

MSCI Japan Empowering Women (WIN) Index Methodology

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1 Introduction

The MSCI Japan Empowering Women (WIN) Index (the “Index”) aims to represent the performance of those Japanese companies that exhibit a commitment towards promoting and maintaining a high level of gender diversity among their workforce as well as maintain superior financial quality as defined by the MSCI Quality Score methodology.

The index aims to include companies that lead their respective GICS®¹ sector groups in terms of supporting women’s participation and advancement in the workforce and adopting diversity policies. The constituents of the index are weighted in proportion of their market capitalization, sector relative Gender Diversity Score² and sector relative MSCI Quality Score³.

¹The 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.

² Please refer to section 2.1 for description of Gender Diversity Score and section 3.4.1 for description of sector relative Gender Diversity Score.

³ For a brief description on MSCI Quality Score please refer to Appendix I. For detailed information on sector relative MSCI Quality Score, please refer to MSCI Quality Indexes methodology book available at <https://www.msci.com/index-methodology>.

2 MSCI ESG Research

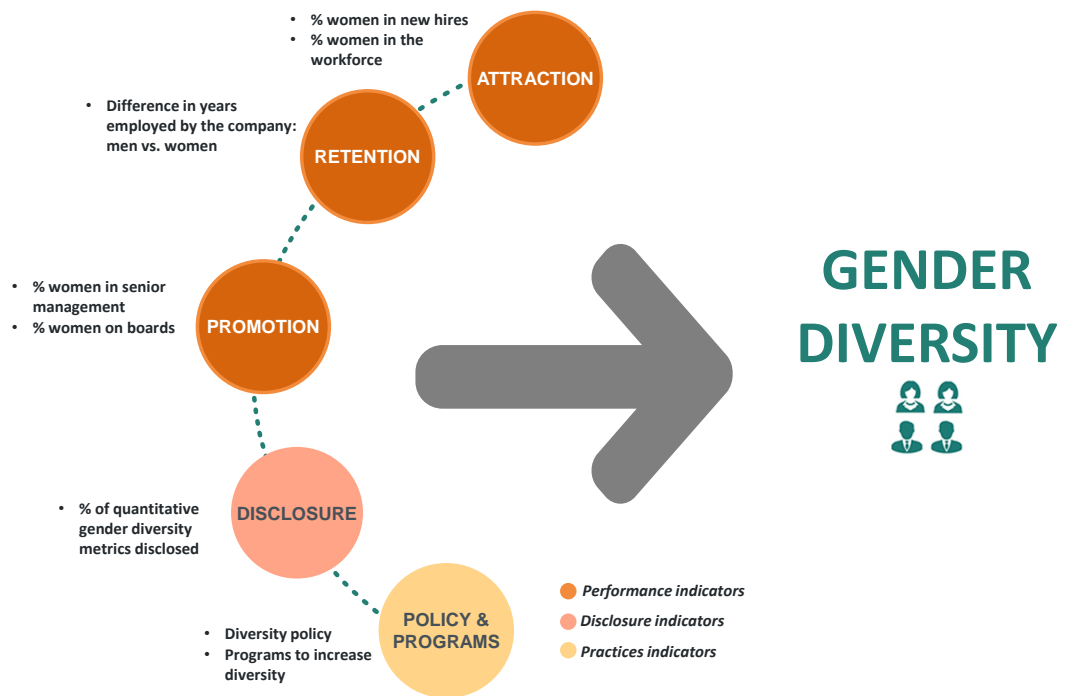
The Index uses company research provided by MSCI ESG Research. In particular, this index uses the following MSCI ESG Research products: MSCI ESG Japan Workforce Gender Diversity Data and MSCI ESG Controversies.

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

2.1 MSCI ESG Research Gender Diversity Score

MSCI ESG Research provides a gender diversity score for companies in Japan based on their gender diversity performance and practices assessment across core elements of the employment cycle: Attraction, retention, and promotion.

Gender Diversity Assessment Framework



For more details on the gender diversity assessment scores, please refer to Appendix II.

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>

3 Index Construction

3.1 Applicable Universe

The applicable universe includes all the existing constituents of the MSCI Japan Investable Market Index (IMI) Top 700⁴ Index (the “Parent Index”). This approach aims to provide an opportunity set of the top 700 Japanese companies by free float-adjusted market capitalization.

3.2 Sector Leaders

Securities from the applicable universe that are ranked in the top half of their respective GICS sector based on the Gender Diversity Score are called Sector Leaders. These companies are considered sector ‘leaders’ in terms of promoting and maintaining relatively high levels of gender diversity among their workforce.

The top half of a GICS sector group includes securities with Gender Diversity Score equal to or greater than the median Gender Diversity Score of all the securities in the same GICS sector. The median Gender Diversity Score is calculated after excluding securities with Gender Diversity Score = 0 or unavailable Gender Diversity Score.

3.3 Eligible Universe

The eligible universe includes all sector leaders that are not excluded based on any of the following exclusion criteria:

3.3.1 Unrated Companies

- Missing Controversy Score – Companies not assessed by MSCI ESG Research on MSCI ESG Controversies.
- Missing ESG Gender Diversity Data – Companies which do not disclose data on gender diversity issues. Such companies are assigned a Gender Diversity Score of 0.

3.3.2 REITs

Securities that belong to the GICS Industry ‘REITs’ (GICS code starting with 601010).

⁴ For more details on MSCI Japan IMI Top 700 Index, please refer to Appendix III.

3.3.3 Companies Having Faced ESG Controversies

3.3.3.1 ESG Controversies

Securities with ESG Controversy Score = 0. Please refer to Appendix IV for details.

3.3.3.2 Human Rights Controversies

Companies with Human Rights Controversy Score ≤ 2 .

These are companies that have faced very severe or severe ongoing/structural controversies related to human rights over the past three years. Please refer to Appendix IV for details.

3.3.3.3 Labor Rights Controversies

Companies with Labor Rights Controversy Score ≤ 4

These are companies that have faced very severe, severe or moderate ongoing/structural controversies related to labor rights over the past three years. Please refer to Appendix IV for details.

3.4 Security Weighting

At each rebalancing, all the securities from the eligible universe are weighted by the product of their market capitalization weight in the parent index and the Composite Score.

Composite Score = Sector Relative Gender Diversity Score * Sector Relative Quality Score

The above weights are then normalized to 100%.

Additionally, to mitigate concentration risk, issuer's weight in the index is capped at 5%.

3.4.1 Sector Relative Gender Diversity Score

Each security in the applicable universe is assigned a sector relative Gender Diversity Score. The sector relative Gender Diversity Score is calculated in two steps

1. For each GICS sector group, calculate the maximum Gender Diversity Score.
2. For each security in the applicable universe, divide security's Gender Diversity Score by the maximum Gender Diversity Score of the security's GICS sector peers as calculated above.

3.4.2 Sector Relative Quality Score

The sector relative MSCI Quality Score is derived from the MSCI Quality Score.

For a brief description on sector relative Quality Score please refer to Appendix I.

4 Maintenance of the Index

4.1 Semi-Annual Index reviews

The Index is rebalanced 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 Review of the MSCI Global Investable Market Indexes. This approach aims to capture timely updates in Gender Diversity Score and Quality characteristics of the companies and coincides with the rebalancing frequency of the relevant MSCI Parent Indexes. The pro forma Index is in general announced nine business days before the effective date. At each semi-annual review, for each security in the applicable universe:

- Gender Diversity Scores are considered as of the last business day of April and October.
- Quality Scores are considered as of the last business day of April and October.
- Other ESG Data – ESG Controversy Score, Human Rights Controversy Score and Labor Rights Controversy Score are considered as of last business day of April and October. For some securities, this 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.

4.2 Quarterly Index Reviews

The Index is reviewed on a quarterly basis in February and August to coincide with the Quarterly Index Reviews of the Parent Index. During Quarterly reviews, existing constituents are reviewed for involvement in ESG Controversies as per the section 3.3.3.

ESG Controversy Score, Human Rights Controversy Score and Labor Rights Controversy Score are considered as of last business day of January and July. For some securities, this 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.

4.3 Ongoing Event-Related Changes

The general treatment of corporate events in the MSCI Japan Empowering (WIN) Index aims to minimize turnover outside of Index Reviews. The methodology 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. Further,

changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI Japan Empowering Women (WIN) Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Japan Empowering Women (WIN) Index.

The following section briefly describes the treatment of common corporate events within the MSCI Japan Empowering Women (WIN) Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously.

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 be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Merger/Acquisition

For Mergers and Acquisitions, the acquirer’s post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

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 under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index-methodology>.

Appendix I: Description of MSCI Quality Score

The MSCI Quality Score for each security is calculated by combining the z-scores of three fundamental descriptors, Return on Equity, Debt to Equity and Earnings Variability. A given variable z-score for a security is calculated using the mean and standard deviation of the corresponding variable computed within the MSCI Parent Index. After calculating component variable z-scores, a composite z-score for each security is computed by taking an equal-weighted average of the component z-scores. The Quality Score is then computed from the composite Z score as follows:

$$\text{Quality Score} = \begin{cases} 1 + Z & , Z > 0 \\ (1 - Z)^{-1} & , Z < 0 \end{cases}$$

Where Z is the composite Z score described earlier.

Sector Relative Quality Score

The sector-relative quality score is derived from the composite quality z-score. It is arrived at by standardizing the composite quality z-score within each sector. The sector-relative quality scores are winsorized at +/- 3.

The Quality Score is then computed from the sector-relative quality score as follows:

$$\text{Quality Score} = \begin{cases} 1 + Z & , Z > 0 \\ (1 - Z)^{-1} & , Z < 0 \end{cases}$$


Where Z is the sector-relative quality score determined in the previous step.

Appendix II: Definition of MSCI ESG Research Gender Diversity Assessment

Attraction, retention, and promotion are some of the core elements of the employment cycle and key focus areas for any company looking to increase its effective utilization of talent. While there are many ways that companies can support women’s participation and advancement in the workforce, an objective and clear measure of their effectiveness is to look at the percentage of women among various segments of the company’s workforce.

In order to identify companies whose performance exceeds sector peers, MSCI ESG Research has developed a gender diversity scoring methodology that allows for multiple possible metric inputs (based on disclosures). To limit the possibility of companies receiving high Gender Diversity Score by reporting only selective, flattering statistics, the methodology applies a discount to the scores of companies with sparse data disclosure. Finally, a quarter of the final score is driven by qualitative information disclosed about companies’ diversity policies and programs as a sign of strategic direction and future intent.

Gender Diversity Scoring Methodology Summary

Gender Diversity Score		
Performance Score (weight: 75%)		Practices Score (weight: 25%)
<i>Interim Performance Score:</i>  Average of 5 performance metrics score	<i>Disclosure Discount:</i> Deduction to Interim Performance Score based on availability of 5 metrics	<i>Practices Score:</i> Average of 2 policies and programs metrics scores

Performance Metrics

In identifying performance metrics, we focus on the core elements of attraction, retention, and promotion.

- **Attraction:** To measure a company’s ability to attract women to its workforce, we look at the *percent of women among new hires* and the *percentage of women among the overall workforce*.
- **Retention:** To measure how effectively a company is able to retain female employees, we compared *average tenure figures for men and women*.

- Promotion:** Workforce participation is only the first step. For true empowerment, women need to be able to advance in their careers as well. To measure a company’s effectiveness in promoting women, we looked at the *percentage of women in senior and middle management* and the *percentage of women on the board of directors*.

For each disclosed metric, we compare it to the range of non-zero values disclosed by all companies in the universe⁵ and calculated the percentile. We then convert the percentiles to 0-10 scores.

A simple average of all scores available for each company results in the **interim performance score**.

The next step is to calculate the appropriate discount for companies reporting few metrics.

Disclosure Discount

To ensure that our assessment of companies’ gender diversity performance was not unduly influenced by selective data disclosure, we adjust the interim performance scoring using a percentage discount based on the number of metrics each company reported.

Disclosure Discount

Number of performance metrics disclosed (out of 5)	Percentage deduction applied to Interim Performance Score
1	-20%
2	-15%
3	-10%
4	-5%
5	0%

The final Performance Score is equal to the interim performance score reduced by the percentage of the disclosure discount.

⁵ Defined as the companies that are constituents of the MSCI Japan IMI Top 700 Index.

Practices Metrics

In addition to calculating quantitative performance based on gender statistics, we analyze a company's strategic direction and future intent for empowering women in its workplace by evaluating gender diversity policies and programs. This assessment is designed to provide key insights especially for companies that have recently identified diversity as priority and have started working towards improving it.

The Practices score is a simple average of companies' scores on two metrics: *workforce diversity policy* and *management oversight and programs to increase workforce diversity*.

- **Workforce diversity policy and management oversight:**

The successful adoption of any equal opportunity / diversity / anti-discrimination policy requires reinforcement through managerial leadership and employee training. The presence of senior management oversight is an indication of the level of commitment to the promotion and effective execution of policy objectives through accountability and structured monitoring.

Best practice (score of 10): *Employee training on diversity policy, supported by senior executive or higher level of oversight on diversity performance*

- **Programs to increase workforce diversity**

There are several initiatives that companies can introduce to help attract, retain, and promote women in the workforce. MSCI ESG Research focuses on two key types: quantitative diversity targets and material benefits that make it easier for women to work.

Targets: Explicit quantitative recruitment targets indicate a company's intent to ensure that female employees are increasingly represented in the workforce and facilitate the tracking of progress.

Employee benefits: Examples of the most common benefits that companies offer include flexible working hours for women, paid maternity leave above statutory minimums, paid parental leaves, and childcare services, subsidies, or rebates.

Best practice (score of 10): *Company provides employee benefits to facilitate diversity and inclusion, and sets quantitative diversity targets in recruitment process.*

Gender Diversity Score

We combined the Performance score (75%) and the Practices score (25%) in a weighted average to calculate the final Gender Diversity Score for each company.

Appendix III: 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 Index 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 are reflected in MSCI Japan IMI Top 700 Index at the time of the implementation of the event in the Parent Index.

Appendix IV: Definition of Controversy Severity

Each controversy case is assessed by MSCI ESG Research for the severity of its impact on society or the environment and consequently rated **Very Severe** (reserved for ‘worst of the worst’ cases), **Severe**, **Moderate**, or **Minor**. To reach these assessments, each case is analyzed along two dimensions: nature of impact and scale of impact.

For more details on MSCI ESG Controversies, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

Assessment of controversy severity: the severity matrix

		Nature of Impact			
		Very Serious (Death, disability, torture, enslavement, destruction of livelihood or traditional way of life)	Serious (Livelihood seriously impaired, interference with basic needs, child labor, displacement)	Medium (Minor impairment to livelihood, denial of opportunity, most labor disputes and violations)	Minimal (Potential denial of opportunity, potential violation of rights, procedural failings)
Scale of Impact	Extremely Widespread (1000+ people)	Very Severe	Very Severe	Severe	Moderate
	Extensive (25-999 people)	Very Severe	Severe	Moderate	Moderate
	Limited (10-24 people)	Severe	Moderate	Minor	Minor
	Low (<10 people)	Moderate	Moderate	Minor	Minor

The following sections have been modified as of August 2017:

Section 4.1: Semi Annual 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 as of September 2017:

The details on the Corporate Events treatment are now included in Section 4.3.

The following sections have been modified as of November 2019:

Section 3.1: Applicable Universe and Appendix III: MSCI Japan IMI Top 700 Index

- Updated to reflect the change in the applicable universe from the MSCI Japan IMI Top 500 Index to the MSCI Japan IMI Top 700 Index

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