The MSCI Quality Indexes

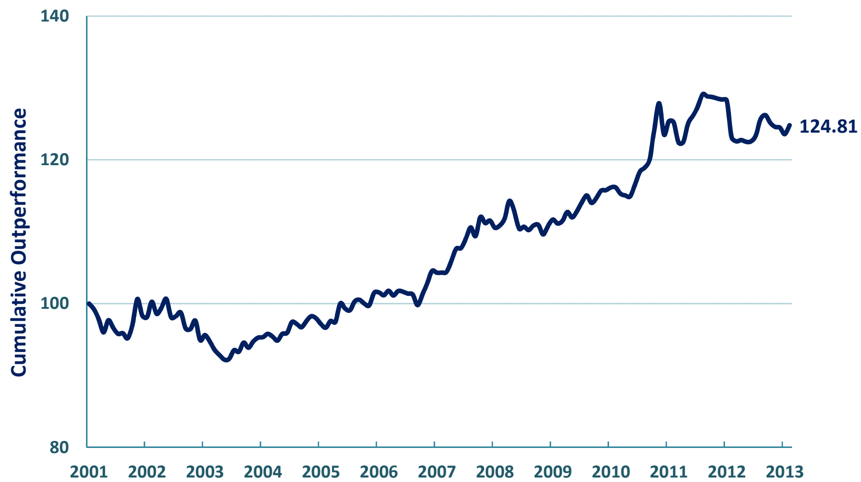
Seek to Capture the Performance of Stocks with Quality Growth Characteristics

- The MSCI Quality Indexes are designed to reflect a quality growth investment strategy by identifying stocks with historically high return on equity, stable year-over-year earnings growth, and low financial leverage
- The MSCI Quality Indexes complement other MSCI Factor indexes by reflecting two distinguishing factors—growth and low leverage. Consequently, financial products tracking these indexes can play an effective diversification role in a broader portfolio of factor-based investments
- The MSCI Quality Indexes are constructed with an objective and transparent methodology based on the parent MSCI index methodology that ensures high trading liquidity, investment capacity, and moderate turnover of index constituents

Why Do Investors Use Quality Strategies?

- Quality growth companies are described in the academic literature as companies that have durable business models and sustainable competitive advantages
- Empirical research shows that quality growth stocks historically outperformed the market with relatively low volatility over long time periods
- Many active strategies emphasize quality growth as an important factor in their security selection and portfolio construction

MSCI EM Quality Index Relative to MSCI EM (Net USD) ***Nov 2001 – Dec 2013***



Key Benefits of the MSCI Quality Indices

- Strong theoretical and empirical foundation with simple and transparent index methodology
- Historically, the Indices reflect periods of long-term performance and low correlation with other factors
- Moderate index turnover to minimize replication cost
- Seamless integration with other MSCI Factor indexes

Historical Net Performance, USD	EM Quality	EM
Return* (%)	15.46	13.36
Risk* (%)	21.93	23.09
Risk-Adjusted Return	0.70	0.58
Active Return* (%)	2.10	0.00
Tracking Error* (%)	4.32	0.00
Information Ratio	0.49	N/A

***Annualized from Nov 2001 to Dec 2013**

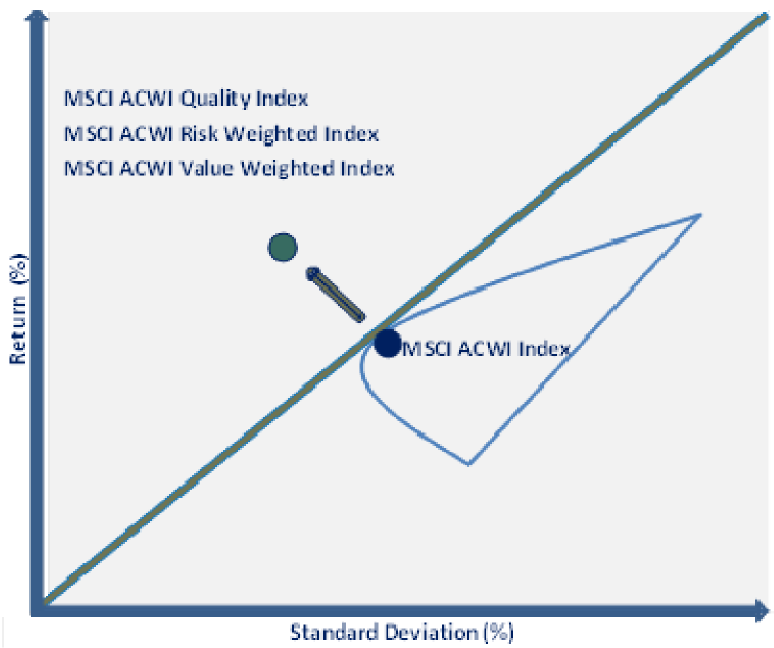
Methodology Highlights

Parameter	Methodology	Comments
Universe	• Parent index constituents	Objective approach capturing the standard opportunity set and ensuring indices have high investability and liquidity
Variables	• Debt to Equity • Return on Equity • Earnings Variability (Standard deviation of y-o-y EPS growth in the last five years)	The Quality score is based on fundamental descriptors and does not incorporate historical return volatility, which is recognized as a separate factor
Weighting	• Fixed number of companies • Quality Score X Market Cap • Index Weight Capped at 5%	A fixed number of securities with the highest quality scores are included in MSCI Quality Indices, covering between 30% - 40% of the parent index market cap Index weights are determined by multiplying quality score by float market cap. Tilted cap weights result in high capacity and liquidity of index constituents
Rebalancing	• Semi-annual • Buffer zones are applied	Timely data updates, consistent with MSCI rebalancing calendar Buffers are applied at each rebalancing to reduce turnover and improve index replicability

Illustrative Use Case

- A Canadian Corporate Pension Plan adopted a passive approach to capture three factors: Quality, Value, and Size
- The fund combined MSCI ACWI Quality, MSCI ACWI Value Weighted, and MSCI ACWI Risk Weighted Indexes
- Historically, over long periods, combining factor strategies enhances risk-adjusted performance

Adding MSCI Quality Indexes Has Historically Increased Return with Lower Risk



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