MSCI
INDEX METHODOLOGY

MSCI 25/50 Indices Methodology

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Section 1: Introduction to the MSCI 25/50 Indices

Introduction

Under the current US Internal Revenue Code, among other things, a fund needs to satisfy certain tests, such as those relating to asset diversification and sources of income, for qualification as a "regulated investment company" or "RIC". More specifically, one requirement of a RIC is that at the end of each quarter of a RIC's tax year no more than 25% of the value of the RIC's assets may be invested in a single issuer and the sum of the weights of all issuers representing more than 5% of the fund should not exceed 50% of the fund's total assets.

The MSCI 25/50 Indices take into account these investment limits, offering a pertinent benchmarking alternative for RIC compliant funds. The indices are calculated and delivered on an index-by-index basis, upon client request.

This document describes the methodology that MSCI uses to calculate the MSCI 25/50 Indices by applying the weight constraints set forth herein to the non-constrained, free-float adjusted market capitalization weighted MSCI Equity Indices (herein, "Parent Indices").

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Section 2: Index Objectives and Guiding Principles

In designing an appropriate methodology for constructing the MSCI 25/50 Indices from underlying non-constrained indices, the following principles have guided MSCI.

2.1 Reflecting the 25% and 50% concentration constraints

Reflecting the 25% and 50% concentration constraints is the primary consideration in terms of both index construction and index maintenance. Ensuring timely and on-going reflection of the constraints requires a 25/50 Index to be rebalanced periodically. The MSCI 25/50 Indices are rebalanced in February, May, August and November.

MSCI also offers other indices reflecting additional or different constraints. See Appendix II for further details.

2.2 Minimizing tracking error to the Parent Index

Minimizing the tracking error between the MSCI 25/50 Index and the Parent Index, while keeping the index turnover to a reasonable level, is another important objective of the current methodology. This is achieved by rebalancing the MSCI 25/50 Index using an optimization process that aims to minimize the constituent weight differences between the MSCI 25/50 Index and the Parent Index.

Section 3: Index Construction and Maintenance Methodology

3.1 Construction and Rebalancing of the MSCI 25/50 Indices

The MSCI 25/50 Index methodology follows a portfolio optimization framework. The Barra Optimizer is utilized to perform the optimization function which is aimed at minimizing index turnover, tracking error and extreme deviation from the Parent Index.[1]

3.1.1 Constraint targets

The MSCI 25/50 Index has the following constraints:

- No issuer exceeds 25% of index weight
- All issuers with weight above 5% cannot exceed 50% of the index weight

3.1.2 Minimizing weight distance from Parent Index

The index aims at minimizing the weight distance from the pro forma Parent Index. The active risk or the tracking error of the MSCI 25/50 Index versus the Parent Index is measured as the distance between the constituent weights of the MSCI 25/50 Index and Parent Index.

3.1.3 Minimize Transaction Cost

A transaction cost is applied as a proxy for index turnover on rebalancing from the current MSCI 25/50 Index to the pro forma MSCI 25/50 Index.

3.1.4 Minimum weight of constituents

The minimum weight of any MSCI 25/50 Index constituent is equal to the weight of the smallest constituent in the pro forma Parent Index.

3.2 Buffer Rules

A buffer of 10% of the value of each constraint is used in order to reduce the risk of non-compliance due to short term market movements between two quarterly rebalancing. As a result, at the point of constructing or rebalancing the MSCI 25/50 indices, the weight of any single issuer cannot exceed 22.5% of the index weight and all issuers with weight above 4.5% cannot exceed 45% of the index weight.

3.3 Maintenance Rules

3.3.1 Quarterly Index Reviews

The MSCI 25/50 indices are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and November, to coincide with the Quarterly Index Reviews of their Parent Indices.

The pro forma MSCI 25/50 Indices are in general rebalanced five business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

In case the pro forma MSCI 25/50 Index violates the 25/50 constraints between the announcement date and the effective date, the previously announced results will be discarded and a newly rebalanced pro forma index will be announced.

There is no index rebalancing due to non-compliance between Quarterly Index Reviews.

[1] See www.barra.com/support/library/optimizer_practical_convex_quadratic_programming.pdf for a detailed description of the Barra Mean-Variance Optimizer.

3.3.2 Ongoing Event Related Changes

A security added to the Parent Index following a corporate event is added to the MSCI 25/50 Index with an estimated capped weight, without rebalancing of the MSCI 25/50 index

The deletion of a constituent from the Parent Index following a corporate event triggers its deletion from the MSCI 25/50 Index without rebalancing of the MSCI 25/50 Index.

The addition of a newly eligible security in the Parent Index -- for example an early inclusion of a large IPO, or a security migrating to the Parent Index from another size segment -- will result in the inclusion of that security in the MSCI 25/50 Index and consequently trigger the full rebalancing of the MSCI 25/50 Index.

Please refer to the MSCI Corporate Events Methodology book available at: http://www.mscibarra.com/products/indices/international_equity_indices/gimi/stdindex/methodology.html for more details.

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Appendix I: Optimization Parameters

The following parameters are used in the optimization process:

- The Parent Index is used as the benchmark.
- The objective is to minimize tracking error to the Parent Index.
- A diagonal covariance matrix is used with the same risk for each constituent (1) and zero for all off-diagonals.
- The minimum weight of capped index constituents is set to the weight of the smallest constituent in the Parent Index. This avoids the situation where the optimized index holds a security with a very small weight.
- The risk aversion parameter is set to default value of 0.0075, which is widely used in mean-variance optimizations.
- One way transaction cost is set to 0.5%, which aims to achieve a balance between minimizing active risk and turnover.

Appendix II: Special Capping Rules

Additional capping rules may be applied to address other investment constraints, such as:

- No issuer can exceed 10% of the weight and all issuers with weight above 5% cannot exceed 25% of the index weight.
- No issuer can exceed 5% of the index weight.

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The company's flagship product offerings are: the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.