

# **MSCI Japan Empowering Women (WIN) Index Methodology**

May 2023

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## 1 Introduction

The MSCI Japan Empowering Women (WIN) Index (the “Index”) aims to represent the performance of those Japanese companies that exhibit a commitment towards promoting and maintaining a high level of gender diversity among their workforce.

The Index aims to include companies that lead their respective Global Industry Classification Standard (GICS®)<sup>1</sup> sectors in terms of supporting women’s participation and advancement in the workforce and adopting diversity policies<sup>2</sup>. The constituents of the Index are weighted in proportion of their market capitalization and sector relative Gender Diversity Score<sup>3</sup>.

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<sup>1</sup>GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices.

<sup>2</sup> The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

The Methodology Set includes a document ‘ESG Factors in Methodology’ that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).

<sup>3</sup> Please refer to section 4.1 for description of Gender Diversity Score and section 2.4.1 for description of sector relative Gender Diversity Score.

## 2 Index Construction

The Index uses company ratings and research provided by MSCI ESG Research<sup>4</sup> to determine eligibility for Index inclusion.

### 2.1 Applicable Universe

The Applicable Universe includes all the existing constituents of the MSCI Japan Investable Market Index (IMI) Top 700<sup>5</sup> Index (the “Parent Index”). This approach aims to provide an opportunity set of the top 700 Japanese companies by free float-adjusted market capitalization.

### 2.2 Sector Leaders

Securities from the Applicable Universe that are ranked in the top half of their respective GICS sector based on the Gender Diversity Score are called Sector Leaders. These companies are considered sector ‘leaders’ in terms of promoting and maintaining relatively high levels of gender diversity among their workforce.

The top half of a GICS sector includes securities with Gender Diversity Score equal to or greater than the median Gender Diversity Score of all the securities in the same GICS sector. The median Gender Diversity Score is calculated after excluding securities with Gender Diversity Score = 0 or unavailable Gender Diversity Score.

### 2.3 Eligible Universe

The Eligible Universe includes all sector leaders that are not excluded based on any of the following exclusion criteria:

#### 2.3.1 Unrated Companies

- Missing Controversy Score – Companies not assessed by MSCI ESG Research on MSCI ESG Controversies.
- Missing ESG Gender Diversity Data – Companies which do not disclose data on gender diversity issues. Such companies are assigned a Gender Diversity Score of 0.

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<sup>4</sup> See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited sources from MSCI ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research is solely responsible for the creation, determination and management of such data. MSCI Limited is the benchmark administrator for the MSCI indexes.

<sup>5</sup> For more details on MSCI Japan IMI Top 700 Index, please refer to Appendix II.

### 2.3.2 REITs

Securities that belong to the GICS Industry Group 'Equity REITs' (GICS code starting with 6010).

### 2.3.3 Companies Having Faced ESG Controversies

#### 2.3.3.1 ESG Controversies

Securities with ESG Controversy Score = 0.

#### 2.3.3.2 Human Rights Controversies

Companies with Human Rights Controversy Score  $\leq$  2.

#### 2.3.3.3 Labor Rights Controversies

Companies with Labor Rights Controversy Score  $\leq$  4.

## 2.4 Security Weighting

At each rebalancing, all the securities from the eligible universe are weighted by the product of their market capitalization weight in the parent index and the Sector Relative Gender Diversity Score.

The weights are then normalized to 100%.

Additionally, to mitigate concentration risk, issuer's weight in the index is capped at 5%.

### 2.4.1 Sector Relative Gender Diversity Score

Each security in the Applicable Universe is assigned a sector relative Gender Diversity Score. The sector relative Gender Diversity Score is calculated in two steps

1. For each GICS sector, calculate the maximum Gender Diversity Score.
2. For each security in the Applicable Universe, divide security's Gender Diversity Score by the maximum Gender Diversity Score of the security's GICS sector peers as calculated above.

## 3 Maintenance of the Index

### 3.1 Semi-Annual Index Reviews

The Index is rebalanced on a semi-annual basis, usually as of the close of the last business day of May and November, coinciding with the May and November Index Reviews of the MSCI Global Investable Market Indexes. This approach aims to capture timely updates in Gender Diversity Score characteristics of the companies. The pro forma Index is in general announced nine business days before the effective date. At each semi-annual review, for each security in the Applicable Universe:

- Gender Diversity Scores are considered as of the last business day of April and October.
- Other ESG Data – ESG Controversy Score, Human Rights Controversy Score and Labor Rights Controversy Score are considered as of last business day of April and October. For some securities, this data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available.

#### 3.1.1 Updating the Eligible Universe

The eligible universe is updated during each Semi-Annual Index Review.

Companies that are currently not constituents of the MSCI Japan Empowering Women (WIN) Index are evaluated using the same eligibility criteria described in Section 2.3.

A Gender Diversity Score buffer is used to evaluate existing constituents of the MSCI Japan Empowering Women (WIN) Index. The Gender Diversity Score buffer corresponds to Gender Diversity Scores that are below the median but equal to or above the 65<sup>th</sup> percentile of the corresponding sector<sup>6</sup>.

Existing constituents of the MSCI Japan Empowering Women (WIN) Index that are not excluded based on any of the exclusion criteria described in Section 2.3 are maintained in the eligible universe if their meet one of the following conditions:

- The security's Gender Diversity Score is equal to or above the median of the corresponding GICS sector, or
- The security's Gender Diversity Score is in the Gender Diversity Score buffer, and the security had a Gender Diversity Score that was equal to or above the

<sup>6</sup> Please refer to Appendix V for the steps applied to identified securities in the Gender Diversity Score buffer.

median of the corresponding sector in at least one of the last four consecutive Semi-Annual Index Reviews<sup>7</sup>

### 3.2 Quarterly Index Reviews

The Index is reviewed on a quarterly basis in February and August to coincide with the February and August Index Reviews of the Parent Index. During Quarterly Index Reviews, existing constituents are reviewed for involvement in ESG Controversies as per the section 2.3.3.

ESG Controversy Score, Human Rights Controversy Score and Labor Rights Controversy Score are considered as of last business day of January and July. For some securities, this data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available.

### 3.3 Ongoing Event-Related Changes

The general treatment of corporate events in the MSCI Japan Empowering (WIN) Index aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI Japan Empowering Women (WIN) Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Japan Empowering Women (WIN) Index.

The following section briefly describes the treatment of common corporate events within the MSCI Japan Empowering Women (WIN) Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously.

EVENT TYPE	EVENT DETAILS
<b>New additions to the Parent Index</b>	A new security added to the parent index (such as IPO and other early

<sup>7</sup> The Gender Diversity Score buffer applies from the November 2021 Semi-Annual Index Review. Therefore, the requirement related to the last four consecutive Semi-Annual Index Reviews will apply starting from the November 2023 Semi-Annual Index Review.



inclusions) will not be added to the index.

**Spin-Offs**

All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

**Merger/Acquisition**

For Mergers and Acquisitions, the acquirer’s post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

**Changes in Security Characteristics**

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to these Indexes can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at: <https://www.msci.com/index-methodology>.

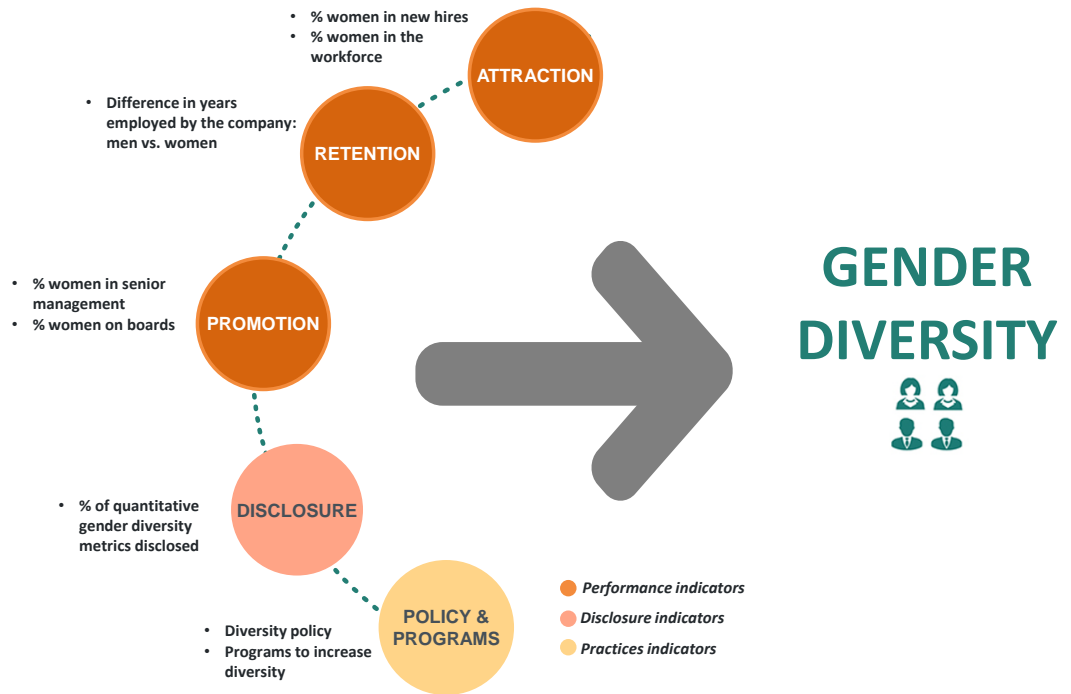
## 4 MSCI ESG Research

The Index is a product of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI ESG Research products: MSCI ESG Japan Workforce Gender Diversity Data and MSCI ESG Controversies.

### 4.1 MSCI ESG Research Gender Diversity Score

MSCI ESG Research provides a gender diversity score for companies in Japan based on their gender diversity performance and practices assessment across core elements of the employment cycle: Attraction, retention, and promotion.

Gender Diversity Assessment Framework



For more details on the gender diversity assessment scores, please refer to Appendix I.

### 4.2 MSCI ESG Controversies

MSCI ESG Controversies provide assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company

operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

The MSCI ESG Controversies methodology can be found at:  
<https://www.msci.com/esg-and-climate-methodologies>.

## Appendix I: Description of MSCI Quality Score

The MSCI Quality Score for each security is calculated by combining the z-scores of three fundamental descriptors, Return on Equity, Debt to Equity and Earnings Variability. A given variable z-score for a security is calculated using the mean and standard deviation of the corresponding variable computed within the MSCI Parent Index. After calculating component variable z-scores, a composite z-score for each security is computed by taking an equal-weighted average of the component z-scores. The Quality Score is then computed from the composite Z score as follows:

$$\text{Quality Score} = \begin{cases} 1 + Z & , Z > 0 \\ (1 - Z)^{-1} & , Z < 0 \end{cases}$$

- 

Where Z is the composite Z score described earlier.

- Sector Relative Quality Score
- The sector-relative quality score is derived from the composite quality z-score. It is arrived at by standardizing the composite quality z-score within each sector. The sector-relative quality scores are winsorized at +/- 3.

The Quality Score is then computed from the sector-relative quality score as follows:

$$\text{Quality Score} = \begin{cases} 1 + Z & , Z > 0 \\ (1 - Z)^{-1} & , Z < 0 \end{cases}$$

- 

Where Z is the sector-relative quality score determined in the previous step.


The MSCI Quality Score was used for security weighting in the the MSCI Japan Empowering Women Index (WIN) previously, and the weighting scheme was updated starting May 2023 Index Review.

## Appendix II: Definition of MSCI ESG Research Gender Diversity Assessment

Attraction, retention, and promotion are some of the core elements of the employment cycle and key focus areas for any company looking to increase its effective utilization of talent. While there are many ways that companies can support women’s participation and advancement in the workforce, an objective and clear measure of their effectiveness is to look at the percentage of women among various segments of the company’s workforce.

In order to identify companies whose performance exceeds sector peers, MSCI ESG Research has developed a gender diversity scoring methodology that allows for multiple possible metric inputs (based on disclosures). To limit the possibility of companies receiving high Gender Diversity Score by reporting only selective, flattering statistics, the methodology applies a discount to the scores of companies with sparse data disclosure. Finally, a quarter of the final score is driven by qualitative information disclosed about companies’ diversity policies and programs as a sign of strategic direction and future intent.

### Gender Diversity Scoring Methodology Summary

Gender Diversity Score		
<b>Performance Score</b> (weight: 75%)		<b>Practices Score</b> (weight: 25%)
<i>Interim Performance Score:</i>  Average of 5 performance metrics score	<i>Disclosure Discount:</i> Deduction to Interim Performance Score based on availability of 5 metrics	<i>Practices Score:</i> Average of 2 policies and programs metrics scores

- Performance Metrics

In identifying performance metrics, we focus on the core elements of attraction, retention, and promotion.

- **Attraction:** To measure a company’s ability to attract women to its workforce, we look at the *percent of women among new hires* and the *percentage of women among the overall workforce*.
- **Retention:** To measure how effectively a company is able to retain female employees, we compared *average tenure figures for men and women*.

- Promotion:** Workforce participation is only the first step. For true empowerment, women need to be able to advance in their careers as well. To measure a company’s effectiveness in promoting women, we looked at the *percentage of women in senior and middle management* and the *percentage of women on the board of directors*.

For each disclosed metric, we compare it to the range of non-zero values disclosed by all companies in the universe<sup>8</sup> and calculated the percentile. We then convert the percentiles to 0-10 scores.

A simple average of all scores available for each company results in the **interim performance score**.

The next step is to calculate the appropriate discount for companies reporting few metrics.

- Disclosure Discount

To ensure that our assessment of companies’ gender diversity performance was not unduly influenced by selective data disclosure, we adjust the interim performance scoring using a percentage discount based on the number of metrics each company reported.

Disclosure Discount

Number of performance metrics disclosed (out of 5)	Percentage deduction applied to Interim Performance Score
1	-20%
2	-15%
3	-10%
4	-5%
5	0%

The final Performance Score is equal to the interim performance score reduced by the percentage of the disclosure discount.

<sup>8</sup> Defined as the companies that are constituents of the MSCI Japan IMI Top 700 Index.

- Practices Metrics

In addition to calculating quantitative performance based on gender statistics, we analyze a company’s strategic direction and future intent for empowering women in its workplace by evaluating gender diversity policies and programs. This assessment is designed to provide key insights especially for companies that have recently identified diversity as priority and have started working towards improving it.

The Practices score is a simple average of companies’ scores on two metrics: workforce diversity policy and management oversight and programs to increase workforce diversity.

- Workforce diversity policy and management oversight:

The successful adoption of any equal opportunity / diversity / anti-discrimination policy requires reinforcement through managerial leadership and employee training. The presence of senior management oversight is an indication of the level of commitment to the promotion and effective execution of policy objectives through accountability and structured monitoring.

**Best practice (score of 10):** Employee training on diversity policy, supported by senior executive or higher level of oversight on diversity performance

- Programs to increase workforce diversity

There are several initiatives that companies can introduce to help attract, retain, and promote women in the workforce. MSCI ESG Research focuses on two key types: quantitative diversity targets and material benefits that make it easier for women to work.

**Targets:** Explicit quantitative recruitment targets indicate a company’s intent to ensure that female employees are increasingly represented in the workforce and facilitate the tracking of progress.

**Employee benefits:** Examples of the most common benefits that companies offer include flexible working hours for women, paid maternity leave above statutory minimums, paid parental leaves, and childcare services, subsidies, or rebates.

**Best practice (score of 10):** Company provides employee benefits to facilitate diversity and inclusion, and sets quantitative diversity targets in recruitment process.

- Gender Diversity Score

We combined the Performance score (75%) and the Practices score (25%) in a weighted average to calculate the final Gender Diversity Score for each company.

## Appendix III: MSCI Japan IMI Top 700 Index

- Index Construction

The MSCI Japan IMI Top 700 Index is constructed from the securities of the MSCI Japan Investable Market Index (IMI). The securities in the MSCI Japan IMI are ranked by free float-adjusted market capitalization in descending order and the top 700 securities are selected to construct the MSCI Japan IMI Top 700 Index.

- Semi-Annual Index Review

The composition of the MSCI Japan IMI Top 700 Index is reviewed on a semi-annual basis to coincide with the May and November Index Reviews of the MSCI Global Investable Market Indexes. The changes are implemented at the end of May and November.

- Buffer Rules

During each Semi-Annual Index Review, to reduce Index turnover and enhance Index stability, buffer rules are applied at 20% of the fixed number of securities in the Index.

Buffers are applied on securities ranked between 561 and 840. The securities in the MSCI Japan IMI are ranked in descending order of their free float-adjusted market capitalization and all securities up to rank 560 are added to the Index on a priority basis. The existing constituents of MSCI Japan IMI Top 700 Index ranked between 561 and 840 are then successively added until the number of securities in of MSCI Japan IMI Top 700 Index reaches 700. If there are less than 700 securities in MSCI Japan IMI then all securities are added to the MSCI Japan IMI Top 700 Index.

- Ongoing Event-Related Changes

Ongoing event-related changes in the MSCI Japan IMI are reflected in MSCI Japan IMI Top 700 Index at the time of the implementation of the event in the Parent Index.



## Appendix IV: Securities in the Gender Diversity Score Buffer

The following steps are applied to identify securities that are in the Gender Diversity Score buffer:

- All securities with Gender Diversity Score = 0 or unavailable Gender Diversity Score are excluded from the calculation
- In each GICS sector, securities are ranked in descending order of Gender Diversity Score. Companies with the same Gender Diversity Score are assigned a different rank<sup>9</sup>
- The percentile value for each security is calculated as:
  - $$\frac{\text{rank of the security in the GICS sector} - 1}{\text{total number of securities being ranked in the GICS sector} - 1}$$
- The Gender Diversity Score buffer threshold corresponds to the lowest Gender Diversity Score of all securities that have a percentile value equal to or above 65%
- Securities in the Gender Diversity Score buffer are those with a Gender Diversity Score equal to or above the Gender Diversity Score buffer threshold but below the median

The example below illustrates how the steps described above are applied in a GICS sector that would have 22 securities (from 'a' to 'v').

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<sup>9</sup> The relative ranking of securities with same Gender Diversity Score does not impact the eventual inclusion of securities in the eligible universe. Hence, any differentiating factor (for example, the security's name, security's weight in the parent index, etc.) may be used to rank securities that have the same Gender Diversity Score.

Security	Gender Diversity Score	Rank	Sector Leader	Gender Diversity Score buffer
a	9	0%	✓	
b	7.5	5%	✓	
c	7.3	10%	✓	
d	6.6	15%	✓	
e	6.2	20%	✓	
f	6	25%	✓	
g	5.9	30%	✓	
h	5.7	35%	✓	
i	5.5	40%	✓	
j	5.3	45%	✓	
k	5.2	50%	✓	
l	5.1	55%		✓
m	5	60%		✓
n	5	65%		✓
o	5	70%		✓
p	3.3	75%		
q	2.5	80%		
r	2	85%		
s	1.2	90%		
t	1	95%		
u	0.8	100%		
v	0	N/A		

In this example, one security (security 'v') is excluded from the percentile calculation due to Gender Diversity Score = 0. Therefore, there are 21 securities being ranked in the GICS sector.

The percentile value for security 'd' (ranked 4th in the GICS sector) is calculated as:  $(4-1) / (21-1) = 15\%$  (15th percentile).

The Gender Diversity Score buffer threshold is the Gender Diversity Score of security 'n' (i.e., score of 5), as security 'n' is the security with the lowest Gender Diversity Score among all securities that have a percentile value equal to or above 65%

Securities 'l', 'm', 'n' and 'o' are in the Gender Diversity Score buffer as their Gender Diversity Score is equal to or above the buffer threshold but below the median.

## Appendix V: Changes to this Document

### The following sections have been modified as of August 2017:

Section 4.1: Semi Annual Reviews and Section 4.2 Quarterly Index Reviews

- Clarification on use of ESG data for securities whose data would be available after the end of the month preceding Index Review.

The following sections have been modified as of September 2017:

The details on the Corporate Events treatment are now included in Section 4.3.

### The following sections have been modified as of November 2019:

Section 3.1: Applicable Universe and Appendix III: MSCI Japan IMI Top 700 Index

- Updated to reflect the change in the Applicable Universe from the MSCI Japan IMI Top 500 Index to the MSCI Japan IMI Top 700 Index

### The following sections have been modified as of November 2021:

Section 4.1.1: Updating the Eligible Universe

- New Section to reflect the use of a Gender Diversity Score buffer

Appendix V: Securities in the Gender Diversity Score Buffer

- New Appendix to reflect the use of a Gender Diversity Score buffer

### The following sections have been modified as of May 2023:

Section 1: Introduction

- Removal of references to Quality Score
- Added footnote on Methodology Set

Section 2.4: Security Weighting

- Updated the security weighting scheme

Appendix IV: Definition of Controversy Severity

- Removed the Appendix

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