

The MSCI logo consists of the letters "MSCI" in a white, serif font, centered within a dark blue rectangular box. A thin, light blue line curves across the top of the page, passing behind the logo box and extending to the right edge of the page.

MSCI

Index Methodology

MSCI Hedged Indices
MSCI FX Hedge Indices
MSCI Global Currency Indices

May 2011

Contents

- Contents 2
- Introduction 4
- Section 1: Common Principles in the Calculation of MSCI Hedged, MSCI FX Hedge and MSCI Global Currency Indices... 5
 - 1.1 Currency Data5
 - 1.2 Calculation Time and Frequency.....5
- Section 2: MSCI Hedged Indices 6
 - 2.1 Overview.....6
 - 2.2 Constructing the MSCI Hedged Indices6
 - 2.3 Maintaining the MSCI Hedged Indices.....7
 - 2.4 MSCI Hedged Index Calculation Formula7
 - 2.5 Calculation of Daily Returns9
 - 2.6 Odd-Days Forwards Calculation Using a Linear Interpolation9
- Section 3: MSCI FX Hedge Indices 11
 - 3.1 Overview..... 11
 - 3.2 Constructing the MSCI FX Hedge Indices 11
 - 3.3 Maintaining the MSCI FX Hedge Indices..... 12
 - 3.4 MSCI FX Hedge Index Calculation Formula 12
 - 3.5 Calculation of Daily Returns 13
 - 3.6 Calculation of Odd-Days Forwards Using a Linear Interpolation..... 14
- Section 4: MSCI Global Currency Indices 16
 - 4.1 Overview..... 16
 - 4.2 Constructing the MSCI Global Currency Indices 16
 - 4.3 Maintaining the MSCI Global Currency Indices..... 17
 - 4.4 MSCI Global Currency Calculation 17
- Methodology Book Tracked Changes 19
 - Client Service Information is Available 24 Hours a Day 20
 - Notice and Disclaimer..... 20

About MSCI..... 20

Introduction

This methodology book covers the following indices:

- MSCI Hedged Indices, described in section 2, are aimed to represent a return resulting from hedging an MSCI Equity Index exposure in the Forward currency markets and contain both an equity and a currency component
- MSCI FX Hedge Indices, described in section 3, are aimed to measure the impact on performance of hedging the currency exposure of MSCI Equity Indices and contain only a currency component
- MSCI Global Currency Indices, described in section 4, are aimed to measure the total return of currencies of an MSCI Equity Index and reflect both currency appreciation / depreciation and interest accruing from holding the currencies

Section 1 describes the common principles used for the calculation of all of the above-mentioned indices.

Section 1: Common Principles in the Calculation of MSCI Hedged, MSCI FX Hedge and MSCI Global Currency Indices

1.1 Currency Data

1.1.1 Closing Spot Rates

MSCI uses the WM/Reuters closing Spot rates (the mid-point of closing bid and ask rates to five decimal places), taken at 4 p.m. UK time in the daily index calculation and also in the determination of the notional amount of currencies to be sold forward on the roll date.

The WM/Reuters closing Spot rates are provided by the WM Company plc in conjunction with Reuters. MSCI may elect to use alternative sources of exchange rates if the WM/Reuters rates are not available, or if MSCI determines that the WM/Reuters rates may not reflect market conditions.

1.1.2 Closing Forward Rates

MSCI uses the mid values of the 1-month and 1-week Forward exchange rates published by WM/Reuters at 4 p.m. UK time.

1.1.3 Missing Spot or Forward Rates

In the case WM/Reuters does not provide Spot rates for specific markets on given days (for example, Christmas Day and New Year Day), the previous business day's Spot rates will be used. If a forward premium/discount is missing, previous business day's premium/discount will be used.

1.1.4 Currency Crisis

If there is a disruption in the currency Spot and/or Forward market, MSCI will analyze the situation and will make a decision to continue or discontinue the inclusion of a currency in the indices on a case by case basis. Should this happen, the decision will be announced to clients in advance.

This treatment potentially could result in currencies of certain countries being excluded from the MSCI Hedged, MSCI FX Hedge and/or MSCI Global Currency Indices even though they may be still included in the parent MSCI Equity Indices. In this case, the resulting currency weights may be different from the currency weights in the parent MSCI Equity Index.

1.2 Calculation Time and Frequency

The MSCI Hedged, MSCI FX Hedge and MSCI Global Currency Indices are calculated at the same time as the underlying MSCI Equity Index. In real time, their calculation begins as soon as the parent MSCI Equity Index is open and calculating, and ends as soon as the WM / Reuters data is available, or when the parent MSCI Equity Index calculation is finished and validated, whichever comes later.

More details about calculation time and frequency of MSCI indices can be found in the MSCI Index Calculation Methodology available on www.msibarra.com.

Similar to the MSCI Equity Index calculation schedule, the official month-end index level for the MSCI Hedged, MSCI FX Hedge and MSCI Global Currency Indices is calculated on the last weekday of the month.

Section 2: MSCI Hedged Indices

2.1 Overview

MSCI calculates Hedged Indices for each Developed Market country as well as several Emerging Markets (on a custom basis) and for Developed Markets regional indices, including MSCI EAFE. MSCI Hedged Indices represent a close estimation of the return that can be achieved by hedging the currency exposures of the index in the one-month Forward market at each end of month. The MSCI Hedged Indices hedge each foreign currency in the index back to the home currency of the index by selling each foreign currency forward at the one-month Forward rate. To ensure better index replicability, the amount of Forwards sold on the last business day of the month represents the value (or the market capitalization) of the index as of the close of two business days before the first calendar day of the following month. The foreign currency weights, however, take into account any changes in the composition of the index implemented as of the close of last business day of the month. No adjustment to the hedge is done during the month to account for changes in the indices due to price movement of securities, corporate events, additions, deletions or any other changes. In other words the amount hedged is kept constant over the whole month. This simple approach replicates the hedging process in place in many actual portfolios.

Before May 2002, the MSCI Hedged Indices were computed on a monthly basis only.

Before November 2009, the MSCI Hedged Indices were using foreign currency weights and corresponding Forward notional amounts determined on the last business day of the month.

2.2 Constructing the MSCI Hedged Indices

Constructing the MSCI Hedged Indices involves the following steps:

- Defining the home currency
- Identifying the currencies to be sold
- Identifying the weight for each currency to be sold in the index
- Combining the unhedged parent MSCI Equity Index return with the Hedge Impact

2.2.1 Defining the Home Currency

The home currency is the home currency of an investor investing in international equity markets. Often, a cross-border investor would like to measure the performance impact of hedging the currency exposure of his holdings relative to his home currency. For construction of MSCI Hedged Indices the default home currency is the US Dollar. The MSCI Hedge Indices can also be constructed against any home currency.

2.2.2 Identifying the Currencies to be Included in the Index

MSCI Equity Indices have security constituents that can be quoted in different foreign currencies. Each foreign currency used to denote foreign securities in the underlying MSCI Equity Index is included in the calculation of the MSCI Hedged Indices. For example, for a US-based investor who is investing in the MSCI Emerging Markets Index, the calculation would combine the unhedged MSCI Emerging Markets index return in US dollars (USD) with the performance impact of hedging the currency exposure of the 21 currencies of the MSCI Emerging Markets Index relative to the US Dollar.

2.2.3 Identifying the Weight of Each Currency in the Index

In the MSCI Hedged Indices, the weight of each currency corresponds to the relative market cap weight of the securities quoted in that currency in the underlying MSCI Equity Index. More precisely, the weights are derived from the aggregate free-float adjusted market capitalization of the securities quoted in the respective currencies in the underlying MSCI Equity Index as of the close of two business days before the first calendar day of following month, but taking into account any month end changes in the index constituents due to rebalancing and corporate actions.

2.2.4 Combining the Unhedged Parent MSCI Equity Index with the Hedge Impact

The MSCI Hedge Index return is calculated as a sum of the parent MSCI Equity Index return expressed in the home currency, and the Hedge Impact. As currency weights and corresponding Forward notional amounts are determined two business days before the first day of the following month, an adjustment factor needs to be introduced in the calculation of the Hedge Impact to account for the performance of the MSCI Hedged Index on the last business day of the month. This adjustment is described in details in section 2.4.

2.3 Maintaining the MSCI Hedged Indices

The MSCI Hedged Indices are maintained with an objective of reflecting the evolution of the underlying currency exposures in the MSCI Equity Indices on a timely basis. In particular, index maintenance involves:

- Resetting the weights of the currencies to be sold in the index
- Rolling the Forward contracts over to the next month

The MSCI Hedged Indices are rebalanced monthly on the last trading day of the month, when the index will take into account the effect of rolling into new 1-month Forward contracts based on the newly determined weights of currency to be sold for the next month's index calculation. The currency weights and corresponding foreign currency notional amounts are determined as of the close of two business days before the first calendar day of following month and remain constant intra month. This means that no changes in the weights are made during the month to account for changes in the indices due to price movement of securities, corporate events, additions, deletions or any other changes.

2.4 MSCI Hedged Index Calculation Formula

2.4.1 Calculation Formula

There are two components to a MSCI Hedged Index return:

1. The performance of the unhedged index in the home currency
2. The Hedge Impact (aimed to represent the gain or loss on the Forward contracts) in the home currency

The Hedge Impact, expressed in percent, is calculated as follows (all exchange rates are expressed as amount of foreign currency for 1 unit of hedged currency):

$$HI(t) = NAF \times \sum_{i=1}^n \left\{ Weight_{i,M-2} \times FXRate_{i,M-2} \times \left(\frac{1}{FFRate_{i,M-1}} - \frac{1}{FFRate_{i,odd-days_t}} \right) \right\}$$

where

- t = Index calculation date
- NAF = Notional Adjustment Factor that accounts for the fact that the total value of the currency notional amount is not the same as the value of the MSCI Equity Index due to the fact that the first is determined on M-2 whereas the second on M-1. It is defined as the ratio of the Hedged Index level on M-2 and the Hedged Index level on M-1

$$= \frac{HedgedIndex_{M-2}}{HedgedIndex_{M-1}}$$
- M = First calendar day of the month
- $HI(t)$ = Index Hedge Impact at time t
- $Weight_{i,M-2}$ = Weight of the currency i in the underlying MSCI Equity Index two business days before the start of the current calendar month, but reflecting changes in the composition of the index to be implemented as of the close of the last business day of the previous month
- $FXRate_{i,M-2}$ = Spot rate of the currency i two business days before the start of the current calendar month. This term determines the notional amount of the foreign currency to be sold corresponding to its weight in the index
- $FFRate_{i,M-1}$ = 1-month Forward for the currency i one business day before the start of the current calendar month (or last business day of the previous calendar month)
- $FFRate_{i,odd-days}$ = Interpolated odd-days Forward rate of the currency i on day t . This term is used to mark to market the currency position intra month and is equal to the Spot rate of currency i on the last day of the month. Its calculation is defined in Section 2.6.1.

The Hedged Index performance is the combination of the unhedged performance (in hedged currency terms) and the Hedge Impact:

$$\text{Performance of the Hedged Index} = \frac{EquityIndex_t}{EquityIndex_{M-1}} - 1 + HI(t)$$

where

- $EquityIndex_t$ = Value of the unhedged MSCI Equity Index on the calculation date
- $EquityIndex_{M-1}$ = Value of the unhedged MSCI Equity Index on the last business day of the previous calendar month
- $HI(t)$ = Hedge Impact on the index calculation date defined above

2.4.2 Calculation Example

We consider a simple example of calculation of a two currency index hedged to USD. We describe the hypothetical calculation of the MSCI Hedged Index level for December 31, 2009. The data relevant for this calculation is displayed below.

	A	B	C	D	E	F	G	H	I	J
	CHF weight	EUR weight	CHF spot	EUR spot	CHF 1-M fwd	EUR 1-M fwd	CHF odd-days fwd	EUR odd-days fwd	Hedged Index Level (USD)	Parent Index Level (USD)
27-Nov	35%	65%	1.00	0.70					1010	
30-Nov					0.95	0.76			1005	1500
31-Dec			0.90	0.80			0.90	0.80		1550

The Notional Adjustment Factor is 1010/1005 = 1.005 in this case and the Hedge Impact is calculated as follows:

$$HI(Dec31) = 1.005 \times \left[35\% \times 1.00 \times \left(\frac{1}{0.95} - \frac{1}{0.90} \right) + 65\% \times 0.70 \times \left(\frac{1}{0.76} - \frac{1}{0.80} \right) \right] = 0.9513\%$$

The Hedged Index performance (month-to-date) for December 31 is

$$Perf(Dec31) = \frac{1550}{1500} - 1 + 0.9513\% = 4.28\%$$

leading to a Hedged Index level of 1005x(1+4.28%) = 1048 on December 31.

2.5 Calculation of Daily Returns

2.5.1 Marking to Market the Forward Contracts on a Daily Basis

The daily calculation of MSCI Hedged Indices marks to market the one-month Forward contracts on a daily basis by using an equal and offsetting Forward position. For instance, after 8 days, the Forward would be marked to market using a 22-days offsetting Forward in the case of a month when the last business day of the month is the 30th (i.e. 30 – 8 = 22).

2.5.2 Pricing the Offsetting Forward

Typically, only a limited number of standard duration of Forwards is available in the market. These rates are called “tenors”, and represent one day, one week, one month, etc. This means that other durations for Forwards (called odd-days Forwards) are generally not available, but must be calculated. For the sake of simplicity, when calculating MSCI Hedged Indices, MSCI uses a linear interpolation based solely on the 1-month Forwards to estimate the value of odd-days Forwards every day during the whole month. Odd-days Forwards are computed simply as the Spot rate plus the 1-month Forward premium or discount pro-rated for the number of days until the last business day of the month.

2.6 Odd-Days Forwards Calculation Using a Linear Interpolation

2.6.1 Calculation Formula

MSCI uses a linear interpolation formula to compute odd-days Forwards. The general formula is as follows:

$$FFRate_{odd-days_t} = FXRate_t + \left((FFRate_{1-month_t} - FXRate_t) \times \frac{Odd-days_t}{TotNbOfCalDaysDuringMonth} \right)$$

where

$FXRate_t$ = Spot rate at time t

$FFRate_{1-month_t}$ = 1-Month Forward rate at time t

$Odd - days_t$ = Number of days until the last business day of the current month (not counting t)

2.6.2 Calculation Example

To compute a linear interpolation, the following process is used, using as an example data as of February 12, 2002:

- a) Obtain the date of the last business day of the month, in our example February 28, 2002.
- b) Check if today is the last business day of the month, in which case, the Spot exchange rate is used and there is no need to compute a linear interpolation.
- c) Obtain the 1-month Forward rate as of today, i.e. February 12, 2002, for example 1.5915 CAD / USD. This Forward settles in one month.
- d) Compute the price difference between the Spot and the 1-month Forward, as of today, February 12, 2002, called the premium (or discount). In this example, the Spot is at 1.5912, so the premium is 0.0003.
- e) Using a linear interpolation, compute the value, as of today, February 12, 2002, of a Forward with a duration equal to the number of days until the last business day of the month. In our example, the last business day of the month is the 28th, so the duration of the Forward is $28 - 12 = 16$ days.

The value of a 16 day Forward is estimated as the Spot rate plus the premium pro rated for the period. The total number of days taken into account is the number of days in the month, in our example 28, as there are 28 days in February 2002.

Interpolated value of a Forward for 16 days

$$\begin{aligned}
 &= 1.5912 + 0.0003 * (16 / 28) \\
 &= 1.5912 + 0.00017 \\
 &= 1.59137
 \end{aligned}$$

Section 3: MSCI FX Hedge Indices

3.1 Overview

MSCI FX Hedge Indices aim to measure the impact on performance of hedging the currency exposure of MSCI International Equity Indices against an investor's home currency using a monthly Forward contract rollover. The index aims to measure the results of an investment process of selling each of the foreign currency exposures in the MSCI Equity Index against the home currency at one-month Forward rate on the last business day of the month. The amount of Forwards notionally sold for each currency is derived from the free-float adjusted market capitalization weights of the securities quoted in that currency in the corresponding MSCI Equity Index. The currency weights are fixed as of the close of two business days before the first calendar day of following month but taking into account any month end changes in the index constituents due to rebalancing and corporate actions. After one month, a similar process is performed for an amount representing the new market value of the index. No adjustments to the hedges are made during the month to account for changes in the indices due to price movement of securities, corporate events, additions, deletions or any other changes. In other words the amount hedged is kept constant over the whole month.

To compute the daily index value, the Forwards are marked-to-market on a daily basis using a linear interpolation methodology based on Spot, 1-week and 1-month FX Forwards premium or discounts.

MSCI is currently offering the following FX Hedge Indices:

- MSCI Emerging Markets FX Hedge Index in USD
- MSCI EAFE FX Hedge Index in USD

The methodology described in this section is a generic methodology that could be applied to create other FX Hedge Indices against a home currency with weights derived from existing MSCI Equity Indices.

The hedging methodology is identical to the MSCI Hedged Indices except some differences in the way the Forwards are marked to market intra month.

3.2 Constructing the MSCI FX Hedge Indices

Constructing the MSCI FX Hedge Indices involves the following steps:

- Defining the home currency
- Identifying the currencies to be sold
- Identifying the weight for each currency to be sold in the index

3.2.1 Defining the Home Currency

The home currency is the home currency of an investor investing in international equity markets. Often, a cross-border investor would like to measure the performance impact of hedging the currency exposure of his holdings relative to his home currency. For construction of MSCI FX Hedge Indices the default home currency is the US Dollar (USD). The MSCI FX Hedge Indices can be constructed against any home currency.

3.2.2 Identifying the Currencies to be Included in the Index

International MSCI Equity Indices have security constituents that are quoted in different foreign currencies. Each foreign currency used to denote foreign securities in the underlying MSCI Equity Index is included in the calculation of the MSCI FX Hedge indices. For example, for a US-based investor who is investing in emerging markets, MSCI calculates an MSCI Emerging Markets FX Hedge Index in USD, which measures the performance impact of hedging the currency exposure of the 21 emerging market currencies relative to the USD corresponding to the currencies of the 21 countries in the MSCI Emerging Markets Index.

3.2.3 Identifying the Weight of Each Currency in the Index

In the MSCI FX Hedge Indices, the weight of each currency corresponds to the relative market cap weight of the securities quoted in that currency in the underlying MSCI Equity Index. More precisely, the weights are derived from the aggregate free-float adjusted market capitalization of the securities quoted in the respective currencies in the underlying MSCI Equity Index as of the close of two business days before the first calendar day of following month, but taking into account any month end changes in the index constituents due to rebalancing and corporate actions.

3.3 Maintaining the MSCI FX Hedge Indices

The MSCI FX Hedge Indices are maintained with an objective of reflecting the evolution of the underlying currency exposures in the MSCI Equity Indices on a timely basis. In particular, index maintenance involves:

- Resetting the weights of the currencies to be sold in the index
- Rolling the Forward contracts over to the next month

The MSCI FX Hedge Indices are rebalanced monthly on the last trading day of the month, when the index will take into account the effect of rolling into new 1-month Forward contracts based on the newly determined weights of currency to be sold for the next month's index calculation. The currency weights are determined as of the close of two business days before the first calendar day of following month and remain constant intra month. This means that no changes in the weights are made during the month to account for changes in the indices due to price movement of securities, corporate events, additions, deletions or any other changes.

3.4 MSCI FX Hedge Index Calculation Formula

The FX Hedge Index aims to measure the performance impact of currency hedging which is calculated as the difference between the notional cost to hedge on the Forward contract and the notional gain or loss on the Spot exchange rate. The daily index calculation is given by:

$$FHI(t) = FHI(M-1) \times \left[1 + \sum_{i=1}^n \left\{ Weight_{i,M-2} \times FXRate_{i,M-2} \times \left(\frac{1}{FFRate_{i,M-1}} - \frac{1}{FFRate_{i,odd-days_t}} \right) \times DF(t) \right\} \right]$$

where:

t	= Index calculation date
M	= First calendar day of the month
$FHI(t)$	= FX Hedge index in the home currency at time t
$FHI(M-1)$	= FX Hedge index on the last day of the previous calendar month in the home currency

$Weight_{i,M-2}$	= Weight of the currency i in the underlying MSCI Equity Index two business days before the start of the current calendar month, but reflecting changes in the composition of the index to be implemented as of the close of the last business day of the previous month
$FXRate_{i,M-2}$	= Spot rate of the currency i two business days before the start of the current calendar month. This term determines the notional amount of the foreign currency to be sold corresponding to its weight in the index
$FFRate_{i,M-1}$	= 1-month Forward for the currency i one business day before the start of the current calendar month (or last business day of the previous calendar month)
$FFRate_{i,odd-days_t}$	= Interpolated odd-days Forward rate of the currency i on day t . This term is used to mark to market the currency position intra month and is equal to the Spot rate of currency i on the last day of the month. Its calculation is described in Section 3.6
$DF(t)$	= Discount factor between the calculation date (t) and the last business day of the current month, used to calculate the value at t of the Forward position and based on the one month London InterBank Offered Rates (LIBOR) rate in the home currency of the index. The source for LIBOR rates is the British Bankers' Association (BBA). More specifically, the value at time t of the Forward position initiated at time $M-1$ is determined by discounting the gain or loss relative to a new offsetting Forward contract initiated at time t , with the same delivery date as the original Forward contract. This discounted gain (loss) would be received (paid) by the investor as the original Forward contract is closed out at time t .
	$= \frac{1}{\left(1 + \frac{d}{360} \times LIBOR(1M)_t\right)}$
d	= the number of calendar days remaining until the last business day in the current month (not including day t)

3.5 Calculation of Daily Returns

3.5.1 Marking to market the Forward contracts on a daily basis

The daily calculation of MSCI FX Hedge Indices marks to market the one-month Forward contracts on a daily basis by using an equal and offsetting Forward position. For instance, after 8 days, the Forward would be marked to market using a 22-days offsetting Forward in the case of a month when the last business day of the month is the 30th (i.e. $30 - 8 = 22$).

3.5.2 Pricing the Offsetting Forward

Typically, only a limited number of standard duration of Forwards is available in the market. These rates are called "tenors", and represent one day, one week, one month, etc. This means that other durations for Forwards (called odd-days Forwards) are generally not available, but must be calculated. When calculating MSCI FX Hedge Indices, MSCI uses a linear interpolation based both on the 1-week and 1-month Forwards to estimate the value of odd-days Forwards every day during the whole month. Odd-days Forwards are computed as the Spot (1-Week Forward) rate plus the premium or discount between

the Spot (1-Week Forward) and the 1-Week Forward (1-month Forward), pro-rated for the number of days until the last business day of the month.

3.6 Calculation of Odd-Days Forwards Using a Linear Interpolation

3.6.1 Calculation Formula

- If the number of days until the last business day of the current month end is greater than 7, the interpolation will use the 1-week Forward rate and the 1-month Forward rate as follows:

$$FFRate_{odd-days_t} = FFRate_{1-week_t} + (FFRate_{1-month_t} - FFRate_{1-week_t}) \times \frac{Odd-days_t - 7}{TotNbOfCalDaysDuringMonth - 7}$$

- If the number of days until the last business day of the current month end is less than or equal to 7, the interpolation will use the current Spot rate and the 1-week Forward rate as follows:

$$FFRate_{odd-days_t} = FXRate_t + (FFRate_{1-week_t} - FXRate_t) \times \frac{Odd-days_t}{7}$$

where

$FFRate_{1-week_t}$ = 1-Week Forward rate at time t

$FFRate_{1-month_t}$ = 1-Month Forward rate at time t

$FXRate_t$ = Spot rate at time t

$Odd-days_t$ = Number of days until the last business day in the month (not including t)

3.6.2 Calculation Example A

To compute a linear interpolation, the following process is used, using as an example data as of January 08, 2009:

- Check if today is the last business day of the month, in which case, the Spot rate is used and there is no need to compute a linear interpolation.
- Obtain the date of the last business day of the month, in our example January 30, 2009. See if there are more than 7 days left from today January 08, 2009 till the last business day of the month. If there are equal to or less than 7 days left from today till the last business day of the month, then the linear interpolation process is explained in example B.
- Obtain the 1-week Forward and 1-month Forward rate as of today, e.g., on January 08, 2009, 1.18671, and 1.18720 CAD/USD. These Forwards settle in one week and one month from today. The total number of days taken into account is the number of days in the current month, in our example 31, as there are 31 days in January 2009. There are $31-7 = 24$ days between the expiry of the 1-month and 1-week Forwards.
- Compute the price difference between the 1-week Forward and the 1-month Forward, as of today, January 08, 2009. In this example, premium difference is 0.0005.
- Compute the expiry date of the 1-week Forward which is $8+7=15$
- Using a linear interpolation, compute the value, as of today, January 08, 2009, of a Forward with a duration equal to the number of days until the last business day of the month. In our example, the last business day of the month is the January 30th, so the duration of the Forward from the expiry of the 1-week Forward is $30 - 15 = 15$ days or 22 days from January 08, 2009.

The value of a 22 day Forward is estimated as the 1-week Forward rate plus the premium difference between 1-week and 1-month Forwards prorated for the period.

Interpolated value of a Forward settling in 22 days from today is:

$$= 1.18671 + 0.0005*(15/24)$$

$$= 1.18671 + 0.0003$$

$$= 1.1870$$

3.6.3 Calculation Example B

If there are less than or equal to seven days from today till the next roll date to compute a linear interpolation, the following process is used, using as an example data as of January 25, 2009:

- a) Check if today is the last business day of the month, in which case, the Spot exchange rate is used and there is no need to compute a linear interpolation.
- b) Obtain the date of the last business day of the month, in our example January 30, 2009. See if there are less than or equal to 7 days left from today January 25, 2009 till the last business day of the month. If there are more than 7 days left from today till the last business day of the month, than linear interpolation process is explained in example A.
- c) Obtain the Spot and 1-week Forward rate as of today, e.g., for January 25, 2009, 1.18645, and 1.18671 CAD/USD. The Forward settle in one week. There are fewer than 7 days between today and expiry of 1-week Forward.
- d) Compute the price difference between the Spot and 1-week Forward, as of today, January 25, 2009. In this example, premium difference is 0.0003.
- e) Using a linear interpolation, compute the value, as of today, January 25, 2009, of a Forward with a duration equal to the number of days until the last business day of the month. In our example, the last business day of the month is the January 30th, so the duration of the Forward is 30 - 25 = 5 days.

The interpolated value of a 5 day Forward is estimated as the Spot rate plus the premium prorated for the period.

Interpolated value of a Forward settling in 5 days from today is:

$$= 1.18645 + 0.0003*(5/7)$$

$$= 1.18645 + 0.0002$$

$$= 1.1867$$

Section 4: MSCI Global Currency Indices

4.1 Overview

MSCI Global Currency Indices measure the total return of currencies of countries in a regional or composite MSCI Equity Index, weighed by their country weights. The total return reflects the currency appreciation/depreciation of the currencies included the Currency Index relative to the home currency and interest accruing from holding the currencies. For example, the MSCI Emerging Market Currency Index in US Dollar (USD) measures the total return of 21 emerging market currencies relative to the USD where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index.

The index aims to reflect an investment process that uses a combination of monthly trades of currency Forwards against the home currency and home currency LIBOR deposits to capture the currency and interest rate returns.

MSCI is currently offering the following Currency Indices:

- MSCI Emerging Markets Currency Indices in USD, Euro and Japanese Yen.
- MSCI EAFE Currency Index in USD.
- MSCI Europe Currency Index in USD.
- MSCI Asia Pacific ex Japan Currency Index in USD.

The methodology described in this guide is a generic methodology that could be applied to create other Currency Indices against a home currency with weights derived from existing MSCI International Indices.

4.2 Constructing the MSCI Global Currency Indices

Constructing the MSCI Global Currency Indices involves the following steps:

- Defining the home currency.
- Identifying the currencies in the index.
- Identifying the weight for each currency in the index.
- Determining the accrued interest rate for each currency in the index.

Each of these steps is described in detail below.

4.2.1 Defining the Home Currency

An investor investing in foreign exchange would like to measure the performance of his holdings relative to his home currency. For construction of MSCI Global Currency Indices the default home currency is the US Dollar.

4.2.2 Identifying the Currencies to be included in the Index

The MSCI Global Currency Indices can be constructed against any currency included in the index. For example, for benchmarking the returns of a US based investor who is investing in emerging market currencies, MSCI calculates an MSCI Emerging Markets Currency Index, which reflects the performance of 21 emerging market currencies relative to the USD.

4.2.3 Identifying the Weight of Each Currency in the Index

In the MSCI Global Currency Indices, the currency weights are derived from the aggregate free float market capitalization of the countries in the underlying MSCI Equity Index. By default, these are determined as of the close of two business days before the first calendar day of the following month. These currency weights, however, take into account any changes in the composition of the index implemented as of the close of last business day of the month.

4.2.4 Determining the Accrued Interest Rate for each Currency in the Index

MSCI Global Currency Indices reflect the currency appreciation/depreciation of currencies against a home currency as well as the interest earned by holding the currencies. To calculate interest, MSCI uses the accrued foreign interest rates from the Forward-Spot relation in the currency markets.

Please see the Appendix hereto on index calculation formulas for more details on the calculation of accrued foreign interest rates.

4.3 Maintaining the MSCI Global Currency Indices

The MSCI Global Currency Indices are maintained with an objective of reflecting the evolution of the underlying country weights on a timely basis. In particular, index maintenance involves:

- Resetting the accrued foreign currency interest rates.
- Resetting the weights of the currencies included in the index.

The MSCI Global Currency Indices are rebalanced monthly on the last trading day of the month, when the currency weights and accrued foreign interest rates are reset for the next month's index calculation.

4.3.1 Resetting the Accrued Interest Rate for each Foreign Currency in the Index

The accrued interest for each foreign currency is reset on the last trading day of the month. This new accrued interest rate is accrued in the index until the next rebalancing date, i.e. the last business day of the following month.

4.3.2 Resetting the Weights of Currencies in the Index

The currency weights are determined two business days before the first calendar day of the following month and reset after the close of the last trading day of the month. They remain constant intra month, i.e. no changes in the weights are made during the month to account for changes in the indices due to price movement of securities, corporate events, additions, deletions or any other changes.

4.4 MSCI Global Currency Calculation

4.4.1 Index Calculation Formula

There are two components to the Currency Index returns:

1. The performance (appreciation/depreciation) of the constituent currencies relative to the home currency.
2. The foreign currency deposit interest earned on the constituent currencies.

The Currency Index calculation formula is defined as follows

$$CI(t) = CI(M-1) \times \sum_i \left\{ Weight_{i,M-1} \times \frac{S_{i,t}}{S_{i,M-1}} \times \left(1 + R_{i,fgn,M-1} \times \frac{t}{360} \right) \right\}$$

where

t	= Index calculation date expressed as the number of days elapsed since the last rebalancing date (including weekends and non-trading days)
M	= First business day of the current month
$CI(t)$	= Currency Index at time t
$CI(M-1)$	= Currency Index one business day before the first day of current month
$Weight_{i,M-1}$	= Weight of currency i at time $M-1$
$S_{i,t}$	= Spot rate of currency i at time t
$S_{i,M-1}$	= Spot rate of currency i at time $M-1$
$R_{i,fgn,M-1}$	= Interest rate for currency i determined at time $M-1$ and defined below

4.4.2 Accrued Foreign Interest Rate Calculation Formula

The accrued foreign interest rate is calculated using the Forward-Spot relationship at the time of rebalancing.

$$R_{fgn,M-1} = \left\{ \frac{S_{M-1}}{F_{M-1}} \left(1 + LIBOR(1M)_{M-1} \times \frac{D}{360} \right) - 1 \right\} \times \frac{360}{D}$$

where

S_{M-1}	= Spot rate at time $M-1$
F_{M-1}	= 1-Month Forward rate at time $M-1$
$LIBOR(1M)_{M-1}$	= 1-Month home currency LIBOR rate (reset monthly).
D	= number of days between rebalancings, i.e., the difference in days between the last business day of the month and the previous month's last business day

4.4.3 Handling Non-trading Days at Month End for Index and Accrued Interest Rates Calculation

The official index level for each month is calculated on the last weekday of the month. The last weekday of the month may coincide with an official holiday of a constituent currency. But since currency markets will be open in other countries, the Currency Index will be calculated for that day.

- If the last day of next month is not a trading day.

For example to price a one month Forward on October 31, when the last trading day in November is the 29th, the days to maturity for Forwards will 29 days. This will be used as number of the days in the accrued interest rate formula.

The Currency Index will accrue interest in November for 29 days and the official index level for November will be calculated on the same date.

- If the last day of current month is not a trading day.

For example to price a one month Forward on November 29, which happens to be last trading day in November, the days to maturity for Forwards settling on December 31 will be 32 days. This will be used as number of the days in the accrued interest rate formula. The Currency Index will accrue interest in December for 32 days. The first accrual will happen at the opening of index on December 1.

Methodology Book Tracked Changes

The following sections have been updated since November 2009

May 2011

- Sections 4.2.3 and 4.3.2

Update for currency weights being determined two business days before the first calendar day of the following month

- Sections 2.2.2, 3.2.2, 4.1 and 4.2.2

Update to reflect the current (as of May 2011) number of currencies in the MSCI Emerging Markets Index

Client Service Information is Available 24 Hours a Day

clientservice@msci.com

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+ 1.404.551.3212
Boston	+ 1.617.532.0920
Chicago	+ 1.312.675.0545
Montreal	+ 1.514.847.7506
Monterrey	+ 52.81.1253.4020
New York	+ 1.212.804.3901
San Francisco	+ 1.415.836.8800
Sao Paulo	+ 55.11.3706.1360
Stamford	+1.203.325.5630
Toronto	+ 1.416.628.1007

Europe, Middle East & Africa

Amsterdam	+ 31.20.462.1382
Cape Town	+ 27.21.673.0100
Frankfurt	+ 49.69.133.859.00
Geneva	+ 41.22.817.9777
London	+ 44.20.7618.2222
Madrid	+ 34.91.700.7275
Milan	+ 39.02.5849.0415
Paris	0800.91.59.17 (toll free)
Zurich	+ 41.44.220.9300

Asia Pacific

China North	10800.852.1032 (toll free)
China South	10800.152.1032 (toll free)
Hong Kong	+ 852.2844.9333
Seoul	+827.0768.88984
Singapore	800.852.3749 (toll free)
Sydney	+ 61.2.9033.9333
Tokyo	+ 81.3.5226.8222

Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be reproduced or disseminated in whole or in part without prior written permission from MSCI.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indices, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or wilful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- MSCI's indirect wholly-owned subsidiary Institutional Shareholder Services, Inc. ("ISS") is a Registered Investment Adviser under the Investment Advisers Act of 1940. Except with respect to any applicable products or services from ISS (including applicable products or services from MSCI ESG Research Information, which are provided by ISS), none of MSCI's products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and none of MSCI's products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.
- The MSCI ESG Indices use ratings and other data, analysis and information from MSCI ESG Research. MSCI ESG Research is produced by ISS or its subsidiaries. Issuers mentioned or included in any MSCI ESG Research materials may be a client of MSCI, ISS, or another MSCI subsidiary, or the parent of, or affiliated with, a client of MSCI, ISS, or another MSCI subsidiary, including ISS Corporate Services, Inc., which provides tools and services to issuers. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indices or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, ISS, CFRA, FEA, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks or service marks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

About MSCI

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 which include over 148,000 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.