

MSCI JAPAN IMI CUSTOM LIQUIDITY AND YIELD LOW VOLATILITY INDEX METHODOLOGY

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1 INTRODUCTION

The MSCI Japan IMI Custom Liquidity and Yield Low Volatility Index (the “Index”) is a custom index constructed by applying an optimization process to achieve total risk minimization for a set of companies with high yield and liquidity within the Parent Index.

2 INDEX CONSTRUCTION METHODOLOGY

The MSCI Japan IMI Custom Liquidity and Yield Low Volatility Index is constructed from the MSCI Japan Investible Market Index (the “Parent Index”). The following steps are applied at initial construction and subsequent Quarterly Reviews of the Index.

- Defining the Eligible Universe
- Applying Liquidity and Yield Screens
- Optimization for Risk Reduction

2.1 DEFINING THE ELIGIBLE UNIVERSE

All securities belonging to the Parent Index are eligible for inclusion in the Index, with the exception of the securities classified in the below industry groups and industry according to the Global Industry Classification Standard (GICS®):

- 4010 - Banks
- 4020 - Diversified Financials
- 4030 - Insurance
- 404020 - Real Estate Investment Trusts (REITs)

2.2 APPLYING LIQUIDITY AND YIELD SCREENS

The following liquidity and yield screens are applied sequentially for the eligible securities from the Parent Index

- In the first step, select all constituents of the eligible universe with a 1-month Frequency of Trading (FoT)¹ greater than or equal to 85%
- In the second step, rank all constituents from the first step in descending order of their 1-month Annualized Traded Value (ATV)² and select the top 400 securities
- In the final screening step, rank all constituents from the second step in descending order of their dividend yield³ and select the top 150 securities

¹ MSCI Global Investible Market Indexes Methodology at <https://www.msci.com/index-methodology>

² MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>

³ MSCI Fundamental Data Methodology at <https://www.msci.com/index-methodology>

Securities for which any of the above parameters are missing are not eligible for inclusion in the Index.

2.3 OPTIMIZATION FOR RISK REDUCTION

The final Index is constructed by using an optimization process to target the lowest total risk on the set of securities selected after the screening process defined in section 2.2 by applying the MSCI Global Minimum Volatility Indexes Methodology⁴. The following constraints are used as part of the optimization.

- The maximum weight of an Index constituent is restricted to 1%
- The minimum weight of an Index constituent is 0.05%
- The optimization currency for the Index is the Japanese Yen
- No active sector weight constraints are applied
- No active Barra risk index constraints are applied
- The one way turnover of the Index is constrained to a maximum of 20% at each Semi-Annual Index Review.

⁴ MSCI Global Minimum Volatility Indexes Methodology at <https://www.msci.com/index-methodology>

3 MAINTAINING THE 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. Fundamental variables as of the end of January, April, July and October are used for the Index Reviews. The pro forma Index is typically announced nine business days before the effective date.

3.2 ONGOING EVENT RELATED CHANGES

In general, the Index follows the event maintenance of the Parent Index.

In between Index Reviews, securities deleted from the Parent Index are simultaneously deleted from the Index. Securities in the Index that migrate to the excluded industry groups and industry in section 2.1 in between Index Reviews are simultaneously excluded from the Index.

There will be no additions to the Index in between Index Reviews.

APPENDIX I: HANDLING INFEASIBLE OPTIMIZATIONS

During the Quarterly Index Review, in the event that there is no optimal solution that satisfies all the optimization constraints defined in Section 2.3, the following constraints will be relaxed, until an optimal solution is found:

- Relax the turnover constraint in steps of 5%, up to a maximum of 100%
- Relax the minimum weight constraint in steps of 0.01% up to a minimum of 0.01%

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