MSCI

Index Methodology

MSCI Australian Shares Indices

April 2011

Introduction

The MSCI Australian Shares Indices are free float-adjusted market capitalization indices designed to reflect the performance of companies in the domestic Australia equity market.

Based on transparent and objective rules, The MSCI Australian Shares Indices are intended to provide:

- Exhaustive coverage of the investable opportunity set with non-overlapping size and style segmentation from the perspective of domestic Australian investors.
- A strong emphasis on investability and replicability of the indices through the use of size and liquidity screens.
- A complete and consistent index family, with Standard (Large + Mid Cap), Large Cap, Mid Cap, Small Cap, and Investable Market Indices (Large + Mid + Small).
- Timely and consistent treatment of corporate events and regular index rebalancing. A balance between index stability and reflecting changes in the opportunity set in a timely way.

Index Construction and Maintenance Methodology

Index Construction

The MSCI Australian Shares Indices use an index construction and maintenance methodology similar to the MSCI Australia Indices that are constructed under the MSCI Global Investable Market Indices (GIMI) Methodology[1]. The MSCI Australian Shares Indices have identical index constituents as the MSCI Australia Indices but are free float-weighted from the perspective of domestic Australian investors.

The process of determining the free float-adjusted market capitalization of securities involves:

- Defining and estimating the free float available to Australian domestic investors for each security
- Assigning a Domestic Inclusion Factor (DIF) to each security
- Calculating the free float-adjusted market capitalization of each security

MSCI defines the DIF of a security as the proportion of tradable shares outstanding that are deemed to be available for purchase in the public equity markets by the Australian domestic investors. In practice, limitations on free float available to domestic investors also include strategic and other shareholdings that are not considered as free float. The DIF estimation is not constrained by the foreign ownership limit (FOL) which is applicable only to foreign investors.

MSCI estimation of free float is based solely on publicly available shareholder information obtained from multiple information sources. For each security, all available shareholdings are considered where public data is available, regardless of the size of the shareholding. MSCI may consult with analysts, other industry experts and official company contacts, particularly where disclosure standards or data quality make the estimation of free float difficult.

[1] For a description of the MSCI GIMI methodology, see: http://www.msci.com/products/indices/size/standard/methodology.html

Quarterly Index Review

The composition of the underlying MSCI Australian Shares Indices is reviewed on a quarterly basis as part of the quarterly rebalancing process of the MSCI Global Investable Market Indices.

The objective of the Semi-Annual Index Reviews (SAIRs) is to systematically reassess the various dimensions of the Equity Universe for all markets on a fixed semi-annual timetable, whilst the objective of the Quarterly Index Reviews (QIRs) is to reflect timely significant market driven changes that were not captured in the index at the time of their actual occurrence but are significant enough to be reflected before the next SAIR. The SAIRs are conducted in May and November and Quarterly Index Reviews in February and August.

Any changes to the index membership and the number of shares of the underlying MSCI Australia Indices would be reflected in the MSCI Australian Shares Indices simultaneously. These changes to the MSCI Australian Shares Indices are typically implemented at the end of February, May, August and November to coincide with the implementation of the regular index reviews of the MSCI Global Investable Market Indices.

Quarterly Changes in Domestic Inclusion Factors (DIFs)

During a QIR, changes in DIFs can result from significant changes in free float estimates, which could be a result of events such as large market transactions involving changes in strategic ownership, end of lock-up periods or expiration of loyalty incentives for otherwise non-strategic, shareholders, etc. DIF changes resulting from a change in free float of less than 1% will not be implemented.

During a SAIR, changes in DIFs can result from:

- The implementation of the Annual Full Country Float Review. Once a year a detailed review of the shareholder information used to estimate free float for constituent and non-constituent securities is carried out for each country. The review is comprehensive, covering all aspects of shareholder information. This annual review is then implemented at one of the SAIRs, according to a published schedule.
- As a result of corporate events that occurred during the course of the past quarter. These are identical to those typically implemented during QIRs.

Ongoing Event-Related Maintenance

Any changes to the composition of the underlying MSCI Australia Indices, including early inclusion and deletions, would automatically be reflected in the MSCI Australian Shares Indices. As part of ongoing event-related maintenance, any changes to the DIF of the index constituents of the MSCI Australian Shares Indices would also be implemented on a timely basis.

Client Service Information is Available 24 Hours a Day

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About MSCI

- MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indices, portfolio risk and performance analytics, and governance tools.
- The company’s flagship product offerings are: the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.