

MSCI DIVIDEND MASTERS INDEXES METHODOLOGY

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CONTENTS

- 1 Introduction 3
- 2 Index Construction Methodology 4
 - 2.1 Applicable Universe..... 4
 - 2.2 Security Selection 4
 - 2.3 Weighting Scheme 4
- 3 Maintaining the Indexes..... 5
 - 3.1 Annual Index Review 5
 - 3.1.1 Buffers for Security Selection.....5
 - 3.2 Quarterly Index Reviews 5
 - 3.3 Ongoing Event Related changes..... 5
- Appendix I: Index Parameters for the MSCI Dividend Masters Indexes 8
- Appendix II: Rules for Security Selection 9

1 INTRODUCTION

The MSCI Dividend Masters Indexes are designed to represent the performance of companies that have increased dividends for a specific number of consecutive years.

MSCI categorizes the MSCI Dividend Masters Indexes as part of the family of MSCI Factor Indexes, which aim to represent the systematic elements of particular investment styles or strategies. While capitalization weighted indexes represent the broad market beta, additional sources of systematic return associated with particular investment styles and strategies, such as value, momentum, volatility, etc. could be represented through alternatively weighted indexes.

2 INDEX CONSTRUCTION METHODOLOGY

2.1 APPLICABLE UNIVERSE

The applicable universe includes all the existing constituents of an underlying MSCI parent index (herein, a “Parent Index”). This approach aims to provide an opportunity set with sufficient liquidity and capacity. The relevant Parent Index would be any MSCI Regional or Country Index.

2.2 SECURITY SELECTION

The MSCI Dividend Masters Indexes are constructed by targeting a minimum number of securities that have consistently increased dividends every year for a specific number of consecutive years (“Dividend Increase Period”). The security selection process begins by selecting all securities that have increased dividends consecutively over the Dividend Increase Period. In cases where an issuer has multiple eligible securities, the security with the highest dividend yield is selected for inclusion. If the number of securities which have increased dividends consecutively over the Dividend Increase Period is less than the minimum number of securities, then the Dividend Increase Period is progressively reduced in steps of one year to select companies which have increased dividends consecutively over shorter Dividend Increase Periods. The additional securities are selected in the descending order of dividend yield until the minimum number of constituents is selected.

Please refer to Appendix I for the specific details of the MSCI Dividend Masters Indexes.

The selected constituents in the Index are then equally weighted. At each annual rebalancing, the Global Industry Classification Standard (GICS®) sector weights and country weights are capped at the defined sector/country thresholds. To do so, if the resulting sector or country weights in the Index exceed the thresholds defined for the Index, additional securities from other sectors and/or countries are added to the Index until the sector/country weights are within the capping thresholds, subject to all the Index constituents being equally weighted.

Rules for additional security selection for compliance with sector/country thresholds are explained in Appendix II.

2.3 WEIGHTING SCHEME

At each Quarterly and Semi-Annual Index Review, the Index is rebalanced so that all constituents are equally weighted.

3 MAINTAINING THE INDEXES

3.1 ANNUAL INDEX REVIEW

Index is rebalanced annually based on the methodology described above, coinciding with the November Semi-Annual Index Review of the Parent Index.

The pro forma MSCI Dividend Masters Indexes are announced nine business days before the effective date.

3.1.1 BUFFERS FOR SECURITY SELECTION

At each Annual Index Review, securities are selected for inclusion as per section 2.2. In order to avoid excess turnover, if an issuer has multiple eligible securities, only one security is selected based on the current membership, and then on dividend yield.

3.2 QUARTERLY INDEX REVIEWS

Coinciding with the February and August Quarterly Index Reviews as well as with the May Semi-Annual Index Review of the Parent Indexes, the constituent weights are reset to equal weights.

Deletions from the respective Parent Index at the time of the Quarterly Index Reviews are simultaneously reflected in the Index. Additions to the Parent Index are not included in the Index at the Quarterly Index Reviews. Additions to the Parent Index are considered for inclusion only at the Annual Index Reviews.

3.3 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Dividend Masters 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 Factor (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 MSCI Dividend Masters Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Dividend Masters Index.

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

No new securities will be added (except where noted below) to the Index 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 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: INDEX PARAMETERS FOR THE MSCI DIVIDEND MASTERS INDEXES

This appendix specifies the Index parameters for the MSCI Dividend Masters Indexes

Index	Parent Index	Minimum Number of Securities	Dividend Increase Period	GICS® Sector Security Percentage Cap	Country Security Percentage Cap
MSCI EAFE Dividend Masters Index	MSCI EAFE	40	10 years	30	50
MSCI EM Dividend Masters Index	MSCI EM	40	7 years	30	50
MSCI Europe Dividend Masters Index	MSCI Europe	25	10 years	30	50
MSCI Japan Dividend Masters Index	MSCI Japan	25	10 years	30	NA
MSCI AC Asia ex Japan Dividend Masters Index	MSCI AC Asia ex Japan	30	10 years	50	50
MSCI ACWI ex USA Dividend Masters Index	MSCI ACWI ex USA	90	10 years	30	50
MSCI ACWI Dividend Masters Index	MSCI ACWI	120	10 years	30	75
MSCI Kokusai Dividend Masters Index	MSCI Kokusai	60	10 years	30	75
MSCI World ex USA Dividend Masters Index	MSCI World ex USA	50	10 years	30	50
MSCI World Dividend Masters Index	MSCI World	80	10 years	30	75
MSCI UK Dividend Masters Index	MSCI United Kingdom	25	10 years	30	NA
MSCI USA Dividend Masters Index	MSCI USA	25	10 years	30	NA

APPENDIX II: RULES FOR SECURITY SELECTION

This appendix describes the rules which are followed for security selection in the Index.

1. Select all securities that have increased Dividends consecutively for the Dividend Increase Period (“DivPeriod”)
2. If number of Index Constituents is less than minimum number of securities (“MinSec”), reduce Dividend Increase Period progressively in steps of one year to select securities that have increased dividends consecutively over the shorter Dividend Increase Period. Select additional securities in descending order of dividend yield until Index includes minimum number of securities
3. Security selection is stopped if the sector weights and country weights comply with the defined thresholds - GICS® Sector security percentage cap (“SectorLimit”) and Country security percentage cap (“CountryLimit”)
4. If either sector weights or country weights do not comply with the defined thresholds as explained in point 3 above, additional securities in the Index from other sectors and/or countries are included such that the respective sector and/or country weights comply with the thresholds. Since the portfolio is equal-weighted, for capping the weight of the sectors/countries, the final number of constituent securities in the Index needs to be increased so that the weight of the respective sectors/countries comply with the threshold
5. For including additional securities, calculate number of securities in each sector and country. Also calculate current number of securities in Index (“NumSec”), maximum number of securities in a sector (“MaxSector”) and maximum number of securities in a country (“MaxCountry”). Extra securities that need to be added to satisfy sector condition (“Extra_Sector”) can be calculated by the formula : $Extra_Sector = (MaxSector / SectorLimit) - NumSec$ and similarly extra securities that need to be added to satisfy country condition (“Extra_Country”) can be calculated by the formula: $Extra_Country = (MaxCountry / CountryLimit) - NumSec$
6. Round up both Extra_Sector and Extra_Country to next Integer. Securities that need to be added to Index (Extra_Sec) so that the sector and country weights comply with the thresholds is the maximum of Extra_Sector and Extra_Country. Final number of securities in Index (“FinalNumSec”) = $NumSec + Extra_Sec$
7. Maintain an array of the maximum number of securities which can be added back for each sector (“maxSecAdd_Sector”) and country (maxSecAdd_Country). For each sector, this can be calculated using the formula, $maxSecAdd_Sector(j) = SectorLimit$

* FinalNumSec – number of securities in the sector where j is the unique sector ID. Subsequently for each sector, these values are then rounded down to the previous integer value. Similarly, for each country, this can be calculated using the formula, $\text{maxSecAdd_Country}(j) = \text{CountryLimit} * \text{FinalNumSec} - \text{number of securities in the country where } j \text{ is the unique country ID}$ and then for each country, these values are then rounded down to the previous integer value

8. Reduce DivPeriod by one year to give the new interim Dividend Increase Period (“InterimDivPeriod”) for which securities would be evaluated
9. Check for securities that have increased dividends for the InterimDivPeriod and are currently not a part of the Index. Sort these companies in descending order of last reported dividend yield. Securities would have to be added back sequentially. Check the sector and country of the security whose dividend yield is highest. If maxSecAdd_Sector array value for the corresponding sector and maxSecAdd_Country array value for the corresponding country are greater than zero, then the security can be added and the respective maxSecAdd_Sector and maxSecAdd_Country array values are decreased by 1. Else move onto the next security until Extra_Sec securities have been added to the Index
10. If all securities have been evaluated using the InterimDivPeriod, keep progressively reducing InterimDivPeriod in steps of one year to select securities which have increased dividends consecutively over these shorter Dividend Increase Periods and select additional securities in descending order of dividend yield until Extra_Sec securities have been added to the Index

The following sections have been modified since June 2014:

- Index parameters for the MSCI Europe Dividend Masters Index added in Appendix 1

The following sections have been modified since August 2015:

- Index parameters for the MSCI Japan Dividend Masters Index added in Appendix 1

The following sections have been modified since August 2016:

- The following Index parameters are added in Appendix 1: MSCI AC Asia ex Japan Dividend Masters Index, MSCI ACWI ex USA Dividend Masters Index, MSCI ACWI Dividend Masters Index, MSCI Kokusai Dividend Masters Index, MSCI World ex USA Dividend Masters Index, MSCI World Dividend Masters Index, MSCI UK Dividend Masters Index, MSCI USA Dividend Masters Index

The following sections have been modified since December 2016:

- Appendix III in the previous version of the methodology book describing the Corporate Events treatment has been deleted. The details on the Corporate Events treatment are now included in Section 3.3.

The following sections have been modified since June 2017:

- Updated sections 2.2 and 3.1 to reflect the enhancement of selecting a single security per issuer.

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