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MSCI

Index Methodology

MSCI Global Socially Responsible Indices Methodology

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1. Introduction

Globally, investors are increasingly seeking to invest in accordance with their values—such as religious beliefs, moral standards, or ethical views. Examples of such beliefs are avoidance of sin stocks, respect for human rights, adherence to an international normative standard such as UN Global Compact, etc.

The MSCI Global Socially Responsible indices exclude companies that are inconsistent with specific values based criteria. Additionally, these indices target companies with high Environmental, Social and Governance (ESG) ratings relative to their sector peers, to ensure the inclusion of the best-in-class companies from an ESG perspective. Further, these Indices aim to target sector weights that reflect the relative sector weights of the underlying MSCI Global Investable Market Indices to limit the systematic risk introduced by the ESG selection process. Overall the MSCI Global Socially Responsible Indices target coverage of 25% of the underlying MSCI parent index (“Parent Index”).

Currently MSCI constructs MSCI Global Socially Responsible Indices for the Standard size-segment in all Developed Markets.

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.

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

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

3. Values Based Exclusion Criteria

Companies that are involved in the following activities are excluded from the MSCI Global Socially Responsible Indices

- 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

4. Constructing the MSCI Global Socially Responsible Indices

4.1. Underlying universe

The selection universe for the MSCI Global Socially Responsible Indices is defined by the constituents of the MSCI Global Investable Market Indices (GIMI).

4.2. Exclusion Criteria

Companies that fail the values based exclusion criteria described in Section 3 are excluded from the MSCI Global Socially Responsible Indices. Additionally, any company that has an ESG rating of 'BBB' or lower or an Impact Monitor controversy assessment of severe or very severe (Impact Monitor score of 3 or below) is not eligible for inclusion in the MSCI Global Socially Responsible Indices. This rating criterion ensures a high minimum level of ESG performance, consistent with the aim of including only the best-in-class companies in the index.

4.3. Index Construction

Currently MSCI constructs MSCI Global Socially Responsible Indices for the Standard size-segment in all Developed Markets. These indices are constructed at a regional level with the regions being defined as follows:

- USA
- Canada
- Europe and Middle East
- Pacific

Each regional MSCI Socially Responsible Index targets 25% of the free float adjusted market capitalization of each Global Industry Classification Standard (GICS®) sector of the underlying regional Parent Index. These regional Socially Responsible indices are then aggregated together to construct the MSCI World Socially Responsible Index.

5. MAINTAINING THE MSCI GLOBAL SOCIALLY RESPONSIBLE INDICES

5.1. Annual Index Review

The composition of the MSCI Global Socially Responsible Indices is reviewed on an annual basis in May. The changes are implemented at the end of May. The pro forma indices are in general announced nine business days before the effective date. The ESG Ratings and Impact Monitor controversy assessment scores used for the Annual Index Review are taken as of the end of April.

At the Annual Index Review, any existing index constituent whose rating falls to 'B' or below or whose Impact Monitor Controversy assessment falls to very severe (Impact Monitor score of 0 or 1), or that fails the values based exclusion screens is deleted from the MSCI Global Socially Responsible Indices. The composition of the index is reassessed in order to target 25% free float-adjusted cumulative market capitalization of each sector of the Parent Index. For each sector, the constituents of the regional Parent Index are first ranked based on the company level ESG Rating, followed by current index membership, ESG Scores and then by decreasing free float adjusted market capitalization. Constituents for the regional MSCI Socially Responsible Index are then selected in the following order until 25% coverage¹ by cumulative free-float adjusted market capitalization target is reached.

- Securities in the top 17.5%
- 'AA' rated securities in the top 25%
- Current index constituents in the top 32.5%
- Remaining securities in the eligible universe

The above rules are applied sequentially so that the regional MSCI Global Socially Responsible Index includes companies with high ESG performance, while minimizing turnover.

¹The detailed guidelines for achieving the target sector representation of 25% are listed in Appendix 2.

5.2. Quarterly Index Reviews

The MSCI Global Socially Responsible Indices are also reviewed on a quarterly basis to coincide with the regular Index Reviews of the Parent Indices. The changes are implemented at the end of February, August and November. The pro forma indices are in general announced nine business days before the effective date.

Ratings used for the Quarterly Index Reviews are taken as of the end of the month preceding the Index Reviews, i.e., January, July and October.

At the Quarterly Index Reviews, any existing index constituent whose rating falls to 'B' or lower or Impact Monitor Controversy assessment falls to very severe (Impact Monitor score of 0 or 1), or that fails the values based exclusion screens is deleted from the MSCI Global Socially Responsible Indices.

Additions to the indices are only considered in those sectors where the resulting free float-adjusted market capitalization coverage does not meet the 25% target. Market price movements may cause small deviations in the sector coverage between two Index Reviews and so a buffer of 10% is used on the target coverage of 25% to define under-representation, in order to minimize turnover. Companies are added only in those sectors where the current market capitalization coverage is less than 22.5%, until the 25% target is reached. A company must have a rating of 'A' or higher and an Impact Monitor Score of 4 or higher to be considered for addition to the indices.

5.3. Ongoing Event-Related Maintenance

The MSCI Corporate Events Methodology is applied for the maintenance of the MSCI Global Socially Responsible Indices between Index Reviews. In general, there will be no additions to the index between two Index Reviews. Companies deleted from the Parent Index between Index Reviews are also deleted at the same time from the MSCI Global Socially Responsible Indices. The 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/indices/size/standard/methodology.html>

Appendix 1: Values Based Exclusion Criteria

Companies whose activity is inconsistent with the following values based criteria are excluded from the MSCI Global Socially Responsible Indices:

- **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: Guidelines on achieving the target sector coverage of 25%

The MSCI Global Socially Responsible Indices target 25% of the free float adjusted market capitalization of each Global Industry Classification Standard (GICS®) sector of the Parent Index. The underlying principle in the construction of the index is to achieve sector coverage closest to 25%, while aiming to maintain index stability.

The following guidelines are used in achieving the target sector coverage of 25%:

- For each sector, the constituents of the Parent Index are first ranked based on the company level ESG Rating and then by decreasing free float adjusted market capitalization.
- In case of two companies with the same ESG Rating, an existing index constituent is given preference to maintain index stability. Between two existing constituents with the same ESG Rating, the company with the higher ESG Score is given preference. For two existing index constituents with the same ESG score, the larger company by free-float adjusted market capitalization is given preference.
- The cumulative sector coverage at each rank is calculated.
- All companies classified in a sector for which the cumulative coverage is less than 25% will be considered for inclusion in the ESG index in order of decreasing ESG scores.
- MSCI defines the company that increases the cumulative sector coverage above 25% as the 'marginal company'.
- If the marginal company is a current ESG index constituent, then it is retained in the ESG index even though it may result in a cumulative sector coverage significantly higher compared to the 25% target. This is aimed at ensuring better index stability and lower turnover.
- If the marginal company is a non index constituent, then the marginal company will be included in the ESG index only if the absolute difference between the resulting coverage of including the marginal company and the 25% target is lower than the absolute difference between the resulting coverage of not including the marginal company and the 25% target.
- The minimum cumulative sector coverage is set to 22.5%.
- The marginal company will be added to the ESG index if its non-inclusion would result in cumulative sector coverage of less than 22.5%.

Appendix 3: Methodology Transition

The MSCI Global Socially Responsible Indices transitioned to the methodology described in this book at the May 2012 Index Review. The MSCI Global Socially Responsible Indices were previously constructed using the Global Socrates ESG ratings. Any company that had an ESG rating of 'BB' or lower was not eligible for inclusion in the MSCI Global Socially Responsible Indices. The underlying universe for the MSCI Global SRI was defined by the constituents of the MSCI Global ESG Indices. The MSCI Global Socially Responsible Indices were constructed by targeting 50% of the free float adjusted market capitalization of each Global Industry Classification Standard (GICS) sector of the underlying MSCI regional ESG Index.

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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 indices, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indices with close to USD 7 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indices and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; 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.

¹As of March 31, 2012, as published by eVestment, Lipper and Bloomberg in September 2012