I. INTRODUCTION

MSCI and Standard & Poor’s (S&P), as part of their annual GICS review, are studying the possibility of refining the GICS structure for certain Industry Groups, Industries and Sub-Industries. Our objective is to ensure that the GICS structure continues to accurately represent the global equity markets and, thereby, enables asset owners, asset managers and investment research specialists to make seamless global comparisons by industry.

This Consultation paper is designed to serve as a basis for discussion before MSCI and S&P make any final decisions. Changes, if any, should be announced before the end of 2005. This consultation may or may not result in any changes to the GICS structure.

II. SUMMARY OF PROPOSALS

The main proposals set out in this paper are:

- Review of the Health Care Sector
- Review of the Real Estate Industry Group
- Review of the Utilities Sector

The estimated size (global equity market capitalization of companies in the GICS universe) of the proposed new Industries and Sub-industries were taken into account in our analysis.

III. BACKGROUND

In August of 1999, Standard & Poor’s (S&P) and MSCI, leading providers of global equity indices and benchmark-related products and services, collaborated on the development of the Global Industry Classification Standard (GICS®). The standard is designed to facilitate the investment research and investment management processes of financial professionals worldwide. The GICS structure facilitates industry analysis by classifying companies at four different levels - Sectors, Industry Groups, Industries and Sub-Industries. Due to the global nature and flexibility of the GICS structure, its classifications have become widely used throughout the financial community. For a detailed description of the classification standard, please refer to the MSCI web site at www.msci.com or the Standard & Poor’s web site at www.gics.standardandpoors.com.

IV. REVIEW OF THE HEALTH CARE SECTOR

1. Rationale for the Review

The Health Care Sector currently consists of 4 Industries and 8 Sub-Industries. Over the last decade there has been marked and lasting growth in the fields of life sciences and medical technology. The emergence and stability of a substantial number of companies that focus
Companies focusing on life sciences are those that primarily provide equipment, supplies and services that are used in drug discovery, development and manufacturing. These companies enable drug developers in the fields of biotechnology and pharmaceuticals to study, discover and manufacture their drug candidates. The increase in the number of these companies has led to a growing trend towards viewing such companies as peers in their own right, and differentiated from traditional pharmaceutical, biotechnology or health care equipment and supply companies.

Medical technology has also seen rapid growth in recent years. There has been an emergence of companies that provide information technology and business support services primarily to health care providers, as opposed to traditional health care services companies that provide the services to the patients. While it can be argued that these companies are a form of business support services, they are inextricably linked to the Health Care Sector and their business relies on the economic cycle of this Sector.

2. The Proposed Structures

Based on the rationale above, a proposal for the Health Care Sector is outlined below. Please note, throughout this document changes from the current structure are highlighted in the shaded boxes. These include changes limited to name changes only, definitional changes, as well as classification additions and/or deletions.

The proposal for the Health Care Sector is:

<table>
<thead>
<tr>
<th>35</th>
<th>Health Care (Sector)</th>
<th>Industry</th>
<th>Sub-Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>3510</td>
<td>Health Care Equipment &amp; Services (Industry Group)</td>
<td>351010 Health Care Equipment &amp; Supplies</td>
<td>35101010 Health Care Equipment</td>
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<td></td>
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<td>35101020 Health Care Supplies</td>
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<tr>
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<td>351020 Health Care Providers &amp; Services</td>
<td>35102010 Health Care Distributors</td>
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<td>35102015 Health Care Services</td>
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<td>35102020 Health Care Facilities</td>
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<td>35102030 Managed Health Care</td>
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<td></td>
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<td>351030 Health Care Technology and Business Support Services</td>
<td>35103010 Health Care Technology and Business Support Services</td>
</tr>
<tr>
<td>3520</td>
<td>Pharmaceuticals, Biotechnology and Life Sciences (Industry Group)</td>
<td>352010 Biotechnology</td>
<td>35201010 Biotechnology</td>
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<tr>
<td></td>
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<td>352020 Pharmaceuticals</td>
<td>35202010 Pharmaceuticals</td>
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<tr>
<td></td>
<td></td>
<td>352030 Life Sciences</td>
<td>35203010 Life Sciences</td>
</tr>
</tbody>
</table>

The proposed definitions for the new and revised Sub-Industries are:

**Health Care Equipment**

Manufacturers of health care equipment and devices. Includes medical instruments, drug delivery systems, cardiovascular & orthopedic devices, and diagnostic equipment.
Health Care Supplies
Manufacturers of health care supplies and medical products not classified elsewhere. Includes eye care products, hospital supplies, and safety needle & syringe devices.

Health Care Services
Providers of patient health care services not classified elsewhere. Includes dialysis centers, lab testing services, and pharmacy management services.

Health Care Technology and Business Support Services
Companies providing information technology and business support services primarily to health care providers. Includes companies providing application, systems and/or data processing software, internet-based tools, and IT consulting services to doctors, hospitals or businesses operating exclusively in the Health Care Sector. Also includes companies providing business support services to health care providers, such as clerical support services, collection agency services, staffing services and outsourced sales & marketing services.

Biotechnology
Companies primarily engaged in the research, development, manufacturing and/or marketing of products based on genetic analysis and genetic engineering. Includes companies specializing in protein-based therapeutics to treat human diseases.

Life Sciences
Companies enabling the drug discovery, development and production continuum by providing analytical instruments, consumables & supplies, clinical trial services and contract research services. Includes firms primarily servicing the pharmaceutical and biotechnology industries.

3. Discussion Topics

a. Is the proposed new “Health Care Technology & Business Support Services” Industry warranted? Would the creation of only a Sub-Industry under the “Health Care Providers & Services” be appropriate or is it better to distinguish between the ranges of services at the Industry level?

b. Would companies that focus on providing IT software and services to health care professionals be better classified in the IT sector?

c. Are companies that focus on pure business support services to health care providers, including clerical support services, staffing services, collection agency services, better classified in the Diversified Commercial & Professional Services Sub-Industry?
V. REVIEW OF THE REAL ESTATE INDUSTRY GROUP

1. Rationale for the Review

Over the last three decades, the Real Estate industry has experienced significant growth in terms of both market capitalization and number of companies. Such growth can be attributed in part to the evolution and development of REITs (property trusts) early in the US and, more recently, in global markets. In the US alone there are currently over 200 REITs, compared to 30 back in 1970. Due largely to the success of REITs as an investment vehicle in the US, more and more countries are creating REIT equivalent structures. Many such companies concentrate their investments in specific property types. This trend has centered on investing in properties that cater to certain types of customers and/or businesses such as retail properties, office buildings and warehouses.

The on-going specialization of companies that are classified in the REITs Sub-Industry and the need for real estate asset owners to conduct performance attribution and analysis has created the opportunity to propose a more granular REITs GICS structure that groups companies with more focused business activities in new Sub-Industries.

2. The Proposed Structure

Based on the rationale above, a proposal for the Real Estate Industry Group is outlined below.

The proposal for the Real Estate Industry Group is:

<table>
<thead>
<tr>
<th>40</th>
<th>Financial (Sector)</th>
<th>Industry</th>
<th>Sub-Industry</th>
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</thead>
<tbody>
<tr>
<td>4040</td>
<td>Real Estate (Industry Group)</td>
<td>404010</td>
<td>Real Estate -- Discontinued (REITs) -- Discontinued. Promoted to Industry.</td>
</tr>
<tr>
<td>404020</td>
<td>Real Estate Investment Trusts (REITs)</td>
<td>40402010</td>
<td>Diversified REITs</td>
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<tr>
<td></td>
<td></td>
<td>40402020</td>
<td>Mortgage REITs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>40402030</td>
<td>Office &amp; Industrial REITs</td>
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<td></td>
<td></td>
<td>40402040</td>
<td>Residential REITs</td>
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<td></td>
<td></td>
<td>40402050</td>
<td>Retail REITs</td>
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<tr>
<td></td>
<td></td>
<td>40402060</td>
<td>Specialized REITs</td>
</tr>
<tr>
<td>404030</td>
<td>Real Estate Management &amp; Development</td>
<td>40403010</td>
<td>Real Estate Management &amp; Development</td>
</tr>
</tbody>
</table>

The proposed definitions for the new and revised Sub-Industries are:

**Diversified REITs**

Trusts with operations and investments across two or more property types with none of the segments contributing more than 75% of revenues.
Mortgage REITs
Trusts that service, originate, purchase and/or securitize residential and/or commercial mortgage loans. Includes trusts that invest in mortgage-backed securities and other mortgage related assets.

Office & Industrial REITs
Trusts engaged in the acquisition, development, ownership, leasing, management and operation of office and/or industrial properties. Includes companies operating industrial warehouses and distribution properties.

Residential REITs
Trusts engaged in the acquisition, development, ownership, leasing, management and operation of residential properties including multifamily homes, apartments, manufactured homes and student housing properties.

Retail REITs
Trusts engaged in the acquisition, development, ownership, leasing, management and operation of shopping malls, outlet malls, neighborhood and community shopping centers.

Specialty REITs
Trusts engaged in the acquisition, development, ownership, leasing, management and operation of properties not classified elsewhere. Includes trusts that operate and invest in health care, leisure, hotel/resort and storage properties. It also includes REITs that do not generate a majority of their revenues and income from real estate rental and leasing operations.

3. Discussion topics

a. Currently, GICS classifications are typically assigned based primarily on revenues; however, earnings is also an important criterion. Would the use of revenues and earnings be sufficient to properly classify REITs into the proposed property type Sub-Industries? Should property square footage and/or assets also be determining factors?

b. What other metrics could be used when assigning REITs Sub-Industry-classifications?

c. What are the pros and cons of grouping Industrials and Office REITs together in a single Sub-Industry?

d. What is your view on classifying health care, leisure, hotel/resort and storage REITs in the Specialty REITs Sub-Industry?

e. How would you define Diversified REITs? What threshold or guideline would you recommend to be used in order to differentiate between companies that belong to the Diversified REITs Sub-Industry versus a stand alone Sub-Industry?

f. What is your view on classifying REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations in the underlying Sub-Industries where they operate and/or invest rather than in the proposed Specialized REITs Sub-Industry?
g. How would you define an Equity, Mortgage or Hybrid REIT? What metrics and threshold would you use to classify companies as Equity, Mortgage or Hybrid REITs?

h. Are real estate agents, real estate brokers, real estate advisory services, and real estate appraisers, which are currently classified under the “Real Estate Management & Development” Sub-Industry, better classified in the “Diversified Commercial & Professional Services” Sub-Industry in the Industrials Sector?

i. Should retirement villages be classified in “Real Estate Management & Development” or in “Health Care Facilities?”

j. In the next few years, can you see a reason to disassociate Real Estate companies from the rest of the Financials Sector? If so, what is the more appropriate place for these companies? How does the Real Estate Industry relate to Homebuilding and/or Hotels?

VI. REVIEW OF THE UTILITIES SECTOR

1. Rationale for the Review

The Utilities Sector currently consists of 5 Industries and 5 Sub-Industries. It is apparent that certain utility companies are moving towards diversification (either across utility businesses or across other industries), while others are maintaining a “pure” structure. The rationale for companies to diversify may be to spread risk, make use of economies of scale and/or cross sell to the respective customer bases of each business. The rationale for companies to keep a pure structure may be to focus operations in their field of expertise or because the regulatory framework limits the ability for a company to diversify its operations. From an investor’s perspective, the desire for a pure structure is that diversification offers only limited benefits and can distort valuations. Investors may prefer to invest in companies with a purer structure and diversify their portfolios according to their own appetite for risk.

The current structure of the Utilities Sector is as follows:

<table>
<thead>
<tr>
<th>S5</th>
<th>Utilities (Sector)</th>
<th>Industry</th>
<th>Sub-Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>5510</td>
<td>Utilities (Industry Group)</td>
<td>Electric Utilities</td>
<td>551010 Electric Utilities</td>
</tr>
<tr>
<td>551020</td>
<td>Gas Utilities</td>
<td>55102010 Gas Utilities</td>
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<tr>
<td>551030</td>
<td>Multi – Utilities</td>
<td>55103010 Multi – Utilities</td>
<td></td>
</tr>
<tr>
<td>551040</td>
<td>Water Utilities</td>
<td>55104010 Water Utilities</td>
<td></td>
</tr>
<tr>
<td>551050</td>
<td>Independent Power Producers &amp; Energy Traders</td>
<td>55105010 Independent Power Producers &amp; Energy Traders</td>
<td></td>
</tr>
</tbody>
</table>

**Electric Utilities**
Companies that produce or distribute electricity. Includes both nuclear and non-nuclear facilities.

**Gas Utilities**
Companies whose main charter is to distribute and transmit natural and manufactured gas. Excludes companies primarily involved in gas exploration or production classified in the Oil &
Gas Exploration & Production sub-industry. Also excludes diversified midstream natural gas companies classified in the Oil & Gas Storage & Transportation Sub-Industry.

Multi-Utility
Utility companies with significantly diversified activities in addition to core electric utility, gas utility and/or water utility operations.

Water Utilities
Companies that purchase and redistribute water to the end-consumer. Includes large-scale water treatment systems.

Independent Power Producers & Energy Traders
Companies that operate as Independent Power Producers (IPPs), Gas & Power Marketing & Trading Specialists and/or Integrated Energy Merchants. Excludes electric transmission companies and utility distribution companies classified in the Electric Utilities Sub-Industry.

Given our current Sub-Industry definitions, a company is usually classified in the Electric, Gas or Water Utilities Sub-Industry when it has no significant presence outside of its core Utility business, using the GICS revenue/earnings methodology. A utility company can be classified in the Electric, Gas, or Water Utilities Sub-Industry even when it has operations outside its core Utility business, if these operations are not considered “significant.” Lastly, companies with significant operations in a combination of utilities (electric, gas, and/or water) are classified in the Multi-Utilities Sub-Industry.

We would like to get feedback on the market’s perception of this sector, so we can refine the definitions of these Sub-Industries, if necessary.

2. Discussion Topics

   a. How are the Electric, Gas, and Water Utilities Sub-Industries perceived in the market? Are they seen as “pure” Electric, Gas, and Water Utilities, respectively?

   b. How are utilities with a presence in two or more utility businesses researched and analyzed? Are there characteristics that distinguish them from companies that operate only one utility business? Is there a regional or global distinction?

   c. Should companies classified in the Electric, Gas, or Water Sub-Industry have operations in one-and-only-one utility business? In other words, would “pure” Electric, Gas, and Water Utility Sub-Industries be an improvement to the current structure?

   d. For companies that have multiple utilities operations (e.g. – electric and gas) is there a globally consistent way to define such utilities versus a pure play? What is the individual and combined revenue and/or earnings threshold to define “more than one” utility business? Should other characteristics, such as subscriber base, integration of operations, assets or geography be considered in the classification?
e. Should companies with significant operations outside of core Utility operations be classified in the Multi-Utility Sub-Industry? Should a universal threshold be applied to define “significant?” If yes, what threshold would you consider significant operations?

f. In your view, what metric should be used to measure an acceptable threshold? Are earnings better than revenues? Are Utilities revenue and earning trends significantly different across regions to justify using different thresholds globally?

g. Is there a move towards diversification amongst Utilities or a move towards pure play? What are the drivers causing this trend? Is this trend global or is it more pronounced in certain regions? For example, is the Utility sector more of a pure play in Asia as compared to Europe and the US, and should this be considered in the classification?
CLIENT FEEDBACK

To participate in this consultation please contact one of these GICS email addresses: mscigics@msci.com or spgics@standardandpoors.com. Or contact your MSCI or Standard & Poor’s Account Manager or Representative.

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