

The MSCI logo consists of the letters "MSCI" in a white, serif font, centered within a dark blue rectangular box. This box is the left portion of a larger graphic element that spans the width of the page. The right portion of this element is a white area with a thin blue border, containing the text "Index Methodology".

MSCI

Index Methodology

# MSCI USA Catholic Values Index Methodology

May 2012

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# 1. Introduction

The MSCI USA Catholic Values Index is a free float-adjusted market capitalization index designed to be used as a U.S. equity benchmark for Catholic investors who seek equity ownership in alignment with the moral and social teachings of the Catholic Church. The MSCI USA Catholic Values Index consists of 400 constituents selected from the MSCI USA IMI ESG Index.

The MSCI USA Catholic Values Index will transition to the enhanced methodology described in this document over multiple Index Reviews starting from the May 2012 Index Review. Please refer to the Appendix for more details.

# 2. ESG Research Framework

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. It consists of an integrated suite of tools and products to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

## 2.1 MSCI ESG Intangible Value Assessment

MSCI ESG Intangible Value Assessment (IVA) provides research, ratings and analysis of corporate management of environmental and social risk factors. Through an in-depth comparison against sector peers, MSCI ESG IVA can reveal ESG-driven investment risks or opportunities that may not be captured by conventional analyses.

MSCI ESG IVA identifies key ESG issues that hold the greatest potential risk or opportunity for each industry sector. The product also provides analysis for any impact that these issues and risks may have on corporate financial performance

MSCI ESG IVA scores and ranks company management of key issues relative to sector peers using a best-in-class ratings system, on a seven point scale from 'AAA' to 'CCC'. The model also provides granular scoring on environmental, social and governance metrics.

For more details on MSCI ESG IVA, please refer to [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_IVA.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_IVA.pdf)

## 2.2 MSCI ESG Impact Monitor

MSCI ESG Impact Monitor is designed to provide timely, consistent and extensive assessments of ESG controversies involving publicly traded companies. The evaluation framework used in MSCI ESG Impact Monitor is consistent with international norms represented in numerous, widely accepted, global conventions, including the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. Investors are able to assess company strategies, policies, systems, and disclosure with respect to these norms and principles.

For more details on MSCI ESG Impact Monitor, please refer to [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_Impact\\_Monitor.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_Impact_Monitor.pdf)

## 3. Constructing the MSCI USA Catholic Values Index

### 3.1 Selection Universe

The selection universe for the MSCI USA Catholic Values Index is the MSCI USA IMI ESG Index.

### 3.2 Exclusion Criteria

#### 3.2.1 Values Based Exclusion Criteria

The MSCI USA Catholic Values Index excludes companies that are involved in the following activities:

- Alcohol
- Gambling
- Tobacco
- Military Weapons
- Civilian Firearms
- Nuclear Power
- Adult Entertainment
- Genetically Modified Organisms (GMO)

Please refer to Appendix 1 for more details on these criteria.

#### 3.2.2 Catholic Value Screens

The MSCI USA Catholic Values Index also excludes companies that are not in accordance with the United States Conference of Catholic Bishops' (USCCB) Socially Responsible Investment Guidelines. Each company's Catholic Values performance is evaluated based on following areas:

- Abortion
- Abortifacients
- Adult Entertainment
- Contraceptives
- Stem Cells

Please refer to Appendix 2 for a detailed description of these areas.

### 3.3 Sector Representation

The MSCI USA Catholic Values Index is designed to maintain approximately similar sector weights as the MSCI USA Index, by targeting relative sector weights of +/- 25% with respect to MSCI USA Index.

Relative weight of a sector is computed as

$$\frac{\text{weight of the sector in MSCI USA Catholic Values Index} - \text{weight of sector in MSCI USA Index}}{\text{weight of sector in MSCI USA Index}}$$

Sectors having relative sector weight greater than upper threshold (+25%) with respect to MSCI USA Index are considered to be overweight and sectors having relative sector weight less than lower threshold (-25%) with respect to MSCI USA Index are considered to be underweight.

### 3.4 Size-Segment Representation

The MSCI USA Catholic Values Index targets a minimum count of 200 standard size-segment (Large Cap and Mid Cap) constituents.

## 4. Maintaining the MSCI USA Catholic Values Index

### 4.1 Quarterly Index Reviews

The composition of the MSCI USA Catholic Values Index is reviewed on a quarterly basis to coincide with the regular Index Reviews (Semi-Annual Index Reviews in May and November and Quarterly Index Reviews in February and August) of the MSCI Global Investable Market Indexes. The changes are implemented at the end of February, May, August and November. The pro forma indexes are in general announced nine business days before the effective date.

At every Quarterly Index Review, the deletions and additions are made to the MSCI USA Catholic Values Index as per below.

#### 4.1.1 Deletion Criteria

At Quarterly Index Reviews, constituents are deleted from the MSCI USA Catholic Values Index for one or more of the following reasons:

- If a constituent is deleted from the MSCI USA IMI ESG Index as a result of the Index Review, it is simultaneously removed from the MSCI USA Catholic Values Index
- Any constituent that fails the values based exclusion screens or the Catholic Values screens is deleted
- Constituents are reviewed to determine if they have declining ESG performance or involvement in very severe business controversies. This is implemented by deleting companies, whose ESG IVA rating drops to B or below or whose Impact Monitor controversy assessment falls to very severe (Impact Monitor score of 0 or 1)
- Additionally, constituents from overweight sectors are deleted (starting with the lowest ESG rated company) until the relative sector weights are below the upper threshold (+25%)

#### 4.1.2 Eligibility for addition

At every Quarterly Index Review, after reflecting all the deletions, additions are made to the MSCI USA Catholic Values Index in order to restore the number of index constituents to 400. Companies that fail the values based exclusion criteria or the Catholic Values screens are not eligible for addition to the MSCI USA Catholic Values Index. Additionally, companies having an ESG rating of BB or below or Impact Monitor score of 2 or below are not eligible for addition to the MSCI USA Catholic Values Index.

#### 4.1.3 Index Additions

Additions are made to the MSCI USA Catholic Values Index from the list of eligible additions based on considerations of ESG performance, sector alignment and size representation. In order to restore the number of constituents in the MSCI USA Catholic Values Index to 400, additions will be first made to the standard size segment. Based on the addition rules below, once there are no further additions available to the standard size segment, additions will be made to the small cap segment.

Standard segment:

- All securities having an ESG rating of AAA are added
- Securities are added (in order of their ESG scores) to sectors where the relative sector weights are below the lower threshold (-25%).
- Once the relative weights of all sectors are above the lower threshold or no further securities are available for addition in these sectors, securities are added sequentially based on their ESG scores.
- Securities are not added to sectors where the relative sector weight reaches the upper threshold of +25%.
- A minimum of 200 standard segment securities are maintained to ensure appropriate size representation.
- While adding securities to the same sector, preference is given to securities having higher ESG score. In case there are multiple securities with the same ESG score, the one with the highest free float-adjusted market capitalization will be added first.

Small Cap segment:

- Securities are added purely based on their ESG scores. In case of a tie, securities are added to the most underweight sector.

## 4.2 Ongoing Event-Related Maintenance

The MSCI Corporate Events Methodology is applied for the maintenance of the MSCI USA Catholic Values Index between Index Reviews. New additions to the MSCI USA IMI ESG Index due to corporate events will not be added simultaneously to the MSCI USA Catholic Values Index, but will be considered for inclusion at the following Index Review. However, companies deleted from the MSCI USA IMI ESG Index between Index Reviews are deleted at the same time from the MSCI USA Catholic Values Index.

If the number of securities in the MSCI USA Catholic Values Index falls below 400 due to corporate events, no additions will be made to restore the number of constituents to 400 until the next Quarterly Index Review.

The technical details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available on MSCI's web site at:  
<http://www.msci.com/products/indexes/size/standard/methodology.html>

# Appendix 1: Values Based Exclusion Criteria

The MSCI USA Catholic Values Index excludes companies that are inconsistent with the following values based criteria:

- **Alcohol**
  - “Producer” companies that earn either 5% or more revenue or more than \$500 million in revenue from alcohol-related activities
- **Gambling**
  - “Operations” and “Support” companies that earn 5% or more revenue or more than \$500 million in revenue from gambling-related activities
- **Tobacco**
  - All companies classified as “Producer”
  - “Distributor”, “Retailer”, and “Supplier” companies that earn 15% or more from tobacco products
- **Military Weapons**
  - All companies involved in manufacturing of “Nuclear Weapons”, “Nuclear Weapons Components” and “Chemical and Biological Weapons”
  - All companies classified as a “Cluster Bomb Manufacturer”
  - All companies classified as a “Landmine Manufacturer”
  - All companies that earn 5% or more revenues or more than \$500 million in revenue from manufacturing of Conventional Weapons and Conventional Weapons Components
- **Civilian Firearms**
  - All companies classified as “Producer”
  - “Retailer” companies that earn 15% or more from civilian firearms
- **Nuclear Power**
  - All companies classified as nuclear “Utility”
  - All companies involved in Uranium Mining
  - All companies involved in designing nuclear reactors
  - All companies involved in enrichment of fuel for nuclear reactors
- **Adult Entertainment**
  - All companies classified as “Producer” that earn more than 5% of revenues or more than \$500 million in revenue from this activity
- **Genetically Modified Organisms (GMO)**
  - Companies that derive any revenue from activities like genetically modifying plants, such as seeds and crops, and other organisms intended for agricultural use or human consumption
  - Companies that are only involved in GMO Research & Development activities are not excluded



## Appendix 2: Catholic Value Screens

The MSCI USA Catholic Values Index excludes companies that do not meet the United States Conference of Catholic Bishops' (USCCB) Socially Responsible Investment Guidelines. Each Company's Catholic Values performance is evaluated covering the following areas:

- **Abortion**
  - All companies classified as “Abortion Provider” or “Own or Operate Acute Care Facilities”
- **Abortifacients**
  - All companies classified as “Producer”
- **Adult Entertainment**
  - All companies classified as “Producer”
  - All companies classified as “Distributor” or “Retailer” that earn 15% or more of revenues from adult entertainment products
- **Contraceptives**
  - All companies classified as “Producer”
- **Stem Cells**
  - All companies classified as “Embryonic Stem Cell Research”, “Fetal Tissue Research”, “Use of Fetal Cell Line”, or “Enabling Technology”

## Appendix 3: Transition to the enhanced MSCI USA Catholic Values Index methodology

The MSCI USA Catholic Values Index will transition to the enhanced methodology described in this document over multiple Index Reviews starting from the May 2012 Index Review. During the first phase, comprising four Index Reviews, all existing constituents having ESG rating of B or below will be deleted from the MSCI USA Catholic Values Index, starting with the most overweight sectors. In the second phase, comprising the subsequent four Index Reviews, all constituents that are not part of the pro forma MSCI USA IMI ESG Index will be deleted from the MSCI USA Catholic Values Index, starting with the most overweight sectors. At each Index Review, other deletions and additions will be made to the MSCI USA Catholic Values Index in line with the methodology, to restore the number of securities to 400. All additions will be a part of the provisional MSCI USA IMI ESG Index.

## Client Service Information is Available 24 Hours a Day

[clientservice@msci.com](mailto:clientservice@msci.com)

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Americas	1.888.588.4567 (toll free)
Atlanta	+ 1.404.551.3212
Boston	+ 1.617.532.0920
Chicago	+ 1.312.675.0545
Monterrey	+ 52.81.1253.4020
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### Europe, Middle East & Africa

Cape Town	+ 27.21.673.0100
Frankfurt	+ 49.69.133.859.00
Geneva	+ 41.22.817.9777
London	+ 44.20.7618.2222
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### Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+ 852.2844.9333
Seoul	00798.8521.3392 (toll free)
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MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indexes with approximately USD 8 trillion estimated to be benchmarked to them on a worldwide basis<sup>1</sup>; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS corporate governance research, data and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

<sup>1</sup> As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg

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