

-MSCI Global Country Industry Advantage Dividend Select Index -MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index

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Contents

1	Introduction	3
2	Index Construction.....	4
2.1	Applicable Universe.....	4
2.2	Eligible Universe Screening	4
2.2.1	Country-Industry Selection	4
2.2.2	H-Shares Selection	5
2.3	Investability Screening	5
2.3.1	Applying the Dividend Sustainability Screening.....	5
2.3.2	Applying the Dividend Persistence Screening	5
2.3.3	Quality Screening.....	5
2.3.4	Liquidity Criteria.....	6
2.4	Security Weighting	6
2.5	Applying the Decrement.....	6
3	Maintenance of the Index.....	8
3.1	Annual Index Review	8
3.2	Daily Decrement Calculation	8
3.3	Ongoing Event Related Changes.....	8
	Appendix 1: Methodology Set	10

1 Introduction

The MSCI Global Country Industry Advantage Dividend Select Index (the 'Index') aims to represent the performance of the securities from a set of countries which have the highest active weight in each of the GICS®¹ Industry Groups as measured against the MSCI ACWI Index (the 'Parent Index')² after country selection. The Index also applies Dividend Sustainability, Dividend Persistence and Quality Screens to the securities selected from the set of countries which have the highest active weight in each of the GICS® Industry Groups as measured against the Parent Index after country selection.

The MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index aims to represent the performance of the Excess Return Variant³ of the Index while applying a constant markdown ('synthetic dividend') of 2.5% on an annual basis, expressed as a percentage of performance.

¹ GICS, the Global Industry Classification Standard jointly developed by MSCI and S&P Global.

² The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix 1 for more details.

³ For details on the calculation of Excess Return Variant of the Index please refer to section 2.5

2 Index Construction

The Index is constructed from the Parent Index. The following steps are applied at initial construction and at each Index Review of the Index:

- Applicable Universe
- Eligible Universe Screening
- Investability Screening
- Security Weighting

In addition to the above steps, the following step is applied to the Index to construct the MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index:

- Step 1: Applying the MSCI Excess Return Indexes methodology⁴ to construct the Excess Return Variant⁵ of the Index.
- Step 2: Applying the MSCI Decrement Indexes methodology⁶ on the Excess Return Variant of the Index

2.1 Applicable Universe

The Applicable Universe for the Index includes the constituents of the Parent Index which are also part of the following country indexes:

- MSCI China Index
- MSCI France Index
- MSCI Germany Index
- MSCI Japan Index
- MSCI Korea Index
- MSCI United Kingdom Index
- MSCI USA Index

2.2 Eligible Universe Screening

2.2.1 Country-Industry Selection

At each Index Review, securities of the country with the highest active country weight in each GICS® Industry Group of the Applicable Universe are selected.

⁴ Please refer to the MSCI Excess Return Indexes methodology at www.msci.com/index-methodology

⁵ For details on the calculation of Excess Return Variant of the Index please refer to section 2.5

⁶ Please refer to the MSCI Decrement Indexes Methodology at <https://www.msci.com/index-methodology> for details as well as intended use of such indexes

The Active Country Weight for a given GICS® Industry Group (j) for a given country (i) in the Applicable Universe is calculated as:

$$\text{Active Country Weight}(i, j) = \text{Country Weight Industry Group}(i, j) - \text{Country Weight Universe}(i),$$

where

- *Country Weight Industry Group*(i, j) is the weight of country (i) in a subset of the GICS® Industry Group (j) taken from the Applicable Universe, where the weights in the subset GICS® Industry Group (j) are normalized to 100%.
- *Country Weight Universe*(i) is the weight of country (i) in the Applicable Universe.

2.2.2 H-Shares Selection

The securities selected in 2.2.1 from MSCI China Index which are not included in MSCI China H Index are excluded to arrive at the Eligible Universe.

2.3 Investability Screening

The following Investability Screens are applied on the Eligible Universe:

2.3.1 Applying the Dividend Sustainability Screening

Securities with zero or negative payout ratios are not considered for inclusion in the Index as they either do not pay dividends or have negative earnings which may put their future dividend payments at risk.

Additionally, securities with an extremely high payout ratio, which occurs when earnings are low relative to dividends and may also indicate that the dividend payment might not be sustainable in the future, are also not considered for inclusion in the Index. Under this screen, securities with extremely high payout ratios, defined to be the top 5% of securities by number within the Eligible Universe with positive payout, are not considered eligible for inclusion in the Index. The use of a relative payout ratio screen aims to ensure that the companies at most relative risk of dividend cuts are excluded irrespective of the absolute level of the payout.

2.3.2 Applying the Dividend Persistence Screening

Securities with a negative 5Y DPS growth are excluded from the Index 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 Index.

2.3.3 Quality Screening

Securities with Quality Z-Score greater than zero are eligible for inclusion in the Index.

The Quality Z-Scores are calculated using fundamental variables such as Return on Equity, Earnings Variability and Debt to Equity. For the details on computation of the Quality Z-Score, please refer to the section 2.2.3 of MSCI Quality Indexes Methodology⁷.

⁷ Please refer to MSCI Quality Indexes Methodology at <https://www.msci.com/index-methodology>

2.3.4 Liquidity Criteria

Securities with a 3-month ADTV (Average Daily Traded Value) greater than USD 30 Million are eligible for inclusion in the Index.

ADTV is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^8}{252},$$

where ATV_{3M} is annualized 3-month Average Traded Value of the security.

To avoid multiple securities of the same company in the final Index, only the most liquid security for each issuer per its 3-month ADTV, is eligible for inclusion in the Index.

2.4 Security Weighting

At each Index Review and at Initial Construction, the securities remaining after applying the above Investability Screens are weighted in proportion of their free-float adjusted market capitalization. The weights are then normalized to sum to 100%. Additionally, the constituent security weights are then capped to mitigate concentration risk in the Index. The individual security weights in the Index are capped at 5%.

2.5 Applying the Decrement

The following step is applied to the Index to construct the MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index:

- Step 1: MSCI Excess Return Indexes Methodology⁹ is applied on the net total return variant of the Index in CNH currency to construct the Excess Return Variant of the Index¹⁰
- Step 2: The MSCI Decrement Indexes methodology¹¹ is applied on the Excess Return Variant of the Index to construct the MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index using the following parameters:

Sr. No.	Methodology Parameter	Parameter Value
1	Currency of Calculation	CNH
2	Return Variant of the Index	Excess Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	2.5%
6	Day-count Convention	Actual / 365

⁸ Please refer to MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology> for more details on ATV calculation

MSCI Global Investable Market Indexes Methodology at <https://www.msci.com/index-methodology>

⁹ Please refer to the MSCI Excess Return Indexes methodology at www.msci.com/index-methodology

¹⁰ The short-term rate used for the application of the Excess Return Indexes methodology is CNH HIBOR+100 bps

¹¹ Please refer to the MSCI Decrement Indexes Methodology at [http://www.msci.com/index-methodology](https://www.msci.com/index-methodology) for details as well as intended use of such indexes

7	Index Floor	0
8	Decrement Frequency	Daily

3 Maintenance of the Index

3.1 Annual Index Review

The Index is reviewed on an annual basis in May to coincide with the May Index Review of the Parent Index, and the changes are implemented at the end of May. In general, the pro forma Index is typically announced nine business days before the effective date.

3.2 Daily Decrement Calculation

The performance of the MSCI Global Country Industry Advantage Dividend Select 2.5% Decrement Index is computed by reducing the performance of the Excess Return Variant of the Index, by a fixed percentage, on a daily basis using parameters detailed in section 2.5.

3.3 Ongoing Event Related Changes

The following section briefly describes the treatment of common corporate events within the Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

No new securities will be added (except where noted below) to the Index 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

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>.

Appendix 1: Methodology Set

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

- Description of methodology set – www.msci.com/index/methodology/latest/ReadMe
- MSCI Corporate Events Methodology – www.msci.com/index/methodology/latest/CE
- MSCI Fundamental Data Methodology – www.msci.com/index/methodology/latest/FundData
- MSCI Index Calculation Methodology – www.msci.com/index/methodology/latest/IndexCalc
- MSCI Index Glossary of Terms – www.msci.com/index/methodology/latest/IndexGlossary
- MSCI Index Policies – www.msci.com/index/methodology/latest/IndexPolicy
- MSCI Global Industry Classification Standard (GICS) Methodology – www.msci.com/index/methodology/latest/GICS
- MSCI Global Investable Market Indexes Methodology – www.msci.com/index/methodology/latest/GIMI
- MSCI Decrement Indexes Methodology – www.msci.com/index-methodology
- MSCI Excess Return Indexes Methodology – www.msci.com/index-methodology

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’.

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