

MSCI JAPAN HIGH DIVIDEND SELECT 25 INDEX METHODOLOGY

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1 Introduction

The MSCI Japan High Dividend Select 25 Index (the “Index”) aims to represent the performance of 25 stocks from Japan that exhibit relatively higher dividend yield. The stock selection for the Index is diversified with sector constraints.

2 Constructing the Index

The Index is constructed from MSCI Japan IMI Index (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Eligibility Screens
- Security Selection
- Security Weighting

2.1 ELIGIBILITY SCREENS

All securities belonging to the Parent Index are divided into two sub universes namely, “REITs Universe” and “Ex-REITs Universe”, defined as follows:

- REITs Universe: It includes all Real Estate Investment Trusts (REITs) from the Parent Index
- Ex-REITs Universe: It includes all securities belonging to the Parent Index except for REITs

The following screens are applied only to securities belonging to Ex-REITs Universe.

2.1.1 LIQUIDITY CRITERIA

Securities with 3-month Annualized Traded Value (3-month ATV) less than JPY 25.2 Billion are excluded from the Ex-REITs Universe.

To avoid inclusion of multiple securities of the same company from the Ex-REITs Universe in the Index, only the most liquid security for each issuer as the per its 3-month Annualized Traded Value (3-month ATV) is eligible for inclusion in the Index. For any issuer, should securities have the same 3-month ATV, the one with the higher free float-adjusted market capitalization is included.

2.1.2 SIZE ELIGIBILITY

Securities with full market capitalization less than JPY 100 Billion are excluded from the Ex-REITS Universe.

2.1.3 DIVIDEND PERSISTENCE CRITERIA

Securities with a negative 5Y Dividend per share (DPS) growth are excluded from the Ex-REITS Universe as this is an indicator of shrinking dividend growth which could be

a precursor to lower dividends. Securities which have insufficient data to calculate a 5Y DPS growth rate are not excluded from the Ex-REITS Universe. For more details on 5Y DPS growth calculation please refer to MSCI High Dividend Yield Indexes methodology at <https://www.msci.com/index-methodology>.

2.1.4 PRICE PERFORMANCE CRITERIA

Securities ranked in the bottom 5% of the universe of securities with negative 1-year Price Performance are excluded from the Ex-REITS Universe.

2.2 SECURITY SELECTION

The following steps are applied to the REITs Universe and the Ex-REITS Universe remaining post the above screenings (the “Eligible Ex-REITS Universe”) to select 25 securities for inclusion in the Index.

• Step 1

Select the top 2 securities from the REITs Universe, ranked in the order from the highest to the lowest dividend yield. In case two securities have the same dividend yield, the security with higher market capitalization is assigned higher rank. In case there are no securities in the REITs Universe, none are selected in the Index.

• Step 2

Select the remaining top 23 securities from the Eligible Ex-REITS Universe, ranked in the order from the highest to the lowest dividend yield, while ensuring that the maximum exposure to any sector does not exceed 20% above the corresponding sector weight in the Eligible Ex-REITS Universe. In case two securities have the same dividend yield, the security with higher market capitalization is assigned higher rank.

For each of the GICS® Sectors, the number of constituents is capped based on the below formulas:

$$SecCAP(j, TR) = RoundUp((WtSecBM(j, TR) + 20\%) * 25)$$

Where:

$$SecCAP(k, TR) = \text{Cap on Number of Securities for Sector } j \text{ on Index Review date } TR$$

$$WtSecBM(k, TR) = \text{Weight of the securities from sector } j \text{ in the Eligible Ex-REITS Universe}$$

2.3 SECURITY WEIGHTING

The securities selected for inclusion in the Index are assigned equal weights.

3 Maintaining the Index

3.1 SEMI-ANNUAL INDEX REVIEWS

The Index is reviewed on a Semi-Annual basis as per the steps described in Section 2, coinciding with the May and November Index Reviews of the Parent Index. The Index is rebalanced over three days T-2, T-1 and T, where T is the effective date of the May and November Index Review of the Parent Index.

The pro forma of the Index (herein, “Pro forma Index”) in general are announced nine business days before T (T-9).

The fundamental data used to determine the Index is maintained monthly. For the May and November Semi-Annual Index Reviews, the fundamental data as of the end of April and the end of October is used respectively.

Existing constituents of the current Index will also be evaluated for continued inclusion using the following rules:

- 1) If a security from the REITs Universe is already an Index constituent and also belongs to the top 4 securities from the REITs Universe, ranked in the order from the highest to the lowest dividend yield then it will still be allowed to remain in the Index.
- 2) If a security from the Eligible Ex-REITs Universe is already an Index constituent and also belongs to the top 50 securities from the Eligible Ex-REITs Universe, ranked in the order from the highest to the lowest dividend yield then it will still be allowed to remain in the Index.
- 3) If a security is already an Index constituent but its 5Y DPS growth rate turns negative, it will still be allowed to remain in the Eligible Ex-REITs Universe, provided that the 1Y DPS growth rate of that security is non-negative. This allows current Index constituents that suffer only a temporary decline in the 5Y DPS growth rate to remain in the Eligible Ex-REITs Universe. Securities which do not have sufficient data to calculate a 5Y DPS growth rate or 1Y DPS growth rate would still be eligible to remain in the Eligible Ex-REITs Universe.

3.1.1 STAGGERED REBALANCE

The rebalance changes of the Pro forma Index are then staggered for implementation by spreading the change in Index Number of Shares (NOS) for each security over three days leading into the rebalancing effective date (T). For each $t \in$

$\{T-2, T-1, T\}$, number of shares for each security included in Index (*Staggered Index NOS* (t)) are calculated as below:

$$\text{Staggered Index NOS } (t) = \text{Pro forma Index NOS } (t) + [\text{Adjusted Pro forma Index NOS } (T) - \text{Pro forma Index NOS } (t)] * (N/3)$$

Where:

t : Effective date of the staggering

T : Rebalancing effective date of the Pro forma Index

Pro forma Index NOS (t): It is the number of shares of a security in the Pro forma Index effective on t (as of close $t - 1$). It is calculated as a product of the end of day security number of shares on $t - 1$ and Full Market Cap Adjustment Factor¹ in the Pro forma Index on t

Adjusted Pro forma Index NOS (T) : Pro forma Index NOS (T) adjusted for change in number of shares due to events like Rights Issues, Split, Consolidation, Stock Dividend, effective between t and T

N = n th day of staggering, e. g. $t - 2$ is 1st day of staggering

3.2 ONGOING EVENT RELATED CHANGES

Corporate event treatment for the Index depends on whether the effective date of the event falls within the staggering period ($T-2, T-1, T$), or outside the staggering period.

3.2.1 EVENTS EFFECTIVE OUTSIDE THE STAGGERING PERIOD

The general treatment of corporate events effective outside the staggering period in the Index 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. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

The following section briefly describes the treatment of common corporate events within the Index.

No new securities will be added (except where noted below) to the Index outside the Staggering Period. Parent Index deletions outside the staggering period will be reflected simultaneously.

¹ Full Market Cap Adjustment Factor (FMCAF): A factor that is used in index constituent weighting calculation defined as (Inclusion Factor (i.e. FIF)) * (Constraint Factor) * (Variable Weighting Factor). For more details, please refer to section 2.7 of the MSCI corporate Events Methodology book at <http://www.msci.com/index-methodology>

EVENT TYPE

EVENT DETAILS

New additions to the Parent Index

A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.

Spin-Offs

All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Merger/Acquisition

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.

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.

Changes in Security Characteristics

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued 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 under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted Indexes.

The MSCI Corporate Events methodology book is available at:
<https://www.msci.com/Index-methodology>

3.2.2 EVENTS EFFECTIVE DURING THE STAGGERING PERIOD

The impact of event on the Index depends on the type of event and calculation date of the Index as elaborated below.

3.2.2.1 CALCULATION ON T-9

a) Before effective date

The pro forma of the Index in general is announced nine business days before T (T-9). If there is an event already confirmed on T-9 with an effective date in the staggering period, the change in numbers of shares for the security due to the rebalancing will not be staggered for such security until the event effective date. In case of multiple events, the staggering will be postponed till the effective date of the earliest event.

b) On and after effective date

In case of Rights Issues and market neutral events (like Split, Consolidation, Stock Dividend etc.) which involve change in security number of shares but does not involve change in the full market cap adjustment factor, staggering will start from the next day of the event effective date.

For all other events, staggering will start from the effective date of the event.

3.2.2.2 CALCULATION AFTER T-9

a) Before Effective Date

In case of an event effective in the staggering period, the numbers of shares for the security involved in the event as announced on T-9 will hold until a day before the effective date. In case of multiple events, the effective date of the earliest event will be taken into account.

b) On and after the Effective Date

In case of Rights Issues and market neutral events (like Split, Consolidation, Stock Dividend etc.) which involve change in security number of shares but does not involve a change in inclusion factor, staggering will be applied again from the next day of the event effective date, taking into account the new post event number of shares in the Index.

For all other events, staggering will be applied from the effective date of the event incorporating the post event number of shares.

3.2.2.3 TREATMENT OF SUSPENDED SECURITIES

A suspension treatment will be applied to any security suspended on any day starting from T-6 until T-2. On the day of suspension (t), the pro-forma Full Market Cap Adjustment Factor in the Index announced for the security for the next day (t+1) will be held constant until T. However, in case, on T-2, if a new addition to the Parent Index is reverted due to suspension and the security is no longer a part of the Parent Index on T, the security will also be deleted from the Index effective on T.

The following sections have been modified effective November 2023 Index Review:

- Section 2.1.2 Size Eligibility: Updated to JPY 100 Billion
- Section 3: Updated to reflect the following changes:
 - 1) Addition of rules to evaluate continued inclusion of existing constituents of the current Index
 - 2) Apply staggered rebalance to the Index, the Index is rebalanced over three days T-2, T-1 and T, where T is the effective date of the May and November Index Review of the Parent Index

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