

MSCI ESG UNIVERSAL INDEXES

A BROAD AND DIVERSIFIED INDEX FOR INSTITUTIONAL INVESTORS SEEKING TO ENHANCE THEIR EXPOSURE TO ESG WHILE CAPTURING ESG TRENDS

The MSCI Environmental, Social and Governance (ESG) Universal Index is the latest in a suite of indexes from MSCI that are designed to help investors globally integrate ESG into their investment process. MSCI is a leader in ESG investing and provides a combination of ESG research, index and analytics expertise.

The indexes target companies which demonstrate a robust MSCI ESG Rating and a positive ESG Trend, while maintaining a broad universe of securities. The index is designed to integrate ESG signals and retain diversified market exposure.

As institutional equity investors increasingly think about the long term, they may adjust their portfolios to accommodate ESG concerns in their investment processes. This can be particularly challenging for investors, such as pension funds and endowments, whose portfolios span the entire equity market.

Exclusions are a common way to implement ESG but removing entire securities may have a financial cost. Instead, MSCI ESG Universal Indexes reweight and maintain a wide investable universe. This enables investors to:

- Mitigate short- and long-term ESG risk
- Meet fiduciary obligations
- Mitigate reputational risk
- Maintain broad market exposure
- Have sector diversification
- Avoid taking active country or sector bets
- Demonstrate leadership in promoting ESG investing

MSCI ESG Ratings: Is designed to identify ESG risks or opportunities that may not be captured through conventional analyses.

MSCI ESG Trend: Shows the ESG rating change from prior to current: it is expressed as the number of levels between the current rating and the previous rating. The rating trend is positive for a ratings upgrade (for example, the company's ESG rating changed from BBB to AAA), negative for ratings downgrade (for example company's ESG rating changed from AA to A) and zero for no change in the rating.

KEY FEATURES

The MSCI ESG Universal Index increases the weightings of companies with robust ESG characters, including those that show improvement in the direction of their rating over the most recent 12 months, while reducing the weight of those companies who lag behind their industry peers in terms of ESG quality.

The MSCI ESG Universal Index minimizes exclusions to a core group of objectionable stocks. The exclusions reflect a common core among institutional investors and include those companies who are involved in controversial weapons and violations of international norms.

BENEFITS

These indexes rely on re-weighting techniques which allows for a broad and diversified universe geared towards institutional investors. In addition, re-weighting is designed to allow for engagement with poor ESG performers rather than just divestment and complement the static ESG metric with one that measures ESG momentum.

The MSCI ESG Universal Index aims to maintain similar sector exposures compared to its parent index. Since the MSCI ESG Rating is a sector relative metric, sector exposures are maintained after re-weighting of constituents and aims to maintain country and sector diversity.

Additionally, the back-tested performance of the MSCI ESG Universal Index, while not indicative of future results, showed improved risk-return characteristics with a 1%¹ tracking error (the degree to which a portfolio's performance deviates from its parent index). As shown in the charts below, the ESG Universal Index outperformed the MSCI ACWI Index (which represents 47 developed and emerging markets) by an annual average of 0.20 percentage points (hundredths of a percentage point) over a seven-year simulated period with a slightly lower level of ESG risk.

CUMULATIVE INDEX PERFORMANCE — USD NET RETURNS (NOVEMBER 2009 - SEPTEMBER 2017)



¹ MSCI ACWI ESG Universal for the period 31 May 2011 to 31 March 2017. There are frequently material differences between back tested results and actual results subsequently achieved by any strategy.

	MSCI ACWI ESG UNIVERSAL	MSCI ACWI
Tracking Error	0.99%	0.00%
Number of constituents	2,421	2,491

Source: MSCI Research, as of September 29, 2017

PARAMETER	MSCI ACWI ESG UNIVERSAL		MSCI ESG FOCUS	MSCI ACWI ESG LEADERS
Opportunity set	Any market cap index	For example MSCI ACWI	Any market cap index	Any market cap index
Ineligible companies	<ul style="list-style-type: none"> Controversial Weapons <ul style="list-style-type: none"> Very severe controversies Un-rated stocks are not eligible 	Producers and owners of cluster bombs, landmines, depleted uranium weapons, chemical and biological weapons ESG Controversy Score of 0 (ESG Red Flag companies)	<ul style="list-style-type: none"> Controversial Weapons <ul style="list-style-type: none"> Tobacco Un-rated stocks are not eligible 	<ul style="list-style-type: none"> Controversial Weapons Controversial business activities (alcohol, gambling, tobacco, firearms) ESG rating B or below ESG controversy score 2 or below Un-rated stocks are not eligible
Weighting	Tilted based on ESG Rating and ESG Trend	ESG Combined Score = ESG Rating Score * ESG Trend Score	Optimized	Market cap
Number of constituents	~97% of the parent (2411 vs 2,484 in parent as of January 31, 2017)	The number will vary, it depends on the starting universe of securities and number of ineligible companies	~50% of the parent can vary	~50% of the parent
Rebalancing	Semi annual	Timely ESG and index data updates	Quarterly	Quarterly

For more details please refer to the methodology: https://www.msci.com/eqb/methodology/meth_docs/ESG_Universal_Index_Methodology.pdf

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