



Index Methodology

MSCI Capped Indices Methodology

November 2012

1. Introduction to the MSCI Capped Indices

In calculating its international equity indices, MSCI employs market capitalization weighting where each constituent in the index is weighted by its free float-adjusted market capitalization. Applying free float-adjusted market capitalization weighting may result in certain cases in large sector, geographical or company concentration. MSCI Capped Indices provide an alternative to purely free float-adjusted market capitalization weighted indices by constraining the maximum sector, geographical or constituent weights.

In addition to the MSCI Capped Indices, MSCI constructs and calculates the MSCI 10/40 Indices and the MSCI 25/50 Indices. These indices are specifically intended for funds subject to regulatory constraints on maximum weights. For more details on these indices, please refer to <http://www.msci.com/products/indices/strategy/capped/>.

2. Constructing the MSCI Capped Indices

The MSCI Capped Indices are constructed from underlying MSCI indices (herein, "Parent Indices"). For each capped index, the following is defined:

- a criterion for grouping constituents of the Parent Index;
- the maximum weight to be applied for such groups.

Constituents of the parent index can be grouped as follows:

- by country or region.
- by sector, industry group, industry or sub-industry, based on the Global Industry Classification Standard (GICS®).
- by stock exchange or currency of price.
- by group entity (for a definition and a description of the maintenance of Group Entities, please refer to the MSCI 10/40 methodology at http://www.mscibarra.com/products/indices/thematic_and_strategy/ten_forty/methodology.html).
- by issuer.
- each constituent may be considered as a single group.

At construction and at each rebalancing, if the weight of any group in the Parent Index is greater than the maximum weight, its weight will be capped at the maximum weight. Within the capped group, securities are weighted in proportion to their free float-adjusted market capitalization. The weight of the securities outside of the capped group will be increased in proportion to their weight prior to such capping.

3. Maintaining the MSCI Capped Indices

3.1. Quarterly and Semi-Annual Index Reviews

Coinciding with the quarterly and semi-annual index reviews of the MSCI Global Investable Market Indices, the MSCI Capped Indices are generally rebalanced on the last business day of February, May, August and November as described under Section 2 above.

Intra-quarter weights will fluctuate according to market movements.

3.2. Rebalancing due to non-compliance

A maximum intra-quarter weight may be defined. If the weight of a group increases above the maximum intra-quarter weight, the index will be rebalanced as described under Section 2 above.

3.3. Ongoing Event Related Changes

In general, the MSCI Capped Indices follow the event maintenance of the MSCI Global Investable Market Indices. Changes in the Parent Index are reflected simultaneously in the MSCI Capped Index.

3.3.1. Early inclusions of new securities to the Parent Index

Early inclusions of new securities to the Parent Index outside of the Quarterly and Semi-Annual Index Reviews, such as IPOs, will be added to the MSCI Capped Index. The weight of the added security will be capped if required as per Section 2 above.

3.3.2. Additions and deletions due to corporate events

The general treatment of additions and deletions due to corporate events aims at reducing turnover in the MSCI Capped Index.

A security added to the Parent Index following a corporate event (acquisition, spinoff or merger) will also be added to the MSCI Capped index with an estimated capped weight.

A constituent deleted from the Parent Index following a corporate event will be simultaneously deleted from the MSCI Capped Index.

4. Specific Capping Methodologies

This section describes the specific index capping methodologies that are available as part of the MSCI Capped Indices methodology:

4.1. MSCI 10/40 Indices

The MSCI 10/40 Indices constrain the weight of any single group entity at 10%, and the sum of the weights of all group entities representing more than 5% weight at 40%, with a buffer of 10% applied on these limits at each index rebalancing. Further details of the MSCI 10/40 Indices are available at:

http://www.msci.com/products/indices/strategy/capped/ten_forty/

4.2. MSCI 25/50 Indices

The MSCI 25/50 Indices constrain the weight of any single group entity at 25%, and the sum of the weights of all group entities representing more than 5% weight at 50%, with a buffer of 10% applied on these limits at each index rebalancing. Further details of the MSCI 25/50 Indices are available at:

http://www.msci.com/products/indices/strategy/capped/twentyfive_fifty/

4.3. MSCI 20/20 Indices

The MSCI 20/20 Indices constrain the weight of any single group entity at 20%, with a buffer of 10% applied on this limit at each index rebalancing. The MSCI 20/20 Indices are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and November, to coincide with the Quarterly Index Reviews of their Parent Indices. The MSCI 20/20 Indices are in general rebalanced five business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

The MSCI 20/20 Indices are also rebalanced on an “as needed” basis. This means that a MSCI 20/20 Index is rebalanced at the end of any day on which the constraints as specified above (without the buffer) are breached, so that the MSCI 20/20 Capped Index will always be within the constraints before the opening of the following trading day. The other index construction and index maintenance rules for the MSCI 20/20 Indices are as described in Sections 2 and 3 respectively of this document.

4.4. MSCI 20/35 Indices

The MSCI 20/35 Indices constrain the weight of the largest group entity at 35%, and all other group entities at 20%, with a buffer of 10% applied on these limits at each index rebalancing. The MSCI 20/35 Indices are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and November, to coincide with the Quarterly Index Reviews of their Parent Indices. The MSCI 20/35 Indices are in general rebalanced five business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

The MSCI 20/35 Indices are also rebalanced on an “as needed” basis. This means that a MSCI 20/35 Index is rebalanced at the end of any day on which the constraints as specified above (without the buffer) are breached. The rebalancing will take place as of the close of the day when the index breaches the constraints, so that the MSCI 20/35 Capped Index will always be within the constraints before the opening of the following trading day. The other index construction and index maintenance rules for the MSCI 20/35 Indices are as described in Sections 2 and 3 respectively of this document.

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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 with approximately USD 7 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; 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.

¹As of June 30, 2011, based on eVestment, Lipper and Bloomberg data.