CHINA A SHARES INCLUSION

Implementation Q&A

July 2018
Contents

China A Shares Partial Inclusion Implementation Q&A .......................... 6

1 General Questions on the Inclusion of China A Shares .................. 6

   What type of securities was added to the MSCI China Index? ............... 6
   What is the Partial Inclusion Factor? ....................................... 6
   Will the partial inclusion of China A shares be implemented in multiple phases?..... 6
   When will the partial inclusion of China A shares in the MSCI Indexes take place? ...... 6
   Has MSCI provided an indicative list of constituents of the MSCI China Index post inclusion of China A shares? .......................................................... 7
   When will MSCI make available the final post-inclusion list of index constituents of the MSCI China Index as part of the second phase of inclusion in August 2018 QIR? ............. 7
   How did MSCI derive the pro forma list of constituents for the MSCI China Index at the time of the May 2018 SAIR? ........................................................................................................ 7
   How will MSCI rebalance the MSCI China Index at the time of the August 2018 QIR? ....... 7
   What is the integrated MSCI China equity universe? ............................. 8

2 MSCI China Index Offering .......................................................... 8

   What Provisional Indexes are provided? ........................................ 8
   What is the MSCI China All Shares Index? ..................................... 9
   Does the MSCI China All Shares Index reflect Foreign Ownership Limits? .............. 9
   Is Foreign Ownership Limit and Foreign Room calculation applicable to China A shares? ...................................................................................................................... 10
   How does the MSCI China Index differ from the MSCI China All Shares Index? ........ 10
   What is the MSCI China A International Index? ................................ 10
   What is the MSCI China A Onshore Index? ..................................... 10
   What indexes cover only the China A shares that are included in the MSCI China Index? ............................................................................................................. 10
   What indexes reflect the China A shares portion of the MSCI China A International Indexes that are investable through the Stock Connect program? ........................................ 11
   Why do the MSCI China A and the MSCI China A Inclusion have an RMB variant? ...... 11

© 2018 MSCI Inc. All rights reserved. Please refer to the disclaimer at the end of this document.
Index Maintainence Of MSCI China Indexes following the Partial inclusion of china a shares

What methodology is applicable to the MSCI China Indexes following the partial inclusion of China A shares?

Which other MSCI Indexes are reviewed based on the integrated MSCI China equity universe?

What prices and exchange rate is used for China A shares at the time of the Index Review?

What prices and exchange rate are used for China A shares for calculating indexes based on Stock Connect listings?

What prices and exchange rate are used for China A shares for calculating indexes based on onshore listings of A shares?

Did the calculation of the Market Size-Segment Cutoffs as well as assigning companies to the Size-Segments for the MSCI China Indexes change following the partial inclusion of China A shares?

How is the final index constituents determined for the MSCI China Indexes?

Which securities does MSCI consider to be Stock Connect eligible?

What is the data cutoff date for Stock Connect Eligibility Screen?

Is the Partial Inclusion Factor taken into consideration during the Index Review for constituent selection?

Does the Partial Inclusion Factor impact the Annualized Traded Values Ratios (ATVRs)?

Does the Partial Inclusion Factor impact free float-adjusted market capitalization used in the additional size-segment investability requirements?

What is the treatment of China A Shares that are constituents of the MSCI China All Shares Indexes but are not constituents of the MSCI China Indexes during Index Reviews?

Were there any enhancements to the policy regarding trading suspensions during Index Reviews in the context of the inclusion of China A shares?

In case of suspensions, would the increase in weight for China A shares at the time of the August 2018 QIR (i.e., Phase II of the implementation) be postponed?

In case of breach of the Stock Connect daily limit, will MSCI postpone the implementation of Index Review changes?
4 Ongoing Event maintenance Methodology Impact on the MSCI China Indexes

What is the treatment for IPOs of China A shares? .............................................................. 15
What is the treatment for other early inclusions of China A shares? ................................. 15
What Partial Inclusion Factor is applicable for early inclusions of China A shares? .......... 15
What treatment is applicable to the MSCI China Indexes when there is a corporate event that triggers a migration of a China A share in the MSCI China All Shares Indexes? ............................................................................................................................ 15
What is the treatment for existing constituents of the MSCI China Indexes that become Stock Connect ineligible? ................................................................................................................................. 15
What is the treatment for new additions to the MSCI China Indexes that become ineligible for Stock Connect? ............................................................................................................................... 15
Will MSCI apply special treatment for the implementation of corporate events for Stock Connect securities? ......................................................................................................................... 16
In which cases will MSCI apply special treatment for the implementation of corporate events for Stock Connect securities? .................................................................................................................. 16
When will MSCI reinvest normal cash dividends, which has an ex-date coinciding with stock connect holiday? ........................................................................................................................ 16
As there are some Corporate Event treatments that may result in differences between the China A share component in the MSCI China Indexes and MSCI China All Shares Indexes, how will these indexes be assessed in the following index review? .................................................. 16
How does MSCI determine the Interim Market Size-Segment Cutoffs for daily maintenance for the pro forma MSCI China Index and other “China Indexes”? ................... 17
In case of breach of the Stock Connect daily limit, will MSCI postpone the implementation of corporate events? ......................................................................................................................... 17

5 Impact of the Partial Inclusion of China A shares on other MSCI Indexes

What prices and exchange rate is used for the construction and maintenance of derived Indexes where China A shares will be included? ......................................................... 17
What prices and exchange rate is used for the Index Calculation of derived Indexes where China A shares are included? .......................................................................................... 17
Is there any impact on the MSCI China Free Index? ................................................................ 18
CHINA A SHARES INCLUSION Q&A | JULY 2018

Is the Partial Inclusion Factors applicable to the MSCI China Free Index? .................. 18

Is there be any impact on the MSCI China 50 Index? .................................................. 18

Is there any impact on the MSCI EM 50 Index? .......................................................... 18

Is there any impact on the MSCI All China Index? ...................................................... 18

Will there be any impact on the MSCI Islamic indexes? ............................................. 18

Is there any impact to the methodology and maintenance of the MSCI Factor, Capped, Thematic and ESG Indexes (Derived Indexes)? .......................................................... 18

How would the MSCI Derived Indexes be impacted by the increase in Partial Inclusion Factor at the time of the August 2018 QIR? .......................................................... 19

Does MSCI provide MSCI Global Value Growth (GVG) factors for China A Stock Connect securities? ........................................................................................................ 19

Does MSCI provide Value and Growth Inclusion Factors for the provisional indexes? 19

Was there any impact on the MSCI Hedged Indexes (MSCI Hedged, Daily Hedged and Adaptive Hedge Indexes, as well as the MSCI FX Hedge and MSCI Global Currency Indexes) for the May 2018 SAIR? .................................................. 19

Will there be any impact on the MSCI Hedged Indexes (MSCI Hedged, Daily Hedged and Adaptive Hedge Indexes, as well as the MSCI FX Hedge and MSCI Global Currency Indexes) as part of the August 2018 QIR? .......................................................... 20

Does MSCI provide provisional indexes for the MSCI Factor, Capped, Thematic and ESG Indexes? ........................................................................................................ 20

What is the impact on the MSCI Custom Indexes? ......................................................... 20

What should a client do with regard to custom indexes that may be impacted by the inclusion of China A shares? .......................................................... 20

What new custom indexes may be potentially created? ............................................. 20

6 Impact on MSCI Product Files ................................................................................. 20

Will there be any impact on product files? ................................................................. 20

Given that the MSCI China Provisional Indexes are derived from the MSCI China All Shares Indexes, will MSCI provide more details on the size-segment cutoffs of the MSCI China All Shares Indexes? .......................................................... 20

When will the partial inclusion of China A shares be reflected in the real time index calculations? ........................................................................................................ 21
CHINA A SHARES PARTIAL INCLUSION IMPLEMENTATION Q&A

On June 20, 2017 MSCI announced the partial inclusion of China A shares in the MSCI China Index, the MSCI Emerging Markets Index and the MSCI ACWI Index.

The first phase of the implementation was completed as part of the May 2018 Semi-Annual Index Review (SAIR) as of the close of May 31, 2018. MSCI will implement the second phase of the inclusion of China A shares to the MSCI China Index as part of the August 2018 Quarterly Index Review (QIR) as of the close of August 31, 2018.

The purpose of this document is to address commonly asked questions regarding the implementation of the partial inclusion of China A Shares in various MSCI Indexes. The document also explains in some detail the MSCI China Index offering.

For further details please refer to Appendixes XIV, XV, XVI and XVII of the MSCI Global Investable Market Indexes methodology book available at: https://www.msci.com/index-methodology.

1 GENERAL QUESTIONS ON THE INCLUSION OF CHINA A SHARES

What type of securities was added to the MSCI China Index?
Large Cap China A shares were added to the MSCI China Index, the MSCI Emerging Markets (EM) Index and the MSCI ACWI Index at 5% of their FIF\(^1\)-adjusted market capitalization through the application of a Partial Inclusion Factor.

What is the Partial Inclusion Factor?
The Partial Inclusion Factor is used to represent the proportion of the FIF-adjusted market capitalization of China A shares included in the pro forma MSCI China Index.

Will the partial inclusion of China A shares be implemented in multiple phases?
Yes. A two-step inclusion process of 2.5% each will be implemented to account for the existing daily trading limits on Stock Connect.

When will the partial inclusion of China A shares in the MSCI Indexes take place?
The first inclusion step coincided with the May 2018 SAIR, effective on June 1, 2018 through the application of a Partial Inclusion Factor of 0.025. The second step, which increases the

\(^1\) FIF stands for Foreign Inclusion Factor
Partial Inclusion Factor to 0.050, will take place as part of the August 2018 QIR, effective on September 3, 2018.

Has MSCI provided an indicative list of constituents of the MSCI China Index post inclusion of China A shares?

Yes. Clients may refer to the MSCI China Provisional Index. Index constituent data is delivered through the Integrated Client Files (ICF) upon request.

When will MSCI make available the final post-inclusion list of index constituents of the MSCI China Index as part of the second phase of inclusion in August 2018 QIR?

The final list of constituents for the MSCI China Index as part of the second phase of China A Shares inclusion will be announced on August 13, 2018, together with the announcement of the results of the Aug 2018 QIR.

How did MSCI derive the pro forma list of constituents for the MSCI China Index at the time of the May 2018 SAIR?

The MSCI China Index was made to converge with the pro forma MSCI China Provisional Index at the time of the May 2018 SAIR. A Partial Inclusion Factor of 0.025 was then applied on the China A shares included in the Index.

How did MSCI rebalance the MSCI China Provisional Index at the time of the May 2018 SAIR?

At the time of the May 2018 SAIR, the constituents of the MSCI China Provisional Indexes were derived from the pro-forma MSCI China All Shares Indexes by excluding:

- Mid Cap A shares
- China A shares that are not accessible through the Shanghai and Shenzhen Stock Connect programs

How will MSCI rebalance the MSCI China Index at the time of the August 2018 QIR?

MSCI will apply the rules of the MSCI GIMI methodology on the integrated China Equity Universe and the Partial Inclusion Factor applied on the China A shares will then be increased to 0.050.

---

2 Excludes also the Small Cap A shares for the IMI
What is the integrated MSCI China equity universe?
The integrated MSCI China equity universe comprises of A shares and B shares listed in China; H shares, Red chips and P chips listed in Hong Kong; as well as foreign listed Chinese companies.

How many China A shares were added to the MSCI China Index as part of the May 2018 SAIR?
226 China A shares were added to the MSCI China Index effective June 1, 2018 as part of the first phase of inclusion in the May 2018 SAIR.

2 MSCI CHINA INDEX OFFERING
MSCI offers a range of equity indexes providing China exposure which cater for different investment use cases. The table below outlines the full set of the MSCI China Index offering.

<table>
<thead>
<tr>
<th>Share Class</th>
<th>A Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>L/M/S</td>
</tr>
<tr>
<td>Foreign Listings</td>
<td>Onshore</td>
</tr>
<tr>
<td>Partial Inclusion Factor</td>
<td>FIF</td>
</tr>
<tr>
<td>Free Float Inclusion Factor</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MSCI China Indexes</th>
<th>B Shares</th>
<th>H Shares</th>
<th>Red Chips</th>
<th>P Chips</th>
<th>Foreign Listings</th>
<th>Integrated China Equity Universe</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI China All Shares Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>L/M/S Onshore FIF</td>
</tr>
<tr>
<td>MSCI China A International Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>L/M/S Onshore FIF</td>
</tr>
<tr>
<td>MSCI China A Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>L/M Connect FIF</td>
</tr>
<tr>
<td>MSCI China A RMB Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>L/M Onshore FIF</td>
</tr>
<tr>
<td>MSCI China Indexes</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>L Connect 5% FIF</td>
</tr>
<tr>
<td>MSCI China A Inclusion Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>L Connect 5% FIF</td>
</tr>
<tr>
<td>MSCI China A Inclusion RMB Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>L Onshore FIF</td>
</tr>
<tr>
<td>MSCI China Provisional Index</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>L Connect 5% FIF</td>
</tr>
</tbody>
</table>

| MSCI China A Onshore Index   | ✓        | ✓        | ✓         | ✓       | ✓               | L/M/S Onshore DIF                |

What Provisional Indexes are provided?
MSCI calculates the MSCI China A Large Cap Provisional Index, which represents China A shares to be included in the MSCI China Index, the MSCI China Provisional Indexes, as well as a series of Provisional Indexes as part of the MSCI ACWI Index series that include China A shares using the 5% Partial Inclusion Factor:
- MSCI ACWI Provisional Index
- MSCI ACWI IMI Provisional Index
What is the MSCI China All Shares Index?

The MSCI China All Shares Index is constructed by applying the MSCI GIMI methodology on the integrated MSCI China equity universe which comprises of A shares, B shares, H shares, Red-chips, P-chips and foreign listed Chinese companies and aims to reflect the complete investable opportunity set of mainland China A shares securities from an international investor’s perspective.

Does the MSCI China All Shares Index reflect Foreign Ownership Limits?

Yes. The security weight of the MSCI China All Shares Index is determined based on the security free float-adjusted market capitalization, adjusted using the Foreign Inclusion Factor (FIF) which is subject to a Foreign Ownership Limit (FOL).
Is Foreign Ownership Limit and Foreign Room calculation applicable to China A shares?
Yes. Currently, MSCI applies FOL of 30% to China A shares and monitors the foreign room following the MSCI GIMI Methodology.

How does the MSCI China Index differ from the MSCI China All Shares Index?
The MSCI China Index represents the Chinese securities that are part of the MSCI Emerging Markets and the MSCI ACWI Indexes while the MSCI China All Shares Index aims to represent a potential scenario where China A shares are fully included in the MSCI China Index. Currently, only Large Cap China A shares that are Stock Connect eligible are included at 5% of their free float-adjusted market capitalization in the MSCI China Index. This index is not indicative in any way of future action by MSCI with respect to the future inclusion of any stock into a particular index.

What is the MSCI China A International Index?
The constituents of the MSCI China A International Index are the China A share constituents of the MSCI China All Shares Index. The MSCI China A International Index represents the China A share component of the MSCI Emerging Markets Index in the theoretical event of full inclusion of China A shares in the MSCI China Index. This index is not indicative in any way of future action by MSCI with respect to the future inclusion of any stocks into a particular index.

What is the MSCI China A Onshore Index?
Unlike the MSCI China A International Index, the MSCI China A Onshore Index is a standalone index constructed based on an equity universe comprised only of China A shares and the weight is determined by the security free float-adjusted market capitalization, adjusted using the Domestic Inclusion Factor (DIF) which is not subject to the 30% FOL.

What indexes cover only the China A shares that are included in the MSCI China Index?
The MSCI China A Inclusion Indexes represent the China A share component of the MSCI China, MSCI Emerging Markets and the MSCI ACWI Indexes. The MSCI China A Large Cap Provisional Index also represents this portion of China A shares, however it will be discontinued. The MSCI China A Inclusion Index will continue to be calculated and reflect the evolution of potential future inclusion steps of China A shares.

---

3 The MSCI China A Onshore Index is known as the MSCI China A Index prior to March 1, 2018.
What indexes reflect the China A shares portion of the MSCI China A International Indexes that are investable through the Stock Connect program?

The MSCI China A Indexes represent the component of the MSCI China A International Indexes that is accessible through the Stock Connect program.

Why do the MSCI China A and the MSCI China A Inclusion have an RMB variant?

The MSCI China A and the MSCI China A Inclusion Indexes are calculated using the Stock Connect listing based on the offshore RMB exchange rate (CNH).

The MSCI China A RMB and the MSCI China A Inclusion RMB Indexes are calculated using China A local listings based on the onshore RMB exchange rate (CNY). These indexes are designed for domestic investors and represent the same opportunity set as the MSCI China A and the MSCI China A Inclusion Indexes respectively.

3 INDEX MAINTENANCE OF MSCI CHINA INDEXES FOLLOWING THE PARTIAL INCLUSION OF CHINA A SHARES

What methodology is applicable to the MSCI China Indexes following the partial inclusion of China A shares?

Starting from the May 2018 Semi-Annual Index Review, the MSCI China Index were reviewed based on the integrated MSCI China equity universe, comprised of A shares and B shares listed in China; H shares, Red chips and P chips listed in Hong Kong; as well as foreign listed Chinese companies, under the Emerging Markets thresholds described in the MSCI Global Investable Market Indexes (GIMI) methodology book.

Which other MSCI Indexes are reviewed based on the integrated MSCI China equity universe?

The following Indexes are reviewed based on the integrated MSCI China equity universe:

- MSCI China All Shares Indexes
- MSCI China A International Indexes
- MSCI China A Indexes
- MSCI China A RMB Indexes
- MSCI China A Inclusion Index
- MSCI China A Inclusion RMB Index
What prices and exchange rate are used for China A shares at the time of the Index Review?

For the purpose of index rebalancing of the MSCI Global Investable Market Indexes, the security market capitalization of all the China A shares in the integrated China equity universe is converted to US Dollars (USD) using onshore RMB exchange rate (CNY) for all China Indexes.

What prices and exchange rate are used for China A shares for calculating indexes based on Stock Connect listings?

An MSCI Index is calculated based on the offshore RMB exchange rate (CNH) rate if the China A share component is included using “Stock Connect” listings. Examples: MSCI China Index and MSCI China A Inclusion Index.

What prices and exchange rate are used for China A shares for calculating indexes based on onshore listings of A shares?

An MSCI Index is calculated based on the onshore RMB exchange rate (CNY) rate if the China A share component is included using onshore listings. Examples: MSCI China All Shares Index and MSCI China A International Index.

Did the calculation of the Market Size-Segment Cutoffs as well as assigning companies to the Size-Segments for the MSCI China Indexes change following the partial inclusion of China A shares?

Yes. After the partial inclusion of China A shares, the Market Size-Segment Cutoffs of the MSCI China Indexes are derived on the basis of the integrated MSCI China equity universe. Company level allocation to Size-Segments within the MSCI China Indexes is now identical to the MSCI China All Shares Indexes.

How is the final index constituents determined for the MSCI China Indexes?

Like for any other market, once companies are assigned to each size-segment, the securities of companies in each segment are evaluated for conformity with the additional size-segment investability requirements for each size-segment. However, in addition to this, China A shares are further screened on the basis of their Stock Connect eligibility and Size-Segment allocation status. More specifically, China A shares not available through the Stock Connect as well as China A shares of companies allocated to the Mid and Small Cap Size-Segments will not be added to the MSCI China Indexes or the MSCI Emerging Markets Index.
Which securities does MSCI consider to be Stock Connect eligible?

China A Shares that are eligible for both buy and sell under either the Shanghai Connect or the Shenzhen Connect program are eligible for inclusion to the MSCI China Indexes.

What is the data cutoff date for Stock Connect Eligibility Screen?

Stock Connect eligibility is reviewed on a quarterly basis coinciding with the regular MSCI Index Reviews. A China A share will only be considered for inclusion to the MSCI China Indexes if it becomes accessible through the Stock Connect program on or prior to the Index Review Price Cutoff Date.

For example, a China A share becoming accessible through the Stock Connect programs after the Price Cutoff Date of the May SAIR will not be considered for the May SAIR.

Is the Partial Inclusion Factor taken into consideration during the Index Review for constituent selection?

No. The Partial Inclusion Factor is not taken into consideration in the Index Maintenance process at the time of the Index Review for determining pro-forma list of constituents of the MSCI China Indexes. However, it is applied in addition to the FIF in the calculation of the security index weights.

Does the Partial Inclusion Factor impact the Annualized Traded Values Ratios (ATVRs)?

No. ATVRs are not impacted by the Partial Inclusion Factor.

Does the Partial Inclusion Factor impact free float-adjusted market capitalization used in the additional size-segment investability requirements?

No. The free float-adjusted market capitalization used in the additional size-segment investability requirements is not impacted by the Partial Inclusion Factor.

What is the treatment of China A Shares that are constituents of the MSCI China All Shares Indexes but are not constituents of the MSCI China Indexes during Index Reviews?

China A shares that are not constituents of the MSCI China Indexes are assessed as part of the index review based on their status in the MSCI China All Shares Indexes. More specifically, as long as the China A share is a constituent of the MSCI China All Shares Indexes, it will be subject to all the buffer rules (including buffers for investability requirements, size-segment allocation and final size-segment investability requirements).
Were there any enhancements to the policy regarding trading suspensions during Index Reviews in the context of the inclusion of China A shares?

Yes. Additions of Chinese securities to all MSCI Indexes (including pro forma MSCI China Indexes, MSCI China A Inclusion Indexes, MSCI China All Shares Indexes and MSCI China A Onshore Indexes) will be cancelled instead of postponed if the securities are suspended on the day prior to the effective implementation of the Index Review. The inclusion of the security will be re-evaluated at the next Index Review.

In case of suspensions, would the increase in weight for China A shares at the time of the August 2018 QIR (i.e., Phase II of the implementation) be postponed?

In the context of the inclusion of China A shares, changes in the Partial Inclusion Factor, if any (e.g. increase in weight due to the two-step inclusion process as part of the August 2018 QIR), will be postponed when the affected securities are suspended. The postponed changes will be implemented 2 days after the security resumes trading.

In case of breach of the Stock Connect daily limit, will MSCI postpone the implementation of Index Review changes?

No. MSCI will not postpone the implementation of Index Review changes for Stock Connect listings of China A shares when the Stock Connect daily limit is breached on the effective implementation date.

4 ONGOING EVENT MAINTENANCE METHODOLOGY IMPACT ON THE MSCI CHINA INDEXES

The ongoing event-related changes to the MSCI China Indexes primarily follow the MSCI GIMI Methodology and the MSCI Corporate Events Methodology. However, in order to reflect accessibility of securities trading on Stock Connect and to keep the MSCI Indexes that contains Stock Connect listings replicable, methodologies were enhanced in order to more precisely reflect the investment process of Stock Connect investors.

---

4 Non-current IMI constituent

5 The MSCI China A Onshore Indexes will also continue to follow the MSCI GIMI Methodology and MSCI Corporate Events Methodology.
What is the treatment for IPOs of China A shares?

IPOs of China A shares will only be reviewed for addition to the MSCI China Index at subsequent Index Reviews in order to assess the Stock Connect eligibility of the security.

What is the treatment for other early inclusions of China A shares?

Other early inclusion of China A shares (for example but not limited to spin off, merger, acquisition) will only be considered for inclusion in the MSCI China Indexes-

- if the event involves an existing constituent of the index,
- if the new security is allocated to an eligible size-segment
- and if the Stock Connect eligibility of the security is announced on or before the day of MSCI sending “Confirmed” corporate event announcement for the relevant event.

What Partial Inclusion Factor is applicable for early inclusions of China A shares?

The applicable Partial Inclusion Factor to a newly added security will be the same as the Partial Inclusion Factor of the Parent security. The treatment for such cases, if any, would be communicated to clients with sufficient advance notice through the regular channels.

What treatment is applicable to the MSCI China Indexes when there is a corporate event that triggers a migration of a China A share in the MSCI China All Shares Indexes?

Migrations of China A shares to the Large Cap Size-Segment from the Mid Cap or Small Cap Size-Segments of the MSCI China All Shares Indexes outside regular Index Reviews will not be added to the MSCI China Index. However, migrations of China A shares from the Large Cap Size-Segment to the Mid Cap or Small Cap Size-Segments of the MSCI China All Shares Indexes will be simultaneously deleted from the MSCI China Index.

What is the treatment for existing constituents of the MSCI China Indexes that become Stock Connect ineligible?

Existing A share constituents of the MSCI China Indexes that are no longer accessible through the Stock Connect programs will be deleted from the indexes with a notice period of at least two full business days.

If the impacted securities are suspended on the day prior to the implementation date, MSCI will postpone the implementation. The postponed deletions will be implemented two days after the securities resume trading.
What is the treatment for new additions to the MSCI China Indexes that become ineligible for Stock Connect?

All pro forma China A share additions to the MSCI China Indexes that subsequently become Stock Connect ineligible will be cancelled.

Will MSCI apply special treatment for the implementation of corporate events for Stock Connect securities?

Yes. MSCI will generally implement corporate events as per the current Corporate Events Methodology for all types of events except for cases when Stock Connect is closed but the onshore Chinese domestic market is trading. In such scenario, MSCI will either postpone or prepone the implementation date based on type of corporate event.

In which cases will MSCI apply special treatment for the implementation of corporate events for Stock Connect securities?

The effective date of the event will be postponed for non-market neutral PAF event (example: Rights Issue, Spin-off, Special Dividend, etc.) and non-market neutral non-PAF event (example: Placement, Acquisition, etc.). However, market-neutral PAF events (example: Stock Dividend, Split, Consolidation, etc.) will continue to be implemented on ex-date irrespective of stock connect holiday. Kindly note, for non-market neutral PAF events previous day's price will be carried forward for the security on the ex-date.

When will MSCI reinvest normal cash dividends, which has an ex-date coinciding with stock connect holiday?

MSCI will postpone the reinvestment of dividend to the next trading day, where Stock Connect has trading holiday on the ex-date of a dividend. This treatment is similar to the implementation that MSCI will follow for special dividends and capital repayment. The only difference in case of normal cash dividends is usage of the ex-date market price for the Stock Connect China A shares from exchange for index calculations.

As there are some Corporate Event treatments that may result in differences between the China A share component in the MSCI China Indexes and MSCI China All Shares Indexes, how will these indexes be assessed in the following index review?

All MSCI China Indexes that are based on the integrated MSCI China equity universe will be assessed in the following Index Review based on the MSCI China All Shares Indexes.
How does MSCI determine the Interim Market Size-Segment Cutoffs for daily maintenance for the pro forma MSCI China Index and other “China Indexes”?

The Interim Market Size-Segment Cutoffs of the MSCI China All Shares Indexes are applicable for the pro forma MSCI China Indexes and other MSCI China Indexes that are based on the integrated MSCI China equity universe.

In case of breach of the Stock Connect daily limit, will MSCI postpone the implementation of corporate events?

No. MSCI will not postpone the implementation of corporate events for Stock Connect listings of China A shares when the Stock Connect daily limit is breached on the effective implementation date.

5 IMPACT OF THE PARTIAL INCLUSION OF CHINA A SHARES ON OTHER MSCI INDEXES

What prices and exchange rate are used for the construction and maintenance of derived Indexes where China A shares will be included?

For derived index construction and rebalancing, the starting weights used for the derived indexes are computed using

- The offshore RMB exchange rate (CNH) if the China A share component is included using “Stock Connect” listings in the parent index

- The onshore RMB exchange rate (CNY) if the China A share component is included using onshore listings in the parent index.

What prices and exchange rate are used for the Index Calculation of derived Indexes where China A shares are included?

For the purpose of daily Index calculation:

- Derived index is calculated based on the offshore RMB exchange rate (CNH) if the China A share component is included using “Stock Connect” listings in the parent index. Examples: Derived indexes using pro forma MSCI China Index or MSCI China A Inclusion Index as parent index.

- Derived index is calculated based on the onshore RMB exchange rate (CNY) if the China A share component is included using onshore listings in the parent index.
Examples: Derived indexes using MSCI China All Shares Index or MSCI China A Inclusion RMB Index as the parent index.

Is there any impact on the MSCI China Free Index?
Yes. Both China A shares and China B shares became eligible for inclusion starting from the May 2018 Semi-Annual Index Review for the MSCI China Free Index.

Is the Partial Inclusion Factors applicable to the MSCI China Free Index?
Yes. China A shares in the MSCI China Free Index are subject to Partial Inclusion Factor of 0.025 from June 1, 2018 onwards and 0.050 from September 3, 2018 onwards similar to the MSCI China Index.

Is there be any impact on the MSCI China 50 Index?
Yes. Both China A shares and China B shares are eligible for inclusion starting from the May 2018 Semi-Annual Index Review for the MSCI China 50 Index.

Is there any impact on the MSCI EM 50 Index?
Yes. Both China A shares and China B shares are eligible for inclusion starting from the May 2018 Semi-Annual Index Review for the MSCI EM 50 Index.

Is there any impact on the MSCI All China Index?
No. MSCI did not include China A "Stock Connect" listings but retained the onshore China A Shares in the MSCI All China Indexes effective June 1, 2018. However, MSCI will transition the MSCI All China Indexes to the MSCI China All Shares Indexes effective June 1, 2019.

Will there be any impact on the MSCI Islamic indexes?
Yes. New additions to the MSCI Equity Indexes resulting from a Quarterly Index Review may be considered for inclusion to the Islamic Indexes at the following Quarterly Index Review. Hence, China A shares that are added to their parent MSCI China, MSCI EM and MSCI ACWI Indexes in the May 2018 SAIR may only be added to the respective MSCI Islamic Indexes as part of the August 2018 Quarterly Index Review at a 5% partial Inclusion Factor, in one step, provided they meet the relevant MSCI Islamic Screening requirements.

Is there any impact to the methodology and maintenance of the MSCI Factor, Capped, Thematic and ESG Indexes (Derived Indexes)?
The MSCI Factor, Capped, Thematic and ESG Indexes will use the adjusted weights (post application of the Partial Inclusion Factor for China A Stock Connect securities) from the
underlying MSCI Global Investable Market Indexes. The specific MSCI Derived Index rebalancing methodology will then be applied and no further adjustments will be made to the weight of the China A stock connect securities, post the Derived Index rebalancing.

In addition, MSCI will implement the following enhancements to the methodologies using an optimization approach:

- For the MSCI 25/50 and 35/65 Indexes, the weight of each China A security will be capped at a maximum of three times its weight in the Parent Index
- For other optimized indexes (Diversified Multi-Factor, Minimum Volatility, Low Carbon Leaders, Low Carbon Target, Factor ESG Target Series, ESG Focus and Minimum Volatility ESG Target), the specific country weight constraint in each methodology will also be applied on China A securities separately (within overall China country), in addition to the usual country weight constraint for China.

How would the MSCI Derived Indexes be impacted by the increase in Partial Inclusion Factor at the time of the August 2018 QIR?

At the time of the August 2018 QIR, any changes due to the increase in the Partial Inclusion Factor for China A securities will be neutralized by the application of the Variable Weighting Factor (VWF) for the non-market-capitalization weighted Indexes. For the market capitalization weighted Indexes, the changes will not be neutralized and will flow through from the parent index.

Does MSCI provide MSCI Global Value Growth (GVG) factors for China A Stock Connect securities?

Yes. The MSCI GVG Country Indexes are based on the underlying MSCI Global Investable Market Indexes. Following the inclusion of China A shares, MSCI China GVG Index continues to be constructed based on MSCI China Index which will then include the newly eligible China A shares.

Does MSCI provide Value and Growth Inclusion Factors for the provisional indexes?

No. MSCI does not provide Value and Growth Inclusion Factors for the provisional indexes.

Is there any impact on the MSCI Hedged Indexes (MSCI Hedged, Daily Hedged and Adaptive Hedge Indexes, as well as the MSCI FX Hedge and MSCI Global Currency Indexes)?

As China A shares were included in the MSCI Global Investable Market Indexes as of the close of May 31, 2018, offshore RMB spot and forward exchange rates (CNH) have been used in the calculation of the relevant MSCI Hedged Indexes since June 1, 2018.
Does MSCI provide provisional indexes for the MSCI Factor, Capped, Thematic and ESG Indexes?

No. MSCI does not provide provisional indexes in these categories.

What is the impact on the MSCI Custom Indexes?

MSCI Custom Indexes are based on the underlying MSCI Global Investable Market Indexes. There will be no impact on the methodology and maintenance of these indexes, other than reflecting the underlying index changes, resulting from the inclusion of China A shares in the parent indexes. For example for the MSCI EM+ Hong Kong Index, China A Stock Connect securities will be added to the MSCI EM Index and consequently to this index.

Custom indexes based on standard derived index methodologies will take the enhanced treatment outlined for the specific standard derived index methodologies as above.

What should a client do with regard to custom indexes that may be impacted by the inclusion of China A shares?

No specific action would be required. However clients who do not wish the China A inclusion to impact a custom index should contact an account representative for further details and requests for amending the custom index.

What new custom indexes may be potentially created?

On a custom basis, MSCI would be able to provide indexes calculated based on various composites including or excluding the reclassified markets upon request.

6 IMPACT ON MSCI PRODUCT FILES

Will there be any impact on product files?

The delivery of MSCI product files and formats will remain unaffected. Detailed changes to products have been communicated through technical communication, available on: https://support.msci.com/msci-indexes/sample-files.

Given that the MSCI China Provisional Indexes are derived from the MSCI China All Shares Indexes, will MSCI provide more details on the size-segment cutoffs of the MSCI China All Shares Indexes?

Yes. In order to provide more transparency to clients on the construction and maintenance of the MSCI China All Shares Indexes and hence the MSCI China Provisional Indexes at the
time of the May 2018 SAIR, MSCI has made available the Size-Segment Cutoffs as well as the securities that are part of the Standard Size-Segment of the MSCI China All Shares Indexes. The information can be found on: https://www.msci.com/eqb/china_all_share_cut_off/china_all_share_performance.html.

When was the partial inclusion of China A shares reflected in the real time index calculations?

The partial inclusion of China A securities in the MSCI China, MSCI Emerging Market and MSCI ACWI Indexes was reflected effective at the open on June 1, 2018.
CONTACT US

clientservice@msci.com

AMERICAS

Americas  1 888 588 4567 *
Atlanta    + 1 404 551 3212
Boston     + 1 617 532 0920
Chicago    + 1 312 675 0545
Monterrey  + 52 81 1253 4020
New York   + 1 212 804 3901
San Francisco + 1 415 836 8800
São Paulo  + 55 11 3706 1360
Toronto    + 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town  + 27 21 673 0100
Frankfurt  + 49 69 133 859 00
Geneva     + 41 22 817 9777
London     + 44 20 7618 2222
Milan      + 39 02 5849 0415
Paris      0800 91 59 17 *

ASIA PACIFIC

China North 10800 852 1032 *
China South 10800 152 1032 *
Hong Kong   + 852 2844 9333
Mumbai      + 91 22 6784 9160
Seoul       00798 8521 3392 *
Singapore   800 852 3749 *
Sydney      + 61 2 9033 9333
Taipei      008 0112 7513 *
Thailand    0018 0015 6207 7181 *
Tokyo       + 81 3 5290 1555

* = toll free

ABOUT MSCI

For more than 40 years, MSCI’s research-based indexes and analytics have helped the world’s leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.
This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI’s licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

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 THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider 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, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/Securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.’s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.’s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI’s products or services are not 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. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other indexes, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor’s. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor’s.