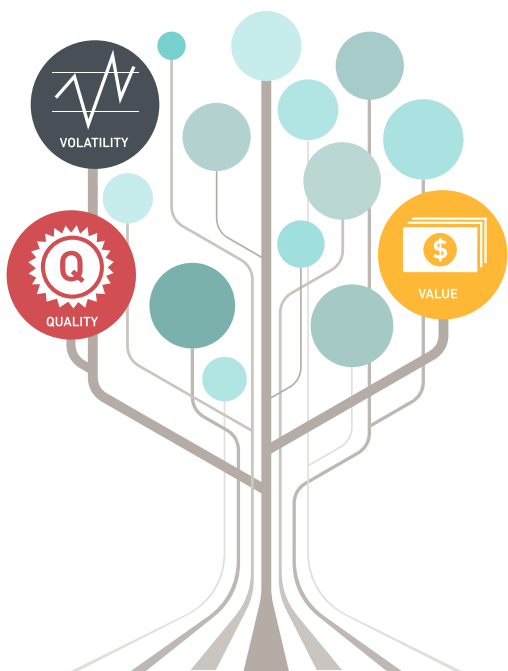


# MSCI FACTOR ESG TARGET INDEXES

## INDEXES FOR ESG AWARE FACTOR INVESTORS

As a leader in Factor Indexes and ESG Ratings & Research<sup>1</sup>, MSCI continues to lead innovation in this field by combining the merits of both Factors and ESG. MSCI Research has created a consistent and effective framework to create Factor ESG Target Indexes in a one-step integrated approach to help investors achieve better outcomes.



Asset owners are increasingly seeking to integrate ESG across the entire investment process and are looking for ways to incorporate ESG into their Factor Investing based portfolios.

- **Factor Investing** seeks to capture excess returns and manage risks in a systematic and transparent manner
- **ESG Integration**, such as selecting or re-weighting stocks with a higher ESG Rating, has historically led to higher quality and lower volatility characteristics
- **MSCI developed superior index technology** for combining Factor and ESG Investing, leveraging MSCI's leading expertise in indexes, ESG and optimization analytics

As Factor allocations and ESG objectives become simultaneous requirements for many asset owners, MSCI Factor ESG Target Indexes are designed to allow clients to develop Factor strategies while also integrating ESG considerations.

### BENEFIT

- Combines Factor and ESG exposures simultaneously in a consistent, transparent and cost-effective manner. The methodology can be applied for single factor or multi-factor strategies

### KEY FEATURES

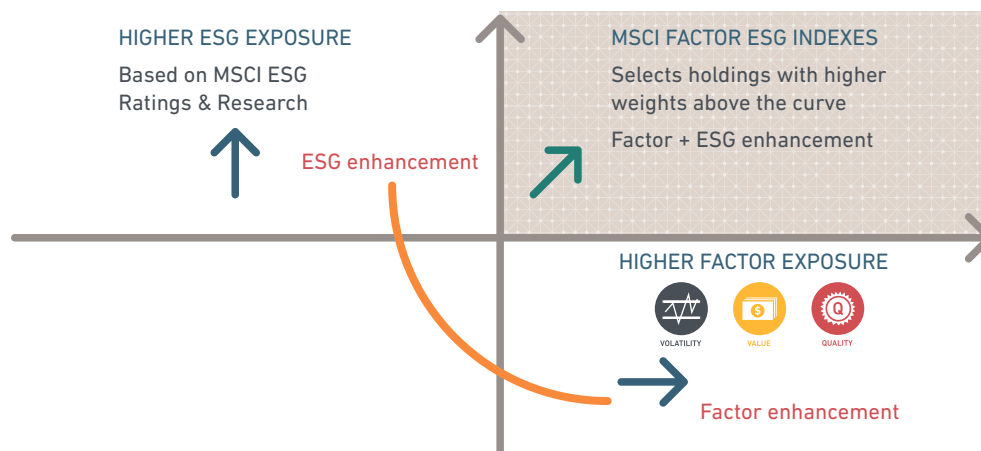
- ESG score improvement based on industry leading MSCI ESG Ratings
- Designed to mitigate reputational risk and short and long-term ESG risk within Factor Indexes
- Framework enables customization to incorporate client specific approach to Factors and ESG
- Indexes are based on industry leading MSCI benchmarks allowing for seamless integration
- Parent index construction rules designed to achieve liquidity and replicability

<sup>1</sup> Provided by MSCI ESG Research

## INTEGRATING FACTORS AND ESG

The shape of the curve shown in the graph below is determined by two broad dimensions: Factor exposure and ESG exposure. MSCI's approach of optimizing Factor and ESG exposures places higher weighting on the constituents which are in the top-right quadrant above the curve.

This approach is highly customizable to achieve intended dual exposures.



Parameters	MSCI Factor ESG Target Index
<b>OPPORTUNITY SET</b>	<ul style="list-style-type: none"> <li>MSCI Global Universe (GIMI)</li> </ul>
<b>INELIGIBLE COMPANIES</b>	<ul style="list-style-type: none"> <li>Controversial Weapons: Producers and owners of cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons</li> <li>Very severe controversies: ESG Controversy Score of 0 (ESG Red Flag Companies)</li> <li>Un-rated stocks are not eligible</li> </ul>
<b>INDEX CONSTRUCTION</b>	<ul style="list-style-type: none"> <li>Target specific Factor exposure (i.e. Minimum Volatility, Quality, Value, etc.)</li> <li>ESG score improvement - minimum 20% greater than parent index ESG score</li> <li>Maintain active sector and country weights within +/- 5% to parent index</li> </ul>
<b>REBALANCING</b>	<ul style="list-style-type: none"> <li>Semi-annual rebalance</li> </ul>

Past performance not indicative of future results.

## ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research. Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research. MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking. For more information, visit us at [www.msci.com](http://www.msci.com).

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