

# **MSCI CHINA ALL SHARES SELECT TOP 50 SECTOR CAPPED INDEX METHODOLOGY**

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## 1 INTRODUCTION

The MSCI China All Shares Select Top 50 Sector Capped Index (the “Index”) is constructed to represent the performance of the top 50 securities, measured by total issuer market capitalization, from the MSCI China All Shares Index. The maximum number of securities selected from any Global Industry Classification Standard (GICS®) sector is limited to 10. A maximum of one security per issuer is eligible for inclusion in the Index. The Index is free float-adjusted market capitalization weighted. To avoid concentration, the maximum weight of any sector in the Index is capped at 25%.

## 2 CONSTRUCTING THE MSCI CHINA ALL SHARES SELECT TOP 50 SECTOR CAPPED INDEX

The MSCI China All Shares Select Top 50 Sector Capped Index (the “Index”) is constructed from the MSCI China All Shares Index (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Sector Level Selection
- Security Selection
- Sector Capping

### 2.1 SECTOR LEVEL SELECTION

To avoid multiple securities of the same company in the Index, only the security with lowest Price to Earnings<sup>1</sup> ratio for each issuer is eligible for inclusion in the Index. For any issuer, should two securities have the same Price to Earnings ratio, the one with the higher free float-adjusted market capitalization is included.

The top 10 securities from each sector of the Parent Index, ranked by descending order of the total issuer market capitalization, are then selected.

### 2.2 SECURITY SELECTION

From the securities selected through applying the steps in Section 2.1, the top 50 securities ranked by descending order of the total issuer market capitalization are selected for inclusion in the Index. The selected securities are weighted by free float-adjusted security market capitalization.

### 2.3 SECTOR CAPPING

The maximum cumulative weight of securities within each sector in the Index is capped at 25% in accordance with the MSCI Capped Indexes methodology<sup>2</sup>.

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<sup>1</sup> Please refer to the MSCI Fundamental Data Methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

<sup>2</sup> Please refer to the MSCI Capped Indexes Methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

### **3 MAINTAINING THE MSCI CHINA ALL SHARES SELECT TOP 50 SECTOR CAPPED INDEX**

#### **3.1 QUARTERLY INDEX REVIEWS**

The Index is reviewed on a quarterly basis, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index.

The pro forma Index is typically announced nine business days before the effective date.

At each Quarterly Index Review, the MSCI China All Shares Select Top 50 Sector Capped Index is rebalanced as described in Section 2. Additionally, a 20% security selection buffer is applied for security selection as described in the following section.

##### **3.1.1 BUFFER RULES**

To reduce turnover and enhance Index stability, a security selection buffer of 20% is applied on securities selected during the security selection step noted in Section 2.2 at each Quarterly Index Review.

The Index targets 50 securities and the 20% buffer is applicable for securities ranked between 40 and 60. The securities with a rank at or below 40 will be added to the Index on a priority basis. Existing constituents not included in the previous step that have a rank between 41 and 60 are then successively added until the number of securities reaches 50. If the number of securities is below 50 after this step, the remaining securities with the highest rank are added until the number of securities in the Index reaches 50 constituents.

#### **3.2 ONGOING EVENT-RELATED CHANGES**

The general treatment of corporate events in the MSCI China All Shares Select Top 50 Sector Capped Index 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.

The following section briefly describes the treatment of common corporate events within the MSCI China All Shares Select Top 50 Sector Capped Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the parent index.

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 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.

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

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