

# **MSCI World Climate Change Leveraged 1.25x Select Index Methodology**

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## 1 Introduction

The MSCI World Climate Change Leveraged 1.25x Select Index<sup>1</sup> (“the Index”) aims to provide 125% leveraged exposure to MSCI World Climate Change Index. The Index achieves this by allocating a 125% long position to the MSCI World Climate Change Index and a 25% short position to USD Overnight SOFR Rate (collectively, “the Component Indexes”).

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<sup>1</sup> The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix 2 for more details.

## 2 Constructing the Index

The Index is reviewed monthly by applying the methodology described below to the MSCI World Climate Change Index<sup>2</sup>.

### 2.1 Applying the Index Methodology

Three trading days before each monthly rebalance, the following weights are applied to calculate the pro forma Units<sup>3</sup> for the USD Overnight SOFR Rate<sup>4</sup> and the MSCI World Climate Change Index to construct the Index<sup>5</sup>:

Component	Component Index Name	Variant	Weight
1	MSCI World Climate Change Index	NTR	125%
2	USD Overnight SOFR Rate	-	-25%

On the rebalancing day, the Index levels are calculated using drifted component weights derived from pro forma Units. The drifted component weights for each of the Component Indexes, as well as subsequent index levels, are computed using the following formula:

$$W_{i,t} = \frac{\text{Component Index Level}_{i,t-1} \times \text{Unit of Component Index}_{i,T}}{\text{Index Level}_{t-1}}$$

Where:

*Component Index Level<sub>i,t-1</sub>* is the index level of Component Index i on the previous business day (t-1), where 't' denotes any business day on which the Index is calculated.

*Unit of Component Index<sub>i,T</sub>* is the fixed number of Units determined three trading days before the effective date T as calculated in Appendix 3.

*Index Level<sub>i,t-1</sub>* is the Index level of Component Index i on the previous business day (t-1).

$$\text{Index Level}_t = \text{Index Level}_{t-1} \times \left( 1 + \sum_{i=1}^n (r_{i,t} W_{i,t}) \right)$$

<sup>2</sup> Please refer to [MSCI Climate Change Indexes Methodology](#) for more details

<sup>3</sup> Please refer to Appendix 3 for more information on Unit calculation

<sup>4</sup> Refer to Appendix 1 for more information on short-term rate

<sup>5</sup> Since the index fixes Units based on prices 3 trading days ahead of rebalance, the index may not be fully self-financing if there is a price movement in these 3 days

$$r_{i,t} = \frac{\text{Component Index Level}_{i,t}}{\text{Component Index Level}_{i,t-1}} - 1$$

Where:

$r_{i,t}$  is the daily return of the Component Index  $i$  on business day  $t$ .

$n$  is the total number of Component Indices; in our case,  $n = 2$ .

## 2.2 Maintaining the MSCI World Climate Change Leveraged 1.25x Select Index

### 2.2.1 Index Reviews

The Index is reviewed monthly, as described in Section 2.1 and effective at the opening on the first trading day of each month.

Rebalancing of the Index occurs only on days when all of the following exchanges are open for trading: New York Stock Exchange, London Stock Exchange, Xetra Exchange and Tokyo Stock Exchange. If the scheduled rebalancing date falls on a trading holiday for any of these exchanges, rebalancing will occur on the next subsequent day when all exchanges are open.

### 2.2.2 Ongoing Event-Related Changes

Please see Sector 3.2 in the [MSCI Climate Change Indexes Methodology](#)<sup>6</sup> for a detailed description of the treatment of common corporate events applied to the MSCI World Climate Change Index.

<sup>6</sup> For more details regarding the MSCI Climate Change Indexes, please refer to the MSCI Climate Change Indexes Methodology Book at <https://www.msci.com/index-methodology>.

## Appendix I: Short-term Rate

The reporting currency is US dollars. Effective with the August 2021 Index Review, the MSCI World Climate Change Leveraged 1.25x Select Index transitioned from LIBOR to the USD Overnight SOFR Rate.

## Appendix II: Methodology Set

The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set – [www.msci.com/index/methodology/latest/ReadMe](https://www.msci.com/index/methodology/latest/ReadMe)
- MSCI Corporate Events Methodology – [www.msci.com/index/methodology/latest/CE](https://www.msci.com/index/methodology/latest/CE)
- MSCI Index Calculation Methodology – [www.msci.com/index/methodology/latest/IndexCalc](https://www.msci.com/index/methodology/latest/IndexCalc)
- MSCI Index Glossary of Terms – [www.msci.com/index/methodology/latest/IndexGlossary](https://www.msci.com/index/methodology/latest/IndexGlossary)
- MSCI Index Policies – [www.msci.com/index/methodology/latest/IndexPolicy](https://www.msci.com/index/methodology/latest/IndexPolicy)
- MSCI Global Investable Market Indexes Methodology – [www.msci.com/index/methodology/latest/GIMI](https://www.msci.com/index/methodology/latest/GIMI)
- MSCI Climate Change Indexes Methodology – [www.msci.com/index/methodology/latest/ClimateChange](https://www.msci.com/index/methodology/latest/ClimateChange)
- ESG Factors In Methodology\*

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

\* ‘ESG Factors in Methodology’ contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion). It can be accessed in the Methodology Set as described above.

## Appendix III: Unit Calculation

The pro forma Unit is calculated using the following formula:

$$\text{Unit of Component Index}_{i,T} = \frac{\text{Index Level}_T \times W_i^*}{\text{Component Index Level}_{i,T}}$$

Where,

*Unit of Component Index<sub>i,T</sub>* is the fixed number of Units assigned to Component Index i for the effective date T. This quantity is determined on the “T-3” date – that is, three trading days before T and remains constant until next scheduled rebalance.

*Index Level<sub>T</sub>* is the Index level on the same “T-3” date.

*W<sub>i</sub><sup>\*</sup>* is the target weight of the Component Index i as specified in the table of Section 2.1.

*Component Index Level<sub>i,T</sub>* is the index level of the Component Index i on the same “T-3” date.



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