

CONSULTATION ON ENHANCEMENT TO THE MSCI TOP 50 DIVIDEND INDEXES METHODOLOGY

September 2017

**This consultation may or may not lead to the adoption of any or
all of the proposals contained in this presentation**

OVERVIEW

- MSCI is consulting clients on the proposed changes to the MSCI Top 50 Dividend Indexes methodology
- This document highlights proposed changes to the current methodology to ensure that no more than a single security per issuer is included in the Indexes
- This document presents a simulated snapshot (1st September 2017 for MSCI EAFE Top 50 Dividend Index) wherein the current holdings of MSCI EAFE Top 50 Dividend Index are used to illustrate the impact on constituents of the Index due to the proposed changes
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PROPOSED INDEX METHODOLOGY

Parameters	MSCI Top 50 Dividend Indexes Methodology (Proposed)	
Eligible Securities	Constituents in the parent Indexes : MSCI EAFE Index or MSCI EM Index	
Annual Index Review (AIR) Screen	<u>Retention Criteria</u>	<u>Addition Criteria *</u>
	Dividend Yield $\geq 3\%$	$5\% \leq \text{Dividend Yield} \leq 20\%$
	1-year DPS growth rate ≥ 0	1-year DPS growth rate ≥ 0
	1-year DPS growth rate between 0% and (-)10% and Payout ratio higher compared to previous year	Last 12 months' Price return not in the bottom 5 th percentile relative to the constituents in Parent index
Quarterly Index Review (QIR) Screen	<u>Retention Criteria</u>	<u>Addition Criteria **</u>
	Dividend Yield $\geq 3\%$	$5\% \leq \text{Dividend Yield} \leq 20\%$
	1-year DPS growth rate ≥ 0	1-year DPS growth rate ≥ 0
	1-year DPS growth rate between 0% and (-)10%, Payout ratio higher compared to previous year	
Security Selection	<ul style="list-style-type: none"> A fixed number of securities (50) having highest Dividend Yield are selected No more than a single security per issuer is to be selected in the index, subject to all other constraints. Securities with the same issuer, are given preference for selection into the Index in decreasing order of Dividend Yield. 	
Weights	Equal Weighting (for new securities added in QIR) and for all securities in AIR	
Capping	35% on sectors and countries (first sector weights to be checked followed by that of country)	
Index Reviews	Annual Index Review in May and Quarterly Index reviews in August, November and February	

Note : Text highlighted in red is the proposed change in methodology

* Note : The existing securities in the Index are given preference and then additional securities are selected from the parent index in order of decreasing dividend yield , conditional on sector & country capping.

** Note : If resulting number of securities is less than 50, additional securities are selected from the parent index in order of decreasing dividend yield, conditional on sector and country capping.

MSCI EAFE TOP 50 DIVIDEND INDEX : CURRENT SNAPSHOT AS OF SEP 1, 2017

- On Sep 1 2017, MSCI EAFE Top 50 Dividend Index had 2 sets of paired securities with same issuer - Intesa Sanpaolo and Royal Dutch Shell had two securities each
- MSCI proposes to have a maximum of one security per issuer. Securities are given preference for selection into the Index in decreasing order of Dividend Yield, in case there are multiple securities for that issuer
- Securities highlighted in red have lower Dividend Yield compared to the ones highlighted in blue for the same issuer - hence only securities highlighted in blue would be a part of the index
- As of Sep 1 2017, MSCI EM Top 50 Dividend Index had no 2 securities with the same issuer

#	Isin Code	Security Short Name	Country Name	GICS Code	Sector	Dividend Yield
1	FI0009007132	FORTUM CORP	FINLAND	55101010	Utilities	7.96
2	GB0006776081	PEARSON	UNITED KINGDOM	25401040	Consumer Discretionary	7.91
3	AU000000TSL2	TELSTRA CORP	AUSTRALIA	50101020	Telecommunication services	7.56
4	FR0010208488	ENGIE	FRANCE	55103010	Utilities	7.35
5	AU000000HVN7	HARVEY NORMAN HOLDINGS	AUSTRALIA	25503020	Consumer Discretionary	7.09
6	IT0000072626	INTESA SANPAOLO RNC	ITALY	40101010	Financials	7.00
7	NO0003054108	MARINE HARVEST	NORWAY	30202030	Consumer Staples	6.96
8	SG1V12936232	STARHUB	SINGAPORE	50102010	Telecommunication services	6.96
9	GB0007980591	BP	UNITED KINGDOM	10102010	Energy	6.81
10	LU0088087324	SES A-FDR	FRANCE	25401025	Consumer Discretionary	6.74
11	GB00B03MLX29	ROYAL DUTCH SHELL A	UNITED KINGDOM	10102010	Energy	6.69
12	ES0130670112	ENDESA	SPAIN	55101010	Utilities	6.66
13	GB00B03MM408	ROYAL DUTCH SHELL B	UNITED KINGDOM	10102010	Energy	6.63
14	GB0007908733	SSE	UNITED KINGDOM	55101010	Utilities	6.62
15	AU000000NAB4	NATIONAL AUSTRALIA BANK	AUSTRALIA	40101010	Financials	6.61
16	GB00B9D0Y18	DIRECT LINE INS GRP	UNITED KINGDOM	40301040	Financials	6.57
17	HK0008011667	PCCW	HONG KONG	50101020	Telecommunication services	6.44
18	PTEDPOAM0009	EDP ENERGIAS DE PORTUGAL	PORTUGAL	55101010	Utilities	6.33
19	GB0008782301	TAYLOR WIMPEY	UNITED KINGDOM	25201030	Consumer Discretionary	6.31
20	AU000000BOQ8	BANK OF QUEENSLAND	AUSTRALIA	40101015	Financials	6.31
21	GB0032089863	NEXT	UNITED KINGDOM	25503010	Consumer Discretionary	6.28
22	IT0003796171	POSTE ITALIANE	ITALY	40301020	Financials	6.27
23	SE0000242455	SWEDBANK	SWEDEN	40101010	Financials	6.26
24	AU000000BEN6	BENDIGO & ADELAIDE BANK	AUSTRALIA	40101015	Financials	6.12
25	IT0000072618	INTESA SANPAOLO	ITALY	40101010	Financials	6.11
26	SE0000427361	NORDEA BANK	SWEDEN	40101010	Financials	6.08
27	LU0061462528	RTL GROUP(NEW)	GERMANY	25401020	Consumer Discretionary	6.08
28	FR0000125585	CASINO	FRANCE	30101030	Consumer Staples	6.05
29	HK0000093390	HKT TRUST AND HKT	HONG KONG	50101020	Telecommunication services	6.04
30	GB00B44HKS39	VODAFONE GROUP	UNITED KINGDOM	50102010	Telecommunication services	5.95
31	NZTELE000154	SPARK NEW ZEALAND	NEW ZEALAND	50101020	Telecommunication services	5.87
32	SG1M77906915	ASCENDAS REIT	SINGAPORE	60101020	Real Estate	5.83
33	CH0011075394	ZURICH INSURANCE GROUP	SWITZERLAND	40301030	Financials	5.77
34	FR0000120271	TOTAL	FRANCE	10102010	Energy	5.73
35	AU000000FMG4	FORTESCUE METALS GROUP	AUSTRALIA	15104050	Materials	5.57
36	FR0000035081	ICADE	FRANCE	60101010	Real Estate	5.51
37	KYG7800X1079	SANDS CHINA	HONG KONG	25301010	Consumer Discretionary	5.49
38	SE0005190238	TELE2 B	SWEDEN	50102010	Telecommunication services	5.44
39	HK0000179108	HK ELECTRIC INVESTMENTS	HONG KONG	55101010	Utilities	5.40
40	GB0006825383	PERSIMMON	UNITED KINGDOM	25201030	Consumer Discretionary	5.39
41	SE0000148884	SKAND. ENSKILDA BANKEN A	SWEDEN	40101010	Financials	5.38
42	AU000000AZJ1	AURIZON HOLDINGS	AUSTRALIA	20304010	Industrials	5.36
43	GB0005603997	LEGAL & GENERAL GROUP	UNITED KINGDOM	40301020	Financials	5.35
44	GB00B02L3W35	BERKELEY GRP HLDGS UNIT	UNITED KINGDOM	25201030	Consumer Discretionary	5.30
45	IT0003153415	SNAM	ITALY	10102040	Energy	5.26
46	GB0005405286	HSBC HOLDINGS (GB)	UNITED KINGDOM	40101010	Financials	5.11
47	ES0113211835	BBVA	SPAIN	40101010	Financials	4.84
48	FR0000130213	LAGARDERE	FRANCE	25401040	Consumer Discretionary	4.68
49	NL0011821202	ING GROEP	NETHERLANDS	40101010	Financials	4.17
50	FR0000045072	CREDIT AGRICOLE	FRANCE	40101010	Financials	4.04

MSCI EAFE TOP 50 DIVIDEND INDEX : SIMULATED SNAPSHOT REFLECTING PROPOSED CHANGES

- Securities highlighted in red (previous slide) would not have been selected due to lower dividends, while, those in blue would have been selected
- Hence, Intesa Sanpaolo and Royal Dutch Shell would have one security each
- Two new securities – Stockland and Tabcorp Holdings, highlighted in green would have been added as replacement
- The incremental turnover for this change would have been approximately 4.1%
- We propose to implement this change in the November Index Review, subject to implementation feasibility within this timeline

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1	FI0009007132	FORTUM CORP	FINLAND	55101010	Utilities	7.96
2	GB0006776081	PEARSON	UNITED KINGDOM	25401040	Consumer Discretionary	7.91
3	AU000000TL52	TELSTRA CORP	AUSTRALIA	50101020	Telecommunication services	7.56
4	FR0010208488	ENGIE	FRANCE	55103010	Utilities	7.35
5	AU000000HVN7	HARVEY NORMAN HOLDINGS	AUSTRALIA	25503020	Consumer Discretionary	7.09
6	IT0000072626	INTESA SANPAOLO RNC	ITALY	40101010	Financials	7.00
7	NO0003054108	MARINE HARVEST	NORWAY	30202030	Consumer Staples	6.96
8	SG1V12936232	STARHUB	SINGAPORE	50102010	Telecommunication services	6.96
9	GB0007980591	BP	UNITED KINGDOM	10102010	Energy	6.81
10	LU0088087324	SES A-FDR	FRANCE	25401025	Consumer Discretionary	6.74
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13	GB0007908733	SSE	UNITED KINGDOM	55101010	Utilities	6.62
14	AU000000NAB4	NATIONAL AUSTRALIA BANK	AUSTRALIA	40101010	Financials	6.61
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24	SE0000427361	NORDEA BANK	SWEDEN	40101010	Financials	6.08
25	LU0061462528	RTL GROUP(NEW)	GERMANY	25401020	Consumer Discretionary	6.08
26	AU0000005GP0	STOCKLAND	AUSTRALIA	60101010	Real Estate	6.07
27	FR0000125585	CASINO	FRANCE	30101030	Consumer Staples	6.05
28	HK0000093390	HKT TRUST AND HKT	HONG KONG	50101020	Telecommunication services	6.04
29	GB00BH4HKS39	VODAFONE GROUP	UNITED KINGDOM	50102010	Telecommunication services	5.95
30	NZTELE000154	SPARK NEW ZEALAND	NEW ZEALAND	50101020	Telecommunication services	5.87
31	AU000000TAH8	TABCORP HOLDINGS	AUSTRALIA	25301010	Consumer Discretionary	5.86
32	SG1M77906915	ASCENDAS REIT	SINGAPORE	60101020	Real Estate	5.83
33	CH0011075394	ZURICH INSURANCE GROUP	SWITZERLAND	40301030	Financials	5.77
34	FR0000120271	TOTAL	FRANCE	10102010	Energy	5.73
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DISCUSSION POINTS

- The current index methodology allows multiple securities with the same issuer to be included in the Index, as long as it meets the other criteria for inclusion into the Index.
- The proposed changes in the methodology will ensure that only a maximum of one security per issuer can be included in the Index.
- In case there are multiple securities for an issuer, securities with higher dividend yield are given preference for inclusion in the Index.
- What are your views on using dividend yield as the deciding parameter for security inclusion in case of multiple securities per issuer? Would you prefer using any other metric such as market capitalization or liquidity?

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