

MSCI USA DIVERSIFIED MULTIPLE-FACTOR CAPPED SECTOR INDEXES

DIVERSIFIED FACTOR PERFORMANCE OF GICS-BASED SECTOR INDEXES

MSCI research has identified four factors – value, momentum, quality and low size – that over time have provided higher risk-adjusted returns than the overall market, while performing very differently in various parts of the business cycle. When combined in a multiple-factor index, these four factors provided a higher risk-adjusted return, while exhibiting less cyclicalities. Now we have applied our multiple-factor methodology to nine individual U.S. sector indexes.

COMBINING FACTORS THAT HAVE GENERATED PREMIA OVER TIME

- MSCI's diversified multiple-factor indexes represent the performance of four factors that have historically generated premia over long time horizons, while maintaining a risk level similar to that of the corresponding parent index.
- The MSCI USA Diversified Multiple-Factor Index (USD) was launched on February 17, 2015. Using back-tested data (i.e., calculations of how the index might have performed over a time period had it existed), MSCI calculates that its average annualized return would have been 7.85% for the 15-year period ended March 31, 2016. The parent MSCI USA Index returned an annualized 5.98% for the period. MSCI modeled the performance for 15 years to capture the range of performance through multiple macro market cycles.¹
- The capped sector versions of this index represent the performance of the same four factors, while maintaining a risk level similar to that of the corresponding sector of the parent MSCI USA Index.

¹ There are frequently material differences between back-tested performance and actual results. Past performance — whether actual or back-tested — is no indication or guarantee of future performance.

A CLOSER LOOK AT THE FOUR FACTORS

VALUE

The value factor represents the performance of stocks that have low prices relative to their fundamental value. Stocks are scored using three measures: forward price-to-earnings (P/E), enterprise value/ operating cash flow (EV/CFO) and price-to-book (P/B). (EV/CFO is only used for non-financial companies.)

MOMENTUM

The momentum factor represents the performance of stocks with stronger past performance, based on the stock's residual return versus the benchmark over two years and its six- and twelve-month relative performance.

QUALITY

The quality factor represents the performance of stocks characterized by low debt, stable earnings growth and other financial "quality" metrics. Stocks are scored using three fundamental measures: return-on-equity, debt-to-equity and earnings variability.

LOW SIZE

The low size factor represents the performance of smaller firms, in terms of market capitalization, relative to their larger counterparts.

KEY STEPS IN BUILDING MSCI DIVERSIFIED MULTIPLE-FACTOR CAPPED SECTOR INDEXES

The MSCI USA Diversified Multiple-Factor Capped Sector Indexes are based on parent indexes containing U.S. large and mid-cap securities within each of the 9 sectors listed in the figure below, respectively, per the Global Industry Classification Standard (GICS®), the global industry classification standard jointly developed by MSCI and Standard & Poor's. Stocks are identified from individual US GICS sectors, using a composite alpha score that gives equal weighting to each of four factors: value, momentum, quality and low size.

The indexes are rebalanced semiannually, at which time they are optimized with the aim of maximizing overall exposure to the four factors, while also limiting turnover, unintended exposures to other factors and volatility. The objective is to maintain a risk level similar to that of the corresponding sector of the MSCI USA Index.

Each index is constructed using the standard methodology of the MSCI Diversified Multiple-Factor Indexes and exposure to any single issuer is capped at 25%.

To learn more visit www.msci.com/index-methodology

ANNUALIZED 15 YEAR PERFORMANCE AND RISK OF MSCI MSCI USA DIVERSIFIED MULTIPLE-FACTOR CAPPED SECTOR INDEXES AS OF MARCH 31, 2016

INDEX	TOTAL RETURN	TOTAL RISK ²	RETURN/RISK
USA/ENERGY	7.12%	20.52%	0.35
USA/ENERGY DIV MULTIPLE-FACTOR CAPPED	9.54%	21.61%	0.44
USA/MATERIALS	7.79%	21.49%	0.36
USA/MATERIALS DIV MULTIPLE-FACTOR CAPPED	9.68%	21.41%	0.45
USA/INDUSTRIALS	6.57%	18.40%	0.36
USA/INDUSTRIALS DIV MULTIPLE-FACTOR CAP	7.86%	18.73%	0.42
USA/CONSUMER DISCRETIONARY	7.47%	18.61%	0.40
USA/CONS DISCR DIV MULTIPLE-FACTOR CAP	8.69%	18.16%	0.48
USA/CONSUMER STAPLES	9.22%	10.68%	0.86
USA/CON STAPLES DIV MULTIPLE-FACTOR CAP	9.54%	11.29%	0.84
USA/HEALTH CARE	7.15%	13.11%	0.55
USA/HEALTH CARE DIV MULTIPLE-FACTOR CAP	8.75%	13.00%	0.67
USA/FINANCIALS	1.54%	20.95%	0.07
USA/FINANCIALS DIV MULTIPLE-FACTOR CAP	3.43%	19.29%	0.18
USA/INFORMATION TECH	6.41%	22.44%	0.29
USA/INF TECH DIV MULTIPLE-FACTOR CAPPED	6.81%	22.10%	0.31
USA/UTILITIES	5.32%	15.31%	0.35
USA/UTILITIES DIV MULTIPLE-FACTOR CAPPED	7.06%	14.68%	0.48

² Annualized standard deviation based on gross monthly returns.

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