

METHODOLOGY BOOK FOR:

- **MSCI CHINA A INCLUSION TOP 200 SELECT GOVERNANCE QUALITY EX CONTROVERSIES SCORE INDEX**
- **MSCI CHINA A INCLUSION TOP 75 SELECT GOVERNANCE QUALITY EX CONTROVERSIES SCORE INDEX**
- **MSCI CHINA A INCLUSION TOP 200 SELECT GOVERNANCE QUALITY EX CONTROVERSIES SCORE 3% DECREMENT INDEX**

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1 Introduction

The MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index and MSCI China A Inclusion Top 75 Select Governance Quality Ex Controversies Score Index (herein, the “Indexes”) aim to reflect the performance of a strategy that is seeking to capture both the financial and corporate governance aspects of Quality investing.

The financial aspects of the Quality factor are captured using the same fundamental data as used in the MSCI Quality Index – return on equity, financial leverage and earnings variability. The standard of corporate governance is measured through measures such as independence and diversity of board of directors, ownership and control structure of the company, accounting practices and auditor opinions. The measure of corporate governance is then used to discount security’s financial quality score.

MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score 3% Decrement Index (the “Decrement Index”) aims to represent the performance of the MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index, while applying a constant markdown (‘synthetic dividend’) expressed in percentage terms as per the MSCI Decrement Indexes Methodology¹.

¹ The MSCI Decrement Indexes methodology book is available at: <https://www.msci.com/index-methodology>

2 Index Construction Methodology

2.1 APPLICABLE UNIVERSE

The applicable universe includes all the existing constituents of the underlying MSCI China A Inclusion Index¹ (herein, the “Parent Index”). This approach aims to provide an opportunity set with sufficient liquidity and capacity..

2.2 DETERMINATION OF QUALITY SCORE

The quality score for each security in the Parent Index is calculated as per the section 2.2 of standard methodology of MSCI Quality Indexes².

2.3 DETERMINATION OF GOVERNANCE SCORE

The Governance score for each security in the Parent Index is calculated as per the section 2.3 of MSCI Governance-Quality Indexes methodology³.

2.4 DETERMINATION OF COMPOSITE-QUALITY SCORE

The “Composite Quality” score is calculated as described in section 2.4 of the MSCI Governance-Quality Indexes methodology (refer to previous footnote)

Composite Quality Score = Quality Score * Governance Score.

¹ For detailed description please refer to Appendix XVI of MSCI Global Investable Market Indexes Methodology on <https://www.msci.com/index-methodology>

² For detailed description please refer to MSCI Quality Indexes Methodology on <https://www.msci.com/index-methodology>

³ For detailed description please refer to MSCI Governance-Quality Indexes Methodology on <https://www.msci.com/index-methodology>

2.5 SECURITY SELECTION

Securities of companies having faced severe controversies pertaining to ESG issues are not eligible for inclusion in the index. This is implemented by excluding constituents of the Parent Index with MSCI ESG Controversy Score = 0 (“Red Flag” Companies). Securities with missing Controversy Score are also excluded.

For more details on MSCI ESG Controversies Score, please refer to <https://www.msci.com/esg-investing>.

At each rebalancing:

For MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index, the top 200 securities from the remaining basket are selected in descending order of the Composite Quality Score.

For MSCI China A Inclusion Top 75 Select Governance Quality Ex Controversies Score Index, top 75 securities from the remaining basket are selected in descending order of the Composite Quality Score.

2.6 WEIGHTING SCHEME

At each rebalancing, these selected securities are then weighted by the product of their market capitalization weight in the Parent Index and the Composite Quality Score.

Governance-Quality Weight = Composite Quality Score * Market Capitalization Weight in the Parent Index

The above weights are then normalized to 100%.

Additionally, constituent weights are capped at 10% at issuer level to mitigate concentration risk.

2.7 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

The MSCI Decrement Indexes Methodology is applied on the MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index using the parameters mentioned in Appendix I to construct the MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score 3% Decrement Index.

3 Maintaining the Indexes

3.1 INDEX REVIEWS

The MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index is rebalanced on a semi-annual basis, usually as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Global Investable Market Indexes. The quality scores as of the month end of April and October are respectively used for the May and November Semi-Annual Index Review.

The MSCI China A Inclusion Top 75 Select Governance Quality Ex Controversies Score Index is rebalanced on a quarterly basis, usually as of the close of the last business day of February, May, August and November coinciding with the May and November Semi-Annual Index Reviews (SAIRs) and the February and August Quarterly Index Reviews (QIRs) of the MSCI Global Investable Market Indexes. The quality scores as of the end of January, April, July and October are used for the February, May, August and November Index Reviews respectively. In addition, on each 5th Business Day of the month securities with ESG Controversy Score = 0 (“Red Flag” Companies) or with missing controversy score are excluded. The weights of the remaining eligible securities are then normalized to 100%.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews for the rebalancing of the Indexes. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available, for the rebalancing of these Indexes. This approach aims to capture timely updates to Governance-Quality characteristics of the companies and coincides with the rebalancing of the Parent Indexes. The pro forma constituents of the Indexes are in general announced nine business days before the effective date. At each rebalancing, a constraint factor is calculated for each constituent in the Indexes.

3.2 BUFFER RULES

To help reduce the Index turnover, inclusion buffer rules are applied at the index reviews at 20% of the number of securities required in the index.

For example, if the index targets 200 securities then the buffers are applied between ranks 161 and 240. The securities in the MSCI Parent Index with a Composite Quality score rank at or above 160 will be added to the MSCI China A Inclusion Top 200

Select Governance Quality Ex Controversies Score Index on a priority basis. The existing constituents that have a Composite Quality score rank between 161 and 240 are then successively added until the number of securities in the MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index reaches 200. If the number of securities is below 200 after this step, the remaining securities in the Parent Index with the highest Composite Quality Score rank are added until the number of securities in the Index reaches 200. The buffers for the index targeting 75 securities would apply buffers between ranks 61 and 90.

3.3 ONGOING EVENT-RELATED CHANGES

The general treatment of corporate events in the Indexes aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor¹ (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the Indexes, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the Indexes.

The following section briefly describes the treatment of common corporate events within the Indexes.

No new securities will be added (except where noted below) to the Indexes between Index Reviews. 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

¹ The MSCI Corporate Events methodology book is available at: <https://www.msci.com/index-methodology>

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 I: Parameters used for the MSCI Decrement Index methodology

The following parameters are used in the calculation of the Decrement Index.

Sr. No	Methodology Parameters	MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score 3% Decrement Index
1	Currency of Calculation	USD
2	Parent Index	MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score Index
3	Return Variant of the Parent Index	Gross Total Return
4	Decrement Type	Fixed Percentage
5	Decrement Application	Geometric Application
6	Decrement Value	3%
7	Day-count Convention	Actual / 360
8	Index Floor	0
9	Decrement Frequency	Daily

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE JULY 2020

Section 1 – Introduction

- Added a description of MSCI China A Inclusion Top 200 Select Governance Quality Ex Controversies Score 3% Decrement Index.

Section 2 – Index Construction Methodology and Appendix I

- Added Section 2.7 about applying the MSCI Decrement Indexes Methodology.
- Added Appendix I containing the parameters used for the decrement index.

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* = toll free

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