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# Consultation on Proposed Changes to the MSCI Frontier Markets 100 Index Methodology

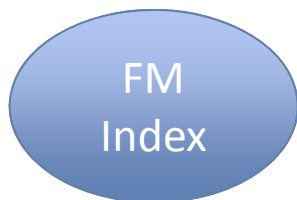
March 2014

# Background and Proposal

- On June 11, 2013, MSCI announced its decision to reclassify the MSCI Qatar and MSCI UAE Indices from Frontier Markets to Emerging Markets coinciding with the May 2014 Semi-Annual Index Review
- Currently the MSCI Frontier Markets 100 Index (FM 100 Index) includes 24 securities from Qatar and UAE, which represent a cumulative weight of 35% in the FM 100 Index
- The reclassification of the MSCI Qatar and MSCI UAE Indices is expected to significantly decrease the pool of potential FM 100 Index constituents. In addition, once the reclassification takes place, the FM 100 Index may exhibit high country concentration
- To address these issues, MSCI proposes changing the parent index for the FM 100 Index from the MSCI Frontier Markets Index (FM Index) to the MSCI Frontier Markets IMI (FM IMI), as well as applying a cap on the weight of the two largest countries in the FM 100 Index
- MSCI welcomes feedback from the investment community on the proposed methodological changes by March 24, 2014 and will communicate its final decision shortly thereafter
- This consultation may or may not lead to any changes to the MSCI Indexes

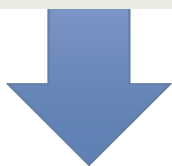
# Current and Proposed Methodology

## Current methodology



### Additional investability requirements

- 12-month ATVR: Minimum 10%
- More stringent minimum foreign room requirement
- Maximum country weight = 50%



Target number of stocks = 100

Minimum = 90 (if less than 100 eligible stocks)

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## Proposed methodology



### Additional investability requirements

- 12-month ATVR: Minimum 10%
- More stringent minimum foreign room requirement
- **More stringent free float market cap. requirement (\*)**
- **Cap on the weight of the two largest countries = 40%**



Number of stocks between 85 and 115

(\*) defined on page 5

# Details on the Proposed Changes

## 1) Change in the parent index

- Due to the planned reclassification of the MSCI Qatar and MSCI UAE Indices to Emerging Markets, the pool of securities potentially eligible for inclusion to the FM 100 Index will decrease
- Therefore, MSCI proposes to change the parent index for the FM 100 Index from the MSCI FM Index to the MSCI FM IMI
- With this change, the constituents of the MSCI FM Small Cap Index would be added to the pool of potential FM 100 Index constituents, which would result in a significant increase of this pool:
  - The MSCI FM Index has **143 constituents** (\*)
  - The MSCI FM Index excluding Qatar and UAE has **120 constituents** (\*)
  - The MSCI FM IMI excluding Qatar and UAE has **339 constituents** (\*)

(\*) as of January 31, 2014

# Details on the Proposed Changes (continued)

## 2) More stringent investability requirements

- In conjunction with the proposed change in the parent index for the FM 100 Index to the FM IMI, more stringent investability requirements could be applied in the FM 100 Index so that only sizable FM IMI constituents may be included in the FM 100 Index
- MSCI proposes to apply a more stringent free float-adjusted market capitalization requirement for inclusion of securities in the FM 100 Index, compared to the requirement currently applied for inclusion of securities in the FM IMI. This would aim to enhance the overall investability of the FM 100 Index
- The threshold would be derived as follows:
  - First, the securities in the FM IMI would be sorted in descending order of free float-adjusted market capitalization and the cumulative free float-adjusted market capitalization coverage would be calculated at each security
  - Second, when the cumulative coverage of 80% of the sorted FM IMI is achieved, the free float-adjusted market capitalization of the security at that point would define the threshold
  - At each Index Review, this threshold would be updated using the same process
- Based on data as of Jan. 31, 2014, the minimum free float-adjusted market capitalization requirement would be USD 240 million
  - This corresponds to approximately 3 times and 6 times the requirement currently applied in the FM IMI for Larger FMs (USD 81 million) and Smaller FMs (USD 41 million), respectively

## Details on the Proposed Changes (continued)

### 3) Cap on the weight of the two largest countries

- The reclassification of the MSCI Qatar and MSCI UAE Indices to Emerging Markets are expected to significantly increase the country concentration level in the FM 100 Index
- The two largest countries (Kuwait and Nigeria) would have a simulated cumulative weight of more than 53% in the FM 100 Index (based on the proposed methodology)
- In order to limit the country concentration, MSCI proposes to introduce a 40% cap to the cumulative weight of the two largest countries in the FM 100 Index
  - If the cumulative weight is above 40% at the time of an Index Review, MSCI would reduce the weight of each constituent security in the two countries in order to reach 40%
  - The weight of all the other countries in the FM 100 Index would increase accordingly

## Details on the Proposed Changes (continued)

### 4) Allow the number of constituents to fluctuate

- In order to better reflect changes in the investable universe for the FM 100 Index, MSCI proposes to allow the number of constituents in the FM 100 Index to fluctuate within a target range
- MSCI proposes to allow the number of constituents to fluctuate between 85 to 115. Hence, at each Index Review, the following treatment would be applied:
  - If the number of constituents resulting from the application of the proposed FM 100 methodology is between 85 and 115, no adjustments would be necessary
  - If the number of constituents resulting from the application of the proposed FM 100 methodology is less than 85, adjustments would be made to bring the pro forma index to exactly 85 constituents
  - If the number of constituents resulting from the application of the proposed FM 100 methodology is more than 115, adjustments would be made to bring the pro forma index to exactly 115 constituents
- Currently, the FM 100 Index targets exactly 100 constituents
  - A lower number of constituents is possible (minimum 90) only if the number of eligible securities for potential inclusion in the FM 100 Index decreases below 100

# Potential Impact of the Proposal – Index Level

## Simulated FM 100 Index Additions, Deletions, Market Capitalization and Turnover

	Current # Sec.	Simulated Index			Index Mkt Cap	One Way Index Turnover
		Add	Del	# Sec.		
Current Methodology	101	11	22	90	83,842	34.6%
Proposed Methodology	101	24	27	98	90,339	35.1%

Note: All market caps are in USD millions. Data as of the close of January 31, 2014

- Based on a simulation using the **current FM 100 Index methodology**, the reclassification of the MSCI Qatar and MSCI UAE Indices to Emerging Markets would decrease the number of eligible securities for the FM 100 Index to 87, hence the minimum of 90 constituents would apply.
- Based on a simulation using the **proposed FM 100 Index methodology**, the FM 100 Index would consist of 98 securities, i.e. within the allowed 85 to 115 range. Hence, no adjustments would be necessary.
- The cap applied on the weight of the two largest countries under the proposed FM 100 Index methodology would not impact the Index Market Capitalization and One Way Index Turnover for the simulated FM 100 Index. Only the country weights would be impacted (see next page).



# Potential Impact of the Proposal – Country Level

## Simulated Country Additions, Deletions and Weights for the FM 100 Index

Country	Current Index		Simulated Index - Current meth.				Simulated Index - Proposed meth.				
	# Sec.	Weight	Add	Del	# Sec.	Weight	Add	Del	# Sec.	Weight	
										Uncapped	Capped
Kuwait	8	20.6%	0	0	8	30.8%	8	0	16	32.7%	24.7%
Nigeria	11	13.2%	1	0	12	20.3%	5	1	15	20.2%	15.3%
Pakistan	9	4.3%	3	0	12	6.8%	1	0	10	6.6%	8.4%
Oman	8	3.4%	0	0	8	5.1%	5	0	13	6.4%	8.1%
Argentina	6	4.1%	0	0	6	6.0%	1	0	7	5.9%	7.5%
Kenya	5	3.8%	0	0	5	5.5%	0	0	5	5.1%	6.5%
Morocco	4	3.6%	1	0	5	6.2%	0	0	4	5.0%	6.4%
Kazakhstan	3	3.2%	0	0	3	4.7%	0	0	3	4.4%	5.6%
Vietnam	6	2.1%	2	0	8	3.9%	2	1	7	3.5%	4.5%
Bangladesh	4	1.4%	0	0	4	2.1%	1	0	5	2.2%	2.8%
Romania	4	1.5%	0	0	4	2.3%	0	0	4	2.1%	2.7%
Sri Lanka	2	1.4%	0	0	2	2.1%	0	0	2	2.0%	2.5%
Mauritius	2	1.1%	0	0	2	1.7%	0	0	2	1.5%	2.0%
Jordan	3	0.7%	0	0	3	1.1%	0	2	1	0.8%	1.0%
Bahrain	0	0.0%	0	0	0	0.0%	1	0	1	0.6%	0.8%
Estonia	1	0.3%	0	0	1	0.5%	0	0	1	0.5%	0.6%
Serbia	1	0.2%	0	0	1	0.3%	0	0	1	0.3%	0.3%
Slovenia	1	0.2%	0	0	1	0.3%	0	0	1	0.3%	0.3%
Bulgaria	0	0.0%	1	0	1	0.1%	0	0	0	0.0%	0.0%
Lithuania	0	0.0%	2	0	2	0.2%	0	0	0	0.0%	0.0%
Ukraine	1	0.1%	1	0	2	0.2%	0	1	0	0.0%	0.0%
Qatar	13	18.2%	0	13	0	0.0%	0	13	0	0.0%	0.0%
UAE	9	16.4%	0	9	0	0.0%	0	9	0	0.0%	0.0%
<b>Total</b>	<b>101</b>	<b>100.0%</b>	<b>11</b>	<b>22</b>	<b>90</b>	<b>100.0%</b>	<b>24</b>	<b>27</b>	<b>98</b>	<b>100.0%</b>	<b>100.0%</b>

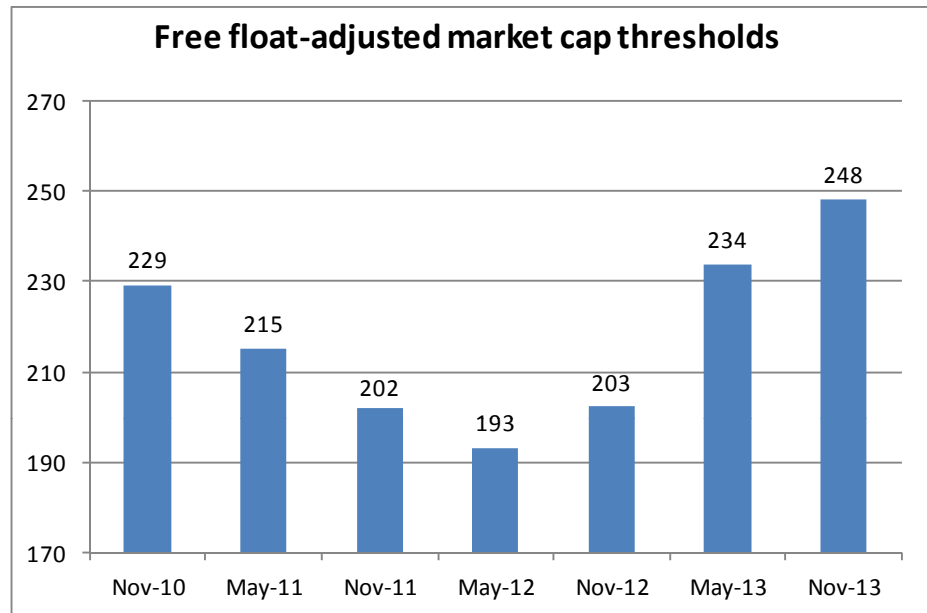
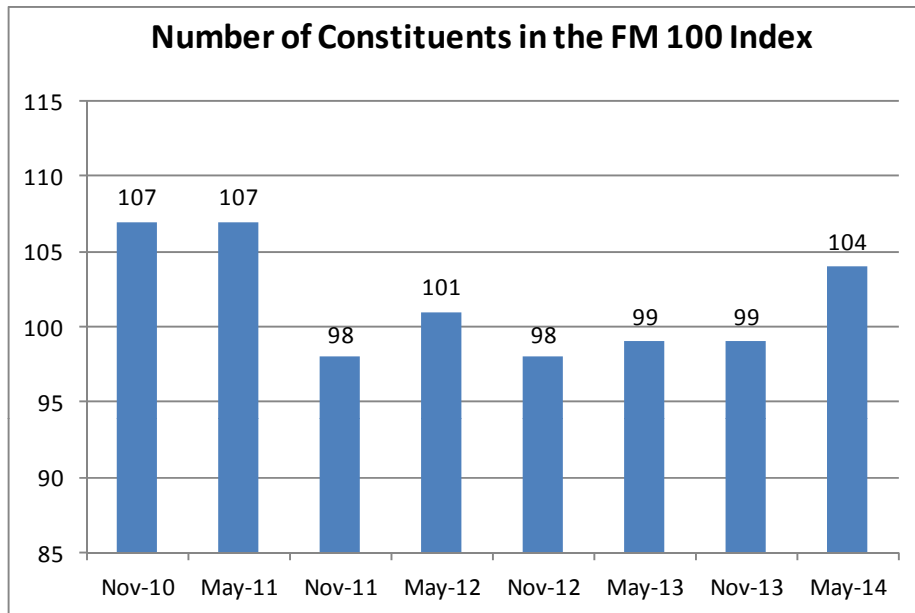
Sum = 40%

- The cumulative weight of Kuwait and Nigeria would be reduced from 53% to 40% by applying the proposed cap
- The weight of other countries would increase significantly compared to their current weights

Note: Data as of the close of January 31, 2014



## Simulated Historical Impact of the Proposal (\*)



- The historical application of the proposed methodology since the November 2010 Semi-Annual Index Review would have consistently resulted in a number of constituents within the 85 to 115 target range, without the need to artificially cap the number of constituents to 85 or 115
- The free float-adjusted market capitalization thresholds would have ranged from USD 193 million (November 2011 Semi-Annual Index Review) to USD 248 million (November 2013 Semi-Annual index Review)

(\*) please see disclaimer at the end of this document

## Discussion Points

- Would the inclusion of sizable FM Small Cap securities be an appropriate response to the decrease in the pool of potential constituents for the FM 100 Index following the reclassification of Qatar and UAE?
  - Is it appropriate to use a cumulative coverage of the FM IMI to derive the minimum free float-adjusted market capitalization threshold ?
- Should the country concentration in the FM 100 Index be limited?
- Should MSCI let the number of constituents in the FM 100 Index float?
  - Do you consider the range of 100 +/- 15 stocks as reasonable?
- Should MSCI transition to the new FM 100 Index methodology in several steps?
  - The exclusion of Qatar and UAE securities from the FM 100 Index may increase considerably the weight of other countries in the index, potentially creating a significant turnover
  - For example the changes could be implemented in seven steps over six months, from the May 2014 Semi-Annual Index Review to the November 2014 Semi-Annual Index Review

# Appendix



# Simulated List of Additions

Country	Security Name	FIF Mkt Cap	Status in FM IMI	Comment
Kuwait	Nat'L Ind Grp Hold	783	Small Cap	
Nigeria	Oando	725	Small Cap	
Morocco	BMCE	655	Standard	12M ATVR < 10%
Nigeria	Unilever Nigeria	630	Standard	12M ATVR < 10%
Kuwait	Al-Qurain Petrochemicals	602	Small Cap	
Bahrain	Al-Salam Bank	575	Small Cap	
Kuwait	Comm Real Estate Co	549	Small Cap	
Kuwait	Kuwait Int'l Bank	539	Small Cap	
Pakistan	Lucky Cement	523	Small Cap	
Nigeria	Transnational Corp Of Ni	437	Small Cap	
Oman	Renaissance Services Co	408	Small Cap	
Kuwait	Jazeera Airways	367	Small Cap	
Kuwait	Kuwait Portland Cement	350	Small Cap	
Vietnam	Petrovietnam Drilling	327	Standard	
Nigeria	Diamond Bank	309	Small Cap	
Vietnam	Petrovietnam Tech Svcs	291	Small Cap	
Kuwait	Aviation Lease And Fin	287	Small Cap	
Kuwait	National Real Estate Co	283	Small Cap	
Nigeria	Cadbury Nigeria	281	Small Cap	
Argentina	Cresud ADR	280	Small Cap	
Oman	Bank Nizwa	275	Small Cap	
Oman	Bank Sohar	261	Small Cap	
Nigeria	Dangote Sugar Refinery	257	Small Cap	
Bangladesh	United Commercial Bank	250	Small Cap	
Oman	Oman Cables Industry	248	Small Cap	
Oman	Ominvest	246	Small Cap	
Vietnam	Petrovietnam Gas Jsc	208	Standard	Low Index Mkt Cap
Pakistan	Pakistan Telecom. Co	123	Standard	Low Index Mkt Cap
Lithuania	Teo	100	Standard	Low Index Mkt Cap
Ukraine	Ukrnafta (Ux)	88	Standard	12M ATVR < 10%
Lithuania	Apranga	87	Standard	Low Index Mkt Cap
Pakistan	Habib Bank	84	Standard	Low Index Mkt Cap
Pakistan	Fatima Fertilizer	62	Standard	Low Index Mkt Cap
Bulgaria	Chimimport	53	Standard	Low Index Mkt Cap

## Legend

Additions - Proposed Methodology

Additions - Current Methodology

Additions - Current and Proposed Meth.

- With the proposed methodology, 23 FM Small Cap securities would be added to the FM 100 Index
- With the current methodology, 3 securities with 12-month ATVR below 10% would be added to the FM 100 Index

# Simulated List of Deletions

Country	Security Name	FIF Mkt Cap	Status in FM IMI	Comment
UAE	Emaar Properties	6,501	Standard	
Qatar	Qatar National Bank	4,254	Standard	
Qatar	Qatar Industries	3,585	Standard	
Qatar	Al Rayan Bank	3,502	Standard	
Qatar	Ooredoo	3,277	Standard	
UAE	Dp World	3,021	Standard	
UAE	Nat'L Bank Of Abu Dhabi	2,300	Standard	
UAE	Abu Dhabi Comm Bank	2,017	Standard	
UAE	First Gulf Bank	1,797	Standard	
UAE	Arabtec Holding	1,793	Standard	
UAE	Dubai Financial Market	1,383	Standard	
Qatar	Qatar Elect & Water Co	1,246	Standard	
Qatar	Doha Bank	1,135	Standard	
Qatar	Vodafone Qatar	1,061	Standard	
Qatar	Qatar Islamic Bank	1,021	Standard	
UAE	Dubai Islamic Bank	977	Standard	
Qatar	Commercial Bank Of Qatar	977	Standard	
Qatar	Barwa Real Estate Co	835	Standard	
UAE	Dana Gas	828	Standard	
Qatar	Qatar Gas Tran (Nakilat)	760	Standard	
Qatar	Qatar Nat'L Navigation	692	Standard	
Qatar	Al Khaliji Bank	505	Standard	
Nigeria	Union Bank Nigeria	144	Standard	Low Index Mkt Cap
Vietnam	Bao Viet Holdings	120	Standard	Low Index Mkt Cap
Ukraine	Motor Sich (Ux)	104	Standard	Low Index Mkt Cap
Jordan	Jordan Telecom Corp	94	Standard	Low Index Mkt Cap
Jordan	Jordan Phosphate Mines	78	Standard	Low Index Mkt Cap

Note: All market caps are in USD millions. Data as of the close of January 31, 2014

## Legend

Deletions - Proposed Methodology

Deletions - Current Methodology

Deletions - Current and Proposed Meth.

- The 22 securities from Qatar and UAE currently included in the FM 100 Index would be deleted
- With the proposed methodology, 5 securities with low free float-adjusted market capitalization would be deleted

# Simulated Full List of Constituents

Security Name	Country	FIF Mkt Cap	Status in FM IMI	Security Name	Country	FIF Mkt Cap	Status in FM IMI
1 National Bank Of Kuwait	Kuwait	7,442	Standard	50 Kuwait Int'L Bank	Kuwait	539	Small Cap
2 Mobile Telecom Co	Kuwait	6,224	Standard	51 State Bank Of Mauritius	Mauritius	525	Standard
3 Kuwait Finance House	Kuwait	5,312	Standard	52 Lucky Cement	Pakistan	523	Small Cap
4 Nigerian Breweries	Nigeria	3,647	Standard	53 S.N.G.N. Romgaz	Romania	501	Standard
5 Guaranty Trust Bank	Nigeria	2,494	Standard	54 Transnational Corp Of Ni	Nigeria	437	Small Cap
6 Kazmunaigas Expl Gdr	Kazakhstan	2,439	Standard	55 Hsbc Bank Oman	Oman	429	Standard
7 Zenith Bank	Nigeria	2,254	Standard	56 Commercial Bank Ceylon	Sri Lanka	424	Standard
8 Nestle Foods Nigeria	Nigeria	2,198	Standard	57 Tallink Group	Estonia	409	Standard
9 Maroc Telecom	Morocco	2,054	Standard	58 Renaissance Services Co	Oman	408	Small Cap
10 Gulf Bank	Kuwait	1,748	Standard	59 Omani Qatari Telecom	Oman	406	Standard
11 Ypf D Adr	Argentina	1,745	Standard	60 Islami Bank Bangladesh	Bangladesh	398	Standard
12 Oil & Gas Development	Pakistan	1,668	Standard	61 Omv Petrom	Romania	395	Standard
13 Agility	Kuwait	1,492	Standard	62 United Bank	Pakistan	389	Standard
14 Bank Muscat	Oman	1,467	Standard	63 Raysut Cement Co	Oman	378	Standard
15 Fbn Holdings	Nigeria	1,453	Standard	64 Grameenphone	Bangladesh	369	Standard
16 John Keells Holdings	Sri Lanka	1,363	Standard	65 Jazeera Airways	Kuwait	367	Small Cap
17 Telecom Argentina B Adr	Argentina	1,322	Standard	66 Bcp Banque Centrale Pop.	Morocco	359	Standard
18 Kuwait Projects Co Hldgs	Kuwait	1,310	Standard	67 Pakistan Oilfields	Pakistan	357	Standard
19 Safaricom	Kenya	1,272	Standard	68 Kuwait Portland Cement	Kuwait	350	Small Cap
20 Mcb Bank	Pakistan	1,226	Standard	69 Petrobras Arg Sa Adr	Argentina	333	Standard
21 East African Breweries	Kenya	1,185	Standard	70 Oman Cement Co	Oman	328	Standard
22 Mabanee Co Sack	Kuwait	1,174	Standard	71 Petrovietnam Drilling	Vietnam	327	Standard
23 Attijariwafa Bank	Morocco	1,121	Standard	72 Petrovietnam Fert & Chem	Vietnam	327	Standard
24 Kenya Commercial Bank	Kenya	1,120	Standard	73 Diamond Bank	Nigeria	309	Small Cap
25 Masan Group Corp	Vietnam	1,113	Standard	74 Engro Corporation	Pakistan	303	Standard
26 Burgan Bank	Kuwait	1,104	Standard	75 Co-Op Bank Of Kenya	Kenya	295	Standard
27 Guinness Nigeria	Nigeria	1,030	Standard	76 National Bank Pakistan	Pakistan	295	Standard
28 Dangote Cement	Nigeria	985	Standard	77 Petrovietnam Tech Svcs	Vietnam	291	Small Cap
29 Douja Prom Groupe Addoha	Morocco	973	Standard	78 Pakistan Petroleum	Pakistan	289	Standard
30 Oman Telecom Co	Oman	918	Standard	79 Aviation Lease And Fin	Kuwait	287	Small Cap
31 Mauritius Comm Bank	Mauritius	874	Standard	80 Hub-Power Co	Pakistan	283	Standard
32 United Bank For Africa	Nigeria	829	Standard	81 National Real Estate Co	Kuwait	283	Small Cap
33 Kcell Gdr	Kazakhstan	820	Standard	82 Cadbury Nigeria	Nigeria	281	Small Cap
34 Nat'L Ind Grp Hold	Kuwait	783	Small Cap	83 Cresud Adr	Argentina	280	Small Cap
35 Banca Transilvania	Romania	767	Standard	84 Bank Nizwa	Oman	275	Small Cap
36 Lafarge Cement Wapco Nig	Nigeria	738	Standard	85 Bank Sohar	Oman	261	Small Cap
37 Equity Bank	Kenya	730	Standard	86 Bbva Banco Frances Adr	Argentina	260	Standard
38 Oando	Nigeria	725	Small Cap	87 Dangote Sugar Refinery	Nigeria	257	Small Cap
39 Arab Bank	Jordan	709	Standard	88 Titas Gas Trans	Bangladesh	257	Standard
40 Square Pharmaceuticals	Bangladesh	709	Standard	89 Vietcombank	Vietnam	251	Standard
41 Vingroup Jsc	Vietnam	705	Standard	90 United Commercial Bank	Bangladesh	250	Small Cap
42 Banco Macro B Adr	Argentina	689	Standard	91 Oman Cables Industry	Oman	248	Small Cap
43 Grupo Fin Galicia B Adr	Argentina	687	Standard	92 Ominvest	Oman	246	Small Cap
44 Halyk Savings Bank Gdr	Kazakhstan	685	Standard	93 Nis Ad Novi Sad	Serbia	239	Standard
45 Access Bank Nigeria	Nigeria	642	Standard	94 Brd Groupe Societe Gen	Romania	239	Standard
46 Fauji Fertilizer Co	Pakistan	616	Standard	95 Telekom Slovenije	Slovenia	234	Standard
47 Al-Qurain Petrochemicals	Kuwait	602	Small Cap	96 National Bank Of Oman	Oman	192	Standard
48 Al-Salam Bank	Bahrain	575	Small Cap	97 Ahli Bank	Oman	192	Standard
49 Comm Real Estate Co	Kuwait	549	Small Cap	98 Sacombank	Vietnam	177	Standard

Note: All market caps are in USD millions. Data as of the close of January 31, 2014



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