



# MSCI EQUITY INDEX POLICIES

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## OVERVIEW

MSCI calculates a wide variety of equity indexes, both as standard offerings as well as on a custom basis at the clients' requests.

MSCI's primary equity index methodology is the MSCI Global Investable Market Index ("GIMI") methodology. Other equity indexes, including custom indexes, are in general derived and maintained based on the universe of securities used by the MSCI Global Investable Market Indexes, i.e., the MSCI Global Investable Equity Universe. Any exception to this rule would be highlighted in the respective equity index family methodology books.

Families of MSCI equity indexes include GIMI regional and market indexes and related size, style and sector indexes. These indexes serve as the parent indexes for other MSCI equity indexes that address specific investment themes such as MSCI Factor Indexes, MSCI ESG Indexes, MSCI Thematic Indexes and MSCI Strategy Indexes. A particular equity index will be governed by a number of methodology documents, including the specific equity index methodology, the MSCI Global Investable Market Indexes Methodology (or other parent index methodology), the MSCI Index Calculation Methodology, the MSCI Corporate Events Methodology, the MSCI Fundamental Data Methodology and the MSCI Equity Index Policies.

MSCI also calculates custom indexes at clients' requests. These are calculated based on MSCI equity indexes (which serve as parent indexes) to which a client-specific screen, exclusion list or weighting is applied. For custom indexes, the client-specific screen, exclusion list or weighting is documented and used in conjunction with the equity index methodology documents that apply to the relevant parent index.

## EQUITY INDEX DESIGN GUIDELINES

These guidelines are followed in the development and maintenance of all equity indexes. The aim of all MSCI equity indexes is to appropriately represent a particular market or strategy. This objective should be clearly stated in the specific index family methodologies.

New equity indexes should be constructed from the Global Investable Equity Universe which is based on the broadest available listed universe and screens for investability including liquidity, size and ownership restrictions. Any index based on a broader or different universe should consider these factors as well.

MSCI equity indexes should be constructed and maintained with the following prime objectives in mind:

- Representativeness
- Replicability
- Efficiency

Index methodologies aim to find the right balance between representativeness of the underlying market or strategy and replicability of the index in an actual portfolio in a cost efficient manner. An MSCI equity index methodology should be monitored on an ongoing basis with the aim of ensuring that it continues to reflect its objective as the underlying market or strategy evolves.

For custom indexes, the prime objective of the index is determined in conjunction with the client and the client-specific screen, exclusion list or weighting is documented in the custom index specification as agreed with the client. Clients may request that the specific custom index methodologies be posted on [www.msci.com](http://www.msci.com), in particular where custom indexes are used as the basis of index-linked financial products.

## CONSULTATION POLICY

Equity markets are complex and market participants are diverse. When faced with a situation that may result in a significant change to MSCI equity index methodology or its implementation, in order to inform its decision process, MSCI seeks to understand the differing perspectives in the investment community through its broad consultation process. Public consultations provide an essential feedback loop for increasing transparency, providing access to information, fueling innovation and improvement, and ensuring the on-going relevance of the indexes. After considering the feedback from the consultation process, the decision making remains the responsibility of MSCI solely, through the Equity Index Committee (“EIC”).

Specifically, public consultations enable the benchmark provider to retain its objectivity and independence while gathering information about benchmark design. Consultation papers and discussions with market participants are also an ideal channel to share the reasoning and the motivation behind MSCI proposals. Structured dialogues enable institutional investors to share their views on existing benchmarks and benchmark practices as well as on potential innovations and required changes. In addition, public consultations give institutional investors the lead time they need to fully evaluate potential benchmark changes and their implications.

## CONSULTATION PROCESS

The MSCI consultation process starts with an EIC decision to open a public consultation based on the analysis and recommendation from the group in charge of a given matter, e.g., Index Research, Corporate Events, Corporate Data or based on client feedback. Once the decision to open a public consultation has been taken by the EIC, a public consultation document, which describes the consultation topic and in some cases presents either the initial thinking on the matter or a “strawman” proposal, is created. This document has to be signed off by the EIC before public dissemination, including the date by which investors can provide feedback to MSCI.

A formal public consultation begins in general with announcement giving the highlights of MSCI proposal(s) and indicating the location of the public consultation document on MSCI’s website. The announcement is sent on public channels, e.g., Bloomberg, Reuters, MSCI website and directly to MSCI’s clients.

MSCI welcomes feedback from any market participants but will also actively source views from its clients or other specific stakeholders (e.g. stock exchanges, market regulators and

other regulatory agencies). It is important to MSCI that that feedback is obtained from the most appropriate market participants for any consultation topic. Exhibit 2 shows the types of benchmark users that MSCI may specifically seek feedback from during a consultation. For example, a potential change in market classification of an MSCI Country Index requires information and views about feasibility, impact and design from representatives of all of these types, including small, medium and large benchmark users in each category. All regions are also important in this case as investors from different regions may face different challenges in investing in the assets of the country index in question. A short list of mandatory client feedback will be defined by the team leading the consultation and discussed with the relevant MSCI coverage teams.

Any material changes to an existing index or methodology will be announced to the public before the change is implemented.

#### Exhibit 1: Sample Benchmark Consultation Matrix

Title	Asia	Europe	Americas
Asset Owners	✓	✓	✓
Consultants	✓	✓	✓
Active Asset Managers	✓	✓	✓
Passive Asset Managers	✓	✓	✓
Broker/Dealers	✓	✓	✓

Once MSCI has gathered all required feedback, the group in charge of the consultation will analyze the views and formulate a strong, well-founded recommendation that will be presented to, discussed and debated at the EIC. The EIC will take the final decision on the proposal or escalate to the Index Policy Committee if required. The final decision, while considering all the feedback received, may weigh the feedback of some market participants, e.g., Asset Owners, Asset Managers (passive or active), Broker/Dealers, etc., more heavily, depending on the subject of the consultation.

The final decision, including the rationale that has led to it, is communicated publicly to all market participants at once. As most consultation participants request that their feedback

remains confidential summarization of comments provided to MSCI as part of the consultation process is not published.

If the final decision is to change the methodology, MSCI will update the methodology books accordingly and shortly after the final decision is made public.

For custom indexes, changes to client-specific screen, exclusion list or weightings are discussed directly with the relevant client.

Also, MSCI may contact on a regular basis clients to discuss market practices.

## EQUITY INDEX TERMINATION POLICY

For over 40 years, MSCI has constructed international equity indexes for institutional investors. The MSCI equity indexes have evolved over time in an effort to continue to appropriately reflect the international investable opportunity set of equities while addressing the changing and expanding investment interests of cross-border institutional investors.

Nonetheless, there may be certain circumstances where the methodology cannot be adapted in which case terminating the index may be required. These circumstances are generally completely out of MSCI's control and may include significant changes to the structure of underlying market, drastic changes to the market infrastructure, geo-political events, and regulatory changes. Additionally, factors such as methodology convergence or low usage may result in MSCI's proposal to terminate an index.

In all of these cases if an index termination is proposed or required, MSCI would proceed as follows:

- The Equity Index Committee would evaluate the situation related to a potential termination.
- MSCI may perform a consultation including a discussion of possible alternatives, if any.
- MSCI would announce the termination of the index in advance.
- If possible, MSCI would continue to calculate the index for an announced period of time.

Indexes may also be discontinued if no securities are eligible when applying a given methodology to a market. For example, this could happen in GIMI Large, Mid or Small Cap Indexes or indexes based on the GICS® segmentation. This policy does not apply in those cases. MSCI may resume calculation of such indexes if overtime some securities become eligible.

The termination of a custom index is handled in consultation with the relevant client.



## **NOTICE ON EQUITY INDEX USAGE**

Indexes are created and may be used for a variety of purposes ranging from research to investment products, by a variety of market participants including asset owners, portfolio managers, broker/dealers, researchers. Not all uses are appropriate for users. Market participants should use their judgment when selecting an index for a particular purpose.

Equity indexes and the effectiveness of equity index methodologies can be affected by a number of factors, most of which are beyond MSCI's control. These may include structural changes to the underlying market, including decrease in the size and liquidity of the relevant market segment, infrastructure changes, geo-political events, and regulatory changes. Some of these may result in a material change to the equity index or in the termination of an equity index or methodology. If financial product issuers choose to use an MSCI equity index as the basis of an index linked financial product, they should consider this possibility.



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Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 98 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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