MSCI Hedging & Currency Indexes

Currency exposure can significantly impact the performance and the volatility of global equity Indexes either positively or negatively. There are times over investment cycles when investors may be comfortable taking on equity and currency risk together; there are other times when decoupling the two can be useful. To help institutional investors analyze and manage their equity and currency exposures, MSCI has developed a range of hedging and currency Indexes that may be used in asset allocation, portfolio construction, portfolio implementation and performance measurement processes.

The Impact of Currency on International Equity Index Returns

Currency risk is an essential factor to consider when investing abroad because currency exchange rates can fluctuate significantly over time, especially in periods of financial crisis and high volatility. The MSCI Hedging and Currency Indexes decouple currency and equity market returns, so that investors can evaluate and manage their equity and currency exposures separately in various ways.

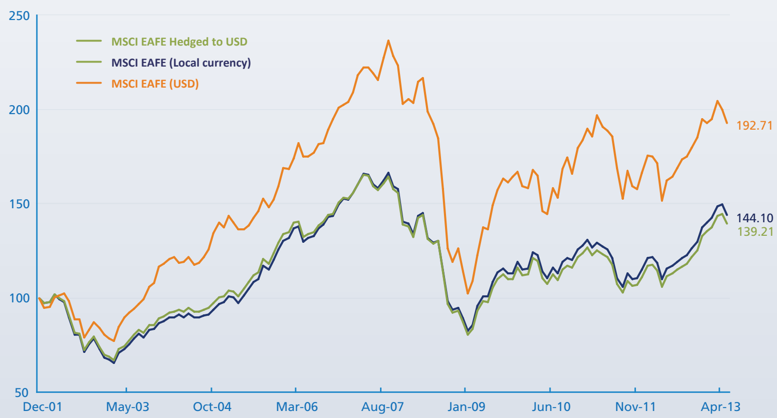
The MSCI Hedging & Currency Indexes

1. The **MSCI Hedged & Daily Hedged Indexes** are designed to represent a close estimation of the return that can be achieved by hedging the currency exposures of an MSCI parent index using daily or monthly forwards.

   The **MSCI Hedged Indexes** hedge the foreign currencies in the index back to the "home currency" by notionally selling each foreign currency in the index forward at the one-month forward rate. The amount of forwards sold on the last business day of the month represents the value (or the market capitalization) of the index as of the close of two business days before the first calendar day of the following month. The foreign currency weights, however, take into account any changes in the composition of the index implemented as of the close of the last business day of the month. The amount hedged is kept constant over the whole month; it is not adjusted for any index changes such as security price movements, corporate events, or index additions or deletions. MSCI provides either fully or partially hedged versions of the MSCI Hedged Indexes.

   The **MSCI Daily Hedged Indexes**[1] hedge the foreign currencies in the index back to the investor's "home currency" by notionally selling each foreign currency in the index forward at the TN (Tomorrow Next) forward rate. The amount of forwards sold represents the value (or the market capitalization) of the index on the previous day and any currency profits or losses are assumed to be reinvested in the index with a one day lag. MSCI provides either fully or partially hedged versions of the MSCI Daily Hedged Indexes.

MSCI EAFE Hedged to USD Index (Dec 2001 – June 2013)



MSCI EAFE Currency Weights	
EUR	28.40%
YEN	22.07%
GBP	21.83%
CHF	9.17%
AUD	8.15%
SEK	3.13%
HDK	3.00%
SGD	1.62%
Other	2.62%

The MSCI EAFE Hedged to USD Index is designed to represent a close approximation of the performance that can be achieved by hedging the currency exposures of its parent index, the MSCI EAFE Index to the USD, or the "home" currency for the hedged index. The MSCI EAFE Hedged to USD Index is 100% hedged to the USD by selling each foreign currency forward at the one-month forward weight. The local performance for MSCI EAFE is calculated in 13 different currencies, including the Euro.

[1] Due to data availability, the MSCI Daily Hedged Indexes include the following emerging markets currencies as of June 2013: BRL, CLP, COP, EGP, KRW, MXN, PEN and TWD.

2. The **MSCI FX Hedge Indexes** are designed to reflect the performance of a currency hedge on a regional MSCI equity index, excluding the equity market performance. The Indexes measure the impact of hedging a currency exposure against an investor's home currency using a monthly forward rollover. No adjustments to the hedges are made during the month to account for changes in the Indexes due to price movement of securities, corporate events, additions, deletions or any other changes. In other words, the amount hedged is kept constant over the whole month. To compute the daily index value, the forwards are marked-to-market on a daily basis using a linear interpolation methodology based on Spot, 1-week and 1-month FX forwards premium or discounts.

   The MSCI FX Hedge Indexes are maintained with an objective of reflecting the evolution of the underlying currency exposures in the MSCI equity Indexes on a timely basis. In particular, index maintenance involves:

   – Resetting the weights of the currencies to be sold in the index

   – Rolling the forward contracts over to the next month

   The MSCI FX Hedge Indexes are rebalanced monthly on the last trading day of the month, when the index will take into account the effect of rolling into new 1-month forward contracts based on the newly determined weights of currency to be sold for the next month's index calculation.

3. The **MSCI Global Currency Indexes** are designed to reflect the total return of the currency performance alone (plus accrued interest from holding the currencies) in a regional MSCI equity index. They measure the total return of country currencies in a regional or composite MSCI Equity index, weighted by their country weights.

   The total return reflects the currency appreciation/depreciation of the currencies included in the currency index relative to the home currency together with the interest accruing from holding the currencies. For example, the MSCI Emerging Market Currency Index in USD measures the total return of 21 emerging market currencies relative to the USD, where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index.

	MSCI FX Hedge Indexes	MSCI Hedged & Daily Hedged Indexes	MSCI Global Currency Indexes
Objective	Reflect the performance impact of a currency hedge on an MSCI parent index.	Reflect the equity performance of an MSCI parent index, while removing the impact of currency fluctuations.	Reflect the total return of currencies and accrued interest from holding the currencies in an MSCI parent index.
Application	To measure the impact of hedging a market index on a monthly basis.	To measure the return of a currency hedged market index — hedged monthly or daily.	To measure only the currency returns of an MSCI parent index.
Investment Process Reflected in the Index	Notionally "sell" FX forwards based on their market cap value in the MSCI parent index.	Notionally "buy" equity portfolio and "sell" FX forwards based on their market cap value in the MSCI parent index.	Notionally "buy" FX forwards based on the market cap value of each currency in the index and "buy" home currency LIBOR deposits to capture their interest rate returns.
Interest	Returns will be impacted by the differences in interest rates between the home and the foreign currencies.	N/A	The index incorporates the interest rates of the foreign currencies.
Dividends	N/A	Index constituent dividends are captured in the gross and net versions of the MSCI Hedged & Daily Hedged Indexes.	N/A

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About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indexes with approximately USD 7.5 trillion estimated to be benchmarked to them on a worldwide basis[1]; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS corporate governance research, data and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

[1] As of March 31, 2013, as reported on July 31, 2013 by eVestment, Lipper and Bloomberg.

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