

MSCI JAPAN ESG SELECT LEADERS INDEX METHODOLOGY

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1 INTRODUCTION

The MSCI Japan ESG Select Leaders Index (the “Index”) is free float-adjusted market capitalization weighted index designed to represent the performance of companies that have high Environmental, Social and Governance (ESG) performance. The index aims to target sector weights that reflect the relative sector weights of MSCI Japan IMI Top 700 Index¹ (the “Parent Index”) with an aim to limit the systematic risk introduced by the ESG selection process. Overall the index targets coverage of 50% of the Parent Index.

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

2 MSCI ESG RESEARCH

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 designed to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

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/esg-ratings>

2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (previously known as MSCI ESG 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 the severity assessment, please refer to Appendix II.

For more details on MSCI ESG Controversies Score, please refer to: <https://www.msci.com/esg-integration>

3 CONSTRUCTING THE MSCI JAPAN ESG SELECT LEADERS INDEX

3.1 APPLICABLE UNIVERSE

The applicable universe for the index is defined by the constituents of the Parent Index.

3.2 ELIGIBILITY CRITERIA

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

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. Existing constituents of the Index are required to have an MSCI ESG rating above CCC to remain in the Index, while companies that are currently not constituents of the Index are required to have an MSCI ESG rating above B to be considered eligible for addition.

3.2.2 ESG CONTROVERSIES SCORE ELIGIBILITY

The Index uses MSCI ESG Controversies Scores to identify those companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Existing constituents of the Index are required to have an MSCI ESG Controversies Score above 0 to remain in the index, while companies that are currently not constituents of the Index are required to have an MSCI ESG Controversies Score above 2 to be considered eligible for addition.

3.3 MARKET CAPITALIZATION TARGETING

The Index targets 50% of the free float-adjusted market capitalization within each GICS² sector of the Parent Index.

²The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global. “Global Industry Classification Standard (GICS)” is a service mark of MSCI and S&P Global.

4 MAINTAINING THE MSCI JAPAN ESG SELECT LEADERS INDEX

4.1 SEMI-ANNUAL INDEX REVIEW

The Index is reconstituted on a semi-annual basis, usually as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Reviews (SAIRs) of the MSCI Global Investable Market Indexes. . In general, the pro forma Index is 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 MSCI Japan ESG Select Leaders 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 MSCI Japan ESG Select Leaders Index.

4.1.1 SEMI-ANNUAL INDEX RECONSTITUTION: RANKING AND SELECTION

At each Semi-Annual index review, the composition of the Index is reassessed in order to target 50% free float-adjusted cumulative market capitalization of each GICS sector of the Parent Index.

4.1.1.1 RANKING

For each sector, eligible companies of the Parent Index are ranked based on the following criteria:

- ESG Ratings
- Current index membership (existing constituents above non-constituents)
- Industry adjusted ESG scores
- Decreasing free float adjusted market capitalization

4.1.1.2 SELECTION

Constituents for the Index are then selected from the ranked universe in the following order until 50% coverage by cumulative free-float adjusted market capitalization target is reached:

- Securities in the top 35%
- 'AAA' and 'AA' rated securities in the top 50%

- Current index constituents in the top 65%
- Remaining securities in the eligible universe

Please see Appendix 2 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 Index. The changes are implemented at the end of February and August. 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 data are taken as of the end of the month preceding the Index Reviews, i.e., January, July and October. For some securities MSCI ESG Ratings, MSCI ESG Controversies Scores may not be published by MSCI ESG Research by the end of the April preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available.

At the Quarterly Index Reviews, existing constituents are deleted from the Index if they do not meet the eligibility criteria described in Section 3.2. 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 45%, until the 50% 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 50% to define under-representation.

4.3 ONGOING EVENT-RELATED MAINTENANCE

The MSCI Corporate Events Methodology is applied for the maintenance of the Index between Index Reviews.

IPOS AND OTHER EARLY INCLUSIONS

IPOs and other newly listed securities that are added to the Parent Index, as well as securities added to the Parent Index following a migration from a different size segment, are considered for inclusion to the Index at the time of their inclusion in the Parent Index. These securities are added to the Index only if they meet the eligibility criteria described in Section 3.2 and the market capitalization coverage of the sector to which the security belongs is less than 45%.

ADDITIONS AND DELETIONS DUE TO CORPORATE EVENTS

Deletions from the Parent Index following a corporate event will be simultaneously deleted from the Index. Additions to the Parent Index following corporate events related to existing constituents (such as spin-offs) will not be automatically added to the Index. These Parent Index additions will be considered for addition at the next Index Review according to the rules outlined in sections 4.1 or 4.2.

There are no deletions from the Index between Index Reviews on account of a security becoming ineligible because of MSCI ESG Rating downgrade.

APPENDIX 1: 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.

ONGOING EVENT-RELATED CHANGES

Ongoing event-related changes in the MSCI Japan IMI Index are reflected in MSCI Japan IMI Top 700 Index at the time of the implementation of the event in the Parent Index.

APPENDIX 2: GUIDELINES ON ACHIEVING THE TARGET SECTOR COVERAGE OF 50%

The Index targets 50% of the free-float adjusted market capitalization of each GICS sector of the Parent Index. The underlying principle in the construction of the index is to achieve sector coverage closest to 50%, while aiming to maintain index stability.

The following guidelines are used in achieving the target sector coverage of 50%:

- For each sector, the eligible 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 industry adjusted 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.
- In each sector, companies are selected as per the rules mentioned in section 4.1.1.2 until the cumulative sector coverage of the selected securities crosses 50% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 50% as the 'marginal company'.
- If the marginal company is a current Index constituent, then it is retained in the Index even though it may result in a cumulative sector coverage significantly higher compared to the 50% 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 Index only if the absolute difference between the resulting coverage of including the marginal company and the 50% target is lower than the absolute difference between the resulting coverage of not including the marginal company and the 50% target.
- The minimum cumulative sector coverage is set to 45%.
- The marginal company will be added to the Index if its non-inclusion would result in cumulative sector coverage of less than 45%.

- Securities which are ineligible as per section 3.2 will not be added to increase the sector coverage to 50%

APPENDIX 3: METHODOLOGY TRANSITION

May 2016

Prior to the May 2016 Index Review, the MSCI Japan Index was used as the parent index. Effective from 2016 annual review of the Index, the parent index was changed to the MSCI Japan IMI Top 500 Index.

The following sections have been modified since May 2017:

Section 4.1: Annual Index Reviews and Section 4.2: Quarterly Index Reviews

- Clarification on use of ESG data for securities whose data would be available after the end of the month preceding Index Review.

The following sections have been modified since September 2017:

Section 4.1: Semi-Annual Index Reviews and Section 4.2: Quarterly Index Reviews

- Changed to reflect the updated rebalancing frequency.

Introduction and Appendix I:

- Changed to reflect the updated Parent Index.

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