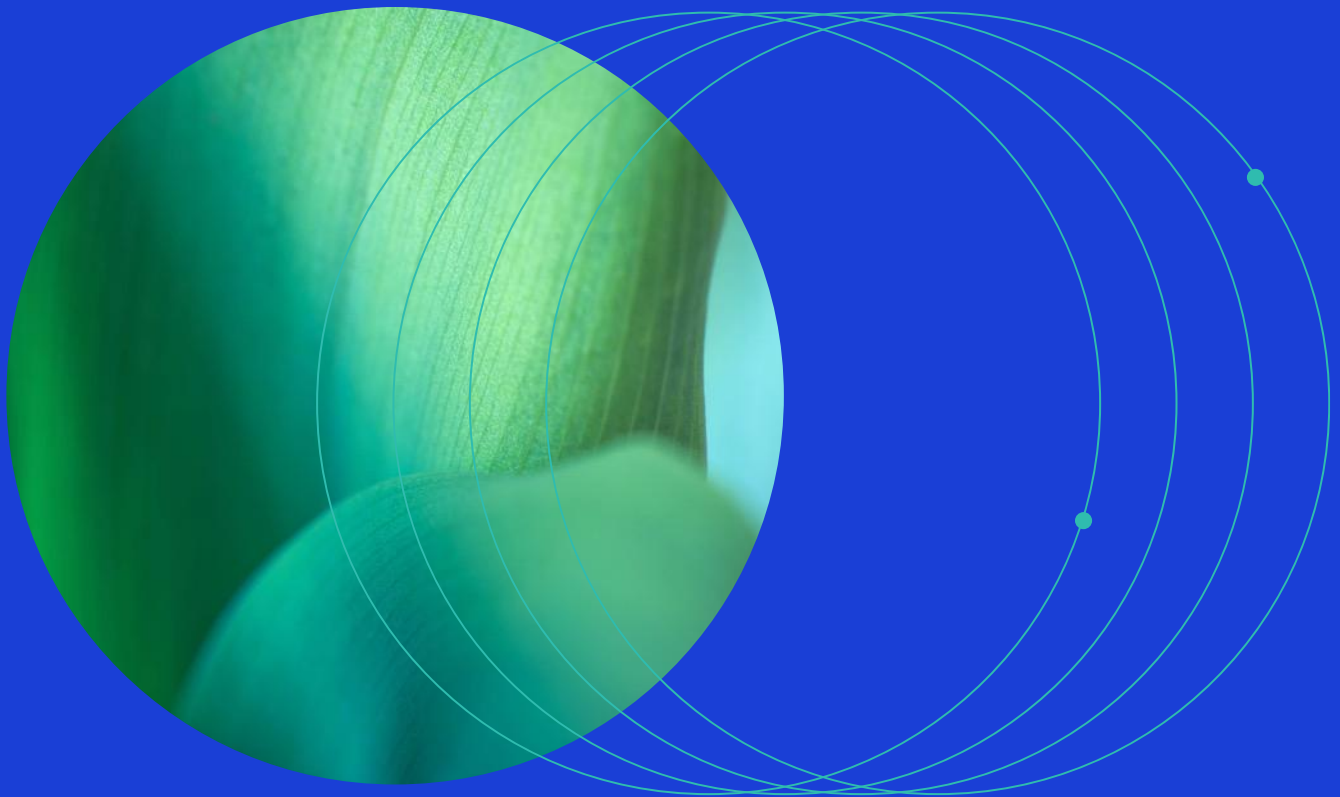




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MSCI STRATEGY EXPOSURE CALCULATION METHODOLOGY



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1 Introduction

Thematic investing is a top-down investment approach which seeks to capitalize on potential opportunities created by a trend (or theme). Some trends reflect a short-term shift that temporarily disrupts normal economic or business activity, whereas others reflect persistent structural shifts that have a transformative impact on societies and economies. Climate transition, automation, AI adoption are some examples of long-term structural trends, whereas the global semiconductor shortage was an example of a short-term trend.

A thematic investment strategy seeks to identify a set of stocks that can be linked to a trend through their business activities. MSCI’s Strategy Exposure (SE) is a revenue-based¹ metric of the economic link between a company and a trend.

SE is designed to identify a company’s reported segments which may be associated with the specified thematic investment strategy. SE is calculated as an aggregate percentage of a company’s revenue from any associated segment.

MSCI’s Strategy Exposure may be used by investors via thematic indexes, or otherwise, to construct thematic portfolios and baskets by facilitating inclusion, exclusion and weighting decisions. Strategy Exposure may also enable investors to understand better how themes impact their portfolio’s profile, complementing more traditional country, industry and factor lenses for analysis².

In the following sections, we describe the calculation methodology of SE and also the data used in its calculation.

¹ Other data sources like operating income, assets, news, etc., can also be used for measuring the economic linkage between a company and a trend.

² An example of such analysis using the MSCI Relevance Score may be found here <https://www.msci.com/www/blog-posts/a-thematic-lens-for-portfolios/02244244368>

2 Coverage Universe

Strategy Exposure calculation covers following universes, as of the publication date.

- All securities of the MSCI ACWI Investable Market Index (IMI) index.
- All securities of the MSCI China All Shares IMI index.
- All securities of MSCI ACWI IMI index and MSCI China All Shares IMI index

3 Data Requirements

3.1 Trend (or Theme) Definition

A trend or theme (Theme) definition includes following parameters –

3.1.1 Theme Description

A few sentences or a short paragraph describing the investment objectives of the Theme.

3.1.2 Components (or subthemes) of the Strategy

Components represent smaller ideas or underlying the Theme. Each Component may be associated with a defined set of products, services, technologies, activities which are considered in-scope and out-of-scope for the component. It is written in natural language and is not an encyclopedic or exhaustive list.

- In Scope section: An outline of the sort of products, services, technologies and/or business activities which would be considered "in scope" of the component and the Strategy.
- Out of Scope section: An outline of the products, services, technologies, concepts, and/or business activities which would be a poor fit to the specific idea of the Strategy or its Components.

3.1.3 Eligibility Criteria for Calculation Universe

The Strategy Exposure is calculated for securities included in the Calculation Universe. Securities of the Coverage Universe which meet all eligibility criteria are included in the Calculation Universe. These eligibility criteria could include filters like

- A specified parent index
- A set of GICS^{®3} sectors
- Market capitalization and other stock level attributes
- Semantic Similarity⁴

The specific Theme Description, Components and Coverage Universe will be defined in the corresponding thematic index methodology document or other Strategy Exposure product overview.

³ GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices.

⁴ Semantic similarity between a security and Theme is calculated as the cosine of the embeddings vectors of the security's issuer description and the specified Theme's description.

3.2 Company level data⁵ used for assessing a company's thematic exposure

The following data is used at the issuer level:

- Business segment information from companies' annual reports and vendor data sources. This includes business segment names, business segment descriptions, business segment revenues, business segment income and business segment assets.
- A summary description of the companies' business activities from public sources expressed in English⁶.

⁵ In general, MSCI uses the latest available company business segment names, segment description, company description and fundamental data as of the SE calculation date.

⁶ May include use of filings reports where available.

4 Calculating Strategy Exposure

4.1 Constructing the Calculation Universe

The calculation universe is constructed by selecting securities of the Coverage Universe which meet the eligibility criteria as described in the corresponding thematic index methodology document. Strategy Exposure is calculated only for securities included in the Calculation Universe.

4.2 Calculating the Strategy Exposure

4.2.1 Matching business segments with Components

Company reported business segments are assessed against the Components. This is done by comparing the business segment’s description with the in-scope and out-of-scope definition of all Components included in the Theme definition. A match between a pair of business segment and a Component is identified with the help of a Large Language Model (LLM) in following steps⁷ –

4.2.1.1 Checking Component’s mention in Business Segment

All Components are assessed for a “mention” in a company’s business segment by comparing each Component’s in-scope description against the segment description for related meaning.

This step is repeated over several iterations. If, over a majority of those iterations, the assessment is positive then the pair of business segment and Component is assigned a “mentioned” status.

4.2.1.2 Confirming alignment between mentioned Components and a Business Segment

Each pair of business segment and Component with “mentioned” status is then re-assessed for alignment by comparing the meaning of the segment description against a choice of both in-scope and out-of-scope descriptions of the Component.

This step is repeated over several iterations and if, on majority of iterations, the segment description is assessed as more closely aligned with in-scope than out-of-scope, then the pair of business segment and Component is assigned a “matched” status

4.2.2 Matched business segment

All business segments of the company which are assigned a “matched” status with at least one Component in step 4.2.1.2 are called “matched business segments”.

In addition, a company’s summary description may also be compared with the Components as per the steps described above.

⁷ More details on matching process using LLM can be found here

<https://www.msci.com/research-and-insights/blog-post/leveraging-language-models-to-capture-investment-strategies>

4.2.3 Calculating the Strategy Exposure

Company level Strategy Exposure is calculated as follows –

Strategy Exposure (SE) = [Revenue from matched business segments]/ Total company revenue.

In addition, an asset-based Strategy Exposure is calculated as follows:

Strategy Exposure Asset Based (SEAB) = [Assets from matched business segments]/ Total Assets.

Both Strategy Exposure and Strategy Exposure Asset Based are floored at 0% and capped at 100%.

Individual thematic index portfolio analytics methodologies may specify further adjustments to the calculation of Strategy Exposure for matched securities to arrive at the final derived score used in that instance.

5 Ongoing Calculation of Strategy Exposure

5.1 Monthly Calculation

Both SE and SEAB are calculated on a monthly basis for all stocks in the Calculation Universe of a given theme, as of the close of the last business day of the month.

During the monthly calculation, company level SE and SEAB are calculated in following steps –

- All companies with non-zero SE as of the last monthly calculation which are included in the Coverage Universe are added to the Calculation Universe irrespective of their current eligibility.
- For each company in the Calculation Universe, the segment description of each business segment is compared against the segment description as of the last monthly calculation to check for any change in text.
- Only segments where segment description has changed are re-assessed for a match with Components as per steps described above in section 4.2.1.

Company level SE and SEAB are calculated from matched segments as per the calculation described in section 4.2.3.

6 Corrections Policy

Any correction applied by MSCI to the underlying data used in the SE calculation of a company would result in a recalculation of SE of the impacted companies.

Appendix I: LLM Model used for matching business segments with Components

- Business segments are matched with Components in step 4.2.1 using OpenAI's GPT-4.1 model.⁸
- Embedding vectors are calculated using OpenAI's text-embedding-3-large model with 1024 dimensions.

⁸ <https://platform.openai.com/docs/models/gpt-4.1>

Appendix II: New LLM Model

MSCI may replace the current LLM model with a newer release of the current model or with a completely new LLM model. A model change will be announced prior to implementing the change.

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