



MSCI Russia: Yandex — inclusion no earlier than November 2020

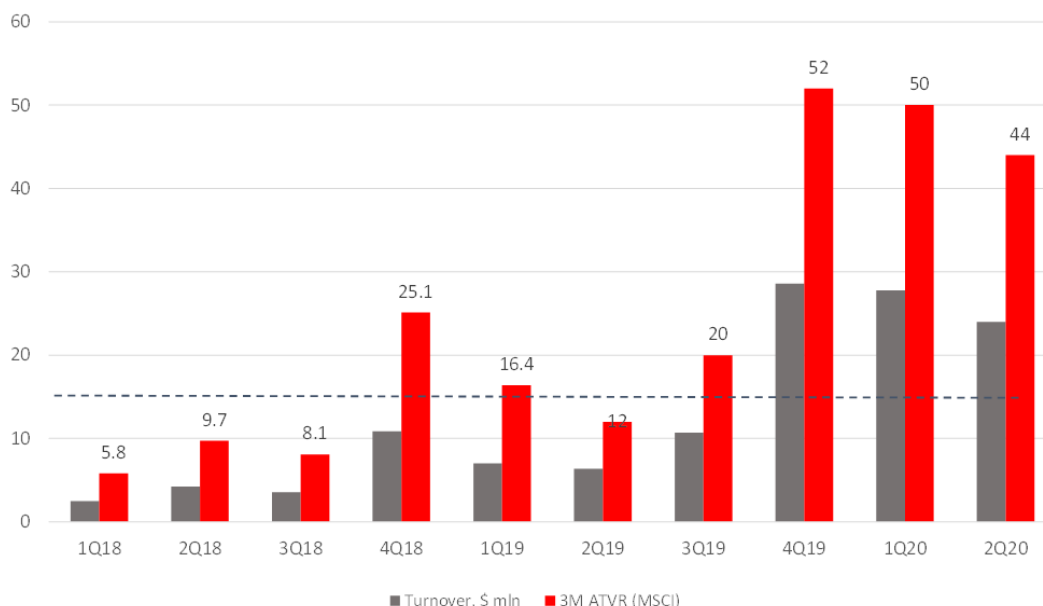
We believe that Yandex is the strongest candidate for inclusion in MSCI Russia in November because only since 3Q19 that the stock has met the required local liquidity level due to the high free-float (96%). More precisely, since July 2019, when the sufficient liquidity ratio measured by MSCI exceeded the minimum 15% threshold for emerging countries. The AVTR ratio in June was 12.5%, according to our calculations.

We estimate that the average daily liquidity volume for each quarter should not fall below \$8.5 mln compared to \$7 mln in June 2019; therefore, the current trend has started only 3Q19 and should last until 3Q20. Given that June is the last month for the August review, Yandex is not expected to be included before the semi-annual review in November, unless MSCI makes an exception, which is very rare.

INFLOW OF NEW FUNDS INTO YANDEX MAY REACH \$600 MLN

- Inclusion of Yandex in MSCI Russia with a potential 6.3% weight, given 96% (\$12,300 mln) free-float, will be the largest since Novatek admission in early 2000s.
- Inflow from passive funds will exceed \$300 mln, which is 15 times the average daily volume for the month. Inflow of active funds may reach \$250-300 mln, which is 15 times the average daily volume for the month.
- Due to strong inflow of funds into Yandex, substantial outflow of passive funds is expected from Gazprom and Lukoil (up to \$100 mln), as well as from Sberbank, Novatek, Norilsk Nickel and other securities.
- Passive funds inflow will start on December 1 after the November 10 changes announcement, or on September 1 after the August 12 changes announcement, but this is not our baseline scenario.

TRADING VOLUMES AND LIQUIDITY RATIO



Source: MSCI, ITI Capital

CRITERIAS FOR INCLUSION IN MSCI

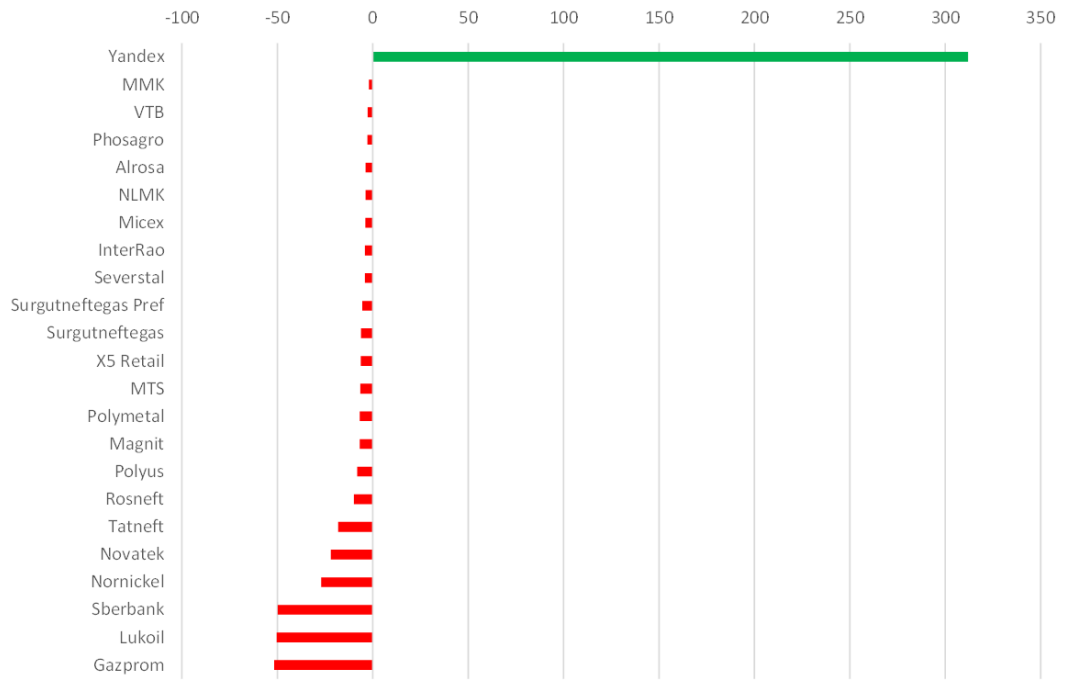
Three main criteria are used for inclusion and exclusion with respect to MSCI country index. The first is market capitalization, the second is capitalization adjusted for free-float, third - liquidity level. Foreign Inclusion Factor (FIF), or the possibility for foreign investors to buy shares Availability, is also important; for example, free float-adjusted capitalization should be at least 15% of the total capitalization (minimum threshold). Minimum trading history and foreign ownership restrictions level are also important, and the ratio of stocks still available to foreign investors to the maximum allowed share (the so-called foreign share) should stand at least at 15%.

In case of Yandex, the main requirement is the local stock liquidity for local exchange (Moscow), which remained low up to 3Q19; liquidity spikes occurred in 4Q18 and 1Q19, but inclusion in the MSCI requires a long-term sustainable trading performance above the established threshold.

For inclusion in emerging market indices, minimum liquidity level must stand at 15% of a three-month ATVR (Annual Traded Value Ratio), 80% of a three-month trading frequency indicator for the past four quarters, and 15% of a 12-month ATVR.

Local and foreign listings with a maximum three-month ATVR are used. A 12-month and a three-month ATVR and a three-month trading frequency indicator are used to assess long-term and short-term liquidity.

PASSIVE CLIENTS FUNDS IN CASE OF INCLUSION OF YANDEX IN MSCI RUSSIA, \$ MLN



Source: MSCI, ITI Capital

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