

MSCI Factor ESG Target Indexes

Indexes for ESG aware Factor Investors

As a leader in Factor Indexes and ESG Ratings & Research¹, 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

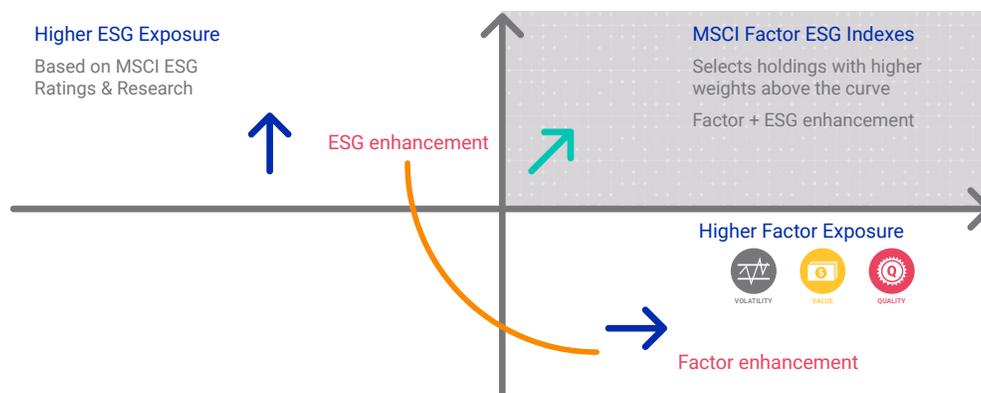
- ESG score improvement based on industry leading MSCI ESG Ratings
- Designed to mitigate reputational risk and short and long-term ESG risk within Factor Indexes
- Framework enables customization to incorporate client specific approach to Factors and ESG
- Indexes are based on industry leading MSCI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

¹ 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
Opportunity set	<ul style="list-style-type: none"> MSCI Global Universe (GIMI)
Ineligible companies	<ul style="list-style-type: none"> Controversial weapons: Producers and owners of cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons Very severe controversies: ESG controversy score of 0 (ESG red flag companies) Un-rated stocks are not eligible
Index construction	<ul style="list-style-type: none"> Target specific factor exposure (i.e. Minimum Volatility, Quality, Value, etc.) ESG score improvement - minimum 20% greater than parent index ESG score Maintain active sector and country weights within +/- 5% to parent index
Rebalancing	<ul style="list-style-type: none"> Semi-annual rebalance

Past performance not indicative of future results.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

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