

MSCI ESG FOCUS INDEX METHODOLOGY

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1 INTRODUCTION

The MSCI ESG Focus Index (the 'Index') is designed to maximize its exposure to positive environmental, social and governance (ESG) factors while exhibiting risk and return characteristics similar to those of the underlying market capitalization weighted index. The index is constructed by selecting constituents of a market capitalization weighted index (the 'Parent Index') through an optimization process that aims to maximize exposure to ESG factors for a target tracking error budget under certain constraints.

The Index is sector-diversified and targets companies with high ESG ratings in each sector. Tobacco and Controversial Weapons companies are not eligible for inclusion in the Index.

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.

The MSCI USA ESG Select Index uses company ratings and research provided by MSCI ESG Research. In particular, this index uses the following three MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies Score, and MSCI ESG Business Involvement Screening Research.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: http://www.msci.com/products/esg/about_msci_esg_research.html

2.1 MSCI ESG RATINGS

MSCI ESG Ratings provides research, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities.

MSCI ESG Ratings provides an overall company ESG rating - a seven point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers.

For more details on MSCI ESG Ratings, please refer to

https://www.msci.com/documents/1296102/1636401/MSCI_ESG_Ratings.pdf

2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (earlier known as MSCI Impact Monitor) provides assessments of controversies concerning the negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

For more details on MSCI ESG Controversies Score, please refer to

<https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

2.3 MSCI ESG BUSINESS INVOLVEMENT SCREENING RESEARCH

MSCI ESG Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

For more details on MSCI ESG Business Involvement Screening Research, please refer to http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf

3 CONSTRUCTING THE MSCI ESG FOCUS INDEX

Constructing the MSCI ESG Focus Index involves the following steps:

- Defining the underlying Parent Index;
- Defining the exclusion criteria;
- Defining the optimization constraints; and
- Determining the optimized portfolio

3.1 DEFINING THE PARENT INDEX

From the constituents of the Parent Index, securities of companies involved in following businesses are excluded from the Parent Index.

ESG Focus Index	Parent Index	Business Exclusions
MSCI EAFE ESG Focus Index	MSCI EAFE Index	Tobacco and Controversial Weapons Companies
MSCI EM (Emerging Markets) ESG Focus Index	MSCI EM (Emerging Markets) Index	Tobacco and Controversial Weapons Companies
MSCI USA ESG Focus Index	MSCI USA Index	Tobacco and Controversial Weapons Companies

Please refer to Appendix 1 for more details on exclusions.

3.2 DEFINING THE EXCLUSION CRITERIA

Securities of companies involved in very severe business controversies are not eligible for inclusion in the MSCI ESG Focus Index. This is implemented by excluding constituents of Parent Index with ESG Controversy Score = 0 ('Red Flag' companies).

3.2.1 OTHER EXCLUSION CRITERIA

- Missing Controversy Score – Companies not assessed by MSCI ESG Research on Impact Monitor Controversy Scores are excluded from the Parent Index.
- Missing IVA Rating or ESG Score – Companies which are not rated by MSCI ESG Research on IVA assessment.

3.3 DEFINING THE OPTIMIZATION CONSTRAINTS

Constituents are selected to maximize exposure to higher ESG IVA scores, subject to maintaining risk and return characteristics similar to the Parent Index. ESG IVA scores are normalized and used in the optimization process. Optimization maximizes the Index’s exposure to ESG IVA scores for a given predicted tracking error. The following predicted tracking error targets are used for the construction of MSCI ESG Focus Indexes –

No.	ESG Focus Index	Predicted Tracking Error
1	MSCI EAFE ESG Focus Index	0.5%
2	MSCI EM (Emerging Markets) ESG Focus Index	1.0%
3	MSCI USA ESG Focus Index	0.5%

Optimization is a quantitative process that considers the market capitalization weights from the Parent Index, ESG scores and additional constraints to select and weight the constituents of the Index.

Normalization of the ESG scores allows the optimization process to assess each score in the context of the overall distribution of the ESG scores.

Please refer to Appendix 3 for the Optimization constraints.

3.4 DETERMINING THE OPTIMIZED PORTFOLIO

The Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model. The optimization uses universe of eligible securities and the specified optimization objective and constraints to determine the constituents of the MSCI ESG Focus Index.

4 MAINTAINING THE MSCI ESG FOCUS INDEX

4.1 QUARTERLY INDEX REVIEWS

The Index is rebalanced 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.

ESG scores used for the Quarterly Index Reviews will be taken as of the end of the month preceding the Index Review, i.e., January, April, July and October.

At each Index Review, the optimization process outlined in Section 3 is implemented. Companies can only be added to the Index only at regular Index Reviews.

4.2 ONGOING EVENT-RELATED MAINTENANCE

In general, the MSCI ESG Focus Index follows the event maintenance of the Parent Index.

New additions to the Parent Index due to corporate events will not be added simultaneously to the Index, but will be considered for inclusion at the following Index Review. Companies deleted from the Parent Index between Index Reviews due to corporate events maintenance are also deleted at the same time from the Index.

The technical details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available at:

<http://www.msci.com/products/indexes/size/standard/methodology.html>

APPENDIX 1: TOBACCO AND CONTROVERSIAL WEAPONS EXCLUSION CRITERIA

- Tobacco Involvement

Companies which meet the following Tobacco involvement criteria are excluded from the Index

- All companies classified as “Producer” or “Licensor”
- All companies classified as “Distributor”, “Retailer”, or “Supplier” that earn 15% or more of revenues from tobacco products
- All companies classified as “Ownership by a Tobacco Company” or “Ownership of a Tobacco Company”

- Controversial Weapons Involvement

Companies which meet the following Controversial Weapons criteria are excluded from the Index

- Cluster Bombs

MSCI ESG Research’s cluster bomb research identifies public companies that are involved in the production of cluster bombs and munitions, or the essential components of these products.
- Landmines

MSCI ESG Research’s landmines research identifies public companies that are involved in the production of anti-personnel landmines, anti-vehicle landmines, or the essential components of these products.
- Depleted Uranium Weapons

MSCI ESG Research’s depleted uranium weapons research identifies public companies involved in the production of depleted uranium weapons and armor.
- Chemical and Biological Weapons

MSCI ESG Research’s chemical and biological weapons research identifies public companies that are involved in the production of chemical and biological weapons, or the essential components of these products.

Involvement criteria:

- Producers of the weapons

- Producers of key components of the weapons
- Ownership of 20% or more of a weapons or components producer

The minimum limit is raised to 50% for financial companies having an ownership in a company that manufactures controversial weapons or key components of controversial weapons

- Owned 50% or more by a company involved in weapons or components production

Revenue limits:

- Any identifiable revenues, i.e., zero tolerance

For details please refer to MSCI Global ex Controversial Weapons Indexes Methodology at <https://www.msci.com/index-methodology>.

APPENDIX 2: OPTIMIZATION CONSTRAINTS

At each Quarterly Index Review, the following optimization constraints are used to ensure replicability and investability:

Optimization Constraints

No.	Parameter	EAFE	EM	USA
1	Predicted Tracking Error	0.5%	1.0%	0.5%
2	Min Constituent Weight	0.1%	0.1%	0.1%
3	Constituent Active Weight	+/-2%	+/-2%	+/-2%
4	Security Weight as a Multiple of its weight in the Parent Index	20	20	20
5	Active Sector Weights	+/-5%	+/-5%	+/-5%
6	Active Country Weights	+/-5%	+/-5%	Not Applicable
7	One Way Turnover during May and November Index Review	10%	10%	10%
8	One Way Turnover during Feb and Aug Index Review	5%	5%	5%
9	Specific Risk Aversion	0.075	0.075	0.075
10	Common Factor Risk Aversion	0.0075	0.0075	0.0075

Infeasible Solution - During the Quarterly and Semi-Annual Index Reviews, in the event that there is no optimal solution that satisfies all the optimization constraints, first the turnover constraint will be relaxed up to a maximum turnover of 30% in steps of 1% until an optimal solution is found. If a feasible solution is not found at turnover of 30%, the predicted tracking error is relaxed up to a maximum of 5 times of the original predicted tracking error in steps on 0.1%. In the event that feasible solution is not found for maximum predicted error, the Index will not be rebalanced for that index review.

METHODOLOGY BOOK TRACKED CHANGES

The following sections have been modified since April 2016:

Section 1: Introduction and other relevant sections

- To implement name change – Index name has been changed from ‘ESG Select’ to ‘ESG Focus’

Section 3.1, 3.3 and Appendix 2:

- Added reference to ‘USA ESG Focus’ Index.

CONTACT US

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
Sao Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

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
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Tokyo	+ 81 3 5290 1555

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