

Consultation on Proposed Implementation Schedule for the Reclassification of Kuwait in the MSCI Frontier Markets 100 Index

October 2020

Proposed Treatment in the Context of the Kuwait Reclassification

- As announced on April 8, 2020, the MSCI Kuwait Index will be reclassified from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index in one step coinciding with the November 2020 Semi-Annual Index Review (SAIR).
- In order to alleviate potential implementation concerns for the MSCI Frontier Markets 100 Index MSCI proposes to:
 1. Phase the deletion of securities classified in Kuwait from the MSCI Frontier Markets 100 Index, targeting equal steps over five successive Index Reviews starting from the November 2020 Semi-Annual Index Review (SAIR).
 2. Due to currently observed accessibility issues in Bangladesh, Lebanon and Nigeria, keep unchanged the index weights of securities classified in Bangladesh, Lebanon and Nigeria, subject to maintaining compliance with diversification rules and guidance in the MSCI Frontier Markets 100 Index methodology.¹
- This proposal does not, in any way, affect the reclassification of Kuwait from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index, which will take place in one step as part of the November 2020 SAIR, as of the close of November 30, 2020 (effective December 1, 2020).
- MSCI welcomes feedback from market participants on this topic on or before October 30, 2020. MSCI will communicate the results of the consultation by November 9, 2020.

Detailed Treatment at Each Phase

Step
1

Apply FM 100 Index Maintenance methodology

- ❖ Apply regular Index Maintenance Rules² (SAIR rules at Phases 1, 3 and 5 or QIR rules at Phases 2 and 4). This will include:
 - Updating the **List of Constituents** (which excludes Kuwait starting from the November 2020 SAIR), and applying **Country Capping** at SAIRs.
 - **Additions and Deletions** at QIRs
- ❖ This results in **Preliminary Weights**.

Step
2

Revert weights of Bangladesh, Lebanon and Nigeria securities

- ❖ Revert weights of Bangladesh, Lebanon and Nigeria securities to their **Current Weights** (pre-rebalance).
- ❖ Reallocate reverted weight changes to other securities on a pro rated basis based on **Preliminary Weights**.
- ❖ This results in **Post-Reclassification Weights**.

Step
3

Apply Phasing Factors

- ❖ For each security, determine the **Weight Difference** between the **Post-Reclassification Weight** and the **Current Weight**.
- ❖ Apply phasing factors to the **Weight Difference** per the **Phasing Schedule** (see Slide 5) to arrive at **Pre-Diversification Capping Weights**.

Step
4

Apply Diversification Rules

- ❖ Apply **Diversification Rules and Guidance** from the MSCI Frontier Markets 100 Index methodology to the **Pre-Diversification Capping Weights**.
- ❖ This results in final **Pro Forma Weights** for each phase.

Application of Phasing Factors to Calculate Pre-Diversification Capping Weights

For each phase, the **Pre-Diversification Capping Weights** for the MSCI Frontier Markets 100 Index prior to the application of **Diversification Rules and Guidance** are determined as follows (**Step 3**):

- For each security, determine the **Weight Difference** between the **Post-Reclassification Weights** and the **Current Weights**.
- Apply phasing factors to the **Weight Difference** and calculate the **Pre-Diversification Capping Weights** per the below **Phasing Schedule**. Kuwait security weights at this point will be non-zero (unless at Phase 5).
 - Please note that weights calculated in this Step are potentially subject to further change per the **Diversification Considerations** in the MSCI Frontier Markets 100 Index methodology (see **Step 4**)

Phasing Schedule

Phase	Index Review	Calculation of Pre-Diversification Capping Weight
Phase 1	November 2020 SAIR	Pre-Diversification Capping Weight = Current Weight + (Weight Difference * 20%)
Phase 2	February 2021 QIR	Pre-Diversification Capping Weight = Current Weight + (Weight Difference * 25%)
Phase 3	May 2021 SAIR	Pre-Diversification Capping Weight = Current Weight + (Weight Difference * 33%)
Phase 4	August 2021 QIR	Pre-Diversification Capping Weight = Current Weight + (Weight Difference * 50%)
Phase 5	November 2021 SAIR	Pre-Diversification Capping Weight = Current Weight + (Weight Difference * 100%)

Application of Phasing Factors to Calculate Pre-Diversification Capping Weights (Examples)

- Illustration for Phase 1 (20% of the **Weight Difference**):

Security Change Type	Current Weight (A)	Post-Reclassification Weight (B)	Weight Difference (C) = (B) - (A)	Pre-Diversification Capping Weight (D) = (A) + 20% * (C)	Final Pro Forma Weight
Addition	0.0%	5.0%	5.0%	1.0%	1.1%
Deletion	3.0%	0.0%	-3.0%	2.4%	2.2%
Weight Increase	8.0%	9.0%	1.0%	8.2%	8.2%
Weight Decrease	7.0%	5.0%	-2.0%	6.6%	6.5%

- Illustration for Phase 2 (25% of the **Weight Difference**):

Security Change Type	Current Weight (A)	Post-Reclassification Weight (B)	Weight Difference (C) = (B) - (A)	Pre-Diversification Capping Weight (D) = (A) + 25% * (C)	Final Pro Forma Weight
Addition	1.1%	5.0%	3.9%	2.1%	2.0%
Deletion	2.2%	0.0%	-2.2%	1.7%	1.7%
Weight Increase	8.2%	9.0%	0.8%	8.4%	8.5%
Weight Decrease	6.5%	5.0%	-1.5%	6.1%	6.0%

Final Pro Forma Weights are derived by applying diversification rules and guidance on the Pre-Diversification Capping Weights.

Current Weights in subsequent phases may differ from Pro Forma Weights in prior phases due to price movements and corporate events.

Post Reclassification Weights in subsequent phases may differ from those in prior phases due to price movements and the application of the regular Index Maintenance methodology at each phase.

Summary of Simulated Results

- The tables below show simulated results of the proposed treatment, which includes:
 - The application of the FM 100 Index Maintenance methodology to arrive at **Preliminary Security Weights**,
 - The reversion of Bangladesh and Nigeria weights to arrive at **Post-Reclassification Weights** (note that there are no Lebanon securities in the MSCI Frontier Markets 100 Index currently),
 - The application of phasing factors to arrive at **Pre-Diversification Capping Weights**, and
 - The application of Diversification Rules and Guidance to arrive at final **Pro Forma Weights**.

Current versus simulated final Pro Forma Weights after Phase

Country	Current Weight	Final Pro Forma Weight
BANGLADESH	6.29%	6.35%
NIGERIA	7.80%	7.78%
KUWAIT	26.29%	21.14%
OTHERS	59.63%	64.73%

Data as of the August 2020 QIR.
 Diversification rules and guidance were not triggered in this simulation.
 Pro forma weights for Bangladesh and Nigeria differ from current weights due to price movement.

Current versus simulated final Pro Forma Weights after full reclassification

Country	Current Weight	Final Pro Forma Weight
BANGLADESH	6.29%	6.37%
NIGERIA	7.80%	7.80%
KUWAIT	26.29%	0.00%
OTHERS	59.63%	85.84%

Data as of the August 2020 QIR.
 Diversification rules and guidance were triggered in this simulation.
 Pro forma weights for Bangladesh and Nigeria differ from current weights due to price movement and diversification capping.

Discussion Points

- Is it warranted to phase the deletion of securities classified in Kuwait from the MSCI Frontier Markets 100 Index?
 - Do you agree with the proposed phasing schedule (targeting equal steps over five successive Index Reviews starting from the November 2020 SAIR)?
- Do you agree with the proposal to keep unchanged the index weights of securities classified in Bangladesh, Lebanon and Nigeria, subject to the diversification rules and guidance in the MSCI Frontier Markets 100 Index methodology?

Appendix

SECTION SUBTITLE GOES HERE

► MSCI Frontier Markets 100 Methodology – Diversification Rules and Guidance

2.5 DIVERSIFICATION CONSIDERATIONS

The MSCI Frontier Markets 100 Index is designed to take into account certain fund diversification rules and guidance. After application of the rules described in section 2.4 the following steps are performed.

- The sum of the weights of all group entities representing more than 5% weight will be constrained at 25%;
- A buffer of 10% of the value is applied on the aggregation factor of 5% and the aggregation constraint of 25%. More specifically, as part of a rebalancing, the aggregated weight of all group entities with weight above 4.5%, cannot exceed 22.5% of the Index weight;
- Between two Quarterly Index Review effective dates, the Index is rebalanced at the end of any business day on which the constraints of 25% for group entities representing more than 5% are breached;
- The reweighting resulting from group entity capping would take priority over any other methodological requirement such as the country capping.

© 2020 MSCI Inc. All rights reserved. Please refer to the disclaimer at the end of this document.

MSCI.COM | PAGE 6 OF 25

Simulated Country Weights Resulting From Kuwait Reclassification

	Simulated Index Weight after Phase 1	Simulated Index Weight after Full impementation
VIETNAM	15.76%	28.76%
MOROCCO	11.79%	12.47%
ROMANIA	8.75%	10.26%
KENYA	7.89%	9.49%
BAHRAIN	8.30%	9.46%
NIGERIA	7.78%	7.80%
BANGLADESH	6.35%	6.37%
OMAN	4.37%	5.08%
KAZAKHSTAN	3.37%	3.88%
SRI LANKA	1.33%	2.19%
JORDAN	1.56%	1.83%
ESTONIA	0.81%	1.19%
CROATIA	0.39%	0.46%
MAURITIUS	0.36%	0.41%
LITHUANIA	0.06%	0.34%
KUWAIT	21.14%	0.00%

► About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

Contact us

AMERICAS		EUROPE, MIDDLE EAST & AFRICA		ASIA PACIFIC	
Americas	+1 888 588 4567 *	Cape Town	+ 27 21 673 0100	China North	10800 852 1032 *
Atlanta	+ 1 404 551 3212	Frankfurt	+ 49 69 133 859 00	China South	10800 152 1032 *
Boston	+ 1 617 532 0920	Geneva	+ 41 22 817 9777	Hong Kong	+ 852 2844 9333
Chicago	+ 1 312 675 0545	London	+ 44 20 7618 2222	Mumbai	+ 91 22 6784 9160
Monterrey	+ 52 81 1253 4020	Milan	+ 39 02 5849 0415	Seoul	00798 8521 3392 *
New York	+ 1 212 804 3901	Paris	0800 91 59 17 *	Singapore	800 852 3749 *
San Francisco	+ 1 415 836 8800			Sydney	+ 61 2 9033 9333
São Paulo	+ 55 11 3706 1360			Taipei	008 0112 7513 *
Toronto	+ 1 416 628 1007			Thailand	0018 0015 6207 7181 *
				Tokyo	+81 3 5290 1555

* = toll free

msci.com
clientservice@msci.com

Notice & disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.

- ***This consultation may or may not lead to any changes in MSCI's indexes. Consultation feedback will remain confidential unless a participant requests that its feedback be disclosed. In that case, the relevant feedback would be published at the same time as the final results of the consultation.***