

CONSULTATION ON PROPOSALS FOR THE MSCI FRONTIER MARKETS 100 INDEX

February 2017

CONSULTATION TOPICS

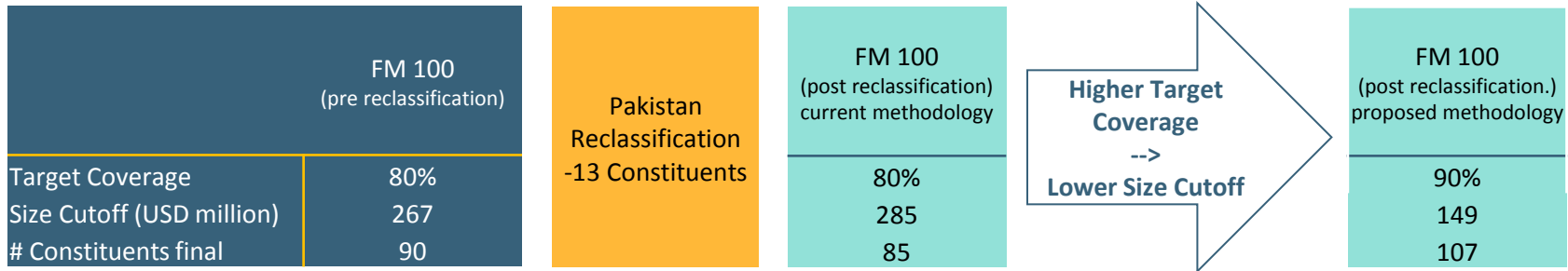
- MSCI launched a consultation on the following proposals for the MSCI Frontier Markets 100 Index (“FM 100 Index”):
 1. Proposed treatment of the FM 100 Index in the context of the upcoming reclassification of the MSCI Pakistan Index from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index
 2. Proposal to allow inclusion of securities in the FM 100 Index outside of Semi-Annual Index Reviews
- MSCI welcomes feedback on the proposals by March 23, 2017 and will announce its final decision by March 30, 2017.
- This consultation may or may not lead to any changes to the FM 100 Index.

PROPOSED TREATMENT OF THE FM 100 INDEX IN THE CONTEXT OF THE RECLASSIFICATION OF PAKISTAN

PROPOSED TREATMENT IN THE CONTEXT OF THE RECLASSIFICATION OF PAKISTAN

- As announced on June 14, 2016, the MSCI Pakistan Index will be reclassified from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index coinciding with the May 2017 Semi-Annual Index Review.
- Following the reclassification, constituents of the MSCI Pakistan Indexes will become ineligible for inclusion in the MSCI Frontier Markets 100 Index.
- The deletion of Pakistani securities from the FM 100 Index may lead to the number of securities meeting the FM 100 index requirements to decrease below the minimum of 85 constituents.
 - **Therefore, MSCI proposes to lower the free float-adjusted market capitalization cutoff (“Size Cutoff”) for the FM 100 Index in order to maintain an appropriate number of index constituents.**
- The turnover for the FM 100 Index at the May 2017 Semi-Annual Index Review may be higher than historical Index Reviews, due to the reclassification of Pakistan and the proposed decrease in the Size Cutoff.
 - **Therefore, MSCI proposes to phase the May 2017 Index Review changes over four successive months from the end of May 2017 to the end of August 2017.**

1) LOWER THE SIZE CUTOFF



Calculation date: November 18, 2016, as of December 1, 2016

- Based on the simulation, the number of constituents of the FM 100 Index would fall to 85 post the reclassification of Pakistan
 - Nine securities would have to be artificially maintained in the index in order to reach the minimum of 85 constituents
- **Proposal:** lower the Size Cutoff (minimum free float-adjusted market cap) to correspond to a cumulative coverage of 90% of the MSCI FM Investable Market Index (IMI) instead of the current threshold of 80%
 - The simulated Size Cutoff would be USD 149 million
 - The simulated number of constituents post reclassification would be 107

2) PHASE THE MAY 2017 INDEX REVIEW CHANGES

- The turnover for the FM 100 Index at the May 2017 Index Review may be higher than historical Index Reviews, due to:
 - Deletions of Pakistani securities
 - Additions resulting from the proposed lower Size Cutoff
- **Proposal:** In order to maintain turnover within usual historical levels and to reduce potential market impact, MSCI proposes to phase the May 2017 Index Review changes in the FM 100 Index over four successive months from the end of May 2017 to the end of August 2017
 - MSCI proposes that a larger proportion (40%) of the changes be implemented at the end of May coinciding with the May 2017 Index Review, and a smaller proportion (20% for each phase) at the end of the months of June, July and August, respectively

2) PHASE THE MAY 2017 INDEX REVIEW CHANGES

- **Proposed phasing method:**

- At each phase, calculate the new security weights assuming the May 2017 Index Review changes would be fully implemented (i.e., no phasing)
- Implement the relevant portion of the weight difference

Illustration of impact for first phase (40%)

Security Change Type	Current Security Weight	Security Weight post Reclassification	New Security Weight After Phase 1 (40%)
Addition	0%	5%	2%
Deletion	3%	0%	1.8%
Weight increase	8%	9%	8.4%
Weight decrease	7%	5%	6.2%

Details on the proposed phasing method are available in the Appendix

PROPOSAL TO ALLOW INCLUSION OF SECURITIES IN THE FM 100 INDEX OUTSIDE OF SEMI-ANNUAL INDEX REVIEWS

PROPOSAL ON INCLUSION OF SECURITIES OUTSIDE OF SEMI-ANNUAL INDEX REVIEWS

- As per the current methodology, additions of securities to the FM 100 Index may only occur during Semi-Annual Index Reviews (SAIRs).
 - MSCI proposes to allow inclusion of securities in the FM 100 Index outside of SAIRs in order to more timely reflect the changes in the available investable opportunity set.
- 1) Allow securities to be included in the FM 100 Index at time of the event in cases of:
 - **IPOs:** any security early included in the parent FM IMI Index will be simultaneously added to the FM 100 Index, provided its free float-adjusted market cap is above 1.8 times the Size Cutoff for the FM 100 Index
 - **Spin-offs:** any security spun off from an existing FM 100 Index constituent will be added to the FM 100 Index coinciding with its inclusion in the parent FM IMI Index
 - 2) Allow securities added to the parent FM IMI Index during the February and August Quarterly Index Reviews to be simultaneously included in the FM 100 Index, provided their free float-adjusted market cap is above 1.8 times the Size Cutoff and the securities meet the FM 100 minimum liquidity requirements

SIMULATED HISTORICAL IMPACT OF THE PROPOSAL

Securities that would have been included in the FM 100 Index outside of SAIRs (since April 2012)

Company	Country	Date of Inclusion in FM IMI	Date of Inclusion in FM 100	Full Mcap*	FIF Mcap*
No Va Land Inv Group	Vietnam	1/12/2017	n/a	1,535	537
Vietnam Dairy Product	Vietnam	9/1/2016	12/1/2016	9,944	4,475
Seplat Petro Dev Co	Nigeria	4/30/2014	6/2/2014	2,246	786

*All market caps are in USD million. Data as of the date of inclusion of the securities in FM IMI

- Under the proposal and since the launch of the FM 100 Index (April 2012), three securities would have been added to the FM 100 Index simultaneously with their inclusion in the FM IMI Index (instead of at the subsequent SAIR)
 - No Va Land Inv Group was added to the FM IMI Index at the time of its IPO in Jan 2017
 - Vietnam Dairy Product was added to the FM IMI Index at the time of the August 2016 QIR following an increase in its Foreign Ownership Limit (FOL)
 - Seplat Petro Dev Co was added to the FM IMI at the time of its IPO in Apr 2014

DISCUSSION POINTS

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- Is it appropriate to lower the Size Cutoff for the FM 100 Index in order to maintain an appropriate number of constituents in the FM 100 Index following the reclassification of Pakistan?
- Is it warranted to apply a phasing of the May 2017 Index Review changes in the FM 100 Index? Are the proposed four monthly phases (40%-20%-20%-20%) appropriate?
- Should inclusion of securities in the FM 100 Index be allowed outside of the Semi-Annual Index Reviews?
 - Is it acceptable to allow securities to be included at the time of IPO (i.e., prior to any liquidity assessment), knowing that they may potentially fail the FM 100 minimum liquidity requirements at the subsequent Semi-Annual Index Review?

APPENDIX

PROPOSED PHASING METHOD

- Each phase would involve the following activities:
 - 1) Determine the security index weights post-reclassification
 - 2) Calculate the difference between the current security index weights and the security index weights post-reclassification («**Weight Difference**»)
 - 3) Calculate the new security index weights after each phase («**New Weights**»):
 - i. Phase 1 (May 2017) => $\text{New Weight} = \text{Current Weight} + (\text{Weight Difference} * 40\%)$
 - ii. Phase 2 (June 2017) => $\text{New Weight} = \text{Current Weight} + (\text{Weight Difference} * 33.3\%)$
 - iii. Phase 3 (July 2017) => $\text{New Weight} = \text{Current Weight} + (\text{Weight Difference} * 50\%)$
 - iv. Phase 4 (August 2017) => $\text{New Weight} = \text{Post-Reclassification Weight}$
- The proposed method assumes that all May 2017 SAIR changes are phased:
 - All deletions (including from countries other than Pakistan)
 - All additions
 - All weight changes, including those resulting from FIF/NOS changes

EXAMPLE OF IMPLEMENTATION (PHASES 1 AND 2)

- **Security index weights post reclassification** are calculated in each step assuming no phasing is applied

Security Country	Weight: Step 1			Weight: Step 2		
	Current	Post Reclass	New	Current	Post Reclass	New
1 A	0.00%	0.47%	0.19%	0.19%	0.48%	0.29%
2 B	0.46%	0.00%	0.28%	0.28%	0.00%	0.19%
3 C	10.95%	0.00%	6.57%	6.60%	0.00%	4.40%
4 D	6.47%	6.09%	6.32%	6.02%	5.79%	5.94%
5 E	2.86%	3.00%	2.91%	2.86%	2.94%	2.89%
Others Others	79.26%	90.45%	83.74%	84.04%	90.78%	86.29%
Total Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- **Current Weights** in step 2 may be different from the **New Weights** in step 1 due to price movements / corporate events

$$0.19\% = 0\% + (0.47\% - 0\%) \times 40\%$$

$$5.94\% = 6.02\% + (5.79\% - 6.02\%) \times 33.3\%$$

- The same process is applied for each Step in the phasing and the **New weights** in Step 4 will be made to converge with the **security index weights post reclassification**

SIMULATED ADDITIONS TO THE INDEX

Simulated Additions to FM 100 Index (post reclassification of Pakistan and decrease in Size Cutoff)

Country	Security Name	FIF Mcap	Pro forma Weight	Country	Security Name	FIF Mcap	Pro forma Weight
VIETNAM	VIETNAM DAIRY PRODUCT	4,050	5.18%	BANGLADESH	CITY BANK (THE)	181	0.23%
VIETNAM	HOA PHAT GROUP JSC	629	0.80%	KUWAIT	AL-MAZAYA HOLDING CO	180	0.19%
ARGENTINA	GRUPO SUPERVIELLE B ADR	445	0.47%	BANGLADESH	ACME LABORATORIES (THE)	180	0.23%
JORDAN	AL EQBAL FOR INVESTMENT	315	0.40%	VIETNAM	PETROVIETNAM TECH SVCS	173	0.22%
BANGLADESH	BRAC BANK	297	0.38%	BAHRAIN	ITHMAAR BANK (KW)	172	0.22%
MOROCCO	COSUMAR	288	0.37%	VIETNAM	PETROVIETNAM GAS JSC	172	0.22%
VIETNAM	SAIGON SECURITIES	259	0.33%	KUWAIT	NATIONAL REAL ESTATE CO	172	0.18%
JORDAN	BANK OF JORDAN	240	0.31%	BANGLADESH	NATIONAL BANK	170	0.22%
BANGLADESH	SUMMIT POWER	233	0.30%	BANGLADESH	RENATA	168	0.22%
MOROCCO	SOSEP MARSA MAROC	230	0.29%	KAZAKHSTAN	KCELL GDR	162	0.21%
OMAN	BANK NIZWA	215	0.28%	VIETNAM	KINHBAC CITY DEV SHARE	160	0.20%
OMAN	PHOENIX POWER	213	0.27%	BANGLADESH	HEIDELBERG CEMENT BANGLA	156	0.20%
ROMANIA	TRANSELECTRICA	203	0.26%	BANGLADESH	UNITED COMMERCIAL BANK	155	0.20%
JORDAN	JORDAN ISLAMIC BANK	198	0.25%	BANGLADESH	AB BANK	149	0.19%
VIETNAM	PETROVIETNAM FERT & CHEM	197	0.25%	VIETNAM	BAO VIET HOLDINGS	149	0.19%
BANGLADESH	BANGLADESH EXPORT IMPORT	191	0.24%	SLOVENIA	TELEKOM SLOVENIJE	149	0.19%
VIETNAM	HOA SEN GROUP	186	0.24%	BANGLADESH	TITAS GAS TRANSM & DIST	149	0.19%
VIETNAM	PETROVIETNAM DRILLING	182	0.23%				

The simulation is post reclassification of Pakistan to Emerging Markets, assuming a decrease in Size Cutoff to correspond to a cumulative coverage of 90% of the MSCI Frontier Markets Investable Market Index.

Pro forma data for the November 2016 Semi-Annual Index Review (calculation date November 18, 2016, as of date December 1, 2016)

SIMULATED DELETIONS FROM THE INDEX

Simulated Deletions from FM 100 Index (post reclassification of Pakistan and decrease in Size Cutoff)

Country	Security Name	FIF Mcap	Current Weight
PAKISTAN	HABIB BANK	1,342	1.64%
PAKISTAN	LUCKY CEMENT	1,252	1.53%
PAKISTAN	MCB BANK	1,200	1.46%
PAKISTAN	UNITED BANK	987	1.20%
PAKISTAN	OIL & GAS DEVELOPMENT	866	1.06%
NIGERIA	NESTLE FOODS NIGERIA	805	1.02%
PAKISTAN	ENGRO CORPORATION	726	0.89%
NIGERIA	DANGOTE CEMENT	612	0.77%
PAKISTAN	FAUJI FERTILIZER CO	510	0.62%
PAKISTAN	PAKISTAN STATE OIL CO	505	0.62%
PAKISTAN	HUB-POWER CO	456	0.56%
OMAN	OMINVEST	405	0.49%
MAURITIUS	STATE BANK OF MAURITIUS	381	0.46%
PAKISTAN	NATIONAL BANK PAKISTAN	368	0.45%
SRI LANKA	HATTON NATIONAL BANK	285	0.35%
PAKISTAN	PAKISTAN OILFIELDS	285	0.35%
PAKISTAN	FAUJI CEMENT CO	245	0.30%
PAKISTAN	PAKISTAN PETROLEUM	231	0.28%
ARGENTINA	PETROBRAS ARG B ADR	112	0.44%
NIGERIA	OANDO	65	0.08%
NIGERIA	TRANSNATIONAL CORP OF NG	51	0.06%

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Pro forma data for the November 2016 Semi-Annual Index Review (calculation date November 18, 2016, as of date December 1, 2016)

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