



MSCI JAPAN HIGH DIVIDEND SELECT 25 INDEX METHODOLOGY

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1 Introduction

The MSCI Japan High Dividend Select 25 Index aims to represent the performance of 25 stocks from Japan that exhibit relatively higher dividend yield. The stock selection for this index is diversified with sector constraints.

2 Constructing the Index

The MSCI Japan High Dividend Select 25 Index is constructed from MSCI Japan IMI Index (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Eligibility Screens
- Security Selection
- Security Weighting

2.1 ELIGIBILITY SCREENS

All securities belonging to the Parent Index are divided into two sub universes namely, “REITs Universe” and “Ex-REITs Universe”, defined as follows:

- REITs Universe: It includes all Real Estate Investment Trusts (REITs) from the Parent Index
- Ex-REITs Universe: It includes all securities belonging to the Parent Index except for REITs

The following screens are applied only to securities belonging to Ex-REITs Universe.

2.1.1 LIQUIDITY CRITERIA

Securities with 3-month Annualized Traded Value (3-month ATV) less than JPY 25.2 Billion are excluded from the Ex-REITs Universe.

To avoid inclusion of multiple securities of the same company from the Ex-REITs Universe in the Index, only the most liquid security for each issuer as the per its 3-month Annualized Traded Value (3-month ATV) is eligible for inclusion in the Index. For any issuer, should securities have the same 3-month ATV, the one with the higher free float-adjusted market capitalization is included.

2.1.2 MARKET CAPITALIZATION CRITERIA

Securities with full market capitalization less than JPY 40 Billion are excluded from the Ex-REITs Universe.

2.1.3 DIVIDEND PERSISTENCE CRITERIA

Securities with a negative 5Y Dividend per share (DPS) growth are excluded from the Ex-REITs Universe as this is an indicator of shrinking dividend growth which could be a precursor to lower dividends. Securities which have insufficient data to calculate a 5Y DPS growth rate are not excluded from the Ex-REITs Universe. For more details on

5Y DPS growth calculation please refer to MSCI High Dividend Yield Indexes methodology at <https://www.msci.com/index-methodology>.

2.1.4 PRICE PERFORMANCE CRITERIA

Securities ranked in the bottom 5% of the universe of securities with negative 1-year Price Performance are excluded from the Ex-REITs Universe.

2.2 SECURITY SELECTION

The following steps are applied to the REITs Universe and the Ex-REITs Universe remaining post the above screenings (the “Eligible Ex-REITs Universe”) to select 25 securities for inclusion in the index.

- Step 1

Select the top 2 securities from the REITs Universe, ranked in the order from the highest to the lowest dividend yield. In case two securities have the same dividend yield, the security with higher market capitalization is assigned higher rank. In case there are no securities in the REITs Universe, none are selected in the index.

- Step 2

Select the remaining top 23 securities from the Eligible Ex-REITs Universe, ranked in the order from the highest to the lowest dividend yield, while ensuring that the maximum exposure to any sector does not exceed 20% above the corresponding sector weight in the Eligible Ex-REITs Universe. In case two securities have the same dividend yield, the security with higher market capitalization is assigned higher rank.

For each of the GICS® Sectors, the number of constituents is capped based on the below formulas:

$$SecCAP(j, TR) = RoundUp((WtSecBM(j, TR) + 20\%) * 25)$$

Where:

$SecCAP(k, TR)$ = Cap on Number of Securities for Sector j on Index Review date TR

$WtSecBM(k, TR)$ = Weight of the securities from sector j in the Eligible Ex-REITs Universe

2.3 SECURITY WEIGHTING

The securities selected for inclusion in the Index are assigned equal weights.

3 Maintaining the Index

3.1 SEMI-ANNUAL INDEX REVIEWS

The MSCI Japan High Dividend Select 25 Index is reviewed on a Semi-Annual basis as per the steps described in Section 2, coinciding with the May and November Semi-Annual Index Reviews of the Parent Index.

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

The fundamental data used to determine the MSCI Japan High Dividend Select 25 Index is maintained monthly. For the May and November Semi-Annual Index Reviews, the fundamental data as of the end of April and the end of October is used respectively.

Existing constituents of the current MSCI Japan High Dividend Select 25 Index will also be evaluated for continued inclusion using the following screening process:

If a security is already an Index constituent but its 5Y DPS growth rate turns negative, it will still be allowed to remain in the Index, provided that the 1Y DPS growth rate of that security is non-negative. This allows current Index constituents that suffer only a temporary decline in the 5Y DPS growth rate to remain in the index and thus avoid excessive index turnover. Securities which do not have sufficient data to calculate a 5Y DPS growth rate or 1Y DPS growth rate would still be eligible to remain in the index.

3.2 ONGOING EVENT-RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the MSCI Japan High Dividend Select 25 Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

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

Merger/Acquisition

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.

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>

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