MSCI World ex Australia Quality Sector Capped Select Index Methodology

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1 Introduction

The MSCI World ex Australia Quality Sector Capped Select Index (herein ‘the Index’\(^1\)) is designed to represent the performance of a strategy that exhibits stronger exposure to Quality characteristics relative to their peers within the same Global Industry Classification Standard (GICS\(^2\)) Sector.

The Index selects securities from the MSCI World ex Australia Index (herein, ‘the Parent Index’) with the highest Quality score that is computed within the GICS sector. The index methodology also limits Active Weights to GICS sectors in range of +/- 5%.

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\(^1\) The Index is governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. The Methodology Set for the Index can be accessed from MSCI’s webpage [https://www.msci.com/index-methodology](https://www.msci.com/index-methodology) in the section ‘Search Methodology by Index Name or Index Code’.

\(^2\) GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.
2 Index Construction Methodology

The Index construction rules are defined in sections 2.1 to 2.3 below.

2.1 APPLICABLE UNIVERSE

The Applicable Universe includes all the constituents of the Parent Index.

2.2 CALCULATING THE SECTOR-RELATIVE QUALITY SCORE

The “Composite Quality z-score” for each security is first computed as described in the Section 2.2 of the MSCI Quality Indexes Methodology. A sector-relative Quality score is then derived from the Composite Quality z-score. It is arrived at by standardizing the Composite Quality z-score within each GICS sector. The sector-relative Quality scores are winsorized at +/- 3.

The Quality Score is then computed from the sector-relative Quality score as follows:

\[
\text{Quality Score} = \begin{cases} 
1 + \frac{Z_{rel,T}}{1 - Z_{rel,T}} & Z_{rel,T} \geq 0 \\
(1 - Z_{rel,T})^{-1} & Z_{rel,T} < 0 
\end{cases}
\]

Where \(Z_{rel,T}\) is the sector-relative Quality score determined in the previous step.

2.3 SECURITY SELECTION AND WEIGHTING

The selection of securities for inclusion in the Index and the Index weighting is described in the Section 2 of the MSCI Quality Indexes Methodology using the Quality Score computed as mentioned in the above step.

These weights are then updated to implement Active Sector Weights capping of +/-5% i.e., the sector weights of the Index will not deviate more than +/-5% from the sector weights of the Parent Index at the time of rebalancing.

2.3.1 ACTIVE GICS® SECTOR WEIGHTS CAPPING

The Active Sector Weights of selected securities are restricted between +/-5%. The Active Sector Weights are capped in the following steps –

1. Active Sector Weights are calculated by aggregating the Active Weight of securities in the Parent Index within each GICS sector. The Active Weight is calculated as the difference between the weight of securities in the Index prior to Active Sector Weights capping step and their respective weight in the Parent Index.

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3 For more details, the methodology book is available at https://www.msci.com/index/methodology/latest/Quality
2. Active Sector Weights which are greater than +5% are capped at +5% and Active Sector Weights which are smaller than -5% are floored at -5%.

3. Sector weights of remaining sectors are renormalized so that aggregate weight of all sectors sum to 100%.

4. For each GICS sector, the sector weight as calculated above is distributed to the selected securities within the GICS sector in proportion of their weight calculated in the Index prior to Active Sector Weights capping step.

5. Weights in other sectors are checked for breaches after re-distribution of weights (the above steps 1-4 are then repeated as required until all sectors have Active Sector Weights restricted between +/- 5%).

If no securities are selected from any particular GICS sector(s) of the Parent Index during rebalancing, the above Active Sector Weight capping will be applied after the proforma weight of that GICS sector in the Parent Index is re-distributed amongst remaining sectors of the Parent Index.
3 Maintaining the Index

3.1 SEMI-ANNUAL INDEX REVIEWS

The Index is rebalanced on a semi-annual basis, usually as of the close of the last business day of May and November, coinciding with the May and November Index Reviews of the MSCI Global Investable Market Indexes. Fundamental variables data as of the end of April and October are used respectively. The pro forma Index is in general announced nine business days before the effective date.

3.1.1 BUFFER RULE

Buffer Rules in the Index are applied as described in the Section 3.1.1 of the MSCI Quality Indexes Methodology.

3.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the Index aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the Index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the Index.

The following section briefly describes the treatment of common corporate events within the Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously in the Index.

<table>
<thead>
<tr>
<th>EVENT TYPE</th>
<th>EVENT DETAILS</th>
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| New additions to the Parent Index | A new security added to the Parent Index (such as IPO and other early inclusion) will not be added to the Index.

* For more details, the methodology book is available at https://www.msci.com/index/methodology/latest/Quality
### Spin-Offs

All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

### Merger/Acquisition

For Mergers and Acquisitions, the acquirer’s post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

### Changes in Security Characteristics

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.). Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at: [https://www.msci.com/index/methodology/latest/CE](https://www.msci.com/index/methodology/latest/CE).
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* = toll free
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