

MSCI USA Gender Diversity Select Index Methodology

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1 Introduction

The MSCI USA Gender Diversity Select Index (the ‘Index’) is designed to represent the performance of those companies that exhibit a commitment towards promoting and maintaining a high level of gender diversity across the different levels within their organization, including their corporate board, executive and senior management, and workforce.

The Index aims to select companies that lead their respective GICS®¹ sector groups in terms of supporting women’s representation in the board, senior management and workforce, and promoting advancement through their diversity policies and programs. The constituents are weighted in proportion of their market capitalization and Gender Diversity Score². The constituent weight is capped at 4.5% and the Index is constructed as a sector neutral index so that each sector weight in the Index is equal to its weight in the MSCI USA Index.

¹ The 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 3.3 for description and calculation of Gender Diversity Score.

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

The Index uses company ratings and research provided by MSCI ESG Research. In particular, this index uses the following MSCI ESG Research products: MSCI Climate Change Metrics, MSCI ESG Sustainable Impact Metrics, MSCI ESG Controversies and MSCI ESG Business Involvement Screening Research.

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/documents/1296102/1636401/MSCI_ESG_Ratings.pdf.

2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies 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 Methodology

3.1 APPLICABLE UNIVERSE

The Applicable Universe includes all the existing constituents of the MSCI USA Index (herein, “Parent Index”). This approach aims to provide an opportunity set with sufficient liquidity and investment capacity.

3.2 ELIGIBLE UNIVERSE

The Eligible Universe is constructed from the Parent Index by excluding securities of companies based on the exclusions criteria below:

1. **ESG Controversies:** All companies assessed as having involvement in very severe controversies as it relates to the environmental, social, or governance impact of their operations and/or products and services – Defined as companies with an ESG Controversy Score of 0. Companies not assessed by MSCI ESG Research’s MSCI ESG Controversy Scores are also excluded from the Index.
2. **Discrimination and Workforce Diversity Controversy:** All companies assessed as having involvement in very severe or severe diversity-related controversies that are classified as Red (score of 0) or Orange Flags (score of 1) under the MSCI ESG Controversies thematic indicator ‘Labor Rights – Discrimination and Workforce Diversity’. Companies not assessed by MSCI ESG Research’s MSCI ESG Controversies are also excluded from the Index. The definition of Red Flag and Orange Flag Controversies are given below:
 - a. Red Flag (Score of 0): Indicates an ongoing Very Severe ESG controversy implicating a company directly through its actions, products, or operations.
 - b. Orange flag (Score of 1): Indicates that an ongoing Severe controversy implicating a company directly, or a Very Severe controversy that is either partially resolved or indirectly attributed to companies’ actions, products, or operations.

3.3 CALCULATING THE GENDER DIVERSITY SCORE

A Gender Diversity Score for all stocks in the Parent Universe is calculated as weighted average of Women Representation Score and Diversity Management Score.

$$\begin{aligned} \text{Gender Diversity Score} \\ &= 75\% \times \text{Women Representation Score} \\ &+ 25\% \times \text{Diversity Management Score} \end{aligned}$$

Please refer to Appendix I for details on calculation of 'Women Representation Score' and 'Diversity management Score'.

3.4 SECURITY SELECTION

3.4.1. INTERMEDIATE ELIGIBLE UNIVERSE

Securities which meet any of the following conditions are excluded from the Eligible Universe

- Securities with no women directors and with no women in Executive Management
- Securities with Women Representation Score of 3 or less.

3.4.2. RANKING

For each sector, eligible securities from the intermediate Eligible Universe as described in Section 3.4.1 are ranked based on the following criteria:

- Gender Diversity Score
- Current Index membership (existing constituents above non-constituents)
- Decreasing free float-adjusted market capitalization

3.4.3. SELECTION OF SECURITIES

For each sector, eligible securities are then selected from the ranked universe in the following order until the target 50% coverage by cumulative free float-adjusted market capitalization is reached:

- Securities in the top 40% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 40%
- Current Index constituents in the top 40% to 60% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 60%
- Remaining eligible securities in the ranked universe

3.5 CONSTITUENT WEIGHTING

At each rebalancing, the followings steps are followed to arrive at the final weights: -

1. All of the selected securities from the Eligible Universe are weighted by the product of their market capitalization weight in the Parent Index and the Gender Diversity Score.
2. The above weights are then normalized to 100%.
3. Sector weights in the Index are adjusted to be equal to the sector's respective weights in the Parent Index to maintain sector neutrality. Additionally, to mitigate concentration risk, each security's weight in the Index is capped at 4.5%.
4. In the event, when capping is not feasible for a particular sector, it will be relaxed nearest to 4.5% for that sector while maintaining sector neutrality.

4 Maintaining the MSCI USA Gender Diversity Select Index

4.1 QUARTERLY INDEX REVIEWS

This Index is rebalanced on a quarterly basis to coincide with the regular Index Reviews (Semi-Annual Index Reviews in May and November and Quarterly Index Reviews in February and August) of the MSCI Global Investable Market Indexes. The changes are implemented at the end of February, May, August and November. The pro forma indexes are in general announced nine business days before the effective date.

Gender Diversity Data and ESG Controversy data for the Quarterly Index Reviews will be taken as of the end of the month preceding the Index Review, i.e., January, April, July and October.

4.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI USA Gender Diversity 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 USA Gender Diversity Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI USA Gender Diversity Select Index.

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. Parent Index deletions will be reflected simultaneously in the Index.

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 (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: Gender Diversity Score Components Calculation and Definition

A. CALCULATING WOMEN REPRESENTATION SCORE

Women Representation Score is calculated in below steps: -

Step 1: The Raw Women Representation Score (RWRS) is calculated as a simple average of the below four metrics

1. Adjusted Percent of Women on Board: It represents the number of women on the board as a percentage of total board members adjusted by a discount factor based on the number of women on board. The discount factor is applied as per the Exhibit 1.

$$\text{Adjusted Percent of Women on Board} = \text{WOB} \times \text{Discount Factor}$$

Exhibit 1

Number of Women on Board	Discount Factor
≥ 3	1
2	0.75
1	0.50

2. Percent of Women in Executive Management: It represents the percentage of executive managers that are women.
3. Percent of Women in Senior Management: It represents the percentage of senior managers that are women.
4. Percent of Women in Workforce: It represents the percentage of all employees that are women.

Step 2: Calculation of the Discounted Weighted Average Women Representation Score (Discounted RWRS).

To ensure that our assessment of companies' gender diversity performance was not unduly influenced by selective data disclosure, the RWRS is adjusted by applying a discount factor as per Exhibit 2. The discount factor is based on the number of metrics disclosed by the company.

Exhibit 2

Number of Disclosures	Discount Factor
4	100%
3	75%
2	50%
1	25%
0	0%

$$\text{Discounted RWRS} = \text{RWRS} \times \text{Discount Factor}$$

Step 3: Calculation of Women Representation Score

Women Representation Score is calculated as decile of Discounted RWRS calculated in previous step in the Applicable Universe. Discounted RWRS is first converted into percentile scores and securities with Discounted RWRS between 90th and 100th percentile are assigned a decile of 10, while securities with Discounted RWRS between 0 and 10th percentile are assigned a decile of 1.

B. CALCULATING DIVERSITY MANAGEMENT SCORE

The Diversity Management Score is calculated as the weighted average of metrics' scores in the proportion of specified weights as shown in Exhibit 3 below.

$$\begin{aligned} \text{Diversity Management Score} &= \text{Workforce Diversity Oversight} \times 40\% \\ &+ \text{Workforce Diversity Programs} \times 40\% \\ &+ \text{Human Capital Development Management} \times 20\% \end{aligned}$$

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. The best practice receives a score of 10 while absence of evidence receives a score of 0. Refer to Exhibit 4 for the full list.

Exhibit 4

Workforce Diversity Oversight Management	Score
Employee training on diversity policy, supported by senior executive or higher level of oversight on diversity performance	10
Senior executive or higher level of oversight on diversity performance	7
Employee training on diversity policy	5
General statements on diversity and equal opportunity	3
No evidence	0

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.

The best practice receives a score of 10 while absence of evidence receives a score of 0. Refer to Exhibit 5 for the full list.

Exhibit 5

Programs to increase workforce diversity	Score
Provides material benefits to facilitate diversity and inclusion, and sets quantitative diversity targets in recruitment process	10
Provides material benefits to facilitate diversity and inclusion	7
Quantitative diversity targets in recruitment process	5
General statements on plans to improve diversity in workforce	3
No evidence	0

HUMAN CAPITAL DEVELOPMENT MANAGEMENT

This key issue evaluates companies' ability to attract, retain and develop human capital based on their provision of benefits, training and development programs, and employee engagement. Companies that proactively manage human capital development through offering competitive benefit packages, implementing formalized training programs, and actively measuring employee satisfaction score highest on this key issue. The companies that rely heavily on highly-skilled employees but show no evidence of such employee engagement score poorly on this key issue. (Score: 0-10).

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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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