

MSCI Japan Empowering Women (WIN) Select Index Methodology

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1 Introduction

The MSCI Japan Empowering Women (WIN) Select Index (the “Index”) aims to represent the performance of those Japanese companies that either exhibit a commitment towards promoting and maintaining a high level of gender diversity among their workforce or have strongly increased their investment on capital goods or R&D while maintaining high level of sales growth and gender diversity.

The constituents of the index are weighted in proportion of their market capitalization, sector relative Gender Diversity Score¹ and sector relative MSCI Quality Score².

¹ Please refer to section 2.1 for description of Gender Diversity Score and section 3.4.1 of the MSCI Japan Empowering Women (WIN) Index Methodology for description of sector relative Gender Diversity Score. The methodology for the MSCI Japan Empowering Women (WIN) Index is available at <https://www.msci.com/msci-japan-empowering-women-index>.

² 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

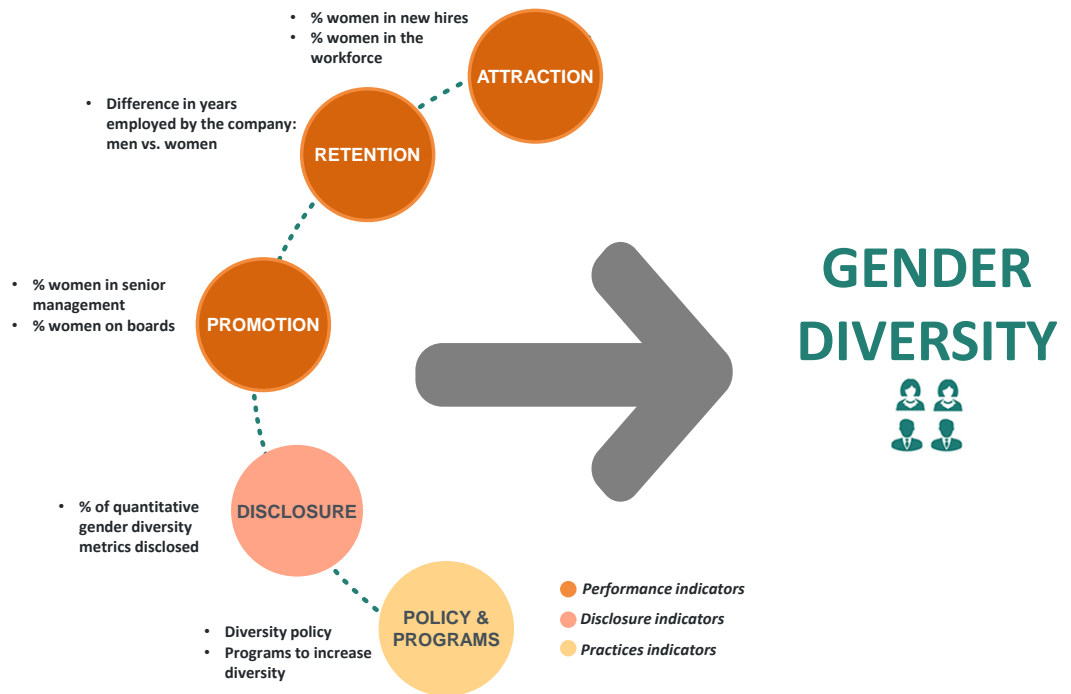
The Index uses company research provided by MSCI ESG Research. In particular, this index uses the following MSCI ESG Research products: MSCI ESG Japan Workforce Gender Diversity Data and MSCI ESG Controversies.

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 700 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 Physical Investment Growth Universe

Companies in the applicable universe which demonstrate strong growth in physical capital investment as well as in their sales are eligible for selection in the index.

These companies must meet each of the following conditions:

- High Capex Growth – Companies in the top 20th Percentile of the Applicable Universe in Capex Growth

Capex growth is measured as the percentage change in capex investment over the last three years. When a company changes its fiscal year, the capex numbers are considered for the truncated year.

If two securities have identical Capex growth, the security with a higher free float adjusted market capitalization is awarded a higher rank. Companies where Capex investment for the current year or current year-3 is not available are excluded from the ranking process.

- Positive Capex Growth – Capex growth of the company, as calculated above, must be positive
- High Sales Growth – Companies in the top 50th Percentile of the Applicable Universe in Sales Growth

Sales growth is measured as the percentage change in sales over the last three years. When a company changes its fiscal year, the sales numbers are considered for the truncated year.

If two securities have identical Sales growth, the security with a higher free float adjusted market capitalization is awarded a higher rank. Companies where Sales for the current year or current year-3 is not available are excluded from the ranking process.

Certain companies do not report Sales. For such companies, Sales growth is substituted by the company’s operating income growth.

As per the MSCI Fundamental Data Methodology, MSCI does not provide

sales data for certain financial sector companies (GICS Industry Group 4010 - Banks, GICS Industry Group 4020 – Diversified Financials, except sub industry group 40201030 – Multi-Sector Holdings).

For details please refer to MSCI Fundamental Data Methodology at <https://www.msci.com/index-methodology>.

- Positive Sales Growth – Sales growth, as calculated above, must be positive
- High Gender Diversity Score - Companies in the top 50th Percentile of the Applicable Universe in gender diversity score

If two securities have identical Gender Diversity Score, the security with a higher free float adjusted market capitalization is awarded a higher rank. Companies where the Gender Diversity Score is either unavailable or zero are excluded from the ranking process.

- Companies must not have faced:
 - Very severe ESG Controversies (as defined by the MSCI ESG Controversies methodology)
 - Very severe or severe ongoing/structural controversies related to human rights (as defined by the MSCI ESG Controversies methodology)
 - Very severe, severe or moderate ongoing/structural controversies related to labor rights (as defined by the MSCI ESG Controversies methodology)

For further details please refer to Section 3.3.3 of the MSCI Japan Empowering Women (WIN) Index Methodology.

- Companies must not be classified as a “REIT” as defined in Section 3.3.2 of the MSCI Japan Empowering Women (WIN) Index Methodology.

3.3 MSCI Japan Empowering Women Universe (WIN Universe)

All securities that are a part of the MSCI Japan Empowering Women (WIN) Index constitute the WIN Universe.

3.4 Combined Universe

The combined universe includes all securities that are either a part of the WIN Universe (Section 3.3) or the Physical Investment Growth Universe (Section 3.2) and do not satisfy any of the following financial and liquidity exclusion criteria:

- Negative Operating Income –Companies which are operating at a loss (as measured by the company’s annual operating income) in each of the last 3 fiscal years.
- Net Loss –Companies that have reported a net loss (as measured by the company’s annual income before extra-ordinary items) in each of the last 3 fiscal years.
- Negative Book Value –Companies that have reported a negative book value in any of the last 3 fiscal years.
- Frequency of Trading³ – Securities that have traded on fewer than 80% of the trading days in the twelve months.
- Annualized Traded Value³ – Securities that have 1 year Annualized Traded Value (ATV) lesser than or equal to JPY 100,000,000,000.

3.5 Security Weighting

At each rebalancing, all the securities from the combined universe will be weighted as per Section 3.4 of the MSCI Japan Empowering Women (WIN) Index Methodology.

³ For detailed description of ‘Frequency of Trading’ and ‘Annualized Traded Value’ please refer to the MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>

4 Maintenance of the Index

4.1 Semi-Annual Index reviews

The Index is rebalanced on a semi-annual basis, as per Section 4.1 of the MSCI Japan Empowering Women (WIN) Index Methodology. In addition, at each semi-annual review, for each security in the applicable universe:

- Fundamental Data – Physical Capital Investment, Sales, Operating Income, Net Profit and Book Value are considered as of the latest annual report from the close of the most recent fiscal year. For the majority of companies in Japan, the fiscal year ends on 31st March.
- Liquidity Data – Frequency of Trading and Annualized Traded Value are considered as of the last business day of April and October.

4.2 Quarterly Index Reviews

The Index is reviewed on a quarterly basis in February and August as per Section 4.2 of the MSCI Japan Empowering Women (WIN) Index Methodology. Companies involved in ESG Controversies, Human Rights Controversies and Labor Rights Controversies as per Section 3.3.3 of the MSCI Japan Empowering Women (WIN) Index Methodology are excluded from the Index during Quarterly Index Review.

4.3 Ongoing Event-Related Changes

The general treatment of corporate events in the MSCI Japan Empowering Women (WIN) Select 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) Select Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Japan Empowering Women (WIN) Select Index.

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

The following sections have been modified as of November 2019:

Section 3.1: Applicable Universe

- 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

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

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