

MSCI Japan 700 SRI Select Index

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Contents

- 1 Introduction 4
- 2 MSCI ESG Research 5
 - 2.1 MSCI ESG Ratings..... 5
 - 2.2 MSCI ESG Controversies 5
 - 2.3 MSCI ESG Business Involvement Screening Research 5
 - 2.4 MSCI Climate Change Metrics..... 6
- 3 Constructing the MSCI Japan 700 SRI Select Index..... 7
 - 3.1 Underlying Universe 7
 - 3.2 Eligibility Criteria 7
 - 3.2.1 ESG Ratings Eligibility..... 7
 - 3.2.2 ESG Controversies Score Eligibility 7
 - 3.2.3 Controversial Business Involvement Criteria..... 7
 - 3.3 Index Construction 8
 - 3.4 Security Weighting 9
 - 3.4.1 Size Segment Neutrality 9
 - 3.4.2 Issuer Capping 9
- 4 Maintaining the MSCI Japan 700 SRI Select Index 10
 - 4.1 Annual Index Review 10
 - 4.1.1 Updating the Eligible Universe 10
 - 4.1.2 Ranking of Eligible Securities..... 10
 - 4.1.3 Selection of Eligible Securities..... 11
 - 4.2 Quarterly Index Reviews 11
 - 4.3 Ongoing Event-Related Maintenance 12
- Appendix 1: Methodology Transition 14

Appendix 2: MSCI Japan IMI Top 700 Index	15
Appendix 3: MSCI Japan IMI Top 500 Index	16
Appendix 4: Controversial Business Involvement Criteria.....	17
Appendix 5: Guidelines on Achieving the Target Sector Coverage of 25%	21

1 Introduction

The MSCI Japan 700 SRI Select Index (the “Index”) aims to represent the performance of companies that are consistent with specific values- and climate change-based criteria. Additionally, the Index is designed to represent the performance of companies that have high Environmental, Social and Governance (“ESG”) ratings relative to their sector peers. The Index aims to target sector weights that reflect the relative sector weights of the MSCI Japan IMI Top 700 Index¹ (the “Parent Index”) to limit the systematic risk introduced by the ESG selection process. Overall, the Index targets 25% of the free float-adjusted market capitalization within each Global Industry Classification Standard (GICS®) Sector of the Parent Index.

Size segment neutrality is implemented, such that the weights of the Large Cap and SMID Cap segments in the Index are equated to the weight of the same segments in the Parent Index.

After implementing size segment neutrality, issuers within the Index are capped at a maximum weight of 5% in excess of the issuer’s weight in the Parent Index to reduce concentration. The capping is applied in accordance with the MSCI Capped Indexes methodology². The size segment neutrality and the issuer capping are applied to the Index successively.

¹ For more details on the MSCI Japan IMI Top 700 Index, please refer to Appendix 2

² Please refer to the MSCI Capped Indexes methodology at www.msci.com/index-methodology

2 MSCI ESG Research

The Index uses company ratings and research provided by MSCI ESG Research LLC. The Index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

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/esg-ratings>

2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (formerly 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, 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

2.4 MSCI CLIMATE CHANGE METRICS

MSCI Climate Change Metrics is designed to support investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, and factoring climate change research into their risk management processes. It provides Carbon Emissions, Fossil Fuel exposure, environmental impact (i.e., clean technology) data and screens, as well as climate-related risk exposure and management assessment on companies such as Low Carbon Transition scores and categories.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-change-solutions>.

3 Constructing the MSCI Japan 700 SRI Select Index

3.1 UNDERLYING UNIVERSE

The Selection Universe for the Index is defined by the constituents of the MSCI Japan IMI Top 700 Index³, with the exception of companies classified under the following GICS Industries:

- Mortgage Real Estate Investment Trusts (402040)
- Equity Real Estate Investment Trusts (601010)

3.2 ELIGIBILITY CRITERIA

The Index uses company ratings and research provided by MSCI ESG Research LLC to determine eligibility for index inclusion.

3.2.1 ESG RATINGS ELIGIBILITY

The Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies are required to have an MSCI ESG Rating of 'A' or above to be eligible for inclusion in the Index.

3.2.2 ESG CONTROVERSIES SCORE ELIGIBILITY

The Index uses MSCI ESG Controversies Scores to identify companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Companies are required to have an MSCI ESG Controversies Score of 4 or above to be eligible for inclusion in the Index.

3.2.3 CONTROVERSIAL BUSINESS INVOLVEMENT CRITERIA

The Index uses MSCI ESG Business Involvement Screening Research and MSCI Climate Change Metrics to identify companies that are involved in the business activities listed below. Companies that meet the business involvement criteria are excluded from the Index. Please refer to Appendix 2 for details on these criteria.

- Adult Entertainment
- Alcohol

³ Prior to the November 2018 Semi-Annual Index Review, the Parent Index was the MSCI Japan IMI Top 500 Index. For more details on the MSCI Japan IMI Top 500 Index, please refer to Appendix 3

- Civilian Firearms
- Controversial Weapons
- Conventional Weapons
- Gambling
- Genetically Modified Organisms (GMO)
- Nuclear Power
- Nuclear Weapons
- Tobacco
- Fossil Fuel Extraction and Production
- Fossil Fuel-based Power Generation
- Fossil Fuel Reserves Ownership

In addition to the above, companies that fail to comply with the United Nations Global Compact Principles are also excluded from the Index.

3.3 INDEX CONSTRUCTION

Component SRI indexes are constructed at a size segment level. Each Component SRI index targets 25% of the free float-adjusted market capitalization within each GICS Sector of the Underlying Index⁴.

The following Component SRI indexes are aggregated to construct the Index.

Component SRI Index	Underlying Index
MSCI Japan 700 Large Cap SRI Select Index	MSCI Japan 700 Large Cap Index
MSCI Japan 700 SMID Cap SRI Select Index	MSCI Japan 700 SMID Cap Index

⁴ Each of the Underlying Indexes are constructed by selecting Large and SMID Cap securities from the Parent Index. Together, they form the entirety of the Parent Index.

3.4 SECURITY WEIGHTING

Each constituent of the Index will have their weights adjusted to implement the following weighting schemes sequentially. Between index reviews, security weights will fluctuate according to market movements.

3.4.1 SIZE SEGMENT NEUTRALITY

The security weights are adjusted to implement size segment neutrality, i.e. the aggregate weights of the Large Cap and SMID Cap size segments in the Index is equated to their weights in the Parent Index. This is done by rescaling the weights of the constituents within the Large Cap and SMID Cap size segments of the Index to reflect the effective Parent Index size segment weights.

A turnover buffer of 50% is applied during the on-going index review.

For example, if the on-going rebalancing results in changing the weight of a security from $x\%$ to $y\%$, then the effective change in weight will be:

$$\text{Effective pro forma constituent weight} = x + (y - x) * 0.5$$

The turnover buffer is not applied on deletions.

3.4.2 ISSUER CAPPING

The maximum weight of any issuer in the Index is then capped at 5% in excess of the issuer's weight in the Parent Index. Within the capped group, securities are weighted in proportion to their uncapped weights. The weight of the securities outside of the capped group will be increased in proportion to their weight prior to capping. At any time the issuer capping is invoked, the size segment-neutral weights may be breached.

4 Maintaining the MSCI Japan 700 SRI Select Index

4.1 ANNUAL INDEX REVIEW

The MSCI Index is reviewed on an annual basis in May to coincide with the May Semi-Annual Index Review of the Parent Index, and the changes are implemented at the end of May. In general, the pro forma indexes are announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews for the rebalancing of the Index. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available, for the rebalancing of the Index.

At each Annual Index Review, the Eligible Universe is updated, and 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.

4.1.1 UPDATING THE ELIGIBLE UNIVERSE

The Eligible Universe is updated during each Annual Index Review.

Companies that are currently not constituents of the Index are evaluated using the same eligibility criteria described in Section 3.2.

Existing constituents of the Index are maintained in the Eligible Universe if they meet all the following conditions:

- MSCI ESG Rating of 'BB' or above
- MSCI ESG Controversies Score of 1 or above
- Not screened by the business involvement criteria described in Section 3.2.3

4.1.2 RANKING OF ELIGIBLE SECURITIES

For each sector, eligible securities of the Component SRI index as described in Section 3.2 are ranked based on the following criteria:

- ESG Rating

- ESG Trend⁵ (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend)
- Current index constituency (existing constituents above non-constituents)
- Industry-adjusted ESG scores
- Decreasing free float-adjusted market capitalization

4.1.3 SELECTION OF ELIGIBLE SECURITIES

For each sector, eligible securities of the Component SRI index are then selected from the Ranked Universe in the following order until the target 25% coverage by cumulative free float-adjusted market capitalization is reached:

- Securities in the top 17.5% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 17.5%
- 'AAA' and 'AA' rated securities in the top 25% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 25%
- Current Index constituents in the top 32.5% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 32.5% if that security is a current index constituent
- Remaining eligible securities in the Ranked Universe

Please see Appendix 3 for additional details on the ranking and selection rules.

4.2 QUARTERLY INDEX REVIEWS

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

For the Quarterly Index Reviews, MSCI ESG Ratings, MSCI ESG Controversies Score assessments and MSCI BISR data are taken as of the end of the month preceding the Index Reviews, i.e., January, July and October. For some securities, this data may not

⁵ ESG Trend is defined as the latest change in ESG Rating over the previous 12 months. A security without any change in ESG Rating over the previous 12 months will have a neutral ESG Trend. Also, companies that receive a re-initiated ESG Rating due to a change in the ESG Ratings Industry are considered to have a neutral ESG Trend.

be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available, for the rebalancing of the Index.

At the Quarterly Index Reviews, existing constituents are deleted from the Index if they do not meet the eligibility criteria described in Section 4.1.1. Existing constituents that meet the eligibility criteria are retained in the Index.

Additions, from the eligible securities as per Section 3.2, are made only to those sectors where the current market capitalization coverage is less than 22.5%, until the 25% target is reached.

Market price movements may cause small deviations in the sector coverage between two Index Reviews. Therefore, in order to minimize turnover, a buffer of 10% is used on the target coverage of 25% to define under-representation.

4.3 ONGOING EVENT-RELATED MAINTENANCE

The general treatment of corporate events in the Index aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved.

The following section briefly describes the treatment of common corporate events within the Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the Parent Index. Parent Index deletions will be reflected simultaneously.

There are no deletions from the Index between Index Reviews on account of a security becoming ineligible because of MSCI ESG Rating downgrade and/or decrease in MSCI ESG Controversies Score and/or change in business involvement.

EVENT TYPE

EVENT DETAILS

New additions to the Parent Index

A new security added to the Parent Index (such as IPO and other early inclusions) will not be added to the index.

Spin-Offs

All securities created as a result of the spin-off of an existing Index constituent will not be added to the

Index at the time of event implementation. Reevaluation for addition in the Indexes will occur at the subsequent Index Review.

Merger/Acquisition

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

Changes in Security Characteristics

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.). Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book.

The MSCI Corporate Events methodology book is available at:
<https://www.msci.com/index-methodology>

Appendix 1: Methodology Transition

Effective as of the November 2018 Semi-annual Index Review

Prior to the November 2018 Semi-annual Index Review (SAIR), the MSCI Japan IMI Top 500 Index was used as the Parent Index. Effective as of the November 2018 SAIR, the Parent Index was changed to the MSCI Japan IMI Top 700 Index.

Appendix 2: MSCI Japan IMI Top 700 Index

INDEX CONSTRUCTION

The MSCI Japan IMI Top 700 Index is constructed from the securities of the MSCI Japan Investable Market Index (IMI). The securities in the MSCI Japan IMI are ranked by free float-adjusted market capitalization in descending order and the top 700 securities are selected to construct the MSCI Japan IMI Top 700 Index.

SEMI-ANNUAL INDEX REVIEW

The composition of the MSCI Japan IMI Top 700 Index is reviewed on a semi-annual basis to coincide with the regular Semi-Annual index reviews of the MSCI Global Investable Market Indexes. The changes are implemented at the end of May and November.

BUFFER RULES

During each Semi-Annual review, to reduce Index turnover and enhance Index stability, buffer rules are applied at 20% of the fixed number of securities in the Index.

Buffers are applied on securities ranked between 561 and 840. The securities in the MSCI Japan IMI are ranked in descending order of their free float adjusted market capitalization and all securities up to rank 560 are added to the Index on a priority basis. The existing constituents of MSCI Japan IMI Top 700 Index ranked between 561 and 840 are then successively added until the number of securities in of MSCI Japan IMI Top 700 Index reaches 700. If there are less than 700 securities in MSCI Japan IMI then all securities are added to the MSCI Japan IMI Top 700 Index.

Appendix 3: MSCI Japan IMI Top 500 Index

INDEX CONSTRUCTION

The MSCI Japan IMI Top 500 Index is constructed from the securities of the MSCI Japan Investable Market Index (IMI). The securities in the MSCI Japan IMI are ranked by free float-adjusted market capitalization in descending order and the top 500 securities are selected to construct the MSCI Japan IMI Top 500 Index.

SEMI-ANNUAL INDEX REVIEW

The composition of the MSCI Japan IMI Top 500 Index is reviewed on a semi-annual basis to coincide with the regular Semi-Annual index reviews of the MSCI Global Investable Market Indexes. The changes are implemented at the end of May and November.

BUFFER RULES

During each Semi-Annual review, to reduce Index turnover and enhance Index stability, buffer rules are applied at 20% of the fixed number of securities in the Index.

Buffers are applied on securities ranked between 401 and 600. The securities in the MSCI Japan IMI are ranked in descending order of their free float adjusted market capitalization and all securities up to rank 560 are added to the Index on a priority basis. The existing constituents of MSCI Japan IMI Top 500 Index ranked between 401 and 600 are then successively added until the number of securities in of MSCI Japan IMI Top 500 Index reaches 500. If there are less than 500 securities in MSCI Japan IMI then all securities are added to the MSCI Japan IMI Top 500 Index.

Appendix 4: Controversial Business Involvement Criteria

Companies, whose activities meet the following criteria, as determined by MSCI ESG Research, are excluded from the Index:

- **Adult Entertainment**
 - All companies deriving 5% or more revenue from the production of adult entertainment materials
 - All companies deriving 15% or more aggregate revenue from the production, distribution and retail of adult entertainment materials
- **Alcohol**
 - All companies deriving 5% or more revenue from the production of alcohol-related products
 - All companies deriving 15% or more aggregate revenue from the production, distribution, retail and supply of alcohol-related products
- **Civilian Firearms**
 - All companies classified as “Producer” of firearms and small arms ammunitions for civilian markets. It does not cover companies that cater to the military, government, and law enforcement markets
 - All companies deriving 5% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use
- **Controversial Weapons**
 - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>
- **Conventional Weapons**
 - All companies deriving 5% or more revenue from the production of conventional weapons and components
 - All companies deriving 10% or more aggregate revenue from weapons systems, components, and support systems and services

- **Gambling**
 - All companies deriving 5% or more revenue from ownership of operation of gambling-related business activities
 - All companies deriving 15% or more aggregate revenue from gambling-related business activities
- **Genetically Modified Organisms (GMO)**
 - All companies deriving 5% or more revenue from activities like genetically modifying plants, such as seeds and crops, and other organisms intended for agricultural use or human consumption
- **Nuclear Power**
 - All companies generating 5% or more of their total electricity from nuclear power in a given year
 - All companies that have 5% or more of installed capacity attributed to nuclear sources in a given fiscal year
 - All companies deriving 15% or more aggregate revenue from nuclear power activities
- **Nuclear Weapons**
 - All companies that manufacture nuclear warheads and/or whole nuclear missiles
 - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
 - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
 - All companies that provide auxiliary services related to nuclear weapons
 - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons
 - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons

- All companies that manufacture components for nuclear-exclusive delivery platforms
- **Tobacco**
 - All companies classified as a “Producer”
 - All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products
- **Fossil Fuel Extraction and Production**
 - **Thermal Coal Mining**
 - All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading
 - **Unconventional Oil & Gas Extraction**
 - All companies deriving 5% or more revenue (either reported or estimated) from unconventional oil & gas production. It covers revenue from the production of oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane, as well as revenue from onshore or offshore oil and gas production from the Arctic region. It does not cover all types of conventional oil and gas production including deep water, shallow water and other onshore/offshore oil and gas
 - **Oil Sands Extraction**
 - All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded
 - **Conventional Oil & Gas Extraction**
 - All companies deriving any revenue (either reported or estimated) from conventional oil and gas production. It covers revenue from the production of deep water, shallow water, and other onshore/offshore oil and gas. It does not cover revenue from unconventional oil and gas

production (oil sands, shale oil, shale gas) and onshore/offshore oil and gas production in the Arctic region

- **Fossil Fuel-based Power Generation**
 - **Thermal Coal-based Power Generation**
 - All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation
 - All companies generating 10% or more of their total electricity from thermal coal in a given year
 - **Oil & Gas-based Power Generation**
 - All companies generating 30% or more of their total electricity from liquid fuel and natural gas in a given year
- **Fossil Fuel Reserves Ownership**
 - **Thermal Coal Reserves**
 - All companies that provide evidence of owning thermal coal reserves and are deriving any revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. Evidence of owning reserves (including those that own less than 50% of a reserves field) includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves
 - All companies that provide evidence of owning thermal coal reserves and are deriving any revenue (either reported or estimated) from thermal coal-based power generation
 - **Oil Sands Reserves**
 - All companies that provide evidence of owning oil sands reserves and are deriving any revenue from oil sands extraction. Evidence of owning reserves (including those that own less than 50% of a reserves field) includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves
- **Global Norms – United Nations Global Compact Compliance**
 - All companies that fail to comply with the United Nations Global Compact principles

Appendix 5: Guidelines on Achieving the Target Sector Coverage of 25%

The Index targets 25% coverage of the free float-adjusted market capitalization of each GICS sector of the Component SRI index. The underlying principle in the construction of the Index is to achieve cumulative sector coverage closest to 25%, while aiming to maintain index stability.

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

- For each sector, the eligible companies of the Component SRI index are first ranked based on the company level ESG Rating.
- If two companies have the same ESG Rating, the company with better ESG Trend is given priority (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend).
- In case of two companies with the same ESG Rating and the same ESG Trend, the existing index constituent is given priority to maintain index stability. Between two existing constituents with the same ESG Rating and the same ESG Trend, the company with the higher industry-adjusted ESG Score is given priority. For two existing index constituents with the same industry-adjusted ESG score, the security with the largest free float-adjusted market capitalization is given priority.
- The cumulative sector coverage at each rank is calculated.
- In each sector, companies are selected as per the rules mentioned in Section 4.1.3 until the cumulative sector coverage crosses 25% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 25% as the “Marginal Company”.
 - If the Marginal Company is a current Index constituent, then it is always selected.
 - If the Marginal Company is not a current Index constituent, then it is selected only if the cumulative sector coverage with the marginal company is closer to 25% compared to the cumulative sector coverage without the marginal company.
- The minimum cumulative sector coverage is set to 22.5%.



- The marginal company is always selected if this is required to achieve cumulative sector coverage of 22.5%.
- Securities which are ineligible as per Section 4.1.1 will not be selected even if the cumulative sector coverage after selection of all eligible securities is below 25%.

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

To learn more, please visit www.msci.com.

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