ADDING A SHARES INTO EMERGING MARKETS - ARE YOU READY?

June 2017
MSCI announced on June 20 that it will include 222 China A Large Cap shares in the MSCI Emerging Markets Index using a 2-step inclusion process beginning in June 2018.

- The MSCI proposal received broad support from international institutional investors:
  - improved market accessibility linked to expansion of Stock Connect program
  - loosening by the local Chinese stock exchanges of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally

- Represents approximately 0.73% of the pro forma MSCI Emerging Markets Index

MSCI performed an extensive and in-depth cross-regional consultation on the potential partial inclusion of China A shares in the MSCI Emerging Markets Index. This global consultation included a large number of asset owners, asset managers, broker/dealers and other market participants.
Since MSCI put China A shares on the 2014 Market Classification Review list in 2013, there have been ongoing improvements in China’s market accessibility conditions.

### A Recap of the Inclusion Journey

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Launch of QFII scheme Initial quota at USD20bn</td>
</tr>
<tr>
<td>2011</td>
<td>Launch of RQFII scheme Initial quota at Rmb20bn</td>
</tr>
<tr>
<td>2012</td>
<td>QFII, RQFII quota expanded; Eligibility further relaxed for both QFII and RQFII</td>
</tr>
<tr>
<td>2013</td>
<td>First foreign investor licensed RQFII RQFII expanded to LN/SG QFII repatriation relaxed</td>
</tr>
<tr>
<td>2014</td>
<td>Launch of the SH-HK Stock Connect Clarification of capital gain tax RQFII expanded to more cities</td>
</tr>
<tr>
<td>2015</td>
<td>RQFII expanded to more cities Shanghai Connect Launched</td>
</tr>
<tr>
<td>2016</td>
<td>Link QFII/RQFII quota to fund size, Relaxed capital mobility New stock suspension rules Launch of SZ-HK Connect</td>
</tr>
<tr>
<td>2017</td>
<td>Loosening of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally</td>
</tr>
</tbody>
</table>

### 1st Consultation (June 2013)
- MSCI put China A shares on the 2014 Market Classification Review list

### 2nd Consultation (June 2014)
- No inclusion
- Issues: quota allocation, capital mobility restrictions, uncertainties on Capital Gain Tax
- Launched MSCI China A International Index

### 3rd Consultation (June 2015)
- 2nd consultation: No inclusion
- Issues: Quota allocation, capital mobility, beneficiary ownership

### 4th Consultation (June 2016)
- 3rd consultation: No inclusion
- Issues: QFII 20% monthly limit, stock suspension, pre-approval of financial products

### 4th Consultation (June 2017)
- 4th consultation: MSCI announced to partially include A shares in 2018
Institutional investors viewed the Stock Connect as a more flexible access framework compared to the QFII and RQFII regimes.

They also welcomed the decrease in the number of suspended China A shares.

- Institutional Investors continue to view the number of suspensions as an outlier compared to other international markets and have encouraged the Chinese authorities to consider additional measures to further reduce the number and duration of trading suspensions.

A large majority of institutional investors agreed with the MSCI proposal to initially restrict the inclusion to Large Cap shares that are not in trading suspension.

Additionally, many of them also recommended that MSCI should not exclude China A Large Cap shares of companies that have H share equivalents in the MSCI China Index.
CONSTRUCTION OF THE PRO FORMA A SHARES INDEX

• The pro forma A shares Index is constructed based on the MSCI China International Index, excluding:
  – Mid Cap A shares
  – A shares that are not accessible through the Stock Connect program
  – A shares suspended for more than 50 days in the past 12-months and suspended at time of index reviews

<table>
<thead>
<tr>
<th>MSCI China A Intl Index (459)</th>
<th>• 459 Large Cap &amp; Mid Cap stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Mid Cap (195)</td>
<td>• 264 Large Cap stocks</td>
</tr>
<tr>
<td>- Large Cap not accessible through Connect (10)</td>
<td>• 254 Large Cap stocks</td>
</tr>
<tr>
<td>- Prolonged suspensions (22)</td>
<td>• 232 Large Cap stocks</td>
</tr>
<tr>
<td>- Securities suspended at time of index reviews (10)</td>
<td>• MSCI China A International Large Cap Provisional Index (222)</td>
</tr>
</tbody>
</table>
MSCI will use a two-step inclusion process to account for the existing daily trading limits on Stock Connect.

An Index Inclusion Factor (IIF) of 2.5% and 5% will be applied to the FIF-adjusted market capitalization of China A shares in the pro forma MSCI China Index at the May 2018 Semi-Annual Index Review (SAIR) and August 2018 Quarterly Index Review (QIR) respectively.

MSCI may revise the planned implementation to a single phase should the daily limit be abolished or significantly expanded before the scheduled inclusion dates.

**TWO-STEP INCLUSION PROCESS**

- **May 2018 SAIR**
  - Inclusion Factor = 2.5%
  - China A shares: 28.65%
  - Others: 34.76%
  - IN: 8.78%
  - TW: 12.11%

- **Aug 2018 QIR**
  - Inclusion Factor = 5%
  - China A shares: 28.55%
  - Others: 34.63%
  - IN: 8.75%
  - TW: 12.07%

Data as of June 19, 2017
SIMULATED PRO FORMA MSCI CHINA INDEX

- The number of China A shares in the pro-forma MSCI China Index would be **222**
- The total number of constituents in the pro forma MSCI China Index would increase from 152 to **423**
- The pro forma weight of China A shares in the MSCI Emerging Markets Index following the completion of the second implementation step would be approximately **0.73%**.

<table>
<thead>
<tr>
<th>MSCI China</th>
<th>Current Standard</th>
<th>May 2018 SAIR Inclusion Factor = 2.5%</th>
<th>August 2018 QIR Inclusion Factor = 5%</th>
<th># Securities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weight</td>
<td># Sec</td>
<td>Weight</td>
<td># Sec</td>
</tr>
<tr>
<td>A Shares</td>
<td>-</td>
<td>-</td>
<td>1.3%</td>
<td>222</td>
</tr>
<tr>
<td>B Shares</td>
<td>0.2%</td>
<td>2</td>
<td>0.3%</td>
<td>4</td>
</tr>
<tr>
<td>H Shares</td>
<td>35.0%</td>
<td>69</td>
<td>34.7%</td>
<td>89</td>
</tr>
<tr>
<td>Red Chip</td>
<td>15.2%</td>
<td>30</td>
<td>15.2%</td>
<td>39</td>
</tr>
<tr>
<td>P Chip</td>
<td>24.3%</td>
<td>35</td>
<td>24.5%</td>
<td>52</td>
</tr>
<tr>
<td>Overseas</td>
<td>25.3%</td>
<td>16</td>
<td>24.1%</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>152</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>423</strong></td>
</tr>
</tbody>
</table>

| MSCI EM           | -      | 845   | -      | 1116   | **1.47%**     | -      | 1116   | **1.83%**     | 271 | -   |
| A Shares          | -      | -     | 0.4%   | 222    | 0.37%          | 0.7%   | 222    | 0.73%          | 222 | -   |

1. The pro-forma constituents are simulated by applying the additional screening criteria of the new proposal to the MSCI China A International Index. Data as of June 19, 2017. The inclusion results in slight increases in other share classes after applying the MSCI GIMI methodology to an enlarged universe.
PRO FORMA WEIGHT OF A SHARES

Data as of June 19, 2017
During the consultation, many institutional investors requested guidance on the future inclusion road map for China A shares.

Further inclusion of China A shares could potentially include an increase of the currently announced 5% Inclusion Factor as well as the addition of China A Mid Cap shares, subject to:
- greater alignment of the China A shares market with international market accessibility standards
- the resilience of Stock Connect
- the relaxation of daily trading limits
- continued progress on trading suspensions
- further loosening of restrictions on the creation of index-linked investment vehicles.

MSCI would continue to monitor the situation and launch a public consultation to solicit feedback from investors once warranted.
LAUNCH OF PROVISIONAL INDEXES

• MSCI will start to calculate the MSCI China A International Large Cap Provisional Index on June 21, 2017

• Additional global and regional provisional indexes including the MSCI China and MSCI Emerging Markets Provisional Indexes, will be launched in August 2017

• These provisional indexes serve to manage the implementation of the inclusion of China A shares in investors’ portfolios on the schedule of their choosing
LIST OF PROVISIONAL INDEXES TO BE LAUNCHED

Launched on June 21, 2017
- MSCI China A International Large Cap Provisional Index

To be launched in August 2017:
- MSCI China Provisional Index
- MSCI China IMI Provisional Index
- MSCI Golden Dragon Provisional Index
- MSCI Golden Dragon IMI Provisional Index
- MSCI ZhongHua Provisional Index
- MSCI ZhongHua IMI Provisional Index
- MSCI AC Asia ex Japan Provisional Index
- MSCI AC Asia ex Japan IMI Provisional Index
- MSCI AC Asia Provisional Index
- MSCI AC Asia IMI Provisional Index
- MSCI AC Asia Pacific Provisional Index
- MSCI AC Asia Pacific IMI Provisional Index
- MSCI AC Asia Pacific ex Japan Provisional Index
- MSCI AC Asia Pacific ex Japan IMI Provisional Index
- MSCI EM Provisional Index
- MSCI EM IMI Provisional Index
- MSCI EM Asia Provisional Index
- MSCI EM Asia IMI Provisional Index
- MSCI ACWI Provisional Index
- MSCI ACWI IMI Provisional Index
Following the decision to include China A shares in the MSCI Emerging Markets Index, MSCI will also consult on the following in July 2017:

1. Implementation of index changes related to corporate events and quarterly index reviews in the event of a market closure due to a “Connect” market holiday or a daily limit breach
2. Extending the same suspension treatment to the MSCI China A International Indexes
3. Transition plan of existing China A Indexes
# ADDITIONAL CONSULTATION POINTS

<table>
<thead>
<tr>
<th>Original Consultation Proposal</th>
<th>Final Decisions/Additional Consultation Points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility</strong></td>
<td></td>
</tr>
<tr>
<td>• Include only Large Cap companies which are accessible through the Shanghai and Shenzhen Stock Connect programs</td>
<td>✓ Include only Large Cap companies which are accessible through the Shanghai and Shenzhen Stock Connect programs</td>
</tr>
<tr>
<td>• Exclude A shares that have H-shares listings included in the MSCI China Index</td>
<td>× Include A shares that have H shares listings included in the MSCI China Index</td>
</tr>
<tr>
<td>• Securities suspended for more than 50 days in the past 12 months would not be eligible for index inclusion</td>
<td>✓ Securities suspended for more than 50 days in the past 12 months would not be eligible for index inclusion</td>
</tr>
<tr>
<td></td>
<td>✓ Securities that are suspended during the index review will not be eligible for index inclusion</td>
</tr>
<tr>
<td></td>
<td>❖ MSCI will consult on extending this treatment to the MSCI China A International Indexes</td>
</tr>
<tr>
<td><strong>ON-GOING TREATMENTS ON SUSPENSION</strong></td>
<td></td>
</tr>
<tr>
<td>• Remove index constituents that have been suspended for more than 50 days</td>
<td>✓ Remove index constituents that have been suspended for more than 50 days</td>
</tr>
<tr>
<td></td>
<td>❖ MSCI will consult on extending this treatment to the MSCI China A International Indexes</td>
</tr>
<tr>
<td><strong>CORPORATE EVENT AND REBALANCING IMPLEMENTATION</strong></td>
<td></td>
</tr>
<tr>
<td>• No initial inclusion of IPO given Connect investors cannot participate in primary offerings</td>
<td>✓ No initial inclusion of IPO given Connect investors cannot participate in primary offerings</td>
</tr>
<tr>
<td>• Postpone implementation to next day for index changes linked to corporate events and quarterly index reviews if the event effective date falls on a “Connect” market holiday or is due to market closure linked to a daily limit breach</td>
<td>❖ MSCI will also further consult on the implementation of index changes related to corporate events and quarterly index review in the event of market closure due to a “Connect” market holiday or a daily limit breach</td>
</tr>
<tr>
<td><strong>FX</strong></td>
<td></td>
</tr>
<tr>
<td>• Offshore exchange rate (CNH) to be used for index calculation</td>
<td>✓ Offshore exchange rate (CNH) to be used for index calculation</td>
</tr>
</tbody>
</table>
MSCI intends to continue to maintain the existing MSCI China A indexes but will launch a consultation on the transition plan for current users of MSCI China A Index and MSCI China A International Index.

### Existing MSCI China A Indexes
- **MSCI China A International Index**
  - **FIF Version**
    - FOL: 0.3
    - Constituents: 459
  - **DIF Version**
    - No FOL
    - Constituents: 876
- **MSCI China A Index**
  - **FIF Version**
    - FOL: 0.3
    - Constituents: 459
  - **DIF Version**
    - No FOL
    - Constituents: 876

### Future MSCI China A Indexes
- **MSCI China A International Large Cap Provisional Index**
  - **FIF Version**
    - FOL: 0.3
    - Constituents: 222
- **MSCI China A International Index**
  - **FIF Version**
    - FOL: 0.3
    - Constituents: 459
- **MSCI Domestic China A Index**
  - **DIF Version**
    - No FOL
    - Constituents: 876

### Use Case
- **Pro-forma A shares components of the MSCI Emerging Markets Index post initial inclusion**
- **Potential A shares components of the MSCI Emerging Markets Index for future inclusion**
- **Stand alone domestic index offering broad exposure to China A shares**
**KEY EVENTS TIMELINE**

- **June 2017**
  - Announcement of China A shares inclusion in the MSCI Emerging Markets Index
  - Launch of the MSCI China A International Large Cap Provisional Index

- **July 2017**
  - Launch of consultation on transition plan for existing China A Indexes
  - Launch of consultation on suspensions, index review and CE changes

- **August 2017**
  - Launch of global and regional provisional indexes

- **September 2017**
  - Announcement of the conclusion of consultations
  - Detailed Q&A document for the China A shares inclusion

- **May 2018 SAIR**
  - Inclusion of A shares in the MSCI Emerging Markets Index with an Inclusion Factor of 2.5%

- **August 2018 QIR**
  - Increase in Inclusion Factor to 5%
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