

**METHODOLOGY BOOK FOR:**

- MSCI EURO SELECT DIVIDEND INDEX**
- MSCI EURO SELECT DIVIDEND 10% RISK CONTROL DECREMENT INDEX**

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**CONTENTS**

- 1 Introduction ..... 3
- 2 Constructing the Indexes..... 4
  - 2.1 Defining the Eligible Universe ..... 4
    - 2.1.1 Applying the Fixed Dividend Yield Screen.....4
    - 2.1.2 Applying the GICS Sub-Industry Screen .....4
    - 2.1.3 Applying the Dividend Payout Ratio Screen .....4
    - 2.1.4 Applying the Quality Screen.....5
    - 2.1.5 Applying the Price Performance Screen .....5
    - 2.1.6 Applying the Relative Dividend Yield Screen .....5
  - 2.2 Security Selection ..... 5
  - 2.3 Applying the MSCI Equal Weighted Indexes Methodology ..... 5
  - 2.4 Applying the MSCI Risk Control Indexes Methodology ..... 5
  - 2.5 Applying the MSCI Decrement Indexes Methodology..... 6
- 3 Maintaining the Indexes..... 7
  - 3.1 Quarterly Index Reviews ..... 7
  - 3.2 Ongoing Event Related Changes ..... 7
- Appendix I: Parameters used for the MSCI Risk Control Indexes Methodology 9
- Appendix 2: Parameters used for the MSCI Decrement Indexes Methodology ..... 10

## **1 INTRODUCTION**

The MSCI Euro Select Dividend Index aims to represent the performance of an investment strategy that equal weights the largest 50 securities by free float-adjusted market capitalization with a dividend yield above a threshold.

The MSCI Euro Select Dividend 10% Risk Control Decrement Index aims to represent the performance of an investment strategy that equal weights the largest 50 securities by free float-adjusted market capitalization with a dividend yield above a threshold while targeting a specific level of risk and applying a constant markdown ('synthetic dividend') expressed in index points.

## 2 CONSTRUCTING THE INDEXES

The MSCI Euro Select Dividend 10% Risk Control Decrement Index and the MSCI Euro Select Dividend Index are constructed from the MSCI EMU Index (the “Parent Index”).

The following steps are applied in the construction of the MSCI Euro Select Dividend Index.

- Defining the eligible universe
- Security Selection
- Applying the MSCI Equal Weighted Indexes Methodology

In addition to the above steps, the following steps are applied to construct the MSCI Euro Select Dividend 10% Risk Control Decrement Index.

- Applying the MSCI Risk Control Indexes Methodology
- Applying the MSCI Decrement Indexes Methodology

### 2.1 DEFINING THE ELIGIBLE UNIVERSE

#### 2.1.1 APPLYING THE FIXED DIVIDEND YIELD SCREEN

In the first step, all the securities with a dividend yield<sup>1</sup> of more than 2.5% are selected from the Parent Index.

#### 2.1.2 APPLYING THE GICS SUB-INDUSTRY SCREEN

From the securities selected from the previous step, companies classified in the Equity Real Estate Investment Trusts Industry and Mortgage Real Estate Investment Trusts Sub-Industry as per the Global Industry Classification Standard (GICS) are excluded from the Index.

#### 2.1.3 APPLYING THE DIVIDEND PAYOUT RATIO SCREEN

From the securities selected after applying Section 2.1.2, all securities with zero or negative payout ratios are excluded from the Index.

Securities with extremely high payout ratios, defined to be the top 5% of securities by number within the universe of securities selected after applying Section 2.1.2 with positive payout, are excluded from the Index.

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

#### **2.1.4 APPLYING THE QUALITY SCREEN**

From the securities selected after applying Section 2.1.2, securities with Quality Z-score of less than -0.5 will be excluded from the Index.

#### **2.1.5 APPLYING THE PRICE PERFORMANCE SCREEN**

From the securities selected after applying Section 2.1.2, securities ranked in the bottom 5% of the universe of securities with negative 1-year Price Performance are excluded from the Index.

#### **2.1.6 APPLYING THE RELATIVE DIVIDEND YIELD SCREEN**

Securities with a dividend yield of less than 0.7 times the average dividend yield of the securities, selected after applying Section 2.1.2, are excluded from the Index.

### **2.2 SECURITY SELECTION**

From the securities selected from the previous step, the top 50 securities based on free float adjusted market capitalization are selected.

### **2.3 APPLYING THE MSCI EQUAL WEIGHTED INDEXES METHODOLOGY**

The MSCI Equal Weighted Indexes methodology<sup>2</sup> is then applied on the securities selected from the previous step, to give each security an equal weight at construction and at each subsequent rebalancing.<sup>3</sup>

The securities selected after the application of the above methodology form the “MSCI Euro Select Dividend Index”.

The following two steps are applied to construct the “MSCI Euro Select Dividend 10% Risk Control Decrement Index”.

### **2.4 APPLYING THE MSCI RISK CONTROL INDEXES METHODOLOGY**

The MSCI Risk Control Indexes methodology<sup>4</sup> is applied on the securities selected from the previous step, using the parameters mentioned in Appendix 1.

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<sup>2</sup> Please refer to the MSCI Equal Weighted Indexes Methodology at <http://www.msci.com/index-methodology>

<sup>3</sup> In case multiple securities of the same issuer are selected after section 2.2, each security will be equal weighted

<sup>4</sup> Please refer to the MSCI Risk Control Indexes Methodology at <http://www.msci.com/index-methodology>

## 2.5 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

The MSCI Decrement Indexes methodology<sup>5</sup> is applied using the parameters mentioned in Appendix 2, to construct the MSCI Euro Select Dividend 10% Risk Control Decrement Index.

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<sup>5</sup> Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>

### 3 MAINTAINING THE INDEXES

#### 3.1 QUARTERLY INDEX REVIEWS

The MSCI Euro Select Dividend 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 Euro Select Dividend Index is rebalanced as described in Section 2, where only following screening criteria is adjusted.

- Securities with extremely high payout ratios, defined to be the top 5% of securities by number within the universe of securities selected after applying Section 2.1.2 with positive payout, are excluded from the Index. However, if a security is already an Index constituent, it will remain in the Index until it reaches the top 2% by order of dividend payout.

#### 3.2 ONGOING EVENT RELATED CHANGES

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

The following section briefly describes the treatment of common corporate events. 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: PARAMETERS USED FOR THE MSCI RISK CONTROL INDEXES  
METHODOLOGY**

The following parameters are used in the calculation of the Index

MSCI Risk Control Index Methodology Parameters		
1	Cash Component	Overnight Euro LIBOR
2	Base Currency of MSCI Parent Index and Cash Component	EUR
3	Specific Risk Level	10%
4	Number of trading days used for Volatility Calculation	20 days
5	Maximum Leverage	100%
6	Turnover Buffer	5%
7	Exchange Holiday Rule Threshold	10%
8	Lag between Rebalancing Date and Effective Date	2 business days
9	Maximum daily change in risky assets leverage	±20%

**APPENDIX 2: PARAMETERS USED FOR THE MSCI DECREMENT INDEXES  
METHODOLOGY**

The following parameters are used in the calculation of the Index

	<b>MSCI Decrement Index Methodology Parameters</b>	
1	Currency of Calculation	EUR
2	Decrement Type	Fixed Index Points Decrement
3	Decrement Application	Geometric Application
4	Decrement Value	2.5
5	Day-count Convention	Act/365
6	Index Floor	20
7	Decrement Frequency	Daily

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