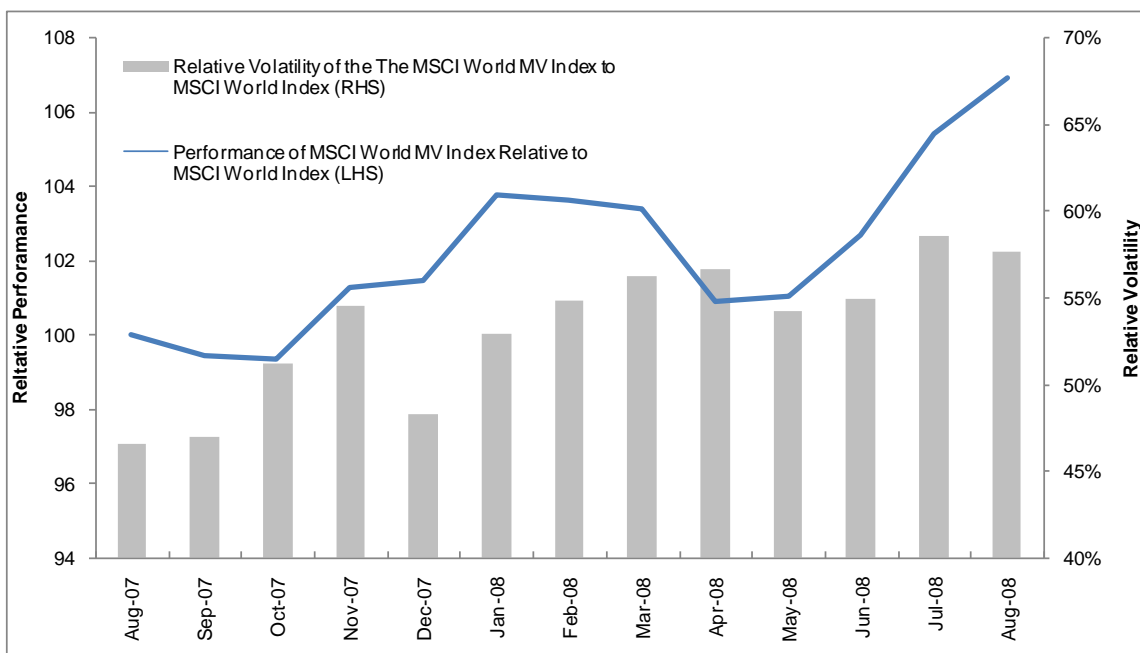


In April 2008 MSCI Barra launched the MSCI World Minimum Volatility Index to serve as a transparent and relevant benchmark for managed volatility equity strategies. As the markets have become more volatile over the last year we explore the behavior of the MSCI World Minimum Volatility Index to determine if it still provides lower volatility in comparison to the MSCI World Index.

Outperformance with lower volatility

Figure 1, provides the performance and volatility of the MSCI World Minimum Volatility Index relative to the MSCI World Index from August 31, 2007 to August 31, 2008. During this timeframe the MSCI World Minimum Volatility Index has shown lower volatility and higher performance.

Figure 1: MSCI World Minimum Volatility (MV) Index relative to the MSCI World Index



Note: The relative volatility is calculated by taking the ratio of forecasted risk from the Barra Aegis Global Equity Model of the MSCI World Minimum Volatility Index relative to the MSCI World Index

The MSCI World Minimum Volatility Index has also shown lower realized volatility and higher returns over longer periods as depicted in Figure 2. This analysis provides the annualized return and risk of the MSCI World Minimum Volatility and the MSCI World Indices over the last 1, 3 and 5 years as of August 31, 2008 as well as the period from December 31, 1998 to August 31, 2008.

Figure 2: Annualized Risk and Return: December 1998 to August 2008

	Annualized Return				Annualized Risk ¹			
	1 Year	3 Year	5 Year	Dec'98 to August'08	1 Year	3 Year	5 Year	Dec'98 to August'08
MSCI World Minimum Volatility Index	-5.5%	6.8%	12.2%	5.7%	11.2%	8.6%	8.1%	9.3%
MSCI World Index	-11.6%	6.5%	10.8%	3.7%	14.8%	10.9%	10.2%	13.6%

Note: ¹Annualized standard deviation of monthly returns. Data as of August 31, 2008.

Thus, even in periods of heightened volatility, which has been the case over the last year, the MSCI World Minimum Volatility Index has been less volatile and has demonstrated its suitability as an appropriate benchmark for managed volatility equity strategies.

Characteristics of the MSCI World Minimum Volatility Index

Next we examine the characteristics of the MSCI World Minimum Volatility Index in more detail to see how the style and sector exposures of the index have changed over time.

Figure 3, provides the evolution of style factor exposures of the MSCI World Minimum Volatility Index over time. The analysis shows that the MSCI World Minimum Volatility Index has a bias towards smaller (mid cap) and less volatile stocks. This is consistent with earlier analyses of the index. In addition, since 2003 the MSCI World Minimum Volatility Index has shown a lower exposure to the Value factor indicating that the value stocks have become more volatile. It is interesting to note that the index has shown a decline in Value factor exposure over the last year following an uptick in this factor from December 2006 to the middle of 2007.

Figure 3: MSCI World Minimum Volatility Index style exposures over time

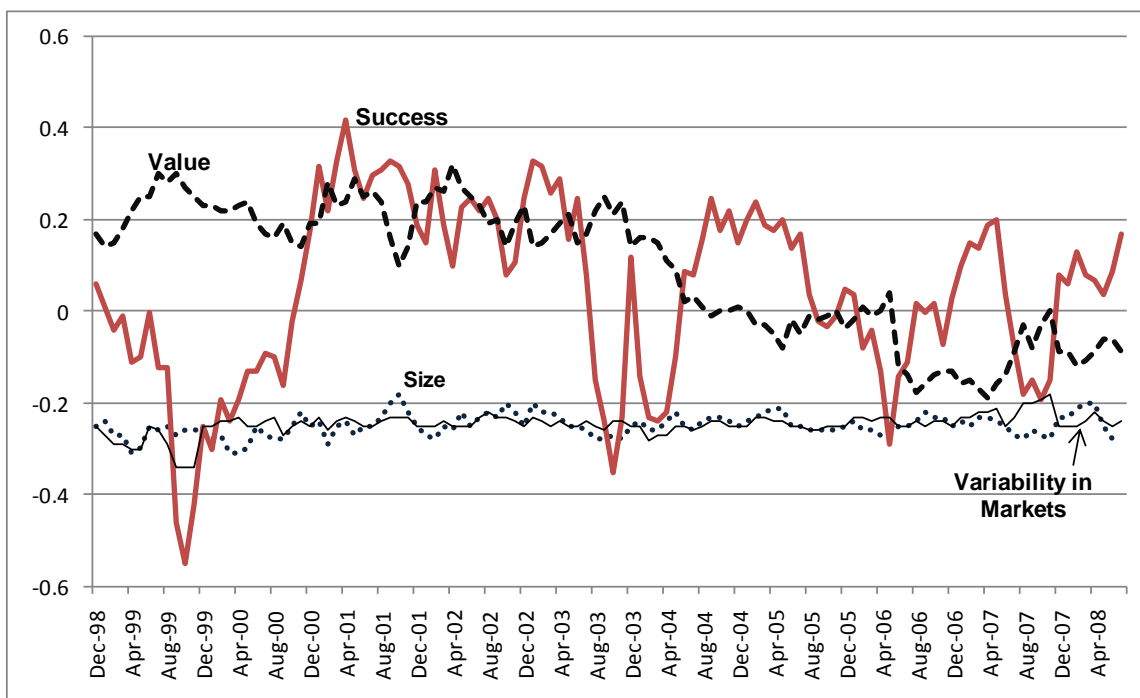


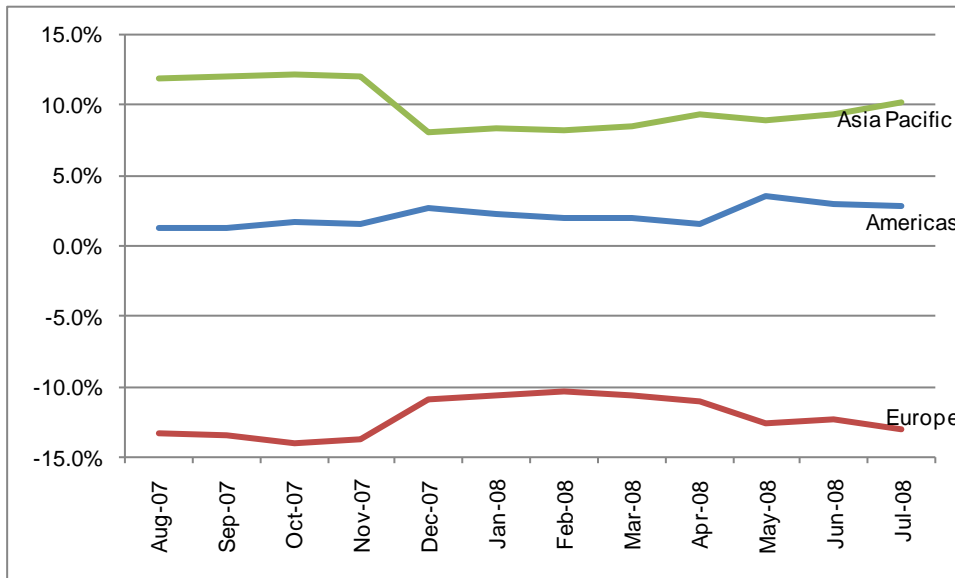
Figure 4 provides the sector weight differences between the MSCI World Minimum Volatility Index and the MSCI World Index as of November 30, 2007 and May 31, 2008, the dates of the most recent semi-annual index reviews. The constraint of +/-5% around the GICS sector weights of the MSCI World Index at each semi-annual index review helped to ensure that the MSCI World Minimum Volatility Index was not largely overweight or underweight in any sector. More importantly the resulting index was underweight in Energy, Materials, Financials and Information Technology sectors, which have recently been the most volatile sectors.

Figure 4: Sector Weight difference between MSCI World Minimum Volatility Index relative to MSCI World Index

	30-Nov-07	30-May-08
Energy	-5.0%	-5.0%
Materials	-5.0%	-5.0%
Industrials	0.2%	0.0%
Consumer Discretionary	1.7%	0.8%
Consumer Staples	5.0%	5.0%
Health Care	5.0%	5.0%
Financials	-5.0%	-4.2%
Information Technology	-5.0%	-5.0%
Telecommunication Services	3.2%	3.5%
Utilities	5.0%	5.0%

Figure 5 provides the exposures to different regions over the last year of the MSCI World Minimum Volatility Index relative to the MSCI World Index. Similar to what we have observed in our earlier simulations, the MSCI World Minimum Volatility Index under-weights Europe and over-weights Asia Pacific. The Americas weight is on average relatively close to the MSCI World Index.

Figure 5: Regional Weights comparison - MSCI World Minimum Volatility Index relative to the MSCI World Index



Conclusion

The MSCI World Minimum Volatility Index continues to exhibit characteristics that are similar to those that were observed in previous analyses, including lower volatility, a bias towards smaller (mid cap) and less volatile stocks, decreased value exposure and is underweight in more volatile sectors. By maintaining its low volatility characteristics the index continues to demonstrate its suitability as an appropriate benchmark for managed volatility equity strategies.

References

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