

CONSULTATION ON POTENTIAL ENHANCEMENTS TO THE MSCI AUSTRALIAN SHARES AND MSCI AUSTRALIA 200 INDEX METHODOLOGY

May 2019

This consultation may or may not lead to the implementation of any or all of the proposed changes in MSCI's indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

CONSULTATION PROPOSAL

- Enhance the MSCI Australian Shares Indexes and the MSCI Australia 200 Index construction methodology to better reflect the opportunity set from the perspective of domestic Australian investors by using:
 - The domestic inclusion factor (DIF) instead of the foreign inclusion factor (FIF) for index construction
 - A withholding tax rate of 0% for dividends in line with the rate applicable to domestic investors instead of the withholding tax rate which is applicable to international investors

MSCI invites feedback from market participants on or before June 10, 2019 and will announce the results of the consultation on or before July 10, 2019.

PROPOSED MSCI AUSTRALIAN SHARES INDEXES METHODOLOGY

- **Methodology:** MSCI Global Investable Market Indexes methodology
 - Balance between size segment integrity and market cap coverage
- **Float:** Reflect the free float relevant for domestic investors
 - Domestic Inclusion Factor (DIF) instead of Foreign Inclusion Factor (FIF)
- **Selection:** DIF adjusted measures such as market cap coverage and liquidity
 - Do not take into account foreign ownership limits
- **Weighting:** DIF weighted

Parameter	MSCI Australia Indexes	Current Australian Shares Indexes	Proposed Australian Shares Indexes
Construction (Liquidity /Market Cap Coverage)	FIF	FIF	DIF
Weighting	FIF	DIF	DIF

PROPOSED MSCI AUSTRALIA 200 INDEXES METHODOLOGY

- **Methodology:** Top 200 stocks by float adjusted market capitalization
- **Parent Index:** Proposed Australian Shares IMI instead of the MSCI Australia IMI
 - Reflect the relevant domestic opportunity set
- **Weighting:** DIF weighted

Parameter	Current Australia 200 Indexes	Proposed Australia 200 Indexes
Reference Index for top 200 constituent selection	MSCI Australia IMI	Proposed Australian Shares IMI
Weighting	DIF	DIF

PROPOSED METHODOLOGY – KEY HIGHLIGHTS

- The proposed methodology does not take into account foreign ownership restrictions that are currently incorporated in the MSCI Australia IMI (constructed from the perspective of international investors)
 - Securities that are currently excluded from the MSCI Australia IMI due to such restrictions are eligible for inclusion in the proposed MSCI Australian Shares Indexes
- Foreign ownership restrictions apply to a very small set of companies in the eligible Australian equity universe
 - The only company that is excluded due to above restrictions in the MSCI Australia IMI is Qantas Airways*
- Based on the proposed transition, Qantas Airways would be added to the MSCI Australian Shares Mid Cap Index as well as the MSCI Australia 200 Index*
 - There would be no other changes to the constituents of the MSCI Australian Shares Indexes

HISTORICAL COMPARISON - LARGE CAP INDEXES

Key Metrics

	MSCI Australia Large CAP Index	Current MSCI Australian Shares Large CAP Index	Proposed MSCI Australian Shares Large CAP Index
Total Return* (%)	4.8	4.7	4.7
Total Risk (%)	13.7	13.4	13.4
Return/Risk	0.35	0.35	0.35
Sharpe Ratio	0.20	0.20	0.20
Active Return (%)	0.0	-0.1	-0.1
Tracking Error (%)	0.0	0.6	0.8
Information Ratio	NaN	-0.10	-0.10
Historical Beta	1.00	0.98	0.98
No of Stocks***	30	30	30
Turnover** (%)	1.8	1.9	1.8
Price To Book***	2.0	2.0	2.1
Price to Earnings***	15.1	15.0	15.0
Dividend Yield*** (%)	4.7	4.8	4.8

Period: 30-May-2008 to 31-Dec-2018

* Gross returns annualized in AUD

** Annualized one-way index turnover over index reviews

*** Monthly averages

The definitions of all statistical parameters are available in the Appendix

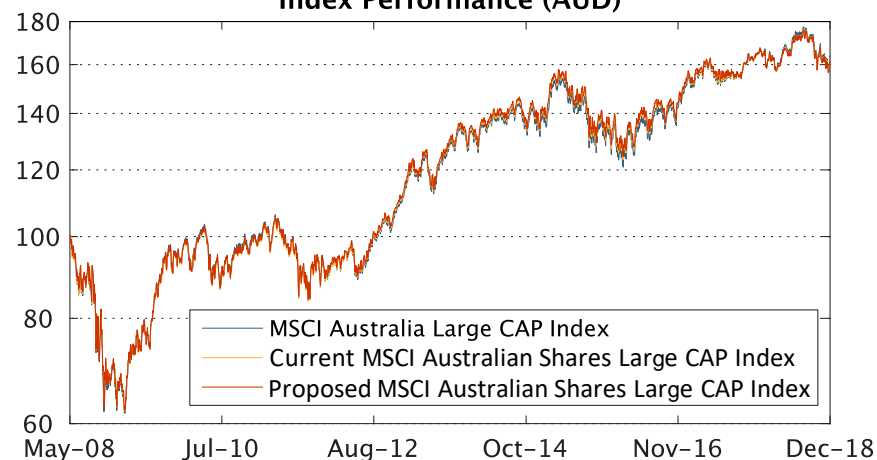
Performance (%)

	MSCI Australia Large CAP Index	Current MSCI Australian Shares Large CAP Index	Proposed MSCI Australian Shares Large CAP Index
YTD	-0.8	-1.2	-1.5
1 Yr	-0.8	-1.2	-1.5
3 Yr	6.4	5.6	5.2
5 Yr	4.2	3.9	3.8
10 Yr	8.9	8.7	8.7

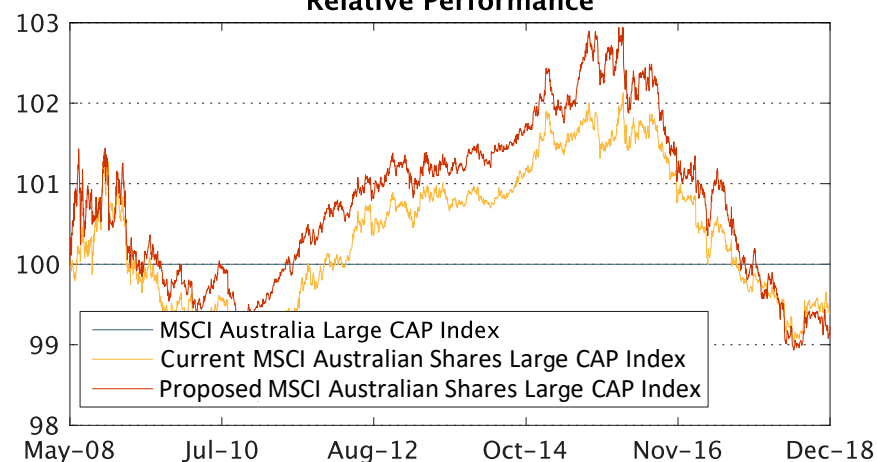
Gross returns in AUD for the period ending 31-Dec-2018

Returns are annualized for periods longer than one year

Index Performance (AUD)



Relative Performance



HISTORICAL COMPARISON - SMALL CAP INDEXES

Key Metrics

	MSCI Australia Small CAP Index	Current MSCI Australian Shares Small CAP Index	Proposed MSCI Australian Shares Small CAP Index
Total Return* (%)	1.4	1.4	1.5
Total Risk (%)	18.4	18.4	18.5
Return/Risk	0.08	0.08	0.08
Sharpe Ratio	-0.04	-0.04	-0.03
Active Return (%)	0.0	0.0	0.0
Tracking Error (%)	0.0	0.0	1.4
Information Ratio	NaN	-0.28	0.02
Historical Beta	1.00	1.00	1.00
No of Stocks***	166	166	168
Turnover** (%)	15.0	12.8	14.4
Price To Book***	1.5	1.5	1.5
Price to Earnings***	26.3	26.3	26.7
Dividend Yield*** (%)	3.9	3.9	3.9

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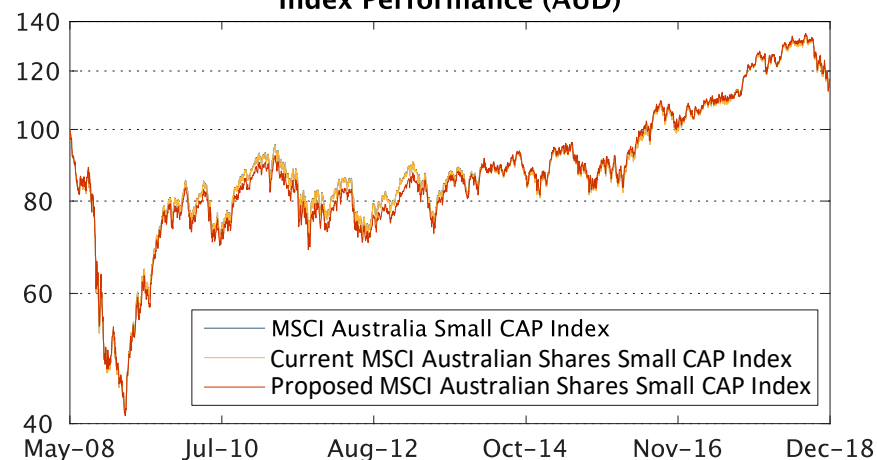
Performance (%)

	MSCI Australia Small CAP Index	Current MSCI Australian Shares Small CAP Index	Proposed MSCI Australian Shares Small CAP Index
YTD	-7.3	-7.3	-7.6
1 Yr	-7.2	-7.2	-7.6
3 Yr	8.5	8.5	8.2
5 Yr	5.9	5.9	6.2
10 Yr	8.5	8.4	8.3

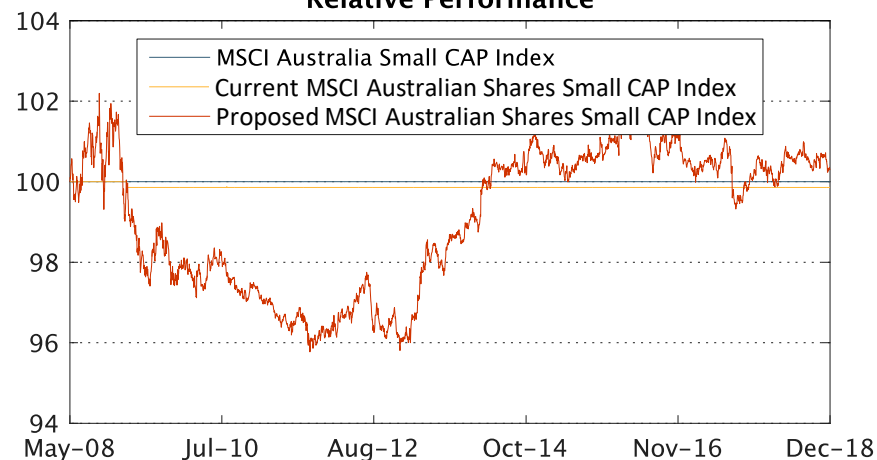
Gross returns in AUD for the period ending 31-Dec-2018

Returns are annualized for periods longer than one year

Index Performance (AUD)



Relative Performance



TRANSITION OF THE INDEXES TO THE PROPOSED METHODOLOGY

- MSCI proposes to transition the MSCI Australian Shares Indexes and the MSCI Australia 200 Index to the new methodology in one step, using buffer rules for existing constituents
- Below figures are as per the simulated analysis as of the November 2018 Index Review

Size Segment	Existing Index: Current methodology		Transition: No buffer rules for existing constituents		Proposed Transition: Using buffer rules for existing constituents	
	Turnover (Actual)*	Mkt Cap Coverage	Transition Turnover*	Mkt Cap Coverage	Transition Turnover*	Mkt Cap Coverage
Large Cap	1.6%	66.3%	8.4%	69.4%	1.6%	66.6%
Small Cap	5.5%	99.7%	16.1%	99.0%	5.5%	99.7%
Standard	0.3%	84.0%	2.2%	85.2%	1.0%	84.4%
IMI	0.7%	99.7%	1.3%	99.0%	1.3%	99.7%
Australia 200	0.5%	-	1.5%	-	1.0%	-

DISCUSSION POINTS

- Do you agree with enhancing the MSCI Australian Shares Indexes and the MSCI Australia 200 Index to the proposed methodology?
- Do you agree with using a 0% withholding tax rate for dividends for the above indexes?
- Unrelated to the proposals presented, MSCI would like to seek additional feedback if you would consider making any adjustments (and at what frequency) to the dividends on account of the tax effect of franking credits for the Australian domestic investors.

APPENDIX

COMPARISON - STANDARD INDEX

Key Metrics

	MSCI Australia Index	Current MSCI Australian Shares Index	Proposed MSCI Australian Shares Index
Total Return* (%)	4.8	4.8	4.9
Total Risk (%)	13.5	13.3	13.3
Return/Risk	0.35	0.36	0.37
Sharpe Ratio	0.20	0.21	0.21
Active Return (%)	0.0	0.0	0.1
Tracking Error (%)	0.0	0.5	0.6
Information Ratio	NaN	0.08	0.17
Historical Beta	1.00	0.98	0.98
No of Stocks***	71	71	65
Turnover** (%)	1.7	1.6	2.1
Price To Book***	1.9	1.9	1.9
Price to Earnings***	15.8	15.7	15.6
Dividend Yield*** (%)	4.6	4.7	4.7

Period: 30-May-2008 to 31-Dec-2018

* Gross returns annualized in AUD

** Annualized one-way index turnover over index reviews

*** Monthly averages

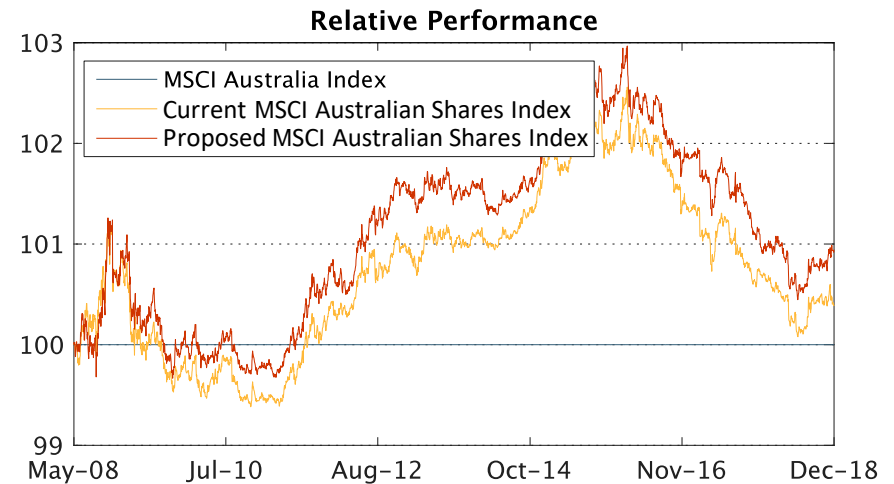
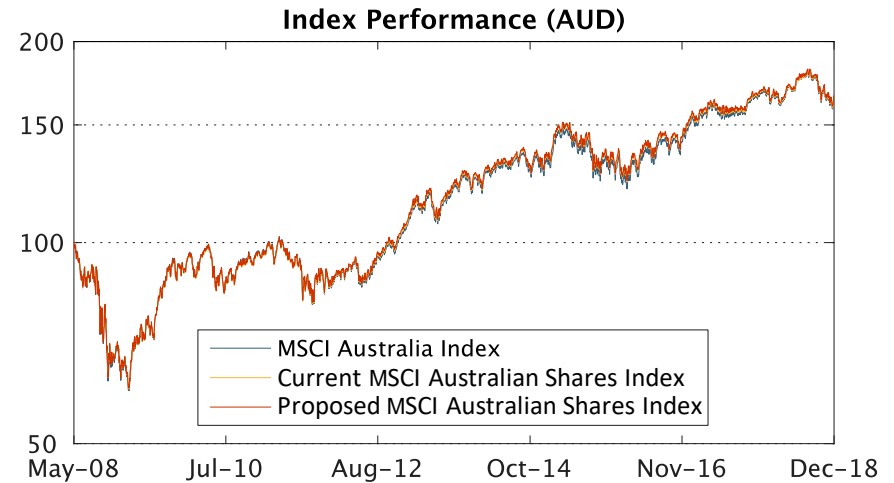
The definitions of all statistical parameters are available in the Appendix

Performance (%)

	MSCI Australia Index	Current MSCI Australian Shares Index	Proposed MSCI Australian Shares Index
YTD	-2.0	-2.3	-2.0
1 Yr	-2.0	-2.3	-2.0
3 Yr	6.9	6.3	6.4
5 Yr	5.6	5.4	5.5
10 Yr	9.0	8.9	9.0

Gross returns in AUD for the period ending 31-Dec-2018

Returns are annualized for periods longer than one year



COMPARISON – INVESTABLE MARKETS INDEX

Key Metrics

	MSCI Australia IMI Index	Current MSCI Australian Shares IMI Index	Proposed MSCI Australian Shares IMI Index
Total Return* (%)	4.4	4.4	4.4
Total Risk (%)	13.8	13.6	13.6
Return/Risk	0.32	0.33	0.33
Sharpe Ratio	0.17	0.17	0.17
Active Return (%)	0.0	0.0	0.1
Tracking Error (%)	0.0	0.5	0.5
Information Ratio	NaN	0.10	0.12
Historical Beta	1.00	0.98	0.98
No of Stocks***	236	236	233
Turnover** (%)	2.2	2.2	2.4
Price To Book***	1.9	1.9	1.9
Price to Earnings***	16.6	16.5	16.5
Dividend Yield*** (%)	4.5	4.6	4.6

Period: 30-May-2008 to 31-Dec-2018

* Gross returns annualized in AUD

** Annualized one-way index turnover over index reviews

*** Monthly averages

The definitions of all statistical parameters are available in the Appendix

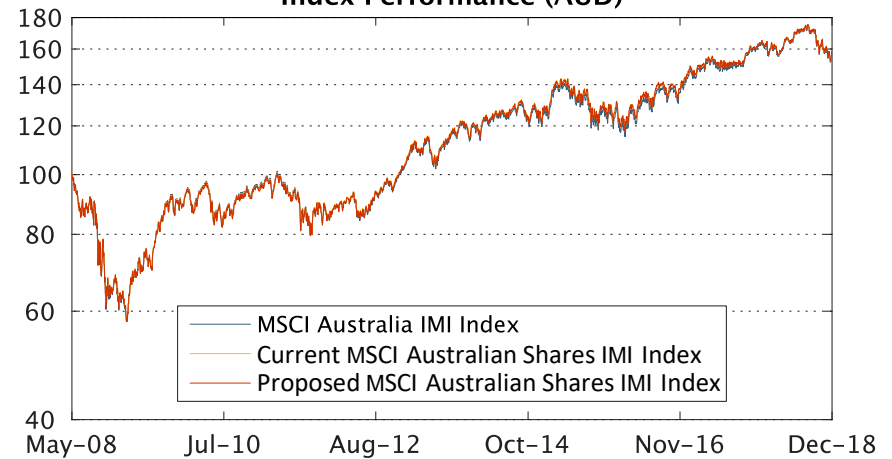
Performance (%)

	MSCI Australia IMI Index	Current MSCI Australian Shares IMI Index	Proposed MSCI Australian Shares IMI Index
YTD	-2.9	-3.1	-2.9
1 Yr	-2.8	-3.0	-2.9
3 Yr	7.1	6.5	6.6
5 Yr	5.6	5.5	5.5
10 Yr	8.9	8.9	8.9

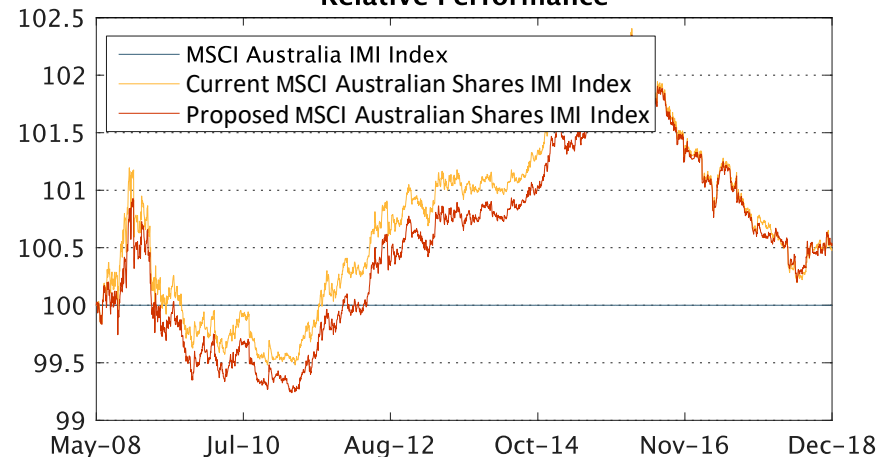
Gross returns in AUD for the period ending 31-Dec-2018

Returns are annualized for periods longer than one year

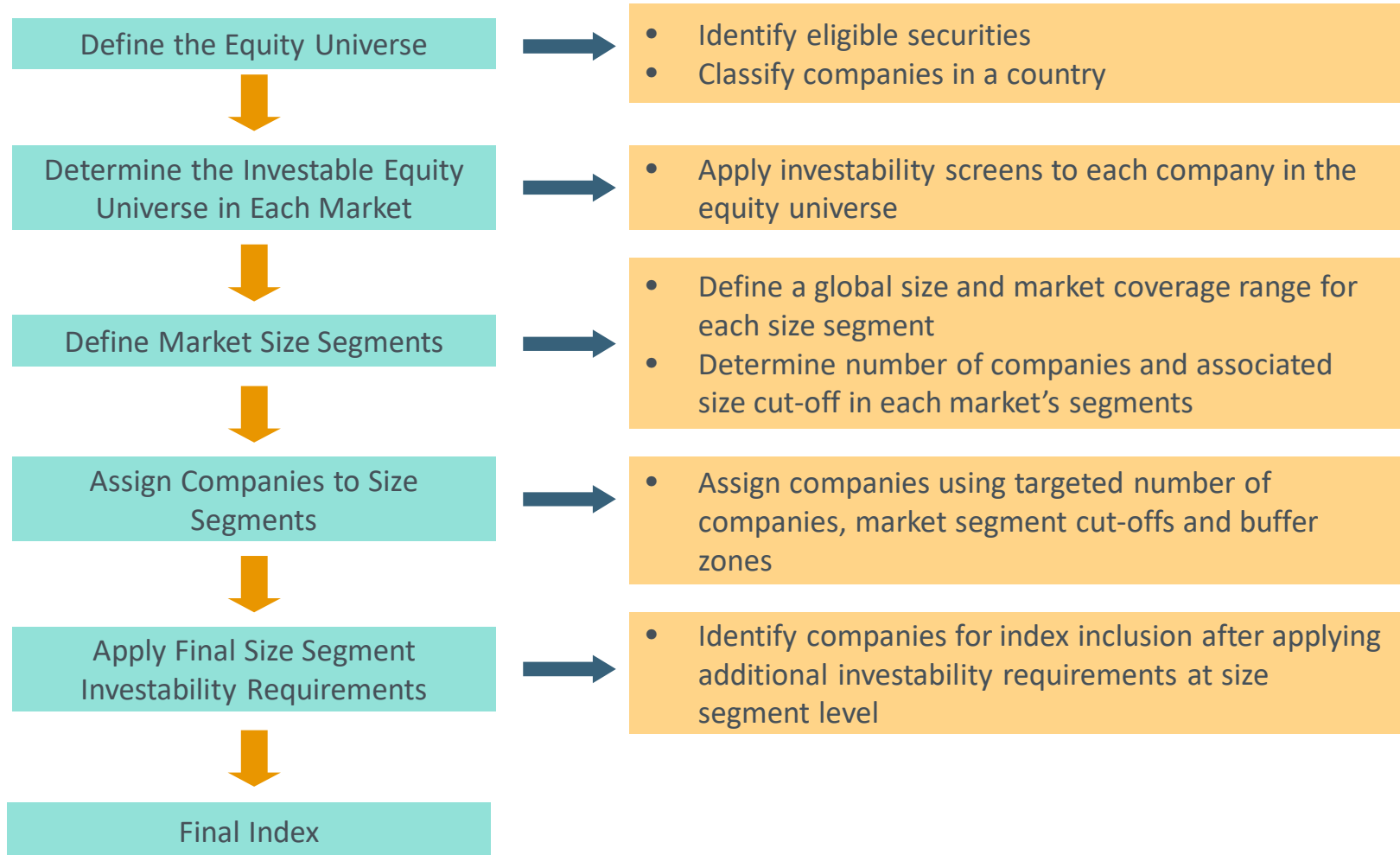
Index Performance (AUD)



Relative Performance



INDEX CONSTRUCTION PROCESS AS PER THE MSCI GLOBAL INVESTABLE MARKET INDEXES METHODOLOGY



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