

CONSULTATION ON POTENTIAL CHANGES TO MSCI ACWI SUSTAINABLE IMPACT INDEX METHODOLOGY

July 2016

SUMMARY

- MSCI is proposing changes to the MSCI ACWI Sustainable Impact Index methodology to reflect more frequent updates in the Sustainable Impact data in the index.
- Highlights of proposed changes

Current Index Methodology	Proposed Index Methodology Change
Annual reconstitution in November and maintain Sustainable Impact Sales percentage data for Quarterly Index Reviews	Use latest reported Sustainable Impact Sales percentage data for all Quarterly Index Reviews
No buffers	Introduce buffers in security selection

- MSCI is proposing to implement these changes at the August 2016 Index Review subject to consultation feedback
- MSCI may or may not implement any of the proposed changes in this presentation.

PROPOSED CHANGES TO METHODOLOGY

MSCI ACWI Sustainable Impact Index

PROPOSED INDEX METHODOLOGY CHANGES

Parameters	Current Index Methodology	Proposed Index Methodology
Index Objective	<ul style="list-style-type: none"> Identify companies which derive more than 50% revenues from sustainable impact themes and maintain minimum ESG standards through operations 	
Parent Index	<ul style="list-style-type: none"> MSCI ACWI Index 	
ESG Rating Eligibility	<ul style="list-style-type: none"> ESG Rating > B 	
IM Score Eligibility	<ul style="list-style-type: none"> ESG Controversies Score > 2 	
Business Screening	<ul style="list-style-type: none"> Alcohol and Tobacco Screening Predatory Lending Screening Controversial Weapons Screening 	
Inclusion Criteria	<ul style="list-style-type: none"> Pure play in sustainable impact themes (>=50% revenues) 	
Sustainable Impact Sales Percentage Data usage	<ul style="list-style-type: none"> Annual reconstitution in November Index Review and maintain Sustainable Impact Sales percentage data for Quarterly Index Reviews. Use latest available data for ACWI additions No buffers 	<ul style="list-style-type: none"> Use latest available Sustainable Impact Sales percentage data Existing constituents continue to remain in index unless their Sustainable Impact Sales percentage falls below 40%
Index Reviews	<ul style="list-style-type: none"> Quarterly: February, May, August and November 	

METHODOLOGY CHANGES

- **Data Usage** : Use latest Sustainable Impact Sales percentage data for all index reviews. Usage of latest available data would allow for faster additions/deletions on basis of changes due to company data updates and corporate events. This would reflect the recently implemented data collection process and be aligned with data provided on ESG Manager to clients
- **Buffers** : Introduce buffers so that constituents continue to remain in index unless their Sustainable Impact Sales percentage falls below 40%. Based on our analysis, revenue data could fluctuate year on year as companies increase disclosure and a 10% buffer would help mitigate turnover while still deriving significant proportion of revenues from sustainable impact themes.
- **Index Impact** : Sustainable Impact Sales percentage is used to calculate security weights. Due to data revisions, constituent weights would be impacted. Additionally, companies like Sekisui House and Yokogawa Electric Corp would be added to index as their current Sustainable Impact Sales percentage is above 50%
- **GICS Changes** : As announced previously, there will be several changes to the GICS structure that will be implemented as of the close of August 31, 2016, including the creation of a new Real Estate sector, elevating its position from under the Financials sector and bringing the number of sectors to eleven from ten. The introduction of new Real Estate sector could have an impact on security weights as sector weights are capped at 20%.

IMPACT FOR MAY 2016 SAIR (SIMULATION)

The analysis below shows the securities whose weight would be most impacted by the proposed changes to the methodology in the simulated May 2016 Index review

Security	ESG Rating	ESG Controversies Score	Sustainable Impact Sales (%)		Security Weight	
			Oct 2015 data	May 2016 data	(Current Methodology)	(Proposed Methodology)
VESTAS WIND SYSTEMS	AA	6	99	100	2.5%	2.4%
SUEZ	AA	10	74.03	63.09	1.8%	1.5%
LENDLEASE GROUP	AAA	10	60	60	1.6%	1.6%
OMRON CORP	AA	10	54	54.16	1.0%	1.0%
SAMSUNG SDI CO	AA	4	66.91	60.78	0.9%	0.8%
CITRIX SYSTEMS	A	10	100	100	0.8%	0.8%
ANDRITZ	BBB	3	56.3	37.71	0.8%	0.0%
ROCKWELL AUTOMATION	A	8	50	61.06	0.8%	0.9%
AMERICAN WATER WORKS CO	BBB	5	96.87	96.87	0.8%	0.7%
TOTO	A	9	65.9	65.9	0.7%	0.7%
XYLEM	AA	4	64.03	54.48	0.6%	0.5%
GEBERIT	A	10	81.1	71.7	0.6%	0.5%
AKAMAI TECHNOLOGIES	BB	10	100	100	0.6%	0.5%
CADENCE DESIGN SYSTEMS	A	10	100	100	0.4%	0.4%
SABESP ON	BB	5	100	100	0.4%	0.4%
KURITA WATER INDUSTRIES	BBB	10	81.8	40.76	0.4%	0.2%
VMWARE A	BBB	10	100	87.09	0.3%	0.3%
BANK RAKYAT INDONESIA	A	10	71.25	43.96	0.2%	0.1%
SEKISUI HOUSE	A	10	32.47	59.47	0.0%	2.2%
YOKOGAWA ELECTRIC CORP	AA	4	43.3	75.6	0.0%	0.6%
EAST JAPAN RAILWAY CO	A	5	2.35	67.2	0.0%	3.7%

Data as of May 31, 2016

DELETION : Securities being deleted in the simulated May Index Review

Addition : Securities being added in the simulated May Index Review

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