THE MSCI RISK WEIGHTED INDEXES

An Approach to Combining Low Risk and Size Exposure

Index Marketing

June 2018
• The MSCI Risk Weighted Indexes are uniquely designed to reflect the low volatility and the smaller size effect
• The MSCI Risk Weighted Indexes employ a simple yet effective method to overweight low risk and smaller market cap stocks while maintaining broad market exposure
• The MSCI Risk Weighted Indexes can be replicated cost-effectively, used to benchmark low volatility managers, and in combination with other MSCI Factor Indexes

Why Do Investors Use Risk Weighted Strategies?

• Reduction of portfolio risk by about 10% over the long-term, with less drawdown than the broad market
• Historically, these strategies have yielded higher risk-adjusted returns
• To gain exposure to smaller size stocks, mostly mid-caps, while maintaining a structural bias towards less volatile stocks

Key Characteristics of the MSCI Risk Weighted Indexes

• Effective and transparent risk reduction weighting via the inverse of realized variance
• Emphasis on low risk and smaller market cap stocks
• Number of constituents from the parent index is customizable (e.g., the top 200)
• Low annual index turnover
• High investability and replicability

Upside and Downside Capture

• The upside and downside capture ratios of a risk weighted index indicate how it has performed over periods of market strength and weakness relative to its parent index
• Since May 1994 through June 2018, the MSCI Canada Risk Weighted Index captured 74% of the positive returns of its parent
• Over the same period, the MSCI Canada Risk Weighted Index lost just 53% relative to the losses of the parent


<table>
<thead>
<tr>
<th>Historical Gross Total, CAD</th>
<th>MSCI Canada</th>
<th>MSCI Canada Risk Weighted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return* (%)</td>
<td>9.00</td>
<td>10.39</td>
</tr>
<tr>
<td>Return Risk* (%)</td>
<td>14.60</td>
<td>11.15</td>
</tr>
<tr>
<td>Risk Adjusted Return</td>
<td>0.62</td>
<td>0.93</td>
</tr>
<tr>
<td>Active Return* (%)</td>
<td>0.00</td>
<td>1.39</td>
</tr>
<tr>
<td>Tracking Error* (%)</td>
<td>0.00</td>
<td>8.66</td>
</tr>
<tr>
<td>Information Ratio</td>
<td>N/A</td>
<td>0.16</td>
</tr>
</tbody>
</table>

* Annualized from May 1994 to June 2018
Standard Methodology Highlights

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Methodology</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universe</td>
<td>All constituents of the market cap-weighted parent index</td>
<td>Objective approach captures a broad opportunity set and ensures that MSCI Risk Weighted Indexes are highly investable and liquid. Leverages the MSCI building block approach, avoiding gaps and overlaps.</td>
</tr>
<tr>
<td>Variables</td>
<td>3-year historical variance</td>
<td>Objective measure that captures the variation of historical volatility.</td>
</tr>
<tr>
<td>Weighting</td>
<td>Each constituent of the parent index is weighted by the inverse of its variance</td>
<td>No stock selection. Effective and transparent risk reduction weighting.</td>
</tr>
<tr>
<td>Rebalancing</td>
<td>Semi-annual</td>
<td>Timely data updates. Consistent with MSCI rebalancing calendar.</td>
</tr>
</tbody>
</table>

Combining MSCI Factor Indexes

- MSCI Risk Weighted, Value Weighted, Quality and other MSCI Factor Indexes have outperformed their cap-weighted parent indexes over long periods.
- However, performance is cyclical: any strategy can underperform for long periods.
- A higher level of diversification may be achieved by combining two or more of these MSCI Factor Indexes.
- Combining these indexes into a portfolio may also reduce overall cost by exploiting natural internal “cross opportunities” at each rebalancing.

During the long bull-run both Risk Weighted and Value Weighted outperformed during the recent crisis, Value Weighted performed cyclically.
CONTACT US

clientservice@msci.com

AMERICAS

Americas  1 888 588 4567 *
Atlanta    + 1 404 551 3212
Boston     + 1 617 532 0920
Chicago    + 1 312 675 0545
Monterrey  + 52 81 1253 4020
New York   + 1 212 804 3901
San Francisco + 1 415 836 8800
Sao Paulo  + 55 11 3706 1360
Toronto    + 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town  + 27 21 673 0100
Frankfurt  + 49 69 133 859 00
Geneva    + 41 22 817 9777
London    + 44 20 7618 2222
Milan     + 39 02 5849 0415
Paris      0800 91 59 17 *

ASIA PACIFIC

China North 10800 852 1032 *
China South 10800 152 1032 *
Hong Kong   + 852 2844 9333
Mumbai     + 91 22 6784 9160
Seoul      00798 8521 3392 *
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Sydney     + 61 2 9033 9333
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