

Objective of the strategy:

The strategy seeks to provide investment results that correspond to the aggregate price performance of the securities included in the Morgan Stanley Capital International Europe, Australasia, Far East (EAFE), GDP Weighted Index (Price Return).

International Equity Index Strategy

Stratified sampling

Multi-factor risk model

Minimized tracking error

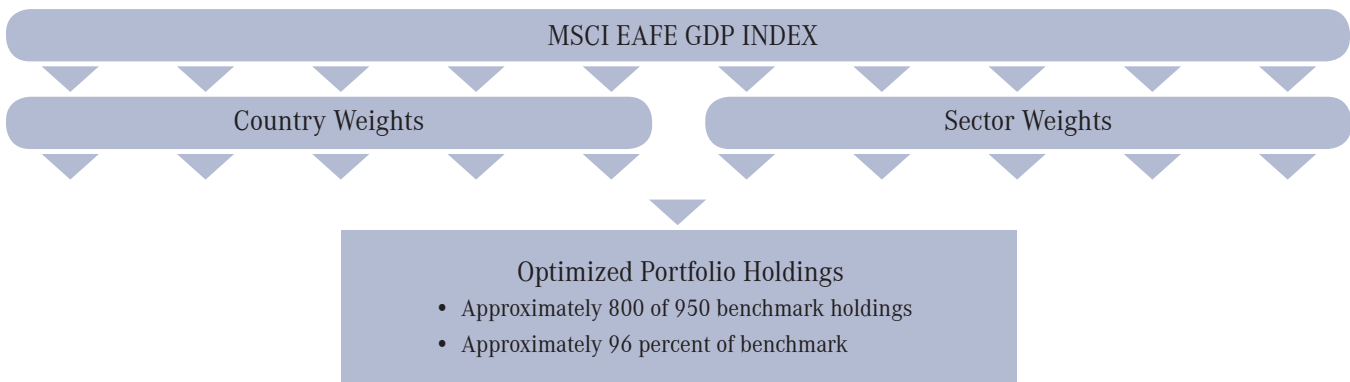
What are the principles that have enabled the strategy to be successful?

Stratified sampling - a stratified sampling methodology is employed to select stocks for the portfolio, avoiding those names whose market-cap or trading liquidity make them inefficient holdings. This selection process has the potential to improve the quality and practicality of the basket of selected stocks.

Multi-factor risk model - the investment team sets country weights of the portfolio equal to the country weights of the index. They then set a bound of +/- 1% on the sector weights of each country portfolio relative to the sector weights of the respective country index. The optimized portfolio is designed to minimize the variance of returns.

Minimized tracking error - The team strives to minimize turnover and transaction costs by avoiding illiquid securities and unnecessary trading. The team's efficient management of transactions helps minimize undesired tracking error.

How is the investment process implemented?



Our Approach – Why GDP Versus Market Capitalization?

- Market-cap-weighted indexing may overweight or underweight certain markets. When P/E multiples are much higher in one market as compared to another, the relative stock market capitalization of a particular country becomes greater than its economic output. The result is systematic overweighting or underweighting of the country (for example, Japan's high weight in the market-cap-weighted MSCI EAFE in the 1980s).
- Some countries have large economies (as measured by GDP) but relatively thin public stock markets. If a large portion of a country's equities are privately held, its stock market capitalization is much smaller than its relative economic production (Germany, for example).
- GDP changes slowly year over year, where market capitalization can have significant fluctuation. Market capitalization weights result in greater volatility and, hence, greater turnover. These changes in weightings because of market movements require more frequent rebalancing in a portfolio benchmarked to a cap-weighted index, which can prove to be quite expensive in the long-run.

Past performance is no guarantee of future results. There is no guarantee this strategy will work for you.

Investment considerations

Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high grade fixed income securities. The net asset value per share of this strategy will fluctuate as the value of the securities in the portfolio changes.

International investing involves increased risk and volatility.

It is important to remember that there are risks associated with index investing, including the potential risk of market decline, as well as the risks associated with investing in specific companies.