

**METHODOLOGY BOOK FOR:**

- MSCI USA SELECT QUALITY YIELD INDEX**
- MSCI EMERGING MARKETS SELECT QUALITY YIELD INDEX**
- MSCI UNITED KINGDOM SELECT QUALITY YIELD INDEX**
- MSCI EUROPE EX UK SELECT QUALITY YIELD INDEX**

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# 1 Introduction

The methodology book applies to the construction and maintenance of the following indexes:

Index	Parent Index
MSCI USA Select Quality Yield Index	MSCI USA Index
MSCI Emerging Markets Select Quality Yield Index	MSCI Emerging Markets Index
MSCI United Kingdom Select Quality Yield Index	MSCI United Kingdom Index
MSCI Europe ex UK Select Quality Yield Index	MSCI Europe ex UK Index

These Indexes<sup>1</sup> are designed to represent the performance of companies that have relatively higher dividend yield and high quality scores within the Parent Index universe of securities.

<sup>1</sup> The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI's webpage <https://www.msci.com/index-methodology> in the section 'Search Methodology by Index Name or Index Code'.

## 2 Index Construction Methodology

### 2.1 Defining the Eligible Universe

All securities belonging to the underlying Parent Index are eligible for inclusion in the Index, with the exception of securities classified in the Equity Real Estate Investment Trusts Industry Group as per the Global Industry Classification Standard (GICS®<sup>2</sup>). Real Estate Investment Trusts (REITs) have structurally very high dividend yield and, if included, would represent a very significant proportion of the Index.

### 2.2 Security Selection

The security selection is a two-step process:

- In the first step, rank all constituents of the Parent Index in descending order of their Quality Scores and select the top 50% by number of securities.

The quality score for each security is calculated by combining the z-scores of three winsorized fundamental variables, Return on Equity, Debt to Equity and Earnings Variability for all Parent Index constituents. A given variable z-score for a security is calculated using the mean and standard deviation of the corresponding variable computed within the MSCI Parent Index. After calculating component variable z-scores, a composite z-score for each security is computed by taking an equal-weighted average of the component z-scores.

For further details on the Quality Scores calculations, please refer to the MSCI Quality Indexes methodology<sup>3</sup>.

- In the second step, rank all securities selected in the first step in descending order of their dividend yield<sup>4</sup>, and select the top 50% by number of securities, subject to a minimum of 30 securities being selected, for inclusion in the index

In case there are less than 30 securities available after the first step, all the securities will be included in the Index without any dividend yield screening.

<sup>2</sup> GICS, the Global Industry Classification Standard jointly developed by MSCI and S&P Global.

<sup>3</sup> For more information please refer to <https://www.msci.com/index/methodology/latest/Quality>

<sup>4</sup> For definition, please refer to MSCI Fundamental Data Methodology at <https://www.msci.com/index/methodology/latest/FunData>

## 2.3 Weighting Scheme

The constituents in the Index are first free float-adjusted market capitalization weighted.

The cumulative weight for each issuer in the Index is capped at 5% at initial construction and each subsequent Index Review of the Index. The excess weight of such issuers is distributed among the remaining constituents in proportion to their free float market capitalization.

If any issuer weight breaches the cap as a result of market price movements or corporate events between two Index Reviews, no capping is applied.

## 3 Maintaining the Indexes

### 3.1 Semi-Annual Index Reviews

The Index is rebalanced usually as of the close of the last business day of May and November, coinciding with the May and November Index Reviews of the MSCI Global Investable Market Indexes. Fundamental variables as of the end of April and October respectively are used for the Index Review. The pro forma Index is typically announced nine business days before the effective date.

To reduce Index turnover and enhance index stability, buffer rules are applied. A security selection buffer of 20% is applied in the second step during the on-going Index Reviews.

For example, if the pro forma Parent Index includes 1600 securities, then the pro forma Index will include 400 securities. Buffer rules are then applied to securities ranked between 321 and 480 based on dividend yield after the first step described in section 2.2. The securities with a dividend yield rank at or above 320 will be included in the Index on a priority basis. The existing constituents that have a final dividend yield rank between 321 and 480 are then successively added until the number of securities in the Index reaches 400. If the number of securities is below 400 after this step, the remaining securities with the highest dividend yield are added until the number of securities in the Index reaches 400.

The 5% issuer level capping is applied at each Index Review.

The capping of the issuer weights is done for the pro forma index as of the effective date, based on the closing prices as of the Index Review announcement date. In cases where any issuer weight breaches the cap as a result of market price movements or corporate events between the announcement date and the effective date, the capping is not applied again.

### 3.2 Ongoing Event Related Changes

The general treatment of corporate events in the MSCI Select Quality Yield Indexes aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor's participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved.

The following section briefly describes the treatment of common corporate events within MSCI Select Quality Yield Indexes.

No new securities will be added (except where noted below) to the Indexes between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the parent index. Parent Index deletions will be reflected simultaneously.

EVENT TYPE	EVENT DETAILS
<b>New additions to the Parent Index</b>	A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.
<b>Spin-Offs</b>	All securities created as a result of the spin-off of an existing index constituent will not be added to the index.
<b>Merger/Acquisition</b>	<p>For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.</p> <p>If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.</p>
<b>Changes in Security Characteristics</b>	A security will be removed from the Index if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book.

The MSCI Corporate Events methodology book is available at:  
<https://www.msci.com/index/methodology/latest/CE>

## Appendix I: Changes to this Document

### The following sections have been modified since September 2015:

- Section 2.1: Excluded GICS Sub-Industry updated to reflect changes to the GICS Structure as of September 01, 2016.

### The following sections have been modified since August 2016:

- Section 2.2: Enhanced the selection criteria to select a minimum of 30 securities during index construction
- Section 3.2: Clarification on the corporate events treatment

### The following sections have been modified since June 2023:

- Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.
- All references to "Semi-Annual Index Reviews" and "Quarterly Index Reviews" of the MSCI GIMI were replaced with "Index Reviews."
- Section 2.1: Updated to reflect the change from Industry to Industry Group for Equity Real Estate Investment Trusts under the GICS structure



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