

MSCI EMERGING MARKETS IMI MEGATREND INNOVATOR SELECT CAPPED INDEX

May 2024

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1 Introduction

The MSCI Emerging Markets Investable Market Index (IMI) Megatrend Innovator Select Capped Index (the 'Index'¹) aims to represent the performance of companies that are associated with the development of new products and services focused on megatrends², including digitalization of society and economy, advancement in healthcare technologies as well as in environment-friendly technologies.

¹ The Index is governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix II for more details.

² For more details, please refer to www.msci.com/our-solutions/indexes/thematic-investing

2 Constructing the Index

The Index is constructed by selecting stocks from the MSCI Emerging Markets Investable Market Index (IMI) (the 'Parent Index') based on rules explained in the following sections.

2.1 Eligible Universe

All securities in the Parent Index which are in any of the following indexes³ constitute the Eligible Universe.

Table 1
MSCI ACWI IMI Future Education Index
MSCI ACWI IMI Food Revolution Index
MSCI ACWI IMI Efficient Energy Index
MSCI ACWI IMI Robotics & AI Index
MSCI ACWI IMI Smart Cities Index
MSCI ACWI IMI Digital Economy Index
MSCI ACWI IMI Cybersecurity Index
MSCI ACWI IMI Future Mobility Index
MSCI ACWI IMI Genomic Innovation Index
MSCI ACWI IMI Fintech Innovation Index
MSCI ACWI IMI Digital Health Index

2.2 Selected Universe

The Selected Universe is constructed as follows:

- All stocks from the Eligible Universe are included at their float adjusted market cap weight in the Parent Index
- All stocks which are not in Eligible Universe, but are existing constituents in the Index are included at minimum allowable system weight
- The weights are renormalized to sum to 100%

2.3 Security Weighting and Capping

Securities in the Selected Universe are subject to the following constraints at each Index rebalancing:

- Weight changes for all securities at each rebalancing will be constrained to $\pm 2.5\%$ of the current weight⁴ in the Index. This constraint is not applicable to deletions from the Parent Index. This implies:
 - Any new stocks would be added at a maximum of 2.5% weight

² For details, please refer to the methodology documents of these indexes, available on <https://www.msci.com/index-methodology>

⁴ Current weight refers to the weight of constituents of the Index one day prior to the rebalancing date of the Quarterly Index Review.

- Current constituents⁵ of the Index are constrained to $\pm 2.5\%$ of the weight in Index on rebalance date
- If a deletion is not the result of a Parent Index deletion and has current weight higher than 2.5%, then it will not be dropped from the Index. The weight of such a security will be reduced by a maximum of 2.5% in each successive rebalance. If there is a deletion from Parent Index, then the stock is also dropped from the Index in the same rebalance.
- Country cap of 35% will be applied at each rebalance
- Security cap of 7% will be applied at each rebalance
- In case the above constraints are not satisfied, the constraints would be relaxed (Details in Appendix 1)

2.4 10/40 Capping

At each rebalancing, securities are capped in accordance with the MSCI 10/40 Indexes methodology⁶. The application of this capping may distort the capping applied in section 2.3 above.

⁵ Current constituents refers to the constituents of the Index one day prior to the rebalancing date of the Quarterly Index Review.

⁶ For details, please refer to the methodology document, available on <https://www.msci.com/index-methodology>

3 Maintaining the Index

3.1 Quarterly Index Reviews

The Index is reviewed on a quarterly basis in February, May, August, and November to coincide with the Index Reviews of the Parent Index, and the changes are implemented at the end of February, May, August, and November. In general, the pro forma Index is announced nine business days before the effective date of the index review.

Although the indexes in Table 1 are reviewed semi-annually in May and November, the Selected Universe and Security Weighting and Capping are updated during the Quarterly Index Review.

The Index is also rebalanced on an “as needed” basis in accordance with section “Rebalancing due to non-compliance” of the MSCI 10/40 Indexes methodology. Section “Rebalancing due to addition of a newly eligible security in Parent Index” of the MSCI 10/40 Indexes methodology is not applied to this Index⁷.

3.2 Ongoing Event-Related Maintenance

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.

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.

⁷ For example, an early inclusion of a large IPO, or a security migrating to the Parent Index from another size segment will not result in the inclusion of that security in the Index and will not trigger the full rebalancing of the Index.

EVENT TYPE

EVENT DETAILS

New additions to the Parent Index

A new security added to the Parent Index (such as IPO and other early inclusions) will not be added to the Index.

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.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index-methodology>.

Appendix I: The Capping Methodology

1. Parameters for capping

- The maximum country weight in the Index is restricted to 35%
- The maximum weight of an Index constituent will be restricted to Min (7%, Current Weight + 2.5%). The minimum weight of an Index constituent is restricted to Max (0, Current Weight – 2.5%)

2. Initial Relaxation Parameters

- If the Security Lower Bound is higher than the Security Upper Bound, the Security Upper Bound is set equal to the Security Lower Bound (For example, if the Current Weight is 10%, Security Lower Bound is calculated as 7.5% and Security Upper Bound is calculated as 7%. To resolve this, the Security Upper Bound is set equal to the Security Lower Bound i.e. 7.5% [Therefore, the 2.5% relative capping constraint is given higher priority over the absolute 7% capping constraint])

3. Capping Methodology

The capping methodology is iteratively applied with the following steps:

- Find the most violating constraint from all given constraints (country maximum bound, security maximum bound, security minimum bound)
- For each group, within all constraints, the deviation ratio is calculated based on:
 - a. Ratio of current value to upper bound, in case of upper bound constraint
 - b. Ratio of lower bound to current value, in case of lower bound constraint
 - c. The most violating is the maximum of all deviation ratios
- The most violating constraint is adjusted first to the respective bound value
- The excess weight (difference of current value to the respective bound value), is distributed proportionally to all other constituents
- The iterative capping stops when the most violating constraint ratio (rounded off to 5 decimal places) is less than or equal to 1 or it has reached the maximum iteration count. In case of maximum iteration count, the capping steps will return the solution found till this maximum iteration step
- If the most violating constraint ratio value for each group is repeated in more than 10 iterations, the capping methodology applies relaxation steps

4. Relaxation Steps

The following conditions are alternatively relaxed until the most violating constraint ratio (rounded off to 5 decimals) is less than or equal to 1 or it has met the maximum iteration criteria of 2000 steps:

- Relax the maximum country weight in steps of 1% up to a maximum of 5 iterations
- Relax the maximum security weight in steps 1% up to a maximum of 5 iterations

- Relax the minimum security weight in steps of -1% up to a maximum of 5 iterations

In the event that no solution is found after the above constraint relaxations are exhausted, the methodology would be subjected to exceptional relaxation of parameters (to be determined on a case-by-case basis).

Appendix II: Methodology Set

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

- Description of methodology set
 - <https://www.msci.com/index/methodology/latest/ReadMe>
- MSCI Corporate Events Methodology
 - <https://www.msci.com/index/methodology/latest/CE>
- MSCI Fundamental Data Methodology
 - <https://www.msci.com/index/methodology/latest/FundData>
- MSCI Index Calculation Methodology
 - <https://www.msci.com/index/methodology/latest/IndexCalc>
- MSCI Index Glossary of Terms
 - <https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies – <https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology
 - <https://www.msci.com/index/methodology/latest/GICS>
- MSCI Global Investable Market Indexes Methodology
 - <https://www.msci.com/index/methodology/latest/GIMI>
- MSCI 10 40 Indexes Methodology - <https://www.msci.com/index/methodology/latest/1040>
- MSCI Cybersecurity Index Methodology - <https://www.msci.com/index/methodology/latest/Cybersecurity>
- MSCI Efficient Energy Index Methodology - <https://www.msci.com/index/methodology/latest/EfficientEnergy>
- ACWI IMI Digital Economy Index Methodology - <https://www.msci.com/index/methodology/latest/DigitalEconomy>
- ACWI IMI Future Mobility Index Methodology - <https://www.msci.com/index/methodology/latest/FutureMobility>
- ACWI IMI Smart Cities Index Methodology - <https://www.msci.com/index/methodology/latest/SmartCities>
- ACWI IMI Genomic Innovation Index - <https://www.msci.com/index/methodology/latest/ACWIGenomicInnovation>
- ACWI IMI FinTech Innovation Index - <https://www.msci.com/index/methodology/latest/ACWIFintechInno>
- ACWI IMI Future Education Index - <https://www.msci.com/index/methodology/latest/ACWIIMIFutureEducation>
- MSCI ACWI IMI Food Revolution Index - <https://www.msci.com/index/methodology/latest/ACWIIMIIFoodRev>
- MSCI ACWI IMI Digital Health Index - <https://www.msci.com/index/methodology/latest/ACWIIMIDigiHealth>
- MSCI ACWI IMI Robotics & AI Index Methodology - <https://www.msci.com/index/methodology/latest/ACWIIMIRobAI>
- MSCI Thematic Relevance Score Methodology - <https://www.msci.com/index/methodology/latest/ThemRelevScore>

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’.

Appendix III: Changes to this Document

The following sections have been modified as of December, 2023:

- Table 1 updated to reflect a change in the Selected Universe by replacing ACWI IMI Robotics Index with ACWI IMI Robotics & AI Index.
- Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.
- All references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” of the MSCI GIMI were replaced with “Index Reviews.”

The following sections have been modified as of May, 2024:

- Constructing the Index Section updated to reflect new weighting and capping methodology
- Added details on the Methodology Set for the Indexes.

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