

Consultation on Potential Enhancement to the MSCI Japan Empowering Women Index (WIN)

FEBRUARY 2023

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Proposed Enhancement

- MSCI proposes to remove the tilt by quality score from the weighting scheme of the MSCI Japan Empowering Women Index (WIN).
- The proposal aims to align WIN with its core objective to provide exposure to Japanese companies promoting and maintaining gender diversity relative to sector peers.
- Historically, the quality tilt has resulted in significant unintended exposures to other risk factors

	Current WIN Index	Proposal	Alternate Proposal
Weighting scheme	Security Weight = Mcap weight in parent index * GD Score * Quality Score 5% Issuer Capping	Security Weight = Mcap weight in parent index * GD Score 5% Issuer Capping	Security Weight = Mcap weight in parent index * GD Score 5% Issuer Capping ¹ (+/-) 2% Active sector weight

For more details, please refer to the methodology book at: <https://www.msci.com/index-methodology>.

¹ Under the alternate proposal, sector weights are constrained after the application of Issuer capping. Hence, final issuer weights may be above 5%.

- MSCI invites feedback from market participants on or before **February 28, 2023** and will announce the results of the consultation as well as the implementation timeline on or before **March 7, 2023**.

Current WIN Methodology

Parent Index	MSCI Japan Investable Market Index (IMI) Top 700 Index
Selection Criteria	<ul style="list-style-type: none">• <u>New securities</u>: Gender Diversity Score above the Sector Median• <u>Existing constituents</u>: Gender Diversity Score in top 65 percentile of the Sector
Exclusions	<ul style="list-style-type: none">• Companies classified as 'REITs' as per the Global Industry Classification Standard (GICS®)*• ESG Controversy Score = 0 or Human Rights Controversy Score <= 2 or Labor Rights Controversy Score <= 4<ul style="list-style-type: none">• Companies with missing ESG Gender Diversity Data or missing ESG Controversy Score
Weighting Scheme	<p>Security Weight = Mcap weight in parent index * GD Score * Quality Score</p> <p>5% Issuer Capping</p>

For more details, please refer to the methodology book at: <https://www.msci.com/index-methodology>.

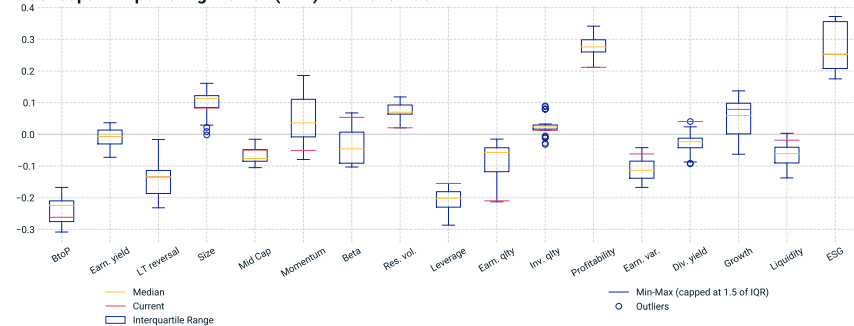
*GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

Style Factor Exposure

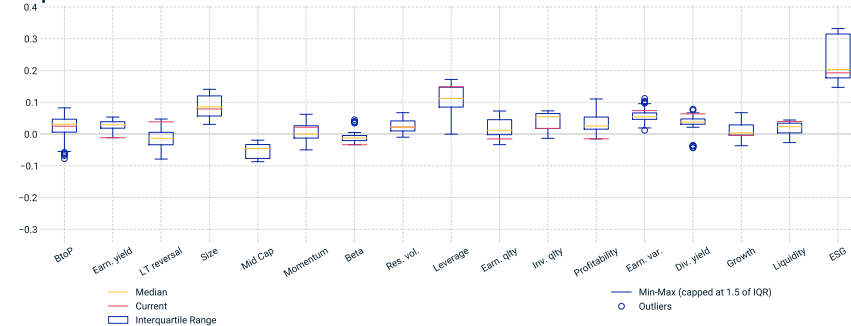
Although historically, the index had high exposure to quality and ESG risk factors as intended, it also had active exposure to other style factors

Under the proposal, the significant active exposure to style factors would be reduced

MSCI Japan Empowering Women (WIN) - Current Index



Proposal



Performance and Risk Exposure

Style Factor Performance Attribution

	MSCI Japan Empowering Women (WIN) - Current Index		Proposal	
	Returns	Risk	Returns	Risk
BtoP	-0.20	0.30	0.02	0.08
Earn. Yield	-0.06	0.08	0.03	0.09
LT Reversal	-0.28	0.35	0.03	0.06
Size	0.09	0.22	0.06	0.20
Mid Cap	0.04	0.09	0.04	0.08
Momentum	0.28	0.39	0.07	0.09
Beta	-0.35	0.37	0.04	0.11
Res. Vol.	-0.19	0.36	-0.13	0.13
Leverage	-0.16	0.32	0.02	0.20
Earn. Qlty	-0.06	0.10	0.01	0.03
Inv. Qlty	-0.05	0.06	0.02	0.06
Profitability	0.37	0.47	0.08	0.06
Earn. Var.	-0.01	0.13	0.00	0.08
Div. Yield	0.06	0.06	-0.04	0.08
Growth	-0.01	0.05	-0.00	0.02
Liquidity	0.01	0.25	0.01	0.09
ESG	0.27	0.27	0.23	0.22

Unintended factor exposures had a negative contribution to recent performance of WIN, while ESG and Quality style factors contributed positively

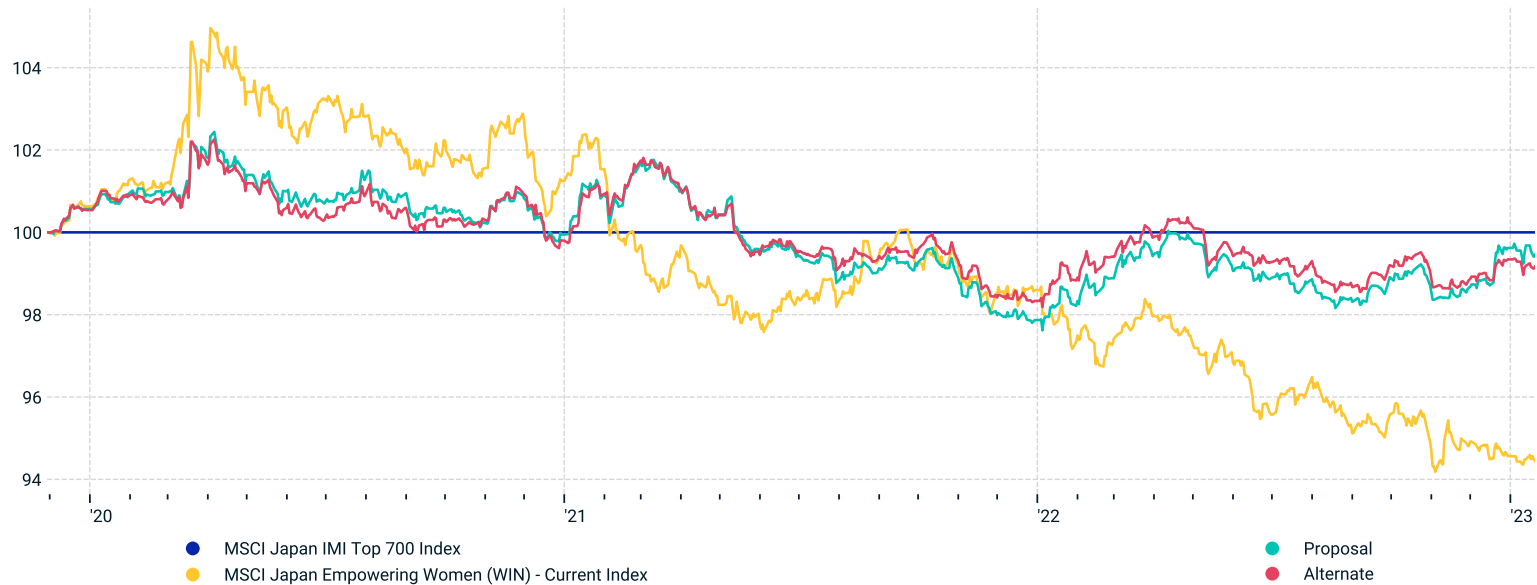
Period: Nov 29, 2019 to Dec 30, 2022, monthly data.
Past performance does not guarantee future results.



Overall Performance

Based on historical simulation since Nov 2019, the removal of quality tilt would have resulted in higher return

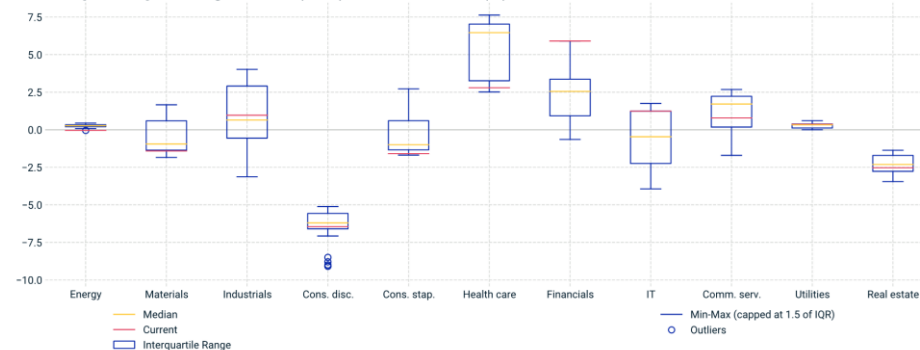
Relative Performance



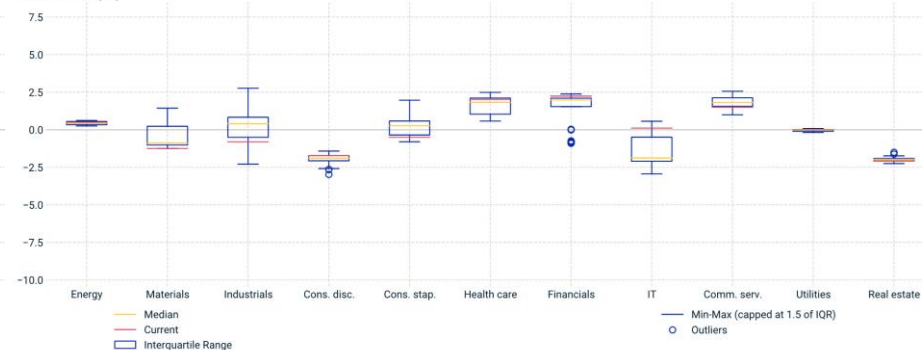
Alternate Proposal: Sector Exposures

- Historically, the index had significant active sector exposures, due to the absence of any control
- Alternate Proposal:** Add active sector weight limits of (+/-) 2%, along with the removal of the Quality Tilt from the security weighting scheme

MSCI Japan Empowering Women (WIN) - Current Index (%)



Alternate (%)



Simulated Impact – Key Metrics

Key Metrics

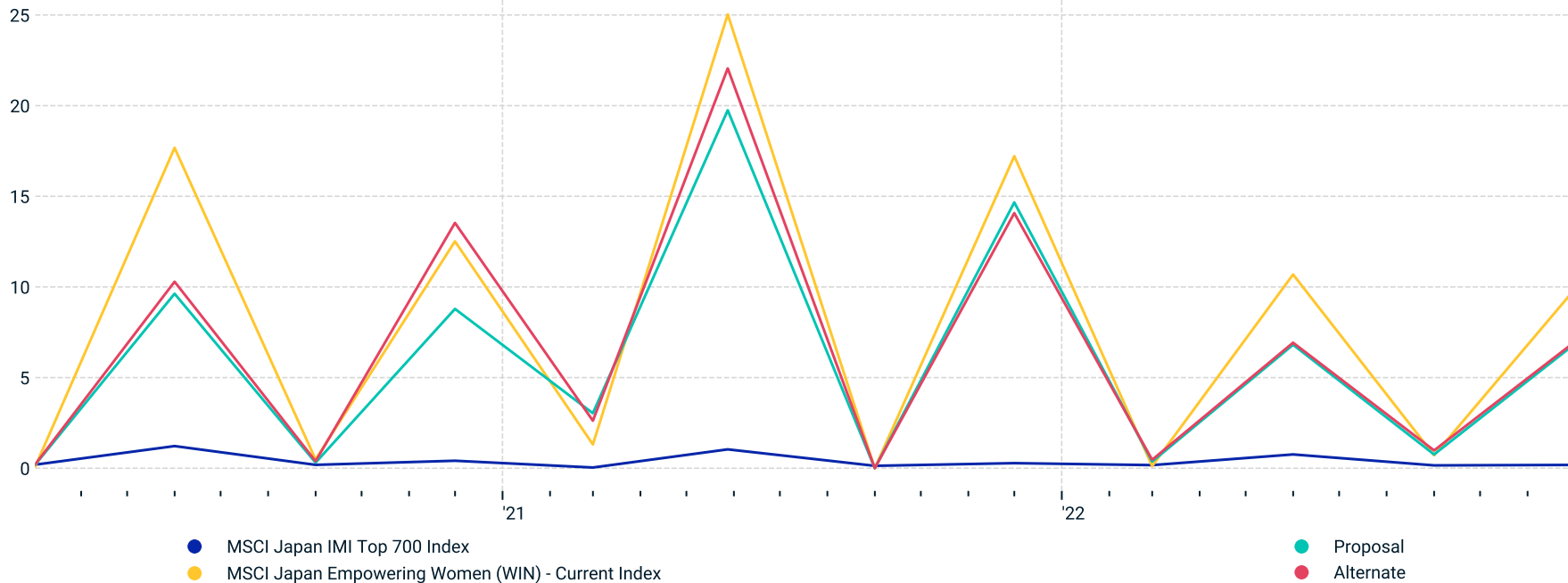
	MSCI Japan IMI Top 700 Index	MSCI Japan Empowering Women (WIN) - Current Index ¹	Proposal	Alternate
Total Return* (%)	1.0	-0.8	0.8	0.7
Total Risk (%)	17.0	17.4	16.8	16.7
Return / Risk	-0.00	-0.11	-0.01	-0.02
Sharpe Ratio	-0.04	-0.14	-0.05	-0.06
Active Return (%)	0.0	-1.8	-0.1	-0.2
Tracking Error (%)	0.0	3.1	1.9	1.9
Information Ratio		-0.58	-0.06	-0.11
Historical Beta	1.00	1.01	0.98	0.98
Number of Constituents***	698	325	325	325
Turnover** (%)	1.6	31.9	23.7	26.1

Period: Nov 29, 2019 to Jan 20, 2023. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

¹Simulated Index as per the current MSCI Japan Empowering Women (WIN) Index

Simulated Impact – Historical Index Review Turnover

One-Way Index Turnover (%)



Simulated Impact – ESG Metrics

	MSCI Japan IMI Top 700 Index	MSCI Japan Empowering Women (WIN) - Current Index ¹	Proposal	Alternate
Integration				
ESG Score	6.8	7.3	7.2	7.2
ESG Leaders (AAA-AA) (%)	40.3	53.6	49.8	48.2
ESG Laggards (B-CCC) (%)	3.0	1.6	1.3	1.5
Governance Pillar Score	5.5	5.7	5.6	5.6
Female Directors (wtd Avg %)	16.9	18.5	18.0	17.9
Deviation from One Share One Vote (%)	1.9	0.7	1.3	1.3
Gender Diversity Score (wtd Avg %)	7.0	7.7	7.7	7.6

As of December 30, 2022.

¹Simulated Index as per the current MSCI Japan Empowering Women (WIN) Index

Simulated Impact – Transition Adds/Dels/Turnover

- Based on a simulation of a methodology transition at the November 2022 Semi-Annual Index Review, WIN would have incurred a one-way index turnover of 25.0% and 25.6% under the proposal and the alternate proposal, respectively
- The proposal and alternate proposal only impact the weighting scheme of WIN, hence the set of additions and deletions are not impacted

	Current	Proposal	Alternate Proposal
Additions	26	26	26
Deletions	13	13	13
Turnover	10.3%	25.0%	25.6%

Simulated Impact – Top Ten Security Weights (Current)

Simulated weights – Current Index

Security Name	Sector	Security Weight
TOYOTA MOTOR CORP	Consumer Discretionary	4.6%
TOKIO MARINE HOLDINGS	Financials	4.0%
TOKYO ELECTRON	Information Technology	3.7%
RECRUIT HOLDINGS CO	Industrials	3.7%
NINTENDO CO	Communication Services	3.4%
HOYA CORP	Health Care	3.2%
KDDI	Communication Services	2.5%
ITOCHU CORP	Industrials	2.1%
MITSUBISHI CORP	Industrials	1.8%
MURATA MANUFACTURING CO	Information Technology	1.6%

Simulated Impact – Top Ten Security Weights (Proposal)

Simulated weights – Proposal

Security Name	Sector	Security Weight
TOYOTA MOTOR CORP	Consumer Discretionary	4.8%
MITSUBISHI UFJ FIN GRP	Financials	3.0%
SOFTBANK GROUP CORP	Communication Services	2.5%
DAIICHI SANKYO CO	Health Care	2.5%
KDDI	Communication Services	2.2%
RECRUIT HOLDINGS CO	Industrials	2.1%
TOKYO ELECTRON	Information Technology	2.0%
NINTENDO CO	Communication Services	2.0%
SUMITOMO MITSUI FINL GRP	Financials	2.0%
TAKEDA PHARMACEUTICAL	Health Care	2.0%

Simulated Impact – Top Ten Security Weights (Alternate)

Simulated weights – Alternate proposal

Security Name	Sector	Security Weight
TOYOTA MOTOR CORP	Consumer Discretionary	6.6%
MITSUBISHI UFJ FIN GRP	Financials	2.4%
DAIICHI SANKYO CO	Health Care	2.4%
SOFTBANK GROUP CORP	Communication Services	2.2%
RECRUIT HOLDINGS CO	Industrials	2.1%
TOKYO ELECTRON	Information Technology	2.0%
KDDI	Communication Services	2.0%
TAKEDA PHARMACEUTICAL	Health Care	1.9%
MITSUBISHI CORP	Industrials	1.8%
NINTENDO CO	Communication Services	1.8%

Discussion Points

- Do you agree with the proposal to remove the sector relative quality score tilt from the weighting scheme of WIN?
- Do you agree with the alternate proposal to additionally incorporate a constraint on active sector weights (+/-2%) in the weighting scheme of WIN?
 - Is it acceptable to include issuers at a weight above 5% as the Issuer Capping is applied prior to the active sector weight constraint?
- Should the changes be implemented, would you favor an implementation in one step or a phased approach (e.g., implementation in two steps as part of two subsequent index reviews)
- Clients may provide feedback through an online survey available on:
<https://www.msci.com/consultation-WIN-2023>

Appendix



Simulated Impact* – GD Score Model Change

When compared to the simulated proforma index, effective Nov 2022 Semi-Annual Index Review, we observe 10 additions, 6 deletions and a one-way turnover of 3%

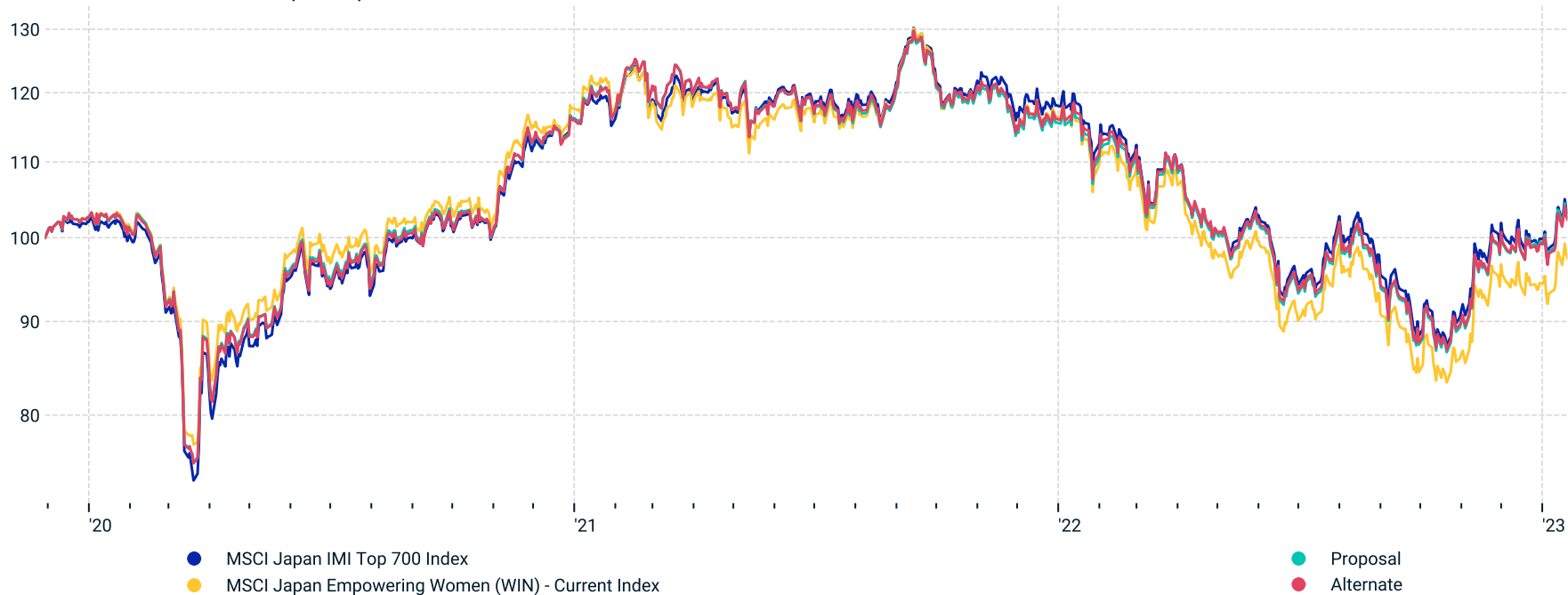
	New model
Additions	10
Deletions	6
Turnover	3.0%

*Incremental Additions, Deletions and Turnover, when compared to the proforma MSCI Japan Empowering Women (WIN) Index as per the current model

*Simulated data based on the Gender Diversity Scores as of Nov 30th, 2022

Key Metrics

Index Performance (USD)



● MSCI Japan IMI Top 700 Index
● MSCI Japan Empowering Women (WIN) - Current Index

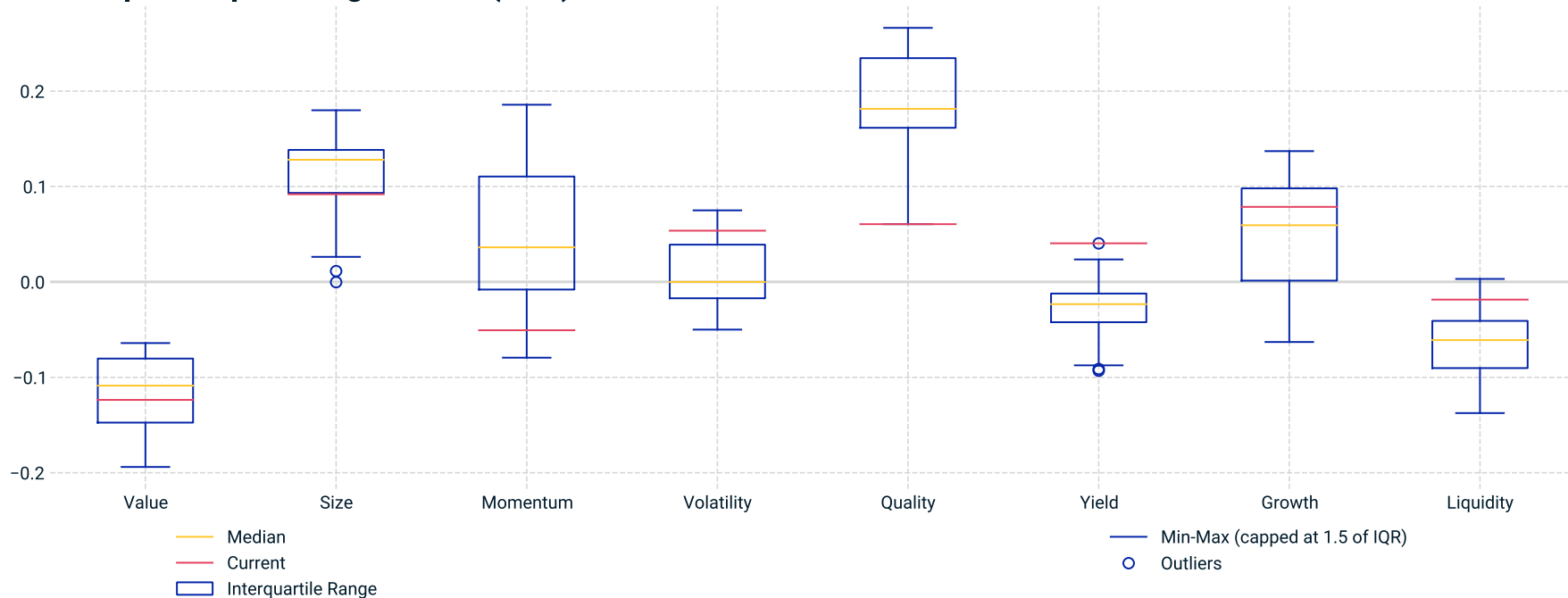
● Proposal
● Alternate



Past performance does not guarantee future results.

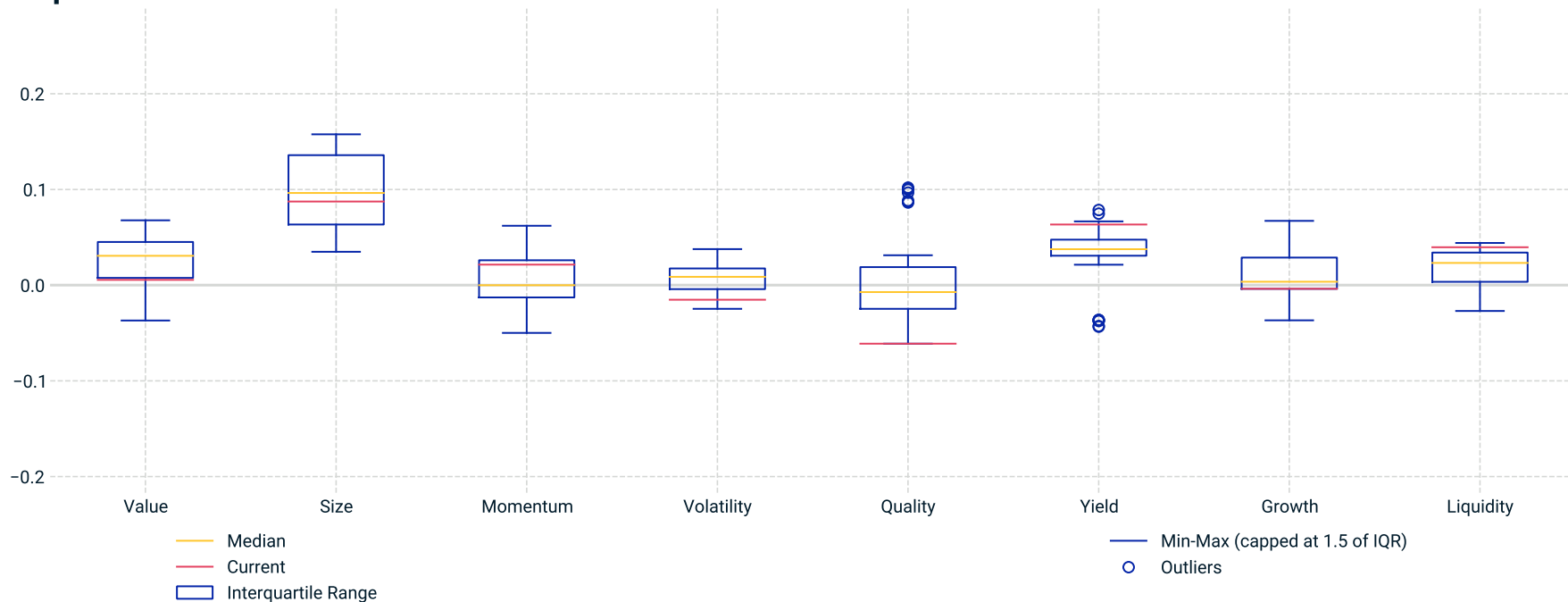
Active Factor Family Exposures

MSCI Japan Empowering Women (WIN) - Current Index



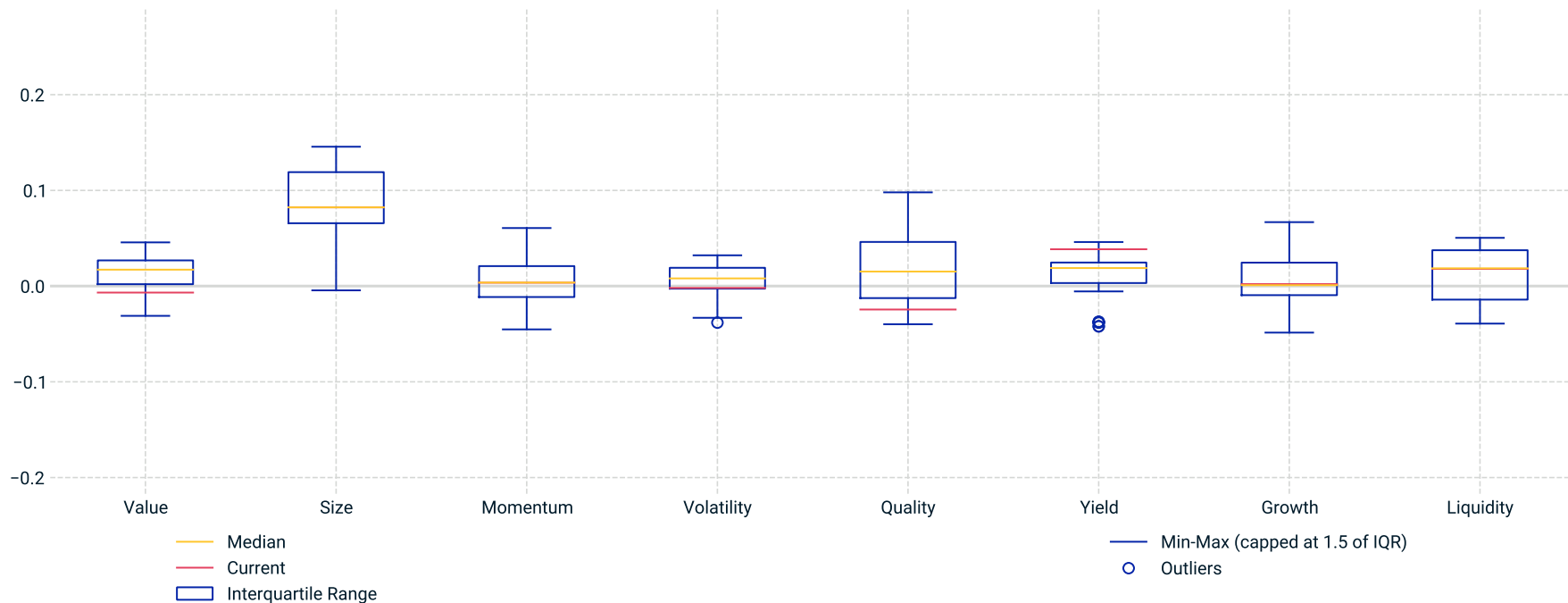
Active Factor Family Exposures

Proposal



Active Factor Family Exposures

Alternate



Active Sector Exposures

MSCI Japan Empowering Women (WIN) - Current Index (%)

	Min	Max	Average	Current
Energy	-0.0	0.4	0.3	-0.0
Materials	-1.8	1.7	-0.4	-1.4
Industrials	-3.1	4.0	0.7	1.0
Cons. Disc.	-9.1	-5.1	-6.4	-6.5
Cons. Stap.	-1.7	2.7	-0.3	-1.6
Health Care	2.5	7.6	5.5	2.8
Financials	-0.7	5.9	2.1	5.9
IT	-3.9	1.7	-0.6	1.2
Comm. Serv.	-1.7	2.7	1.2	0.8
Utilities	-0.0	0.6	0.3	0.4
Real Estate	-3.5	-1.4	-2.3	-2.5

Period: Nov 29, 2019 to Dec 30, 2022, monthly data.

Proposal (%)

	Min	Max	Average	Current
Energy	0.3	0.7	0.4	0.5
Materials	-1.3	1.5	-0.3	-1.2
Industrials	-2.3	3.9	0.5	-0.6
Cons. Disc.	-9.7	-4.1	-5.8	-5.9
Cons. Stap.	-0.7	1.2	0.3	-0.4
Health Care	0.8	5.7	3.0	2.5
Financials	-0.9	5.7	3.0	5.7
IT	-3.7	1.1	-1.4	0.2
Comm. Serv.	1.3	4.4	2.7	1.6
Utilities	-0.2	0.2	-0.0	0.0
Real Estate	-3.1	-1.9	-2.4	-2.5

Period: Nov 29, 2019 to Dec 30, 2022, monthly data.

Active Sector Exposures

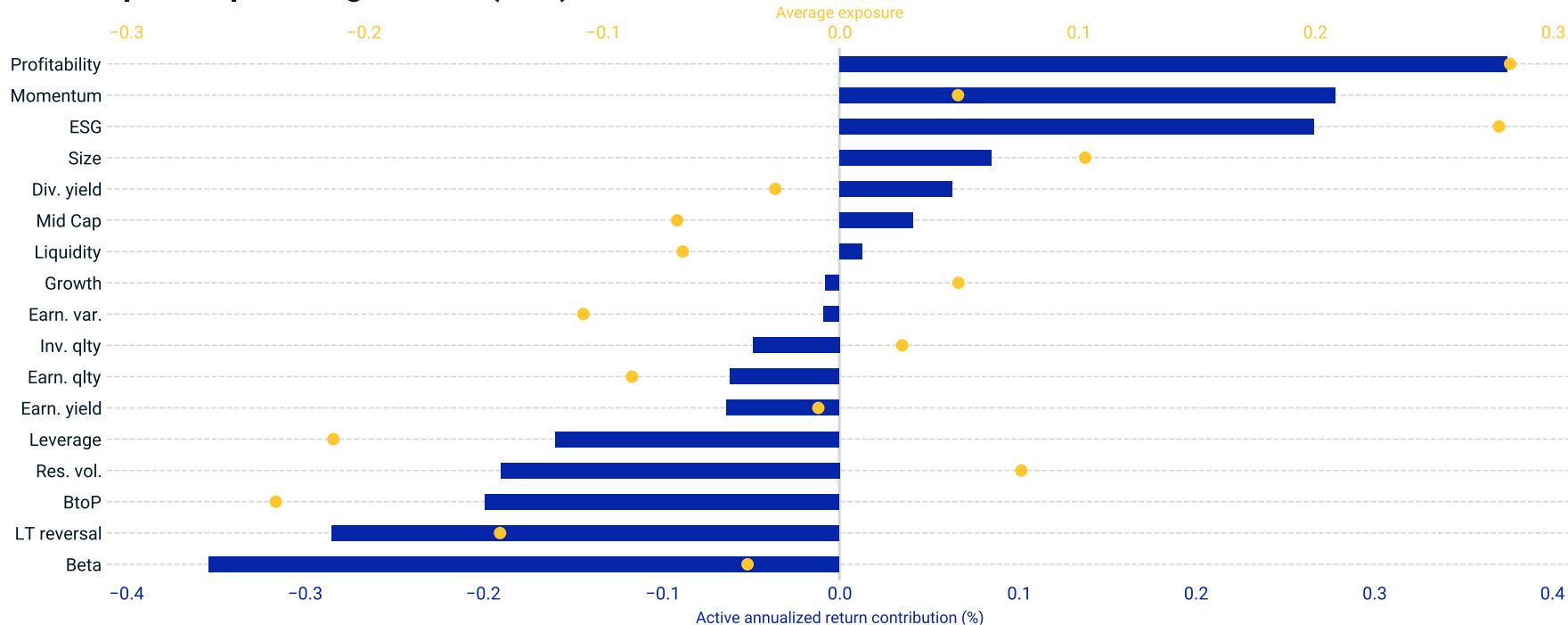
Alternate (%)

	Min	Max	Average	Current
Energy	0.2	0.6	0.4	0.5
Materials	-1.2	1.4	-0.3	-1.2
Industrials	-2.3	2.8	0.2	-0.8
Cons. Disc.	-3.0	-1.4	-1.9	-1.7
Cons. Stap.	-0.8	2.0	0.3	-0.5
Health Care	0.6	2.5	1.6	2.0
Financials	-0.9	2.4	1.4	2.2
IT	-2.9	0.6	-1.4	0.1
Comm. Serv.	1.0	2.6	1.8	1.5
Utilities	-0.2	0.1	-0.0	0.0
Real Estate	-2.3	-1.5	-2.0	-2.1

Period: Nov 29, 2019 to Dec 30, 2022, monthly data.

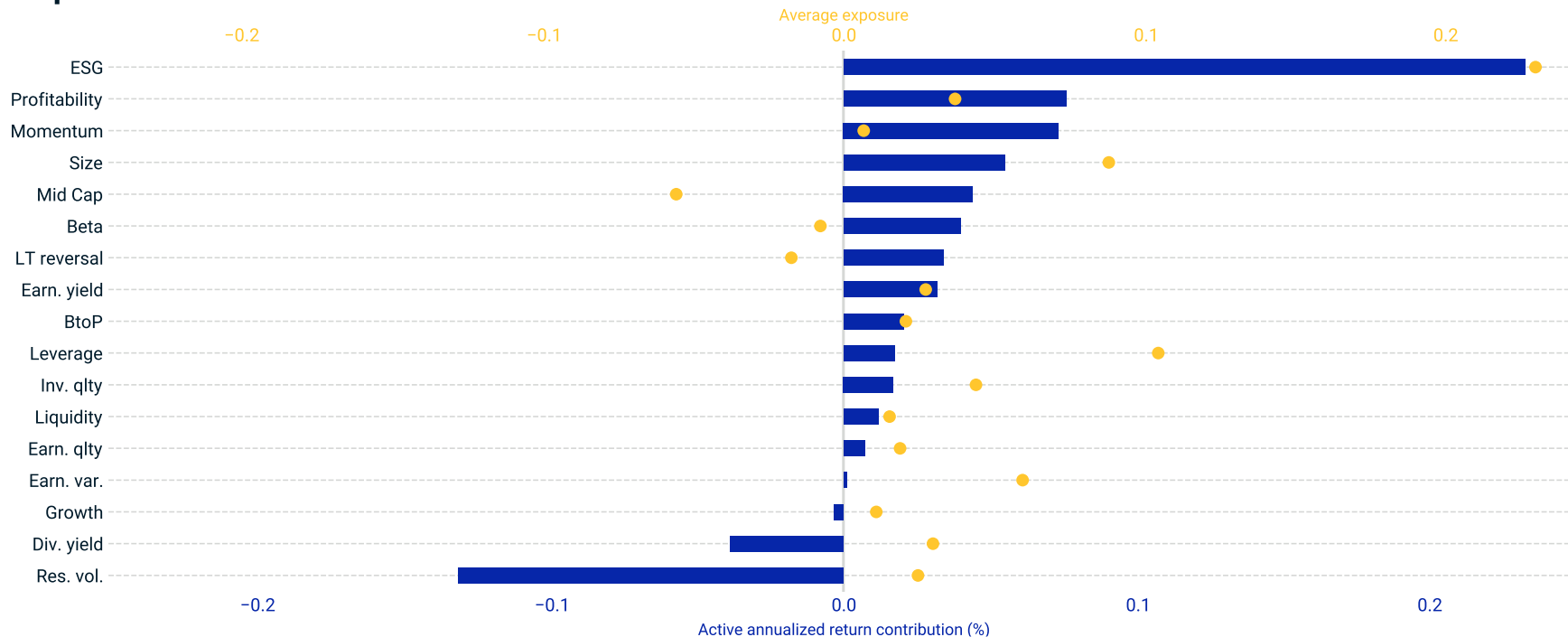
GEMLTESG Active Perf. Attribution: Styles

MSCI Japan Empowering Women (WIN) - Current Index



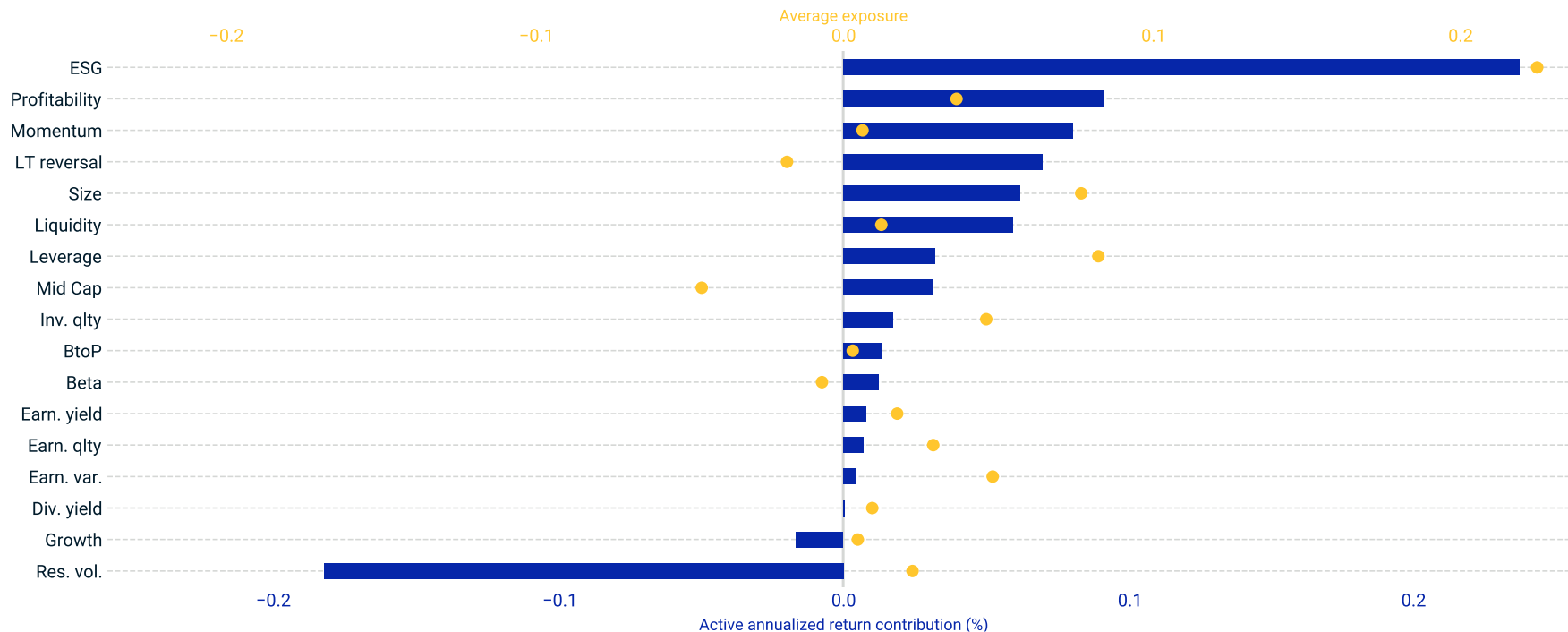
GEMLTESG Active Perf. Attribution: Styles

Proposal



GEMLTESG Active Perf. Attribution: Styles

Alternate



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