

CONSULTATION ON POTENTIAL ENHANCEMENTS TO THE MSCI DIVIDEND MASTERS INDEXES METHODOLOGY

August 2018

Note that this consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI 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.

SUMMARY

- MSCI is proposing potential enhancements to the MSCI Dividend Masters Indexes methodology in order to **avoid issuer concentration** (multiple securities per issuer) in the MSCI Dividend Masters Indexes
- **Proposal 1:** Select only one security per issuer, in order of existing index membership and dividend yield
- **Proposal 2:** No change to the selection process, but equal weighting at issuer level
- MSCI proposes to implement this change starting from the November 2018 Annual Index Review

MSCI welcomes feedback from market participants until September 14, 2018 and will announce the results of the consultation on or before September 28, 2018

OVERVIEW OF THE CURRENT INDEX METHODOLOGY

Parameters	Methodology
Selection	At each annual index review, target a specified minimum number of securities that have consistently increased dividends every year for a specific number of consecutive years
Capping	Sector and country weights are capped at the defined thresholds
Weighting	Securities are equal weighted at each index review
Index Reviews	Annual Index Review in November and Quarterly Index reviews in February, May and August

PROPOSED ENHANCEMENTS

Current	Proposal 1	Proposal 2
Pick all securities that have consistently increased dividends over the specified period	Pick all securities that have consistently increased dividends over the specified period. In case of multiple eligible securities of the same issuer, select only one security based on current membership, and then on dividend yield	Pick all securities that have consistently increased dividends over the specified period
Country/Sector capping thresholds met using an iterative algorithm, based on number of securities	Country/Sector capping thresholds met using an iterative algorithm, based on number of securities	Country/Sector capping thresholds met using an iterative algorithm, based on number of issuers . Multiple securities of the same issuer do not increase the count used in the capping process
All selected securities are equal weighted	All selected securities are equal weighted	All selected issuers ¹ are equal weighted

¹ Securities within each issuer would be weighted by their free float-adjusted market capitalization.

SIMULATED RESULTS – MSCI EAFE DIVIDEND MASTERS INDEX

	Current	Proposal 1	Proposal 2
Pro forma #sec	55	54	55
Pro forma #issuers	54	54	54
Turnover	14.2%	15.3%	15.1%
Highlights	Two securities of same issuer <i>Lindt & Sprungli</i> included, for a total issuer weight of 3.6%, while all other issuers have a weight of 1.8% each	Only one security with higher yield selected, for an issuer weight of 1.9% - same as all the other issuers	Both securities selected, but equal weighting at issuer level, for an issuer weight of 1.9% - same as all the other issuers

As of November 2017 Index Review

SIMULATED RESULTS – MSCI EUROPE DIVIDEND MASTERS INDEX

	Current	Proposal 1	Proposal 2
Pro forma #sec	42	41	42
Pro forma #issuers	41	41	41
Turnover	12.6%	14.1%	13.9%
Highlights	Two securities of same issuer <i>Lindt & Sprungli</i> included, for a total issuer weight of 4.8% while all other issuers have a weight of 2.4% each.	Only one security with higher yield selected, for an issuer weight of 2.4% - same as all the other issuers.	Both securities selected, but equal weighting at issuer level, for an issuer weight of 2.4% - same as all the other issuers.

As of November 2017 Index Review

SIMULATED RESULTS – MSCI EM DIVIDEND MASTERS INDEX

	Current	Proposal 1	Proposal 2
Pro forma #sec	71	68	69
Pro forma #issuers	70	68	68
Turnover	33.6%	32.9%	34.7%
Highlights	Two securities of the same issuer <i>Bancolombia</i> included, for a total issuer weight of 2.8%, while all other issuers have a weight of 1.4% each.	Only one security with higher yield selected, for an issuer weight of 1.5% - same as all the other issuers . When only one security is selected, sector and country caps are satisfied earlier, leading to the two other securities not being selected.	Both securities selected, but equal weighting at issuer level, for an issuer weight of 1.5% - same as all the other issuers. Due to issuer weighting, sector and country caps are satisfied earlier, leading to two other securities not being selected.

As of November 2017 Index Review

DISCUSSION POINTS

Do you prefer Proposal 1 or Proposal 2?

- **Additional questions for Proposal 1:**
 - Do you agree with giving preference to existing constituents in order to avoid turnover?
 - Would you prefer any other metrics such as market cap or liquidity?

APPENDIX

MSCI EAFE DIVIDEND MASTERS INDEX – DETAILED RESULTS

Security Name	Dividend Yield	Dividend Increase period	Weights		
			Current	Proposal 1	Proposal 2
# securities			55	54	55
# issuers			54	54	54
Other Constituents – Total weight	-	-	96.4%	98.1%	98.1%
Other constituents – each issuer weight	-	10	1.8%	1.9%	1.9%
Lindt & Sprungli Part	1.52	10	1.8%	1.9%	0.9%
Lindt & Sprungli Namen	1.27	10	1.8%	0.0%	1.0%
Turnover			14.2%	15.3%	15.1%

As of November 2017 Index Review

MSCI EUROPE DIVIDEND MASTERS INDEX – DETAILED RESULTS

Security Name	Dividend Yield	Dividend Increase period	Weights		
			Current	Proposal 1	Proposal 2
# securities			42	41	42
# issuers			41	41	41
Other Constituents – Total weight	-	-	95.2%	97.6%	97.6%
Other constituents – each issuer weight	-	10	2.38%	2.44%	2.44%
Lindt & Sprungli Part	1.52	10	2.38%	2.44%	1.12%
Lindt & Sprungli Namen	1.27	10	2.38%	0.0%	1.32%
Turnover			12.6%	14.1%	13.9%

As of November 2017 Index Review

MSCI EM DIVIDEND MASTERS INDEX – DETAILED RESULTS

Security Name	Dividend Yield	Dividend Increase period	Weights		
			Current	Proposal 1	Proposal 2
# securities			71	68	69
# issuers			70	68	68
Other Constituents – Total weight	-	-	93%	97.1%	97.1%
Other constituents – each issuer weight	-	7	1.4%	1.5%	1.5%
Bancolombia	3.37	7	1.4%	1.5%	0.5%
Bancolombia Pref	3.28	7	1.4%	0%	1.0%
Aldar Properties	4.62	6	1.4%	1.5%	1.5%
Hon Hai Precision Ind	4.02	6	1.4%	0%	0%
Phison Electronics Corp	3.91	6	1.4%	0%	0%
Turnover			33.6%	32.9%	34.7%

As of November 2017 Index Review

MULTIPLE ISSUERS AT HISTORICAL INDEX REVIEWS

MSCI EAFE Dividend Masters Index and MSCI Europe Dividend Masters Index

Index Review	Issuer with multiple securities
Nov 2016	Lindt & Sprungli – 2 securities
Nov 2015	Lindt & Sprungli – 2 securities
Nov 2014	Lindt & Sprungli – 2 securities

MSCI EM Dividend Masters Index

Index Review	Issuer with multiple securities
Nov 2016	Hyundai Motor Co – 3 securities
Nov 2015	Hyundai Motor Co – 2 securities

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