

MSCI Emerging Markets Sovereign Bond Index Methodology

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1. General Methodology Overview

The MSCI Emerging Markets Sovereign Bond Index ('the Index') is constructed to measure the performance of USD denominated bonds issued by the Emerging Markets (EM) sovereign and quasi-sovereign entities. The Index construction is rules-based and conforms to the general construction guideline as described in this methodology document.

The spirit of the Index design is to be representative of the market, as well as to be replicable by the global institutional investors. Broadly, the Index methodology selects fix coupon paying USD bonds from the relevant issuers. The eligible bonds are further screened for maturity and size cut-offs as outlined in relevant sections of this methodology document. In addition, the Index methodology incorporates country capping at 10% to avoid concentration risk.



2. Index Construction

Issuer Type: Each index constituent must be issued by a sovereign or quasi-sovereign¹ entity.

Issuer Country of Exposure: Each Index constituent must belong to issuers whose country of exposure² is Emerging Market as per the Economic Development pillar of the MSCI Fixed Income Market Classification Framework³.

Credit Rating: Each issuer of index constituents must be rated by either S&P or Moody's. For bonds that are rated by both S&P and Moody's, the lower rating will be used to determine the Index inclusion criteria.

The table below summarizes higher and lower rating threshold for the Index.

S&P Rating		Moody's Rating	
Higher Rating Threshold	Lower Rating Threshold	Higher Rating Threshold	Lower Rating Threshold
AAA	C	Aaa	C

Maturity: Each index constituent must have a maturity greater than or equal to 1 year as measured from the Rebalancing Date (defined below). New additions to the Index must have a maturity greater than or equal to 1½ years as measured from the Rebalancing Date.

Size: Index constituents must have security size greater than or equal to USD 500 million.

Weighting: Index constituents will be weighted by market value⁴ within the Index.

Additionally, constituent weights are capped at 10% at country of exposure to mitigate concentration risk. The excess weight after capping is redistributed across the remaining index constituent in proportion of their market value.

¹ Quasi-sovereign entities are defined as government agencies or public sector corporates that are 100% owned by a sovereign entity.

² An issuer's country of exposure is considered to be EM if at least one of its country of domicile, parent country of domicile or ultimate parent country of domicile is in the Emerging Market. The country of exposure of the issuer is defined as its country of domicile; in case its country of domicile is not from EM (i.e., in case of SPVs), its ultimate parent country of domicile is used. In case neither of its country of domicile or ultimate parent country of domicile is EM, then its parent country of domicile is used as its country of exposure.

³ Please refer to MSCI Fixed Income Market Classification Framework document for further details. Available at <https://www.msci.com/our-solutions/indexes/market-classification>

⁴ Please refer to MSCI Fixed Income Index calculation methodology at www.msci.com/index-methodology for further details on security level market value calculation.



Note that the capping of the country weight is calculated for the pro forma Index as of the effective date, based on the closing prices as of the Index Review Cut-Off Date.

In cases where the pro-forma country weight breaches the cap because of market price movements or corporate events between the announcement date and the effective date, the capping is not applied again. Similarly, even if any country weight breaches the cap because of market price movements or corporate events between two monthly reviews, capping is not re-applied.

Pricing: Daily bond valuation utilizes bid prices from our vendors. Securities not priced by the designated pricing source are not eligible for index inclusion.

Settlement: MSCI applies same-day (T+0) index settlement convention, unless otherwise specified.



3. Index Rebalancing & Maintenance

The composition of the Index is reviewed monthly, with an effective rebalancing impact of the first business day of the month. For clarification, bonds are added to the Index on the closing of last business day of every month, however, the return impact is on the first business day of the month.

Change in the Index composition is based on latest data available as of three days prior to the Rebalancing Date, which is defined as the Cut-Off Date.

Any inclusion or exclusion criteria satisfied for a given security in the universe, after the Cut-Off Date, will generally become effective at the following monthly rebalancing; should conditions remain unchanged.

Any cash that accrues within the Index in each month is re-invested on a pro-rata basis across the Index constituents, on the Rebalancing Date. In essence, cash in the Index is swept out on rebalancing and the opening index portfolio on the Rebalancing Date starts with zero accrued cash balance.

For further information on index total return calculation and the handling of corporate events, please refer to the MSCI Fixed Income Index Calculation Methodology. Additionally, for insights regarding the holiday calendar utilized in the Index, please refer to the MSCI Fixed Income Data Methodology⁵.

⁵ The methodologies are available at: <https://www.msci.com/index-methodology>



Contact us

[msci.com/contact-us](https://www.msci.com/contact-us)

AMERICAS

United States	+ 1 888 588 4567 *
Canada	+ 1 416 687 6270
Brazil	+ 55 11 4040 7830
Mexico	+ 52 81 1253 4020

EUROPE, MIDDLE EAST & AFRICA

South Africa	+ 27 21 673 0103
Germany	+ 49 69 133 859 00
Switzerland	+ 41 22 817 9777
United Kingdom	+ 44 20 7618 2222
Italy	+ 39 02 5849 0415
France	+ 33 17 6769 810

ASIA PACIFIC

China	+ 86 21 61326611
Hong Kong	+ 852 2844 9333
India	+ 91 22 6784 9160
Malaysia	1800818185 *
South Korea	+ 82 70 4769 4231
Singapore	+ 65 67011177
Australia	+ 612 9033 9333
Taiwan	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Japan	+ 81 3 4579 0333

* toll-free

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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