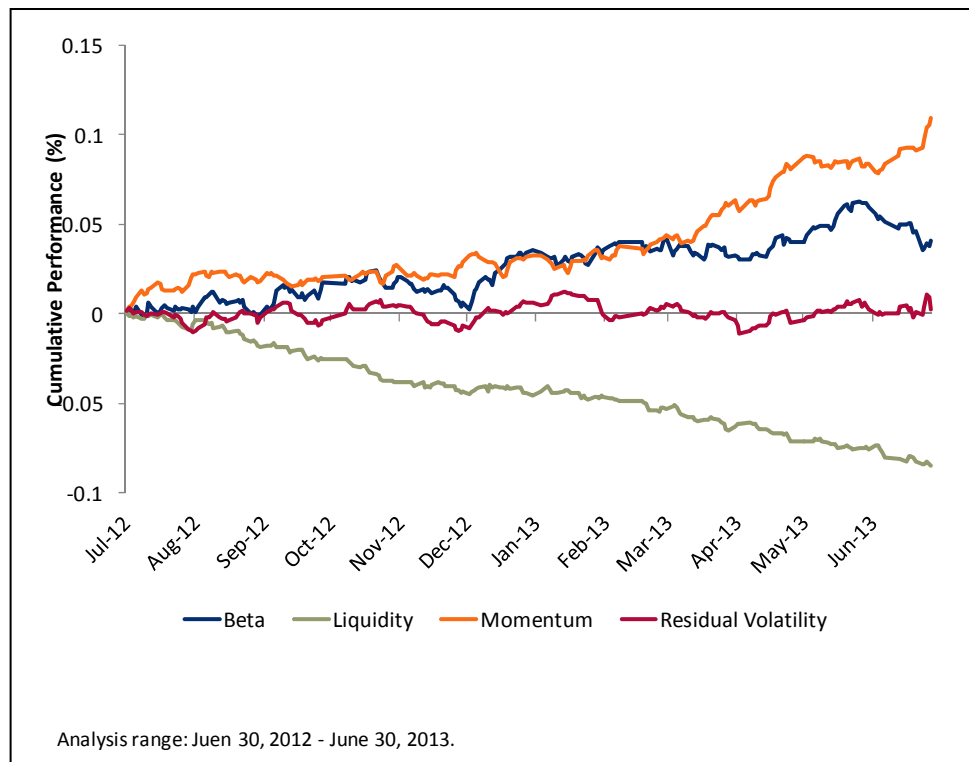
2. Fundamental Data Related Styles

Lookback (months)	Book-to-Price	Earnings Yield	Growth	Leverage	Size	Non-Linear Size	
1	0.25	-1.01	1.72	-0.43	0.41	-1.55	One-month range: May 31, 2013 – June 30, 2013.
3	0.09	-1.30	1.94	-1.73	-0.29	-0.20	Three-month range: March 31, 2012 - June 30, 2013.
6	-1.07	-2.41	1.29	-2.32	-0.73	0.12	Six-month range: December 31, 2012 – June 30, 2013.
12	-0.38	-1.36	0.94	-1.49	-0.27	-1.57	Twelve-month range: June 30, 2012 – June 30, 2013.

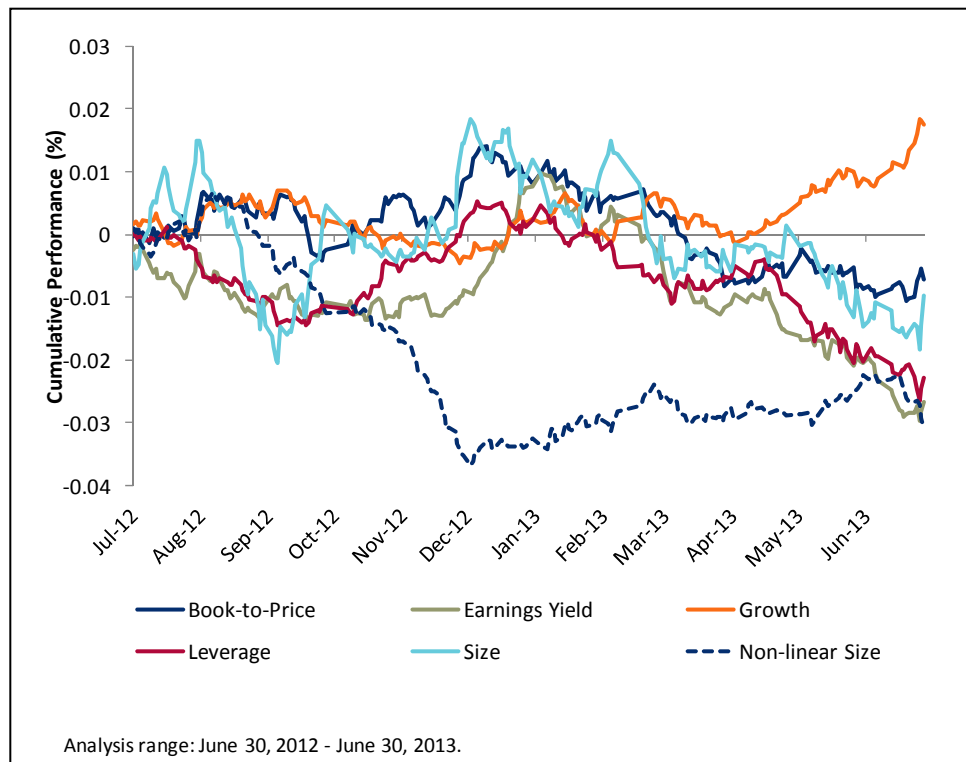
Tables 1 and 2: To measure the risk-adjusted performance of style factors, we divide the realized factor return over the periods specified above by the forecast factor volatility at the start of the period. For example, the 12-month lookback Sharpe Ratio is the factor return over June 30, 2012 to June 30, 2013, divided by the factor forecast volatility on June 30, 2012.

Style Factor Returns

1. Style Factor Returns During Last 12 Months (Market Data Related Styles)



2. Style Factor Returns During Last 12 Months (Fundamental Data Related Styles)



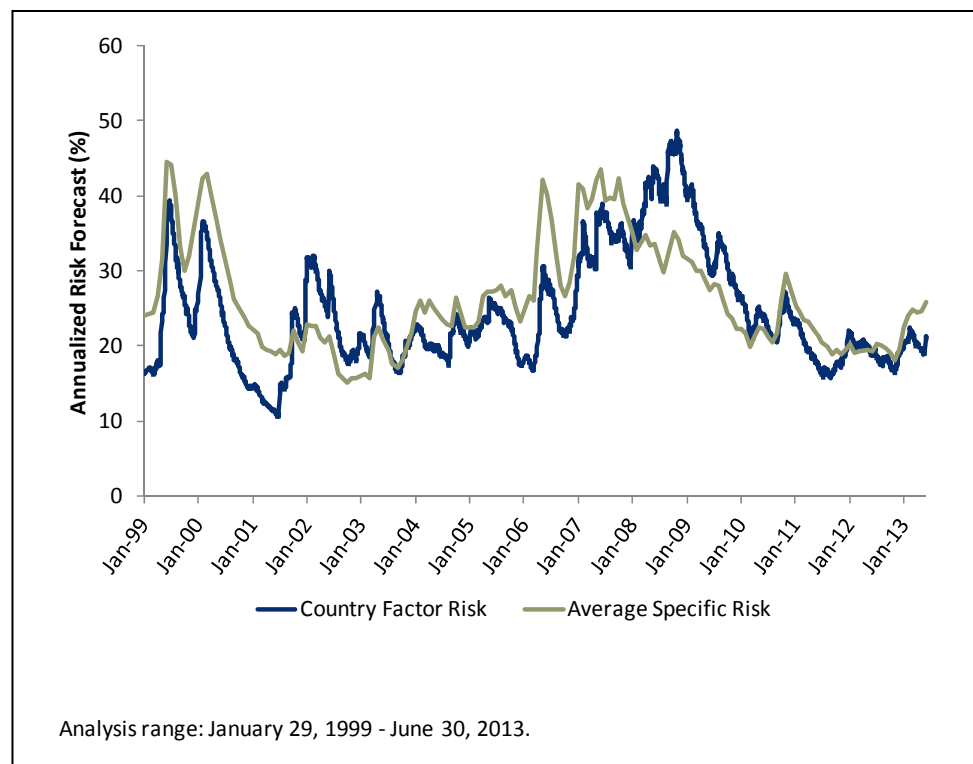
Specific Returns

Top/Bottom Risk Adjusted Specific Returns of MSCI China A Assets during the Last Month

Asset Name	Asset Specific return (%)	Asset Specific Forecast Risk (monthly, %)	Sharpe Ratio	Asset Name	Asset Specific return (%)	Asset Specific Forecast Risk (monthly, %)	Sharpe Ratio
Top 10 Assets				Bottom 10 Assets			
SH ELECTRIC APPLIANCES -A	59.44	6.72	8.85	TIANMA BEARING GROUP	-14.78	6.27	-2.36
SINOPEC SHANGHAI PETRO -A	43.52	7.04	6.18	YANZHOU COAL MINING -A	-12.47	5.73	-2.17
XI AN AERO-ENGINE	34.28	7.93	4.32	CHINA COAL ENERGY COMP	-8.62	3.98	-2.17
SDIC XINJI ENERGY -A	28.70	7.31	3.92	WUHU PORT STORAGE&TRAN -A	-16.89	8.25	-2.05
ANGEL YEAST CO.LTD A	29.65	8.00	3.70	GUANGDONG HAID GROUP - A	-13.83	6.76	-2.04
NEW CHINA LIFE INSURANCE CO LTD	24.21	7.27	3.33	METALLURGICAL CORP OF CHN A	-8.19	4.01	-2.04
ZHANGZHOU PIENTZEHUANG -A	24.07	7.27	3.31	FUJIAN SUNNER DEVELOPMENT	-17.49	8.57	-2.04
BESTV NEW MEDIA CO LTD	28.04	9.28	3.02	TCL CORPORATION -A	-12.18	6.01	-2.03
SHANDONG GOLD-MINING -A	17.95	5.95	3.01	GUANGZHOU DEVELOPMENT GROUP	-11.27	6.17	-1.83
IN MONGOLIA YILI IND -A	22.85	8.19	2.79	CHENZHOU MINING GP	-12.88	7.17	-1.80

Last month range: May 31, 2013 – June 30, 2013.

1. Country Factor Risk, Specific Risk



2. Style, Industry Factor Risk

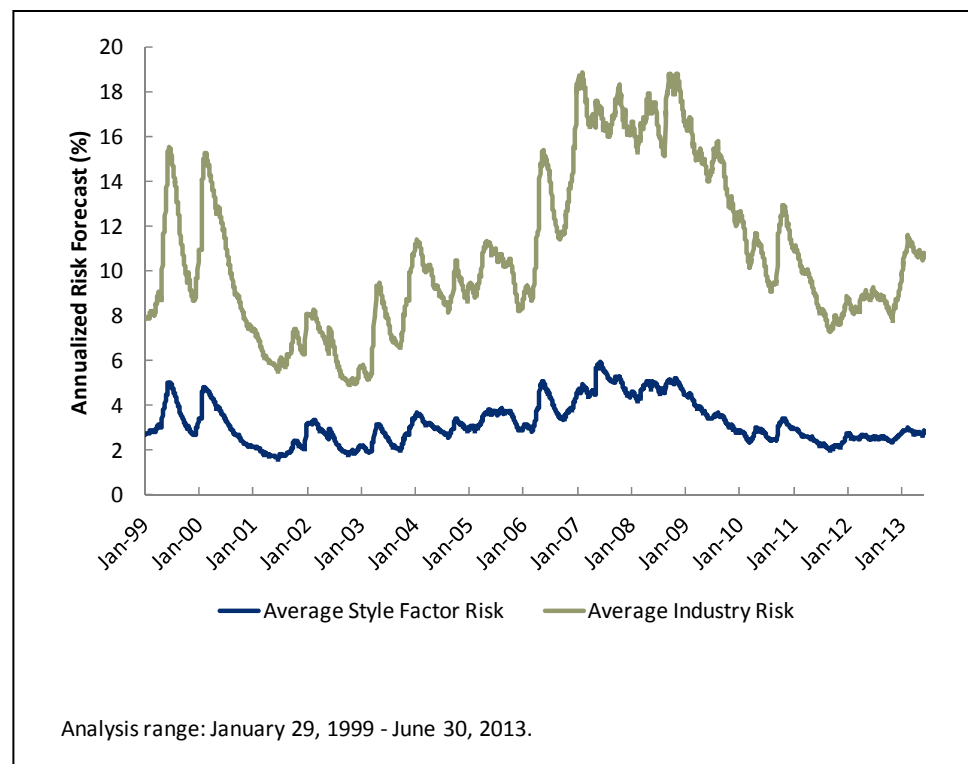


Chart 1: The evolution of risk forecasts for the China equity market; the average specific risk.

Chart 2: The evolution of forecast risk of industry factors and style factors.

Style Factor Return Correlations

Average correlations over the range July 31, 2005 – June 30, 2013.

Correlations Now & Average	Country	Beta	Book-to-Price	Earnings Yield	Growth	Leverage	Liquidity	Momentum	Residual Volatility	Size	Non-linear Size
Country		0.74	0.24	0.21	0.20	0.01	0.16	-0.10	0.46	-0.16	0.23
Beta	0.77		0.27	0.12	0.18	-0.05	0.05	-0.04	0.46	-0.30	0.25
Book-to-Price	0.25	0.25		-0.22	-0.07	0.21	0.07	-0.21	0.27	-0.39	-0.01
Earnings Yield	0.19	0.15	-0.10		-0.05	0.06	0.04	-0.04	0.00	0.20	-0.05
Growth	0.19	0.19	0.05	-0.14		-0.22	-0.09	0.11	0.12	0.04	0.22
Leverage	0.00	-0.04	0.07	0.23	-0.42		-0.06	-0.09	-0.06	0.04	-0.24
Liquidity	0.25	0.13	0.14	-0.01	-0.09	-0.05		0.04	-0.06	0.00	0.07
Momentum	-0.13	-0.02	-0.05	-0.15	0.22	-0.16	-0.07		-0.08	0.17	0.05
Residual Volatility	0.45	0.45	0.28	-0.02	0.25	-0.18	0.01	0.05		-0.43	0.20
Size	-0.18	-0.24	-0.34	0.25	-0.11	0.19	-0.12	0.10	-0.48		-0.35
Non-linear Size	0.24	0.22	0.06	-0.16	0.23	-0.24	0.06	0.05	0.27	-0.43	

Current correlations as of June 30, 2013.

Correlations highlighted in green are the top three above their historical average. Correlations highlighted in orange are the bottom three below their historical average. To rank a current correlation, the deviation from historical average is divided by the historical standard deviation of the correlation coefficient.

Style Factor Exposure Correlations

Average correlations over the range July 31, 2005 – June 30, 2013.

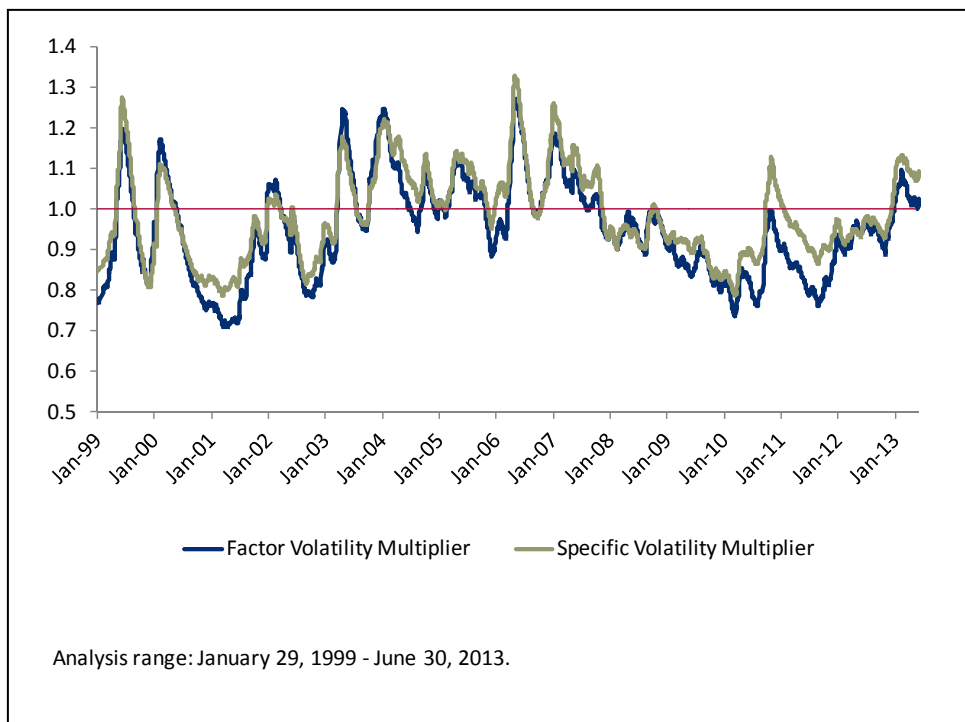
Correlations Now & Average	Beta	Book-to-Price	Earnings Yield	Growth	Leverage	Liquidity	Momentum	Residual Volatility	Size	Non-linear Size
Beta		0.09	0.03	0.05	0.05	0.34	-0.19	-0.03	-0.12	0.13
Book-to-Price	0.00		0.48	-0.06	0.27	-0.10	-0.31	-0.41	0.12	0.02
Earnings Yield	-0.04	0.58		0.26	0.21	-0.01	-0.03	-0.26	0.41	-0.01
Growth	0.03	-0.15	0.14		0.01	0.07	0.14	0.07	0.27	0.11
Leverage	-0.05	0.43	0.32	-0.06		0.07	-0.09	-0.08	0.13	0.03
Liquidity	0.38	-0.43	-0.22	0.11	-0.15		0.19	0.36	0.15	0.15
Momentum	-0.21	-0.30	-0.01	0.19	-0.13	0.25		0.35	0.21	0.11
Residual Volatility	-0.04	-0.62	-0.37	0.22	-0.25	0.57	0.46		0.13	0.09
Size	-0.11	0.22	0.41	0.15	0.26	0.13	0.29	0.12		-0.04
Non-linear Size	0.10	-0.10	-0.13	0.07	0.02	0.16	0.04	0.18	-0.03	

Current correlations as of June 30, 2013.

Correlations highlighted in green are the top three above their historical average. Correlations highlighted in orange are the bottom three below their historical average. To rank a current correlation, the deviation from historical average is divided by the historical standard deviation of the correlation coefficient.

Volatility Regime Adjustment Factor

Factor Volatility Multiplier, Specific Volatility Multiplier



The Volatility Regime Adjustment multiplier measures the degree to which the Barra models scale risk forecasts to most appropriately match current market volatility levels. In times of rapidly increasing volatility, the multiplier tends to be greater than one, whereas it typically is less than one when volatility levels decline rapidly.

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¹ As of September 30, 2012, as published by eVestment, Lipper and Bloomberg on January 31, 2013

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