

MSCI TOP 50 DIVIDEND INDEXES METHODOLOGY

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1 INTRODUCTION

The MSCI Top 50 Dividend Indexes are constructed to reflect the performance of the top 50 securities in the Parent Index, ranked by dividend yield, that have increased or maintained their dividend per share compared to the previous year, or have increased or maintained their payout ratio if the dividend per share has dropped by no more than 10%.

The Top 50 Dividend Indexes seek to provide exposure to a focused high income strategy with diversification provided through equal-weighting of the constituents.

2 CONSTRUCTING THE MSCI TOP 50 DIVIDEND INDEXES

2.1 APPLICABLE UNIVERSE

The applicable universe includes all the existing constituents of an underlying MSCI parent index (herein, a “Parent Index”) except the securities which belong to the companies under sanctions imposed by the Council of the European Union or the US Department of the Treasury. 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.

The fundamental data used is maintained monthly. MSCI uses dividend yield, 1-year dividend per share (DPS) growth, payout ratio and price data as of the end of the month preceding the Index Review, i.e., January, April, July and October. To get price return it also uses price data as of the end of twelve months preceding the Index Review.

Fundamental data as of the end of January, April, July and October respectively is used for each index review. The MSCI Top 50 Dividend Indexes are constructed from securities within the Parent Index that fulfill specific rules on dividend yield, dividend per share growth, payout ratio and price momentum as indicated in the following sections. Absence of relevant data renders the security ineligible of selection.

2.2 SECURITY SELECTION AND WEIGHTING SCHEME

The MSCI Top 50 Dividend Indexes are constructed with a fixed number of securities approach. For the initial construction of the Index, a selection universe of securities is created from the Parent Index using the following requirements:

- A minimum dividend yield of 5% and a maximum yield at 20%;
- 1-year dividend per share (DPS) growth greater than, or equal to, zero;¹
- A price return over the prior 12 months that is not in the bottom 5th percentile relative to the constituents of the Parent Index as of the previous end of month

The top 50 securities by dividend yield are then identified as potential constituents. The securities are weighted equally at initial construction subject to sector and country capping at 35%. A maximum of one security is selected per issuer. In case there are multiple securities of the same issuer, only the security with the highest dividend yield is eligible. If the sector or country weight exceeds the applicable capping, the lowest yielding security (or securities) from the most overweight sector/country is (are) substituted with the next

¹ Note that this requirement ensures, by definition, that the stock must have paid a dividend in each of the last two years

highest yielding security (or securities). The process repeats until all sector and country weights are within the applicable capping constraints. The sector weights are taken into consideration first followed by country weights.

3 INDEX MAINTENANCE

3.1 ANNUAL INDEX REVIEW

The annual review of the Top 50 Dividend Index coincides with the May Semi-Annual Index Review of the Parent Index. Changes are implemented as of close of the last business day of May. The pro forma indexes are announced nine business days before the effective date.

Existing constituents are given preference during the constituent selection process for the Annual Index Review. The existing constituents of the index are retained if they have:

- i. a dividend yield of at least 3%,
- ii. a 1-year DPS growth greater than or equal to zero
- iii. same or higher payout ratio change compared to the prior year if the 1-year DPS growth is between -10% and 0%.

In case there are multiple securities having the same issuer, only the security with the highest dividend yield amongst them is retained.

If the resulting number of securities in the index is less than 50, additional securities are then selected from the Parent Index in order of decreasing dividend yield as long as they

- i. have a dividend yield between 5% and 20%,
- ii. have a 1-year DPS growth greater than or equal to zero and
- iii. have a price return over the prior 12 months that is not in the bottom 5th percentile relative to the constituents of the Parent Index.
- iv. do not belong to an issuer for which another security is already part of the index.

If the total number of securities selected still does not reach 50, the minimum dividend yield threshold of 5% is reduced until the total number of securities equals 50.

The constituents are equal-weighted subject to sector and country capping at the Annual Review as described in Section 3.3.

3.2 QUARTERLY INDEX REVIEW

The quarterly index reviews of the Top 50 Dividend Index coincides with the February and August Quarterly Index Review and November Semi-Annual Index Review of the Parent Index. Changes are implemented as of close of the last business day of the month of the index review. The pro forma indexes are announced nine business days before the effective date.

Existing constituents are also given preference during the constituent selection process for the Quarterly Index Reviews. The existing constituents from the Index are retained if they have:

- i. a dividend yield of at least 3%,
- ii. a 1-year DPS growth greater than or equal to zero and
- iii. same or higher payout ratio change compared to the prior year if the 1-year DPS growth is between -10% and 0%.

In case there are multiple securities having the same issuer, only the security with the highest dividend yield amongst them is retained. If the resulting number of securities in the index is less than 50, additional securities are then selected from the Parent Index in order of decreasing dividend yield if they have a dividend yield between 5% and 20% and 1-year DPS growth greater than or equal to zero, and do not belong to an issuer for which another security is already part of the index.

If the total number of securities selected still does not reach 50, the minimum dividend yield threshold of 5% is reduced until the total number of securities equals 50.

The constituents are subject to sector and country capping at the Quarterly Index Review as described in Section 3.3.

3.3 WEIGHTING SCHEME

During the Annual Review, securities are weighted equally with country and sector capping of 35% each. If there is a breach of a country or sector cap, the lowest yielding securities from the relevant country or sector with the breach will be replaced by the next highest yielding securities from the selection universe (as per Section 2.2).

During the Quarterly Reviews, the existing securities are retained at their current weights. The sector and country weights are both capped at 35%. If there is a breach in the weight of a sector/country, the weight of the existing securities in that sector/country is capped at 35% and the additional weight is redistributed proportionally to other existing securities. In this process, the sector weights are taken into consideration first followed by the country weights. If there is a breach in sector weights while adjusting country weights, the process is repeated until both sector and country capping are in place. The new securities are now added to the index one by one with the country and sector caps till we reach 50 or we run out of eligible securities.

3.4 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Top 50 Dividend 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 Top 50 Dividend Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Top 50 Dividend Index.

The following section briefly describes the treatment of common corporate events within the MSCI Top 50 Dividend 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>

The following sections have been modified since September 2016:

- The details on the Corporate Events treatment are now included in Section 3.4.

The following sections have been modified since June 2017:

- Section 2.1 was expanded to include information about dates for which fundamental data is taken for index reviews.

The following sections have been modified since October 2017:

- Sections 2.1, 3.1 and 3.2 were expanded to include the additional constraint of the index having a maximum of a single security per issuer.

The following sections have been modified since November 2017:

- Section 2.1 has been updated to clarify the applicable universe for index construction.

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