

LIBERTYQ GLOBAL EQUITY SRI INDEX

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1 INTRODUCTION

MSCI Indexes are constructed and maintained in accordance with the MSCI Global Investable Market Indexes Methodology and calculated as per the MSCI Index Calculation Methodology. This methodology book provides a description of the rules and guidelines followed by MSCI for the construction and maintenance of the LibertyQ Global Equity SRI Index. The LibertyQ Global Equity SRI Index (“Index”) is designed to represent the performance of a strategy that seeks exposure to four style factors – Quality, Value, Momentum and Low Volatility in companies with strong sustainability profiles.

2 INDEX CONSTRUCTION METHODOLOGY

2.1 DEFINING THE ELIGIBLE UNIVERSE

The eligible universe includes all the constituents of the MSCI ACWI SRI Index (herein, the “Parent Index”).

For more details on MSCI ACWI SRI INDEX please refer to:

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

2.2 DETERMINATION OF FACTOR SCORE

2.2.1 CALCULATING THE Z-SCORE FOR EACH INDIVIDUAL FACTOR

The z-score for a factor is computed by combining the region relative z-scores of individual descriptors defined for each factor.

In the first step, the z-score for a descriptor for each security is calculated as described below.

$$Z = \frac{(x - \mu)}{\sigma}$$

Where:

- z is the individual descriptor z-score
- x is the descriptor value for a given security included in the Parent Index
- μ is the equal weighted mean of the descriptor values of all the securities included in the Parent Index
- σ is the equal weighted standard deviation of the descriptor values of all the securities included in the Parent Index

Z-scores are then winsorized at +/-3 (i.e., the z-scores above 3 are capped at 3 and z-scores below -3 are floored at -3). If a z-score of an individual descriptor is not computed due to the unavailability of the underlying descriptor data, the universe average z-score is used.

A region relative z-score is then computed for a descriptor by standardizing the individual descriptor z-scores within the sector groups for each region.

The three sector groups defined to apply region relative z-scores are:

- a.) Securities belonging to the GICS® Financials Sector (Sector “40” of the Global Industry Classification Standard (GICS))

- b.) Securities belonging to the GICS Real Estate Sector (Sector “60” of the Global Industry Classification Standard)
- c.) Securities belonging to all the other GICS sectors except “Financials” and “Real Estate” Sectors

The regions selected to compute region relative z-scores within each sector group are:

- a.) North America
- b.) Europe & Middle East
- c.) Emerging Markets
- d.) Pacific

Please refer to Appendix I for further details on region definitions.

$$Z_{\text{reg_rel}} = \frac{(Z - \mu_{\text{reg_rel}})}{\sigma_{\text{reg_rel}}}$$

Where:

- $Z_{\text{reg_rel}}$ is the region relative z-score for a descriptor
- Z is the individual descriptor z-score for a given security within a sector group for each region
- $\mu_{\text{reg_rel}}$ is the equal weighted mean of the descriptor z-scores of all the securities included in a sector group for each region
- $\sigma_{\text{reg_rel}}$ is the equal weighted standard deviation of the descriptor z-scores of all the securities included a sector group for each region

A region relative z-score for each sector group universe is then winsorized at +/- 3.

The Factors and the individual descriptors defining each of the four factors are as follows:

(i) Quality Factor

Computed by equal weighting the region relative z-scores of the relevant descriptor as follows:

For all the securities in the GICS Financials and Real Estate Sectors

- a.) Return on Equity (ROE)
- b.) Negative of Earnings Variability
- c.) Cash ROA

For all the securities except for “Financials” and “Real Estate” Sectors

- a.) Return on Equity (ROE)
- b.) Negative of Earnings Variability
- c.) Cash ROA
- d.) Negative of Leverage

(ii) Value Factor

Computed by weighting the region relative z-scores of the relevant descriptor as follows:

For all the securities in the GICS Financials and Real Estate Sectors

- a.) Inverse of Price to Book Value (P/B) with a weight of 66.66%
- b.) Dividend Yield (DY) with a weight of 33.33%

For all the securities except for “Financials” and “Real Estate” Sectors

- a) Inverse of Price to Earnings (P/E) with a weight of 33.33%
- b) Inverse of Price to Forward Earnings (P/E fwd) with a weight of 33.33%
- c) Dividend Yield (DY) with a weight of 33.33%

(iii) Momentum Factor

Computed by equal weighting the region relative z-scores of the following descriptors

- a.) 6-month Risk-adjusted Price Momentum
- b.) 12-month Risk-adjusted Price Momentum

(iv) Volatility Factor

- a.) Region relative z-score of negative of Historical Beta estimated over the trailing 104 weekly returns

Please refer to Appendix III for further details on the calculation of each factor.

2.2.2 CALCULATING THE COMPOSITE FACTOR Z-SCORE

The Composite Factor Z-Score is computed from the factor z-scores as described below.

$$Z_{Comp} = 0.50 * Z_{Quality} + 0.30 * Z_{Value} + 0.10 * Z_{Momentum} + 0.10 * Z_{Volatility}$$

Where:

- Z_{Comp} is Composite Factor z-score
- $Z_{Quality}$ is the Quality factor z-score as calculated in the previous section
- Z_{Value} is the Value factor z-score as calculated in the previous section
- $Z_{Momentum}$ is the Momentum factor z-score as calculated in the previous section
- $Z_{Volatility}$ is the Volatility factor z-score as calculated in the previous section

2.2.3 CALCULATING THE FINAL FACTOR SCORE

The Final Factor Score is computed from the composite factor z-score as follows:

$$Final\ Factor\ Score = \begin{cases} 1 + Z, & Z \geq 0 \\ (1 - Z)^{-1}, & Z < 0 \end{cases}$$

Where Z is the Composite Factor z-score determined in the previous step.

2.3 SECURITY SELECTION & WEIGHTING SCHEME

The LibertyQ Global Equity SRI Index is constructed with a fixed percentage of the number of securities present in the Parent Index. All the constituents of the Parent Index are ranked based on their Composite Factor z-Score and 40% of the Parent Index with the highest rank is selected.

The securities included are assigned weights in the proportion of Market Cap Weight*Final Factor Score.

3 MAINTAINING THE INDEX

3.1 SEMI-ANNUAL INDEX REVIEWS

The LibertyQ Global Equity SRI Index is rebalanced on a semi-annual basis, 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. Descriptor data as of the end of April and October are used respectively. The pro forma Index is typically announced nine business days before the effective date. Deletions due to parent index changes will get removed from index at quarterly index reviews, but additions will be postponed to semi-annual index reviews.

At each rebalancing, a constraint factor (CF) is calculated for each constituent in the Index. The constraint factor is defined as the weight in the Index at the time of the rebalancing divided by the weight in the Parent Index. The constraint factor as well as the constituents in the Index remains constant between Index Reviews except in case of corporate events as described in Appendix II.

3.1.1 BUFFER RULES:

To reduce turnover and enhance Index stability, buffer rules are applied as follows:

Security Selection Buffer

A security selection buffer of 50% is applied at each Index Review.

For example, if the Index includes 230 securities, the buffers are applied between rank 116 and 345. The securities in the Parent Index with a Final Factor Score rank at or above 115 will be added to the Index on a priority basis. Existing constituents not included in the previous step that have a Final Factor Score rank between 116 and 345 are then successively added until the number of securities reaches 230. If the number of securities is below 230 after this step, the remaining securities in the Parent Index with the highest Final Factor Score rank are added until the number of securities in the Index reaches 230.

Turnover Buffer

A turnover buffer of 50% is applied at each Index Review. For example, if the ongoing rebalancing results in changing the weight of a security from x% to y% in the Index, then the effective change in weight will be:

$$\text{Effective pro forma constituent weight} = x + (y-x)/2$$

The turnover buffer is applied on the uncapped weights of existing and pro forma constituents and is not applied on deletions. After the turnover buffers are applied, weight capping of 1% is applied at the issuer level.

3.2 ONGOING EVENT RELATED CHANGES

The Index follows the event maintenance of the Parent Index.

3.2.1 IPOs AND OTHER EARLY INCLUSIONS

IPOs and other newly listed securities will only be considered for inclusion at the next SAIR, even if they qualify for early inclusion in the Parent Index.

3.2.2 ADDITIONS AND DELETIONS DUE TO CORPORATE EVENTS

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

Additions to the Index are only made at the SAIR.

Please refer to Appendix II for more details on the treatment of corporate events.

APPENDIX I: REGION/COUNTRY DEFINITIONS

The Parent Index is composed of Developed and Emerging Market countries. Currently, this includes the following countries, under each defined region:

Europe & Middle East	Emerging Markets	Pacific	North America
AUSTRIA	BRAZIL	AUSTRALIA	CANADA
BELGIUM	CHILE	HONG KONG	USA
DENMARK	CHINA	JAPAN	
FINLAND	COLOMBIA	NEW ZEALAND	
FRANCE	CZECH REPUBLIC	SINGAPORE	
GERMANY	EGYPT		
IRELAND	GREECE		
ISRAEL	HUNGARY		
ITALY	INDIA		
NETHERLANDS	INDONESIA		
NORWAY	KOREA		
PORTUGAL	MALAYSIA		
SPAIN	MEXICO		
SWEDEN	PAKISTAN		
SWITZERLAND	PERU		
UNITED KINGDOM	PHILIPPINES		
	POLAND		
	QATAR		
	RUSSIA		
	SOUTH AFRICA		
	TAIWAN		
	THAILAND		
	TURKEY		
	UAE		

Whenever MSCI changes the country constituents of the Parent Index, the constituent countries of this Index will change accordingly. Changes in the constituent companies of the MSCI Standard Country Indexes that comprise this Index will also be reflected in this Index.

APPENDIX II: CORPORATE EVENTS TREATMENT

This appendix describes the treatment of the corporate events in the LibertyQ Global Equity SRI Index. Details regarding the treatment of all other corporate events not covered in this appendix can be found in the MSCI Corporate Events Methodology book, available at

<http://www.msci.com/products/indexes/size/standard/methodology.html>

In case of merger or acquisition aggregate CF (Constraint Factor) at Index level is calculated using the CF using the following formula:

$$CF = \frac{(CF_{a1} * W_{a1} + CF_{a2} * W_{a2})}{(W_{a1} + W_{a2})}$$

Where, CF_{a1} is the constraint factor of constituent 1 in the LibertyQ Global Equity SRI Index, W_{a1} is the weight of constituent 1 in the Parent Index, CF_{a2} is the constraint factor of constituent 2 in the Index, W_{a2} is the weight of constituent 2 in the Parent Index.

Event	Event details	Action
Acquisition	LibertyQ Global Equity SRI Index constituent acquires another LibertyQ Global Equity SRI Index constituent	Maintain acquiring company with a constraint factor that is weighted average of the two constituents as mentioned above.
	LibertyQ Global Equity SRI Index constituent acquires non constituent. Non constituent is in Parent Index.	Maintain acquiring company with a constraint factor that is weighted average of the two constituents. Constraint factor of acquired non constituent company would be zero.
	LibertyQ Global Equity SRI Index constituent acquires non constituent. Non constituent is not in the Parent Index.	Maintain acquiring company with a constraint factor that is weighted average of the two constituents. Constraint factor and weight of the acquired non constituent company would be zero.
	Non LibertyQ Global Equity SRI Index constituent acquires constituent	Acquired constituent would be removed regardless of type of acquisition by non-constituent. The acquiring company would not be added to the Index.

Event	Event details	Action
Merger	LibertyQ Global Equity SRI Index constituent merges with another LibertyQ Global Equity SRI Index constituent	Add new company with a constraint factor that is the weighted average of the two constituents.
	LibertyQ Global Equity SRI Index constituent merges with non constituent. Non constituent is in Parent Index. Price history is linked with constituent.	Add new company with a constraint factor that is the weighted average of the two constituents. Constraint factor of non-constituent company would be zero.
	LibertyQ Global Equity SRI Index constituent merges with non constituent. Non constituent is not in the Parent Index. Price history is linked with constituent.	Add new company with a constraint factor that is the weighted average of the two constituents. Constraint factor and weight of non-constituent company would be zero.
	LibertyQ Global Equity SRI Index constituent merges with non constituent. Non constituent is not in the Parent Index. Price history is linked with non constituent.	New company would not be added.
IPO	IPO added to the Parent Index	Security will be considered for the inclusion in the LibertyQ Global Equity SRI Index at the next SAIR.
Spin-off	LibertyQ Global Equity SRI Index constituent spins off security	Spin-off is not included in Parent Index, hence these would not be added to the Index either
Conversion	Security A converted to B, A deleted from Parent Index, B added	B inherits constraint factors from A.
Country Reclassification	Domicile of company reviewed: Security A deleted from country A, security B added to country B	B inherits constraint factors from A if it is added to the Parent Index.
Stock exchange reclassification	Stock exchange (price source) of company reviewed: Security A deleted, security B added	B inherits constraint factors from A if it is added to the Parent Index.
Other Events Resulting in Changes in Number of Shares and FIFs	Changes in number of shares and subsequent FIF resulting from other events such as share placements and offerings, and debt-to-equity-swaps	No change in constraint factor

APPENDIX III: CALCULATION OF VARIABLES

Factor	Descriptor	Computation Details
Quality	Return on Equity (ROE)	$\frac{\text{Trailing 12 months earnings per share}}{\text{Latest book value per share}}$
	Earnings Variability	Earnings variability is defined as the standard deviation of y-o-y earnings per share growth over the last five fiscal years
	Cash ROA	$\frac{\text{Latest Fiscal Year Net Operating Cash Flow}}{\text{Latest Fiscal Year Total Assets}}$
	Leverage	Leverage is defined as the average of Market Leverage, Book Leverage and Debt to Assets. Market Leverage = $(ME + PE + LD)/ME$, Book Leverage = $(BE + PE + LD)/BE$, Debt to Assets = TD/TA Where ME = Market Value of Equity on the Last Trading day, PE = Book Value of the Preferred Equity, LD = Most recent Book Value of the Long-Term Debt, BE = Book Value of the Equity, TD = Total Debt, TA is most recent Book Value of Total Assets
Value	Price to Earnings (P/E)	$\frac{\text{Current security price}}{\text{Trailing 12-month earnings per share}}$
	Price to Earnings (P/E fwd)	$\frac{\text{Current security price}}{\text{12-month forward earnings per share}}$
	Price to Book Value (P/B)	$\frac{\text{Current security price}}{\text{Latest book value per share}}$
	Dividend Yield (DY)	Trailing 12-months dividend per share/current security price

Momentum	6-month Risk-adjusted Price Momentum 12-month Risk-adjusted Price Momentum	6-month Price Momentum = $((PT-1/PT-7)-1) - (\text{Local Risk-free rate})$ 12-month Price Momentum = $((PT-1/PT-13)-1) - (\text{Local Risk-free rate})$ Where, PT-1 = Security Local Price one month prior to the rebalancing date (T) PT-7 = Security Local Price seven months prior to the rebalancing date (T) PT-13 = Security Local Price thirteen months prior to the rebalancing date (T) Risk-adjusted Price Momentum = Price Momentum/σ Where σ = Annualized Standard Deviation of weekly local price returns over the period of 3 years. Local risk free rates are the short-term rates in local currency of the country, typically the 3M LIBOR rate or short-term deposit rate. The price performance is computed excluding recent 1-month. If 12-month Price Momentum is missing, only 6-month Price Momentum is used for computation of Momentum value. Momentum value is not computed if 6-month Price Momentum is not available and the respective universe average z-score is used.
Volatility	Historical Beta (β)	Computed as the slope coefficient in a time-series regression of local excess stock returns r against the cap-weighted local excess returns of the estimation universe R, $r = \alpha + \beta R + e$ The regression coefficients are estimated on the trailing 104 weeks of returns.

The following sections have been modified since November 2016:

- Appendix 1: Updated to reflect reclassification of Pakistan from the MSCI Frontier Markets Index to the MSCI Emerging Markets Index effective June 01, 2017

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
Sao 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 *
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