

MSCI USA Catholic Values Index

Methodology

July 2010

1. INTRODUCTION

The MSCI USA Catholic Values Index is a free float-adjusted market capitalization index designed to be used as a U.S. equity benchmark for Catholic investors who seek equity ownership in alignment with the moral and social teachings of the Catholic Church. The MSCI USA Catholic Values Index consists of 400 companies selected from the MSCI USA Investable Market Index (IMI).

This methodology book is based on the methodology used by KLD Research & Analytics, Inc. for the construction and maintenance of the FTSE KLD Catholic Values 400 Index, which has been updated to incorporate the methodology changes resulting from the transition to the MSCI ESG Indices family that will occur on September 1st, 2010. MSCI intends to review and update the methodology in the upcoming months.

2. ESG RESEARCH FRAMEWORK

MSCI's ESG research framework generates an analysis and rating of each company's management of its environmental, social and governance performance. The rating criteria address a company's ESG performance in the context of five categories, covering key corporate stakeholders.

- **Environment** – rate a company's management of its environmental challenges, including its effort to reduce or offset the impacts of its products and operations.
- **Community and Society** – measure how well a company manages its impact on the communities where it operates, including its treatment of local population, its handling of human rights issues and its commitment to philanthropic activities.
- **Employees and Supply Chain** – assess a company's record of managing employees, contractors and suppliers. Issues of particular interest include labor-management relations, anti-discrimination policies and practices, employee safety, and the labor rights of workers throughout the company's supply chain.
- **Customers** – measure the quality and safety record of a company's products, its marketing practices, and any involvement in regulatory or anti-competitive controversies.
- **Governance and Ethics** – address a company's investor relations and management practices, including company sustainability reporting, board accountability and business ethics policies and practices.

MSCI applies its proprietary ESG rating framework to each company by selecting the ESG rating criteria most relevant to each firm. To evaluate a company, analysts review more than 500 data points and score more than 100 indicators. MSCI expresses a company's ESG performance as a numerical score and on a letter-based rating scale. The ratings fall on a nine-point scale from AAA to C. Scores and ratings are not normalized across individual industries or the overall company universe. This means that one industry may have no companies that receive any "A" ratings, while another industry may have no companies with "C" ratings.

For more details on ESG scores and ratings, please refer to <http://www.kld.com/research/>

3. CONSTRUCTING THE MSCI USA CATHOLIC VALUES INDEX

3.1. Underlying Universe

The selection universe for the MSCI USA Catholic Values Index is the MSCI USA IMI Index.

3.2. Eligibility Criteria

The MSCI USA Catholic Values Index includes companies that are in accordance with the United States Conference of Catholic Bishops' (USCCB) Socially Responsible Investment Guidelines.¹ Each Company's Catholic Values performance is evaluated based on following areas:

- Respecting Human Life;
- Promoting Human Dignity;
- Reducing Arms Production;
- Pursuing Economic Justice;
- Protecting the Environment; and
- Encouraging the Corporate Responsibility.

Please refer to Appendix 1 for a detailed description of these areas

3.3. Index Construction

The MSCI USA Catholic Values Index is composed of 400 Companies with high ratings for ESG performance and Catholic Value performance based on the above categories along with the considerations of sector and size-segment representation, as described below.

3.3.1. Size-Segment Representation

The composition of the MSCI USA Catholic Values Index is maintained at approximately:

- 90% large cap companies;
- 9% mid cap companies; and
- 1% small cap companies.

3.3.2. Sector Representation

The MSCI USA Catholic Values Index seeks to maintain approximately similar sector weights as the MSCI USA IMI.

4. MAINTAINING THE MSCI USA CATHOLIC VALUES INDEX

4.1. Quarterly Index Reviews

The composition of the MSCI USA Catholic Values Index is reviewed on a quarterly basis to coincide with the regular Index Reviews (Semi-Annual Index Reviews in May and November and Quarterly Index Reviews in February and August) of the MSCI Global Investable Market Indices. The changes are implemented at the end of February, May, August and November.

¹ Guidelines can be found at <http://www.usccb.org/finance/srig.shtml>

Companies can only be added to the MSCI USA Catholic Values Index at regular Index Reviews. Current index constituents are reviewed to determine if any of them should be removed due to ESG or Catholic Values performance. In addition, if a constituent is removed from the MSCI USA IMI Index as a result of the Index Review, it will be simultaneously removed from the MSCI USA Catholic Values Index. The deleted companies are replaced with eligible companies taking into account size-segment and sector representation. The MSCI USA Catholic Values Index will be restored to 400 companies at each Index Review.

4.2. Ongoing Event-Related Maintenance

The MSCI Corporate Events Methodology is applied for the maintenance of the MSCI USA Catholic Values Index between Index Reviews. New additions to the MSCI USA IMI index due to corporate events will not be added simultaneously to the MSCI USA Catholic Values Index, but will be considered for inclusion at the following Index Review. However, companies deleted from the MSCI USA IMI index between Index Reviews are also deleted at the same time from the MSCI USA Catholic Values Index.

When the number of securities in the MSCI USA Catholic Values Index falls below 400 due to corporate events, no additions will be made to restore the number of constituents to 400 until the next Quarterly Index Review.

The technical details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available at:
http://www.msccibarra.com/products/indices/international_equity_indices/gimi/stdindex/methodology.html

Appendix 1:

The MSCI USA Catholic Values Index includes companies that meet the United States Conference of Catholic Bishops' (USCCB) Socially Responsible Investment Guidelines. Each Company's Catholic Values performance is evaluated covering the following areas:

- **Respecting Human Life** – There is a zero tolerance rule for companies whose activities include direct participation in or support of abortion. Companies that manufacture contraceptive products are disqualified from the index. Due to the dynamic nature of this field of research, new products or services will be evaluated on a case-by-case basis. The Index also has a zero tolerance rule for companies involved in human cloning.
- **Promoting Human Dignity** – This category evaluates companies on their performance in the area of human rights. Companies that provide access to health care and pharmaceuticals or have corporate policies on equal pay and promotion opportunities for women and minorities will be assigned a high rating in this criteria. Companies with a pattern of racial or gender discrimination, which have not taken steps to address the concern, are not eligible for inclusion in the Index. Companies that produce or derive significant revenues from the sale or distribution of pornography are also ineligible for the Index.
- **Reducing Arms Production** – Companies that derive greater than 5% of revenues from the production of military weapons or firearms are ineligible. The Index has zero tolerance for the manufacture of anti-personnel landmines.
- **Pursuing Economic Justice** – The Index seeks to include companies that: avoid the use of sweatshops in the manufacture of goods; provide generous wage and benefit policies; and have adequate worker safety guidelines. Companies involved in labor rights or predatory lending controversies, which have not taken steps to address the concern, are ineligible for the Index.
- **Protecting the Environment** – The Index seeks to include companies that have programs and policies to protect the global environment, including the creation or environmentally beneficial technologies; programs to reduce greenhouse gas emissions; and the development of alternative renewable or clean energy resources.
- **Encouraging Corporate Social Responsibility (CSR)** – The Index seeks to include companies that have CSR guidelines and that report on social and environment performance, corporate citizenship or sustainability, as well as financial performance.
- **Other Factors** – The Index has zero tolerance for tobacco involvement. Companies with involvement in nuclear power production generally are ineligible. However, those with notable involvement in the area of alternative energy may be considered. Companies involved in the manufacture or sale of alcohol or those involved in the gambling industry are evaluated on a case-by-case basis.

Contact Information

clientservice@msci.com

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+ 1.404.551.3212
Boston	+ 1.617.532.0920
Chicago	+ 1.312.675.0545
Montreal	+ 1.514.847.7506
Monterrey	+ 52.81.1253.4020
New York	+ 1.212.804.3901
San Francisco	+ 1.415.836.8800
Sao Paulo	+ 55.11.3706.1360
Stamford	+1.203.325.5630
Toronto	+ 1.416.628.1007

Europe, Middle East & Africa

Amsterdam	+ 31.20.462.1382
Cape Town	+ 27.21.673.0100
Frankfurt	+ 49.69.133.859.00
Geneva	+ 41.22.817.9777
London	+ 44.20.7618.2222
Madrid	+ 34.91.700.7275
Milan	+ 39.02.5849.0415
Paris	0800.91.59.17 (toll free)
Zurich	+ 41.44.220.9300

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+ 852.2844.9333
Seoul	+827.0768.88984
Singapore	800.852.3749 (toll free)
Sydney	+ 61.2.9033.9333
Tokyo	+ 81.3.5226.8222

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The company's flagship product offerings are: the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.