

MSCI Emerging Markets Sovereign Bond Index Methodology

December 2024



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1. General Methodology Overview

The MSCI Emerging Markets Sovereign Bond Index¹ ('the Index') is constructed to measure the performance of USD denominated bonds issued by the Emerging Markets (EM) sovereign and quasi-sovereign entities (100% government owned). 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.

¹ The Index is 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'. The Methodology Set includes a document 'ESG Factors in Methodology' that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).



2. Index Construction

Issuer Type: Each index constituent must be issued by a sovereign or quasi-sovereign² entity.

Issuer Country of Exposure: Each Index constituent must belong to issuers whose country of exposure³ is Emerging Market as per the Economic Development pillar of the MSCI Fixed Income Market Classification Framework⁴.

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 value⁵ 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.

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

² Quasi-sovereign entities are defined as government agencies or public sector corporates that are 100% owned by a sovereign entity.

³ 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.

⁴ Please refer to MSCI Fixed Income Market Classification Framework document for further details. Available at <https://www.msci.com/our-solutions/indexes/market-classification>

⁵ Please refer to MSCI Fixed Income Index calculation methodology at www.msci.com/index-methodology for further details on security level market value calculation.



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 Index undergoes a monthly review, with the rebalancing impact taking effect on the first business day of each month (termed as Rebalancing Date). To elaborate, bonds are incorporated into the index at the close of the last business day of every month, but the impact on returns is observed on the first business day of the subsequent month.
- The rebalanced Index composition is determined by the most recent data available three days prior to the Rebalancing Date, termed as the Cut-Off Date. If a security in the universe satisfies any inclusion or exclusion criteria after the Cut-Off Date, it will typically become effective at the next monthly rebalancing, provided conditions remain constant. In extraordinary circumstances, such as cases of input data correction, MSCI has the discretion to shorten the Cut-Off Date for Index rebalancing from T-3 to T-2, T-1, or T. In such scenarios, MSCI will inform Index clients of these changes through an announcement.
- MSCI will disclose proforma index rebalancing results starting the second business day of each month. MSCI will freeze the proforma index rebalancing results as of the Cut-Off Date.
- Bonds are either added to or removed from the index solely on monthly rebalancing dates. For existing index components, any changes to index eligibility will only be reflected in the subsequent monthly rebalancing.
- Any cash that accumulates within the index each month is re-invested across the index constituents on a pro-rata basis, on the Rebalancing Date. Essentially, cash in the index is cleared out on rebalancing, and the opening index portfolio on the Rebalancing Date commences with zero accrued cash balance.
- Specific variants of the total return calculation of the index on the Rebalancing Date may be adjusted for transaction costs ⁶as securities are added to the index at the offer price.

For further information on index total return calculation and corporate events handling please refer to the MSCI Fixed Income Index Calculation Methodology⁷. For the holiday calendar used in the indexes, please refer to the MSCI Fixed Income Data Methodology⁸

⁶ Refer to the MSCI Fixed Income Index Calculation Methodology for detail. Available at <https://www.msci.com/index-methodology>

⁷ Refer to the MSCI Fixed Income Index Calculation Methodology for detail. Available at <https://www.msci.com/index-methodology>

⁸ Refer to the MSCI Fixed Income Index Calculation Methodology for detail. Available at <https://www.msci.com/index-methodology>



Appendix I: Methodology Set

The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set –
<https://www.msci.com/index/methodology/latest/FIInfo>
- MSCI Fixed Income Data Methodology –
<https://www.msci.com/index/methodology/latest/FIDATA>
- MSCI Fixed Income Calculation Methodology –
<https://www.msci.com/index/methodology/latest/FIINDEXCALC>
- MSCI Fixed Income Glossary of Terms –
<https://www.msci.com/index/methodology/latest/FIGLOSS>
- MSCI Fixed Income Index Policies –
<https://www.msci.com/index/methodology/latest/FIINDEXPOLICY>

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.



Appendix II: Changes to this Document

The following sections have been modified as of December 2024:

Appendix I: Methodology Set

- Added details on the Methodology Set for the Index



Contact us

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

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ASIA PACIFIC

China + 86 21 61326611

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Taiwan 008 0112 7513 *

Thailand 0018 0015 6207 7181 *

Japan + 81 3 4579 0333

* toll-free

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