

Consultation on Potential Enhancements to the MSCI Dividend Masters Indexes Methodology

July 2020

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Executive Summary

- **Background**

- Dividend Masters Indexes target securities that have consistently increased dividends every year for a specific number of consecutive years
- Rebalanced annually in November employing country, sector and issuer capping
- Equal weights the securities at each quarterly index review
- MSCI applied an exceptional treatment to delete the securities that cancelled dividends as part of the May 2020 Semi-Annual Index Review (SAIR)

- **Proposal**

- Remove the constituents of the MSCI Dividend Masters Indexes with the latest dividend as zero as of the month end preceding MSCI Quarterly Index Reviews (i.e. February, May and August), in addition to removal of such constituents at the annual review in November

- **Alternative**

- Remove the constituents of the MSCI Dividend Masters Indexes with the latest dividend as zero on a monthly basis

Details on the proposal

- **Remove the securities that cancel dividends on a quarterly basis**

- The removal would coincide with the effective date of the MSCI Quarterly Index Reviews (i.e. February, May, August Index Reviews) in addition to the annual rebalancing in November and thus, aligns with the existing review calendar for the methodology
- The index constituents with latest dividend as zero as of the month preceding the rebalancing date would be deleted from the index.
- The remaining constituents after taking into account any deletions from the Parent Index* will be equal weighted. Frequency of cancellation is consistent with current rebalancing calendar of the index.
- The table shows number of securities that cancelled dividends over 20 quarters starting Q4 2015 through Q3 2020
- The number of securities that cancelled dividends (35) during a single quarter (Q2 2020) due to COVID-19 pandemic is never observed historically
- The maximum number of securities that cancelled dividends during the Global Financial Crisis** (GFC) in a single quarter was five

Number of securities that cancelled dividends***	Number of quarters
0	17
1	2
35	1
Max 5	During any single quarter at GFC

Index Impact of the proposal

- Impact by weight* of removal of securities that cancelled dividends on a quarterly basis**

Index Name	Impact observed mainly during Qtr 4 2008 and Qtr 1 2009					No significant impact during this period		Very high impact in Qtr 2 2020
	GFC					Nov '15 - Mar '20		COVID
	2008	2009			2016	2017	2020	
	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr1	Qtr2	
AC ASIA ex JAPAN DIVIDEND MASTERS					3.3%			
ACWI DIVIDEND MASTERS	2.3%	2.2%		0.6%	0.5%	0.4%	8.8%	
ACWI ex USA DIVIDEND MASTERS	1.2%	3.5%			1.1%	1.1%	17.4%	
EAFE DIVIDEND MASTERS	1.8%	5.0%				1.8%	25.4%	
EM DIVIDEND MASTERS			1.7%		2.0%	1.7%	4.0%	
EUROPE DIVIDEND MASTERS	2.5%	7.2%				2.3%	39.2%	
JAPAN DIVIDEND MASTERS	3.4%	3.9%						
KOKUSAI DIVIDEND MASTERS	2.5%	2.5%		0.6%		0.5%	9.7%	
UK DIVIDEND MASTERS		4.0%		8.2%		4.0%	46.6%	
USA DIVIDEND MASTERS	3.2%	1.0%		1.1%			1.7%	
WORLD DIVIDEND MASTERS	2.5%	2.4%		0.6%		0.5%	9.2%	
WORLD ex USA DIVIDEND MASTERS	1.4%	4.1%				1.4%	21.4%	

Index Impact of the proposal (contd..)

- Number of securities that cancelled dividends on a quarterly basis

Index Name	Impact observed mainly during Qtr 4 2008 and Qtr 1 2009					No significant impact during this period		Very high impact in Qtr 2 2020
	GFC					Nov '15 - Mar '20		COVID
	2008	2009			2016	2017	2020	
	Qtr4	Qtr1	Qtr2	Qtr3	Qtr4	Qtr4	Qtr1	Qtr2
AC ASIA ex JAPAN DIVIDEND MASTERS					1			
ACWI DIVIDEND MASTERS	4	4		1	1		1	28
ACWI ex USA DIVIDEND MASTERS	1	3			1		1	25
EAFE DIVIDEND MASTERS	1	3					1	22
EM DIVIDEND MASTERS			1		1	1		3
EUROPE DIVIDEND MASTERS	1	3					1	22
JAPAN DIVIDEND MASTERS	1	1						
KOKUSAI DIVIDEND MASTERS	4	4		1			1	26
UK DIVIDEND MASTERS		1		2			1	14
USA DIVIDEND MASTERS	3	1		1				3
WORLD DIVIDEND MASTERS	4	4		1			1	26
WORLD ex USA DIVIDEND MASTERS	1	3					1	23

Details on the alternative

- **Remove securities that cancel dividends on a monthly basis**

- The removal would coincide with the first business day of each month
- The index constituents with latest dividend as zero as of the month preceding the rebalancing date would be deleted from the index.
- The remaining constituents after taking into account any deletions from the Parent Index* will not be equal weighted except for the months coinciding with the MSCI quarterly index reviews.
- The table shows number of securities that cancelled dividends over 57 months starting November 2015 through July 2020
- The number of securities that cancelled dividends(31) during a single month (April 2020) due to COVID-19 pandemic is never observed in history
- The maximum number of securities that cancelled dividends during the Global Financial Crisis** (GFC) in a single month was four

Number of securities that cancelled dividends***	Number of months
0	52
1	3
3	1
31	1
Maximum 4	Any single month during GFC

Index Impact of the alternative

- Impact by weight* of removal of securities that cancelled dividends on a monthly basis**

Index Name	Impact observed mainly during Dec 2008 and Feb - Mar 2009										No significant impact during this period		Very high impact in Apr 2020		
	GFC										Nov '15 Mar '20		COVID		
	2008		2009					2016	2017	2020					
	Nov	Dec	Jan	Feb	Mar	May	Jul	Sep	Oct	Oct	Mar	Apr	May	Jun	
AC ASIA ex JAPAN DIVIDEND MASTERS									3.3%						
ACWI DIVIDEND MASTERS	2.3%	0.5%	1.2%	0.5%		0.6%			0.5%		0.4%	7.8%	0.3%	0.6%	
ACWI ex USA DIVIDEND MASTERS	1.2%		2.4%	1.1%					1.1%		1.1%	16.7%		0.7%	
EAFE DIVIDEND MASTERS	1.8%		3.4%	1.6%							1.8%	24.3%		1.1%	
EM DIVIDEND MASTERS						1.7%			2.0%	1.7%		2.7%		1.3%	
EUROPE DIVIDEND MASTERS	2.5%		4.9%	2.3%							2.3%	37.4%		1.7%	
JAPAN DIVIDEND MASTERS	3.4%				3.9%										
KOKUSAI DIVIDEND MASTERS	2.5%	0.6%	1.3%	0.6%		0.6%					0.5%	8.6%	0.4%	0.7%	
UK DIVIDEND MASTERS					4.0%		4.0%	4.2%			4.0%	43.4%		3.2%	
USA DIVIDEND MASTERS	3.2%	1.0%					1.1%					0.5%	0.6%	0.6%	
WORLD DIVIDEND MASTERS	2.5%	0.6%	1.2%	0.6%		0.6%					0.5%	8.1%	0.4%	0.7%	
WORLD ex USA DIVIDEND MASTERS	1.4%		2.8%	1.3%							1.4%	20.5%		0.9%	

Index Impact of the alternative (contd..)

- Number of securities that cancelled dividends on a monthly basis

Impact observed mainly during Dec 2008 and Feb - Mar 2009	No significant impact during this period	Very high impact in Apr 2020
GFC	Nov '15 Mar '20	COVID

Index Name	2008			2009					2016	2017	2020			
	Nov	Dec	Jan	Feb	Mar	May	Jul	Sep	Oct	Oct	Mar	Apr	May	Jun
AC ASIA ex JAPAN DIVIDEND MASTERS									1					
ACWI DIVIDEND MASTERS		4	1	2	1		1		1		1	25	1	2
ACWI ex USA DIVIDEND MASTERS		1		2	1				1		1	24		1
EAFE DIVIDEND MASTERS		1		2	1						1	21		1
EM DIVIDEND MASTERS						1			1	1		2		1
EUROPE DIVIDEND MASTERS		1		2	1						1	21		1
JAPAN DIVIDEND MASTERS	1				1									
KOKUSAI DIVIDEND MASTERS		4	1	2	1		1				1	23	1	2
UK DIVIDEND MASTERS					1		1	1			1	13		1
USA DIVIDEND MASTERS		3	1				1					1	1	1
WORLD DIVIDEND MASTERS		4	1	2	1		1				1	23	1	2
WORLD ex USA DIVIDEND MASTERS		1		2	1						1	22		1

Discussion points

- Do you agree with removing the index constituents with latest dividend as zero as of the month preceding the rebalancing date on a quarterly basis (coinciding with the MSCI quarterly index review) from the MSCI Dividend Masters Indexes?
- Do you agree that any such deleted securities will be reconsidered for subsequent inclusion at the annual rebalancing in November once the eligibility criteria are met?

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