

MSCI SELECT VALUE MOMENTUM BLEND INDEXES

ASSET WEIGHTING METHODOLOGY

- The weighting of stocks in a factor index can be as significant as the selection of stocks
- The MSCI Select Value Momentum Blend Index uses a risk weighted approach
- Risk weighting is designed to reduce the exposure to the most volatile stocks. Additionally, risk weighting aims to reduce the risk of the overall index, compared to other weighting approaches

Common methods of security weighting in factor index construction include capitalization weighting, equal weighting and risk weighting. The MSCI Select Value Momentum Blend index follows a risk weighting methodology.¹

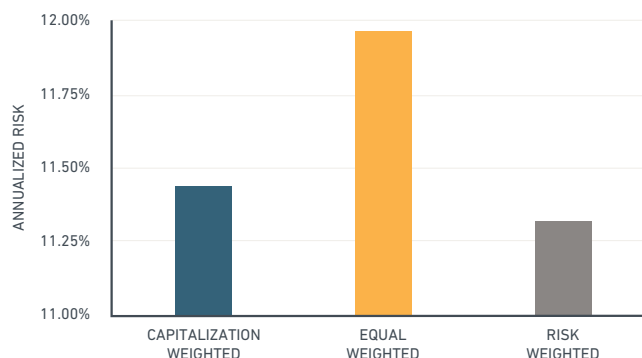
Market capitalization requires shares outstanding and security price; the largest firms are typically the largest weights in the index. Equal weighting does not require estimates of returns, volatilities, or correlations between assets. It results in a tilt towards smaller capitalized firms, reducing the concentration risk that capitalization weighting can impose.

Risk weighting is similar to equal weighting in that it also requires neither estimates of returns nor correlations between assets. Risk weighting is designed to tilt the index towards lower risk securities. It has gained traction as a transparent represent the returns of a low volatility premium, while also reducing concentration risk in the index.

Exhibit 1 shows the risk of the MSCI Select Value Momentum Blend Index based on each weighting

approach. Each bar in the chart contains identical assets; only their weighting differs. As shown, risk weighted provided the lowest overall risk, followed by capitalization weighted while equal weighted had the highest annualized risk among these examples.

EXHIBIT 1: WEIGHTING APPROACH AND INDEX RISK

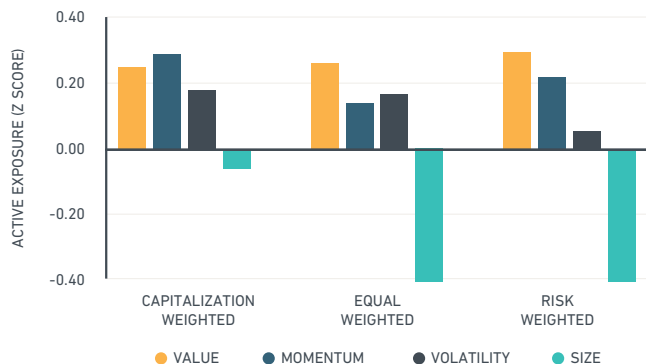


The three weighting approaches also resulted in different active exposures to factors, as highlighted in Exhibit 2. All three approaches had the desired, positive exposure to the targeted factors of momentum and value. This is a result of the security selection that screens for stocks that are upward trending and relatively cheap. However, compared to capitalization and equal weighting, risk weighting demonstrated two additional benefits: lower exposure to stocks with the highest volatility; and a reduction in the concentration among the largest stocks.

¹ The index follows the MSCI Risk Weighted methodology, with the exception of the measure of risk. Select Value Blend indexes uses standard deviation, instead of variance, as the measure of security level risk. The security level standard deviation is computed using weekly returns over three years prior to the rebalancing date. In case the price data are not available for a three-year period, the respective country-sector average of volatility is used for that security. In the event of country-sector average being unavailable, country average volatility is used. This aims to avoid estimating risk over different volatility regimes. Security standard deviation is capped at 80% on upside and 12% on downside.

In summary, the MSCI Select Value Momentum Blend Index aims to tilt towards the momentum and value factors and less concentration.

EXHIBIT 2: WEIGHTING APPROACH AND FACTOR EXPOSURE



In Exhibits 1 and 2, the MSCI Long-Term Global Equity Model, in addition to index holdings as of June 30 2017, are used for volatility estimation and factor exposures. The value factor is a composite of stock-level book to price, earnings yield and mean reversion attributes. The momentum factor is a composite of six-month and twelve-month stock-level returns. The volatility factor is a composite of stock-level beta and the volatility of the returns that are residual to beta. Note that this is stock-level risk, different than the measurement of risk in Exhibit 1, which is defined as the volatility of the overall index. The size factor captures the stock-level market capitalization. A negative exposure indicates the index holds smaller capitalized firms than the benchmark. The benchmark is the MSCI USA index.

	MSCI USA	USA SELECT VALUE MOMENTUM CAP WEIGHT	USA SELECT VALUE MOMENTUM EQUAL WEIGHT	USA SELECT VALUE MOMENTUM RISK WEIGHT
Number of Securities	635	214	214	214
Volatility	10.43%	11.44%	11.97%	11.32%
Tracking Error to MSCI USA	-	2.45%	2.82%	2.36%
Active Share to MSCI USA	-	68.54%	75.79%	74.96%
Index Diversification	24%	21%	100%	85%
Beta to MSCI USA	-	1.07	1.12	1.06
Price to Earnings	23.29	19.24	21	19.33
Dividend Yield	1.98%	2.07%	2.05%	2.08%

As of June 30 2017

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