

# The MSCI China A High Dividend Yield Index

## Identifying China A stocks with sustainable dividend yields and consistent dividend growth

- The MSCI China A High Dividend Yield (HDY) Index aims to reflect the performance of companies from the MSCI China A universe that offer meaningfully higher-than-average dividend yield
- The MSCI High Dividend Yield Index methodology incorporates screens that aim to include quality stocks with a track record of sustainable and consistent dividend payouts and dividend growth
- The MSCI China A High Dividend Yield Index may serve as a performance benchmark for income investors seeking to invest in the domestic China A market and as the basis of financial products such as ETFs

### Why Do Investors Use High Dividend Yield Strategies?

- Income investors typically seek investments that provide high current income with capital preservation and some long term capital appreciation
- Increased demand for income from aging populations and maturing defined benefit (DB) plans have triggered renewed interest in High Dividend Yield (HDY) investment strategies
- Equity income strategies may be a diversifying source of income and may complement fixed-income products

Performance of the MSCI China A HDY Index Relative to the MSCI China A Index



### Key Benefits of the MSCI High Dividend Yield Indices

- Simple and transparent index methodology
- Indices aim to include quality stocks with sustainable dividend yields and a consistent track record of growing dividends
- Goal of high investability and capacity with moderate annual index turnover and low replication costs
- Seamless integration with MSCI index-based portfolios

Historical Gross Total Returns, CNY	MSCI China A	MSCI China A HDY
Total Gross Return* (%)	16.6	18.8
Total Price Return* (%)	15.0	15.8
Total Risk* (%)	34.2	34.8
Risk Adjusted Return	0.48	0.54
Active Return* (%)	0.0	2.2
Tracking error* (%)	0.0	8.1
Information Ratio	NA	0.28
Dividend Yield** (%)	1.6	3.1
Payout Ratio** (%)	32.9	43.0

\*Annualized from May 2005 to March 2013

\*\*Average of monthly data computed from May 2005 to March 2013

### Dividend Trends in the MSCI China A Index

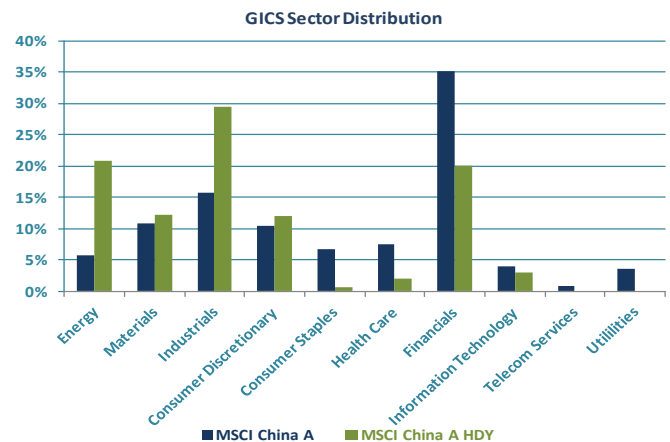
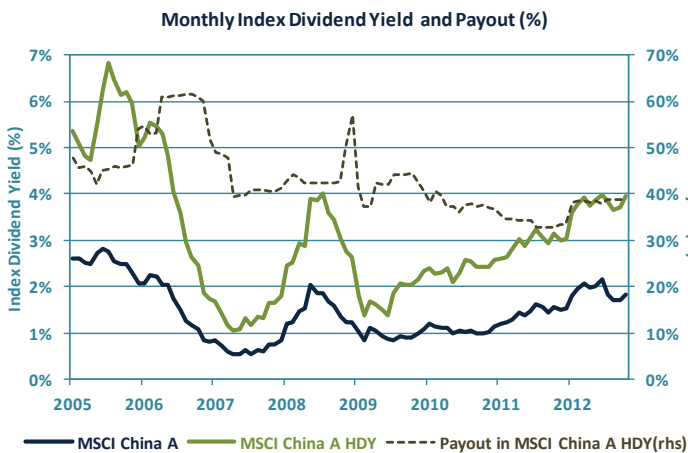
- Over the period 2005-2012, the aggregate index dividends for the MSCI China A Index grew from RMB 12.95 bn to RMB 94.70 bn
- The number of dividend-paying companies in the MSCI China A Index universe increased sharply from 2009 to 2011 and remained steady through 2012
- The MSCI China A HDY Index may serve as a performance benchmark for income investors seeking to invest in the domestic China A shares market



Example only. Past performance is not indicative of future results.

## Methodology Highlights

Parameter	Methodology	Comments
Universe	Parent index constituents ex REITs (e.g., the constituents of the MSCI China A Index ex REITs)	Objective approach aims to capture the standard opportunity set and ensure that the indices have high investability and liquidity
Selection	<ul style="list-style-type: none"> <li>Dividend yield &gt; 1.3x parent index yield</li> </ul>	Identify companies with higher dividend yield than the parent index
Selection	<ul style="list-style-type: none"> <li>Dividend persistency screen - excludes stocks with negative 5 year DPS growth</li> <li>Dividend sustainability screen - excludes stocks with negative or very high payouts ( top 5% by payout )</li> <li>Quality screen - excludes stocks with negative quality scores (based on ROE, earnings variability and debt-to-equity)</li> <li>Yield trap screen - excludes stocks performing in the bottom 5% of the index with negative 12-month price performance</li> </ul>	Identify companies with sustainable and quality yields and consistent dividend growth
Weighting	<ul style="list-style-type: none"> <li>Free float market capitalization weighting</li> <li>Issuer level weights are capped at 5%</li> </ul>	Goal of indices with adequate capacity, lower concentration and low turnover
Rebalancing	Semi-annual, in May and November	Reflects timely updates to dividend yields and is consistent with the rebalancing frequency of MSCI parent indices
Buffers	Buffers are applied around the dividend yield, dividend growth, dividend payout and quality screens for existing index constituents	Buffers aim to mitigate turnover without significantly altering other index characteristics



GICS Sector distribution as of June 03, 2013

**Note:** The performance and characteristics of MSCI China A HDY Index are based on historical simulation. The Dividend Persistency screen is not applied in the historical simulation. Past performance is not indicative of future results.

[www.msci.com](http://www.msci.com) | [clientservice@msci.com](mailto:clientservice@msci.com)

The information contained herein (the "Information") may not be reproduced or disseminated in whole or in part without prior written permission from MSCI. The Information may not be used to verify or correct other data, to create indices, risk models, or analytics, or in connection with issuing, offering, sponsoring, managing or marketing any securities, portfolios, financial products or other investment vehicles. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information or MSCI index or other product or service constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy. Further, none of the Information or any MSCI index is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. The Information is provided "as is" and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF MSCI INC. OR ANY OF ITS SUBSIDIARIES OR ITS OR THEIR DIRECT OR INDIRECT SUPPLIERS OR ANY THIRD PARTY INVOLVED IN THE MAKING OR COMPILING OF THE INFORMATION (EACH, AN "MSCI PARTY") MAKES ANY WARRANTIES OR REPRESENTATIONS AND, TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH MSCI PARTY HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. WITHOUT LIMITING ANY OF THE FOREGOING AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, IN NO EVENT SHALL ANY OF THE MSCI PARTIES HAVE ANY LIABILITY REGARDING ANY OF THE INFORMATION FOR ANY DIRECT, INDIRECT, SPECIAL, PUNITIVE, CONSEQUENTIAL (INCLUDING LOST PROFITS) OR ANY OTHER DAMAGES EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.