

THE MSCI VALUE WEIGHTED INDEXES

A FUNDAMENTAL APPROACH TO CAPTURING THE VALUE PREMIUM

- The MSCI Value Weighted Indexes are uniquely designed to reflect the “value premium”.
- The MSCI Value Weighted Indexes employ value weighting as a simple, effective method to (1) create a tilt towards value stocks and (2) provide superior risk-adjusted performance while maintaining the strong investability and capacity features of the parent cap weighted index.
- Multiple uses of the MSCI Value Weighted Indexes include cost-effective replication, benchmarking of value managers, and combining MSCI Value Weighted with other MSCI Factor Indexes.

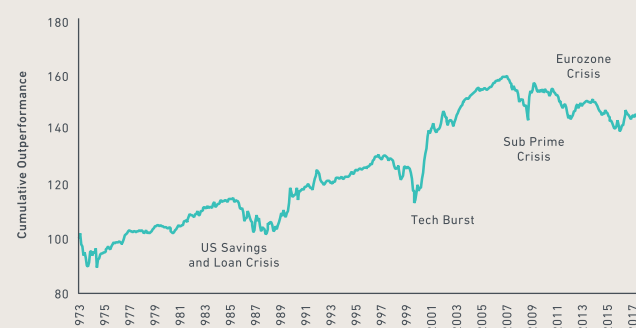
WHY DO INVESTORS USE VALUE STRATEGIES?

- Over long periods, value strategies have often generated a premium over the broad market
- Some value investors argue that because value is a source of systematic risk, value portfolios earn a long-term premium as compensation for bearing this higher systematic risk
- Over short periods the value risk premium has experienced cyclical performance

KEY BENEFITS OF THE MSCI VALUE WEIGHTED INDEXES

- Enable investors who track the indexes to gain passive and potentially low cost exposure to the value premium
- Significant active exposure to the value factor
- Low turnover
- Highly investable due to its construction based on the features of the cap weighted parent indexes
- Low tracking error of 3.4% relative to the market cap weighted benchmark

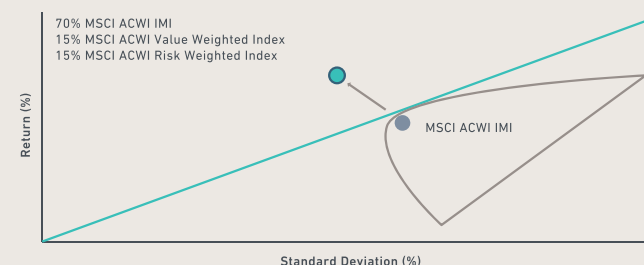
PERFORMANCE OF MSCI WORLD VALUE WEIGHTED INDEX RELATIVE TO MSCI WORLD INDEX (USD)



Historical Gross Performance, USD	MSCI World	MSCI World Value Weighted
Total Return* (%)	9.6	10.4
Total Risk* (%)	14.7	14.9
Risk Adjusted Return	0.65	0.70
Active Return* (%)	N/A	0.86
Tracking Error* (%)	N/A	3.70
Information Ratio	N/A	0.23

* Annualized from May 1973 to May 2018

ADDING MSCI VALUE WEIGHTED INDEXES HAS HISTORICALLY INCREASED RETURN WHILE MAINTAINING A SIMILAR LEVEL OF RISK



METHODOLOGY HIGHLIGHTS

PARAMETER	METHODOLOGY	COMMENTS
Universe	<ul style="list-style-type: none"> Parent index constituents 	<p>Objective approach to capturing the standard opportunity set and ensuring indexes have high investability and liquidity</p> <p>Leverage the MSCI building block approach: no gaps or overlaps</p>
Variables	<ul style="list-style-type: none"> Sales, Earnings, Cash Flow and Book Value 	<p>Objective measures that capture different aspects of fundamental value</p> <p>Dividends are not paid by all companies</p>
Weighting	<ul style="list-style-type: none"> All parent index constituents Average of individual variable weights 	<p>No stock selection</p> <p>Tilted market cap weights result in high investability and liquidity</p>
Rebalancing	<ul style="list-style-type: none"> Semi-annual 	<p>Timely data updates</p> <p>Consistent with MSCI rebalancing calendar</p>

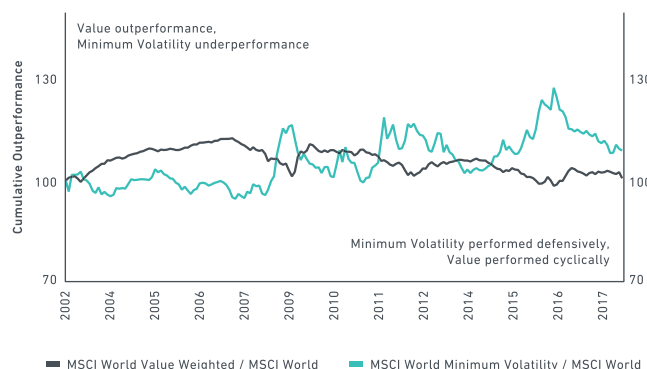
ILLUSTRATIVE USE CASE

- A US Public Pension Plan adopted a passive approach to capture three factors: Value, Low Volatility and Size, as well as the overall market
- The fund combined the MSCI ACWI Value Weighted, the MSCI ACWI Risk Weighted and the MSCI ACWI IMI Indexes
- Historically, over long periods, combining factor indexes has enhanced risk-adjusted performance

COMBINING MSCI FACTOR INDEXES

- MSCI Quality, Value Weighted, Minimum Volatility and other MSCI Factor Indexes outperformed their cap weighted parent indexes over long periods
- However, performance is cyclical: any factor index can underperform for long periods
- Therefore, a higher level of diversification may be achieved by combining two or more MSCI Factor Indexes
- Combinations may also reduce overall cost by exploiting natural internal “crossing opportunities” at each rebalancing

COMBINING MSCI WORLD VALUE WEIGHTED AND MSCI WORLD MINIMUM VOLATILITY INDEXES (USD)



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