

ADDING A SHARES INTO EMERGING MARKETS - ARE YOU READY?

June 2017

EXECUTIVE SUMMARY

- MSCI announced on June 20 that it will include **222 China A Large Cap shares** in the MSCI Emerging Markets Index using a **2-step inclusion process** beginning in **June 2018**
 - The MSCI proposal received broad support from international institutional investors
 - improved market accessibility linked to expansion of Stock Connect program
 - loosening by the local Chinese stock exchanges of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally
 - Represents approximately 0.73% of the pro forma MSCI Emerging Markets Index
- MSCI performed an extensive and in-depth cross-regional consultation on the potential partial inclusion of China A shares in the MSCI Emerging Markets Index. This global consultation included a large number of asset owners, asset managers, broker/dealers and other market participants

A RECAP OF THE INCLUSION JOURNEY

- Since MSCI put China A shares on the 2014 Market Classification Review list in 2013, there have been ongoing improvements in China's market accessibility conditions

	<i>1st consultation</i>	<i>2nd consultation</i>	<i>3rd consultation</i>	<i>4th consultation</i>
June 2013 <ul style="list-style-type: none"> • MSCI put China A shares on the 2014 Market Classification Review list 	June 2014 <ul style="list-style-type: none"> • No inclusion • Issues: quota allocation, capital mobility restrictions, uncertainties on Capital Gain Tax • Launched MSCI China A International Index 	June 2015 <ul style="list-style-type: none"> • 2nd consultation: No inclusion • Issues: Quota allocation, capital mobility, beneficiary ownership 	June 2016 <ul style="list-style-type: none"> • 3rd consultation: No inclusion • Issues: QFII 20% monthly limit, stock suspension, pre-approval of financial products 	June 2017 <ul style="list-style-type: none"> • 4th consultation: MSCI announced to partially include A shares in 2018

2002

Launch of QFII scheme
Initial quota at USD20bn

2011

Launch of RQFII scheme
Initial quota at Rmb20bn

2012

QFII, RQFII quota expanded; Eligibility further relaxed for both QFII and RQFII

2013

First foreign investor licensed RQFII
RQFII expanded to LN/SG
QFII repatriation relaxed

2014

Launch of the SH-HK Stock Connect
Clarification of capital gain tax
RQFII expanded to more cities

2015

RQFII expanded to more cities
Shanghai Connect Launched

2016

Link QFII/RQFII quota to fund size,
Relaxed capital mobility
New stock suspension rules
Launch of SZ-HK Connect

2017

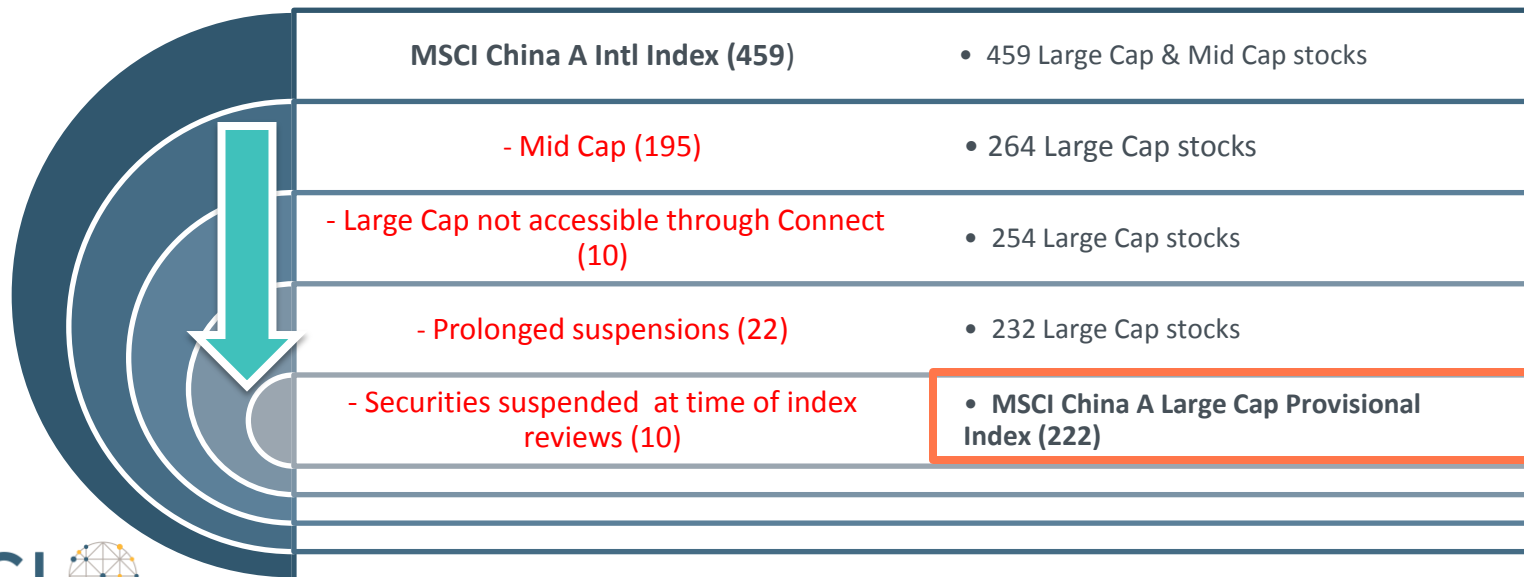
Loosening of pre-approval requirements that can restrict the creation of index-linked investment vehicles globally

FEEDBACK FROM CONSULTATION

- Institutional investors viewed the **Stock Connect as a more flexible access framework** compared to the QFII and RQFII regimes
- They also welcomed the **decrease in the number of suspended China A shares**
 - Institutional Investors continue to view the number of suspensions as an outlier compared to other international markets and have encouraged the Chinese authorities to consider **additional measures** to further reduce the number and duration of trading suspensions
- A large majority of institutional investors agreed with the MSCI proposal to **initially restrict the inclusion to Large Cap shares that are not in trading suspension**
- Additionally, many of them also recommended that MSCI should not exclude **China A Large Cap shares of companies that have H share equivalents** in the MSCI China Index

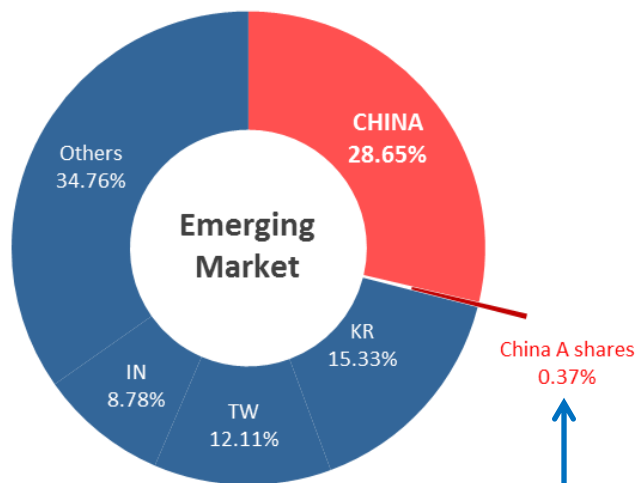
CONSTRUCTION OF THE PRO FORMA A SHARES INDEX

- The pro forma A shares Index is constructed based on the MSCI China International Index, excluding:
 - Mid Cap A shares
 - A shares that are not accessible through the Stock Connect program
 - A shares suspended for more than 50 days in the past 12-months and suspended at time of index reviews

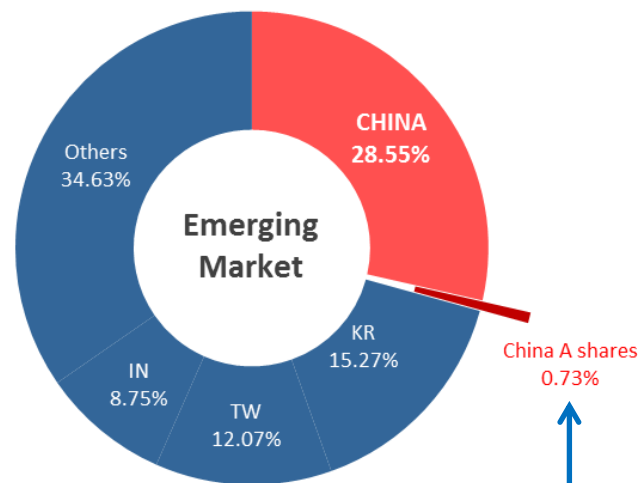


TWO-STEP INCLUSION PROCESS

- MSCI will use a two-step inclusion process to account for the existing daily trading limits on Stock Connect
- An Index Inclusion Factor (IIF) of 2.5% and 5% will be applied to the FIF-adjusted market capitalization of China A shares in the pro forma MSCI China Index at the May 2018 Semi-Annual Index Review (SAIR) and August 2018 Quarterly Index Review (QIR) respectively
- MSCI may revise the planned implementation to a single phase should the daily limit be abolished or significantly expanded before the scheduled inclusion dates



May 2018 SAIR
Inclusion Factor = 2.5%



Aug 2018 QIR
Inclusion Factor = 5%

Data as of June 19, 2017

SIMULATED PRO FORMA MSCI CHINA INDEX

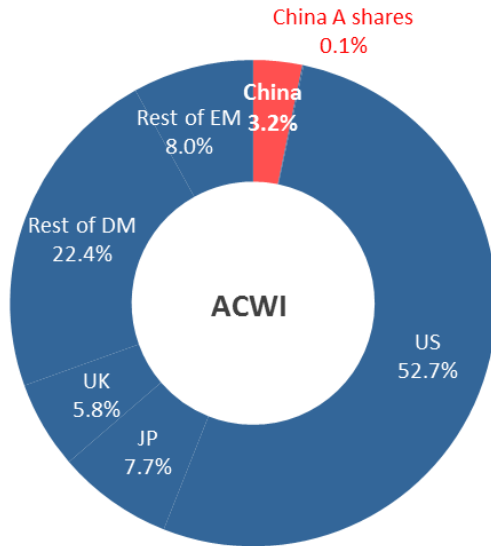
- The number of China A shares in the pro-forma MSCI China Index would be **222**
- The total number of constituents in the pro forma MSCI China Index would increase from 152 to **423**
- The pro forma weight of China A shares in the MSCI Emerging Markets Index following the completion of the second implementation step would be approximately **0.73%**.

	Current Standard		May 2018 SAIR			August 2018 QIR			# Securities	
	Weight	# Sec	Weight	# Sec	1 way Turnover	Weight	# Sec	1 way Turnover	Add	Del
MSCI China										
A Shares	-	-	1.3%	222	1.26%	2.5%	222	2.49%	222	-
B Shares	0.2%	2	0.3%	4	0.12%	0.3%	4	0.12%	2	-
H Shares	35.0%	69	34.7%	89	1.44%	34.2%	89	1.42%	20	-
Red Chip	15.2%	30	15.2%	39	0.73%	15.0%	39	0.72%	9	-
P Chip	24.3%	35	24.5%	52	1.44%	24.2%	52	1.42%	17	-
Overseas	25.3%	16	24.1%	17	0.07%	23.8%	17	0.07%	1	-
Total	100.0%	152	100.0%	423	5.06%	100.0%	423	6.24%	271	-
MSCI EM	-	845	-	1116	1.47%	-	1116	1.83%	271	-
A Shares	-	-	0.4%	222	0.37%	0.7%	222	0.73%	222	-

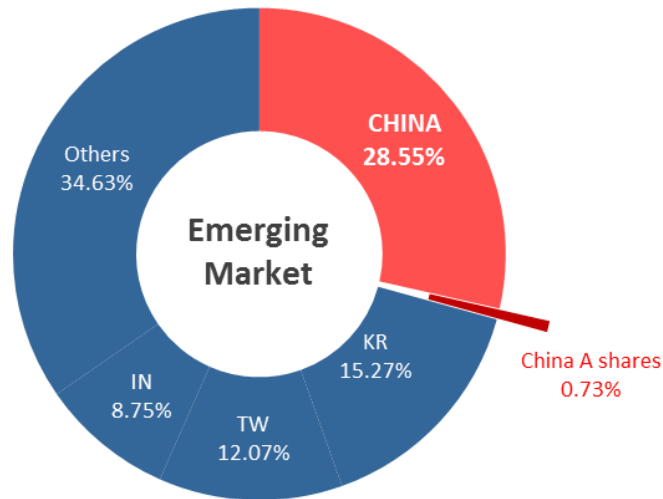
1. The pro-forma constituents are simulated by applying the additional screening criteria of the new proposal to the MSCI China A International Index. Data as of June 19, 2017. The inclusion results in slight increases in other share classes after applying the MSCI GIMI methodology to an enlarged universe.

PRO FORMA WEIGHT OF A SHARES

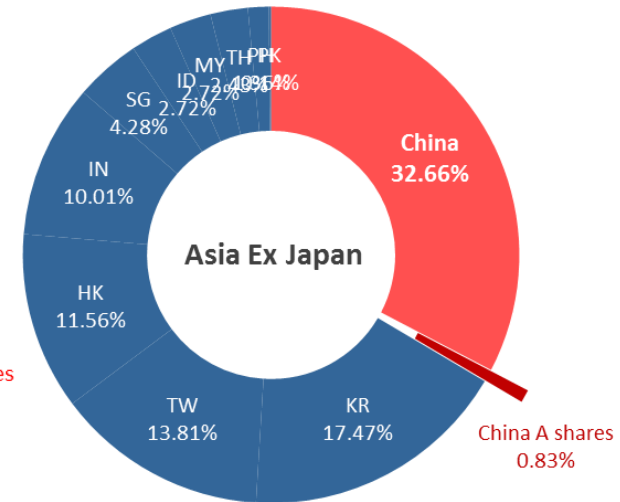
ACWI



Emerging Markets



Asia Ex Japan



Data as of June 19, 2017

ROADMAP OF FUTURE CHINA A SHARES INCLUSION

- During the consultation, many institutional investors requested guidance on the future inclusion road map for China A shares
- Further inclusion of China A shares could potentially include an **increase of the currently announced 5% Inclusion Factor** as well as the **addition of China A Mid Cap shares**, subject to:
 - greater alignment of the China A shares market with international market accessibility standards
 - the resilience of Stock Connect
 - the relaxation of daily trading limits
 - continued progress on trading suspensions
 - further loosening of restrictions on the creation of index-linked investment vehicles.
- MSCI would continue to monitor the situation and launch a **public consultation** to solicit feedback from investors once warranted

LAUNCH OF PROVISIONAL INDEXES

- MSCI will start to calculate the MSCI China A International Large Cap Provisional Index on June 21, 2017
- Additional global and regional provisional indexes including the MSCI China and MSCI Emerging Markets Provisional Indexes, will be launched in August 2017
- These provisional indexes serve to manage the implementation of the inclusion of China A shares in investors' portfolios on the schedule of their choosing

LIST OF PROVISIONAL INDEXES TO BE LAUNCHED

Launched on June 21, 2017

- MSCI China A International Large Cap Provisional Index

To be launched in August 2017:

- MSCI China Provisional Index
- MSCI China IMI Provisional Index
- MSCI Golden Dragon Provisional Index
- MSCI Golden Dragon IMI Provisional Index
- MSCI ZhongHua Provisional Index
- MSCI ZhongHua IMI Provisional Index
- MSCI AC Asia ex Japan Provisional Index
- MSCI AC Asia ex Japan IMI Provisional Index
- MSCI AC Asia Provisional Index
- MSCI AC Asia IMI Provisional Index
- MSCI AC Asia Pacific Provisional Index
- MSCI AC Asia Pacific IMI Provisional Index
- MSCI AC Asia Pacific ex Japan Provisional Index
- MSCI AC Asia Pacific ex Japan IMI Provisional Index
- MSCI EM Provisional Index
- MSCI EM IMI Provisional Index
- MSCI EM Asia Provisional Index
- MSCI EM Asia IMI Provisional Index
- MSCI ACWI Provisional Index
- MSCI ACWI IMI Provisional Index

ADDITIONAL CONSULTATION POINTS

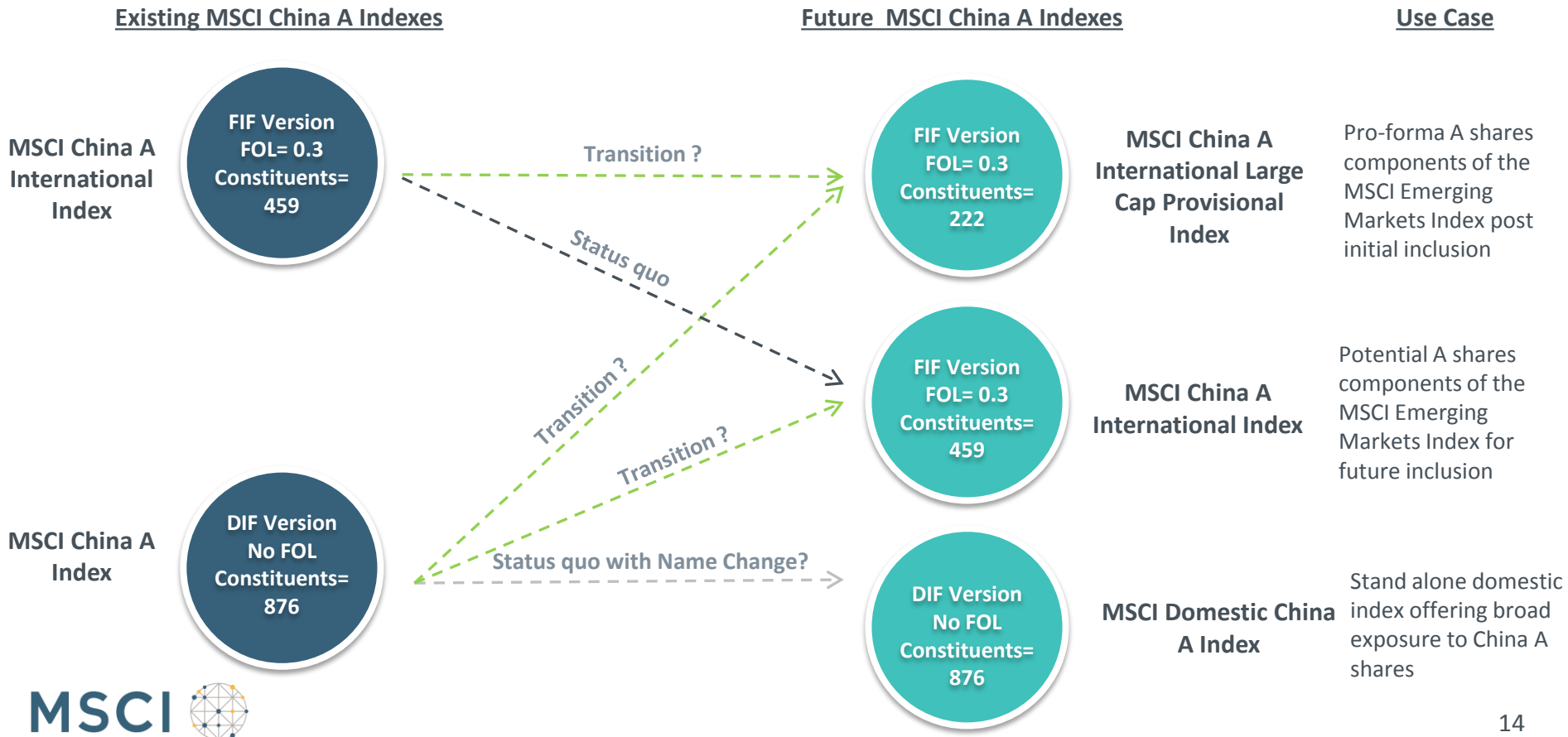
- Following the decision to include China A shares in the MSCI Emerging Markets Index, MSCI will also consult on the following in July 2017:
 1. Implementation of index changes related to corporate events and quarterly index reviews in the event of a market closure due to a “Connect” market holiday or a daily limit breach
 2. Extending the same suspension treatment to the MSCI China A International Indexes
 3. Transition plan of existing China A Indexes

ADDITIONAL CONSULTATION POINTS

	Original Consultation Proposal	Final Decisions/Additional Consultation Points
Eligibility	<ul style="list-style-type: none"> • Include only Large Cap companies which are accessible through the Shanghai and Shenzhen Stock Connect programs • Exclude A shares that have H-shares listings included in the MSCI China Index 	<ul style="list-style-type: none"> ✓ Include only Large Cap companies which are accessible through the Shanghai and Shenzhen Stock Connect programs × Include A shares that have H shares listings included in the MSCI China Index
	<ul style="list-style-type: none"> • Securities suspended for more than 50 days in the past 12 months would not be eligible for index inclusion 	<ul style="list-style-type: none"> ✓ Securities suspended for more than 50 days in the past 12 months would not be eligible for index inclusion ✓ Securities that are suspended during the index review will not be eligible for index inclusion ❖ MSCI will consult on extending this treatment to the MSCI China A International Indexes
ON-GOING TREATMENTS ON SUSPENSION	<ul style="list-style-type: none"> • Remove index constituents that have been suspended for more than 50 days 	<ul style="list-style-type: none"> ✓ Remove index constituents that have been suspended for more than 50 days ❖ MSCI will consult on extending this treatment to the MSCI China A International Indexes
CORPORATE EVENT AND REBALANCING IMPLEMENTATION	<ul style="list-style-type: none"> • No initial inclusion of IPO given Connect investors cannot participate in primary offerings • Postpone implementation to next day for index changes linked to corporate events and quarterly index reviews if the event effective date falls on a “Connect” market holiday or is due to market closure linked to a daily limit breach 	<ul style="list-style-type: none"> ✓ <i>No initial inclusion of IPO given Connect investors cannot participate in primary offerings</i> ❖ MSCI will also further consult on the implementation of index changes related to corporate events and quarterly index review in the event of market closure due to a “Connect” market holiday or a daily limit breach
FX	<ul style="list-style-type: none"> • Offshore exchange rate (CNH) to be used for index calculation 	<ul style="list-style-type: none"> ✓ Offshore exchange rate (CNH) to be used for index calculation

POTENTIAL TREATMENTS OF EXISTING CHINA A INDEXES

- MSCI intends to continue to maintain the existing MSCI China A indexes but will launch a consultation on the transition plan for current users of MSCI China A Index and MSCI China A International Index



KEY EVENTS TIMELINE

- June 2017**
- - Announcement of China A shares inclusion in the MSCI Emerging Markets Index
 - - Launch of the MSCI China A International Large Cap Provisional Index

- July 2017**
- - Launch of consultation on transition plan for existing China A Indexes
 - - Launch of consultation on suspensions, index review and CE changes

- August 2017**
- - Launch of global and regional provisional indexes

- September 2017**
- - Announcement of the conclusion of consultations
 - - Detailed Q&A document for the China A shares inclusion

- May 2018 SAIR**
- - Inclusion of A shares in the MSCI Emerging Markets Index with an Inclusion Factor of 2.5%

- August 2018 QIR**
- - Increase in Inclusion Factor to 5%

ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.

NOTICE AND 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 disseminated 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 by 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, FEA, InvestorForce, 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.