

MSCI USA Factor Switch Select Index

MSCI World Factor Switch Select Index

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1 Introduction

The MSCI Factor Switch Select Indexes (“the Indexes”) consist of following Indexes:

- MSCI USA Factor Switch Select Index
- MSCI World Factor Switch Select Index

The MSCI USA Factor Switch Select Index¹ aims to represent the performance of equal weighted set of Factor Indexes, selected from a universe of six MSCI USA Factor Indexes, based on Index specific signals calculated for each of the following six MSCI USA Factor Indexes (“the Component Indexes²”).

- MSCI USA Value Index
- MSCI USA Growth Index
- MSCI USA Equal Weighted Index
- MSCI USA High Dividend Yield Index
- MSCI USA Quality Index
- MSCI USA Momentum Index

The MSCI World Factor Switch Select Index³ aims to represent the performance of equal weighted set of Factor Indexes, selected from a universe of six MSCI World Factor Indexes, based on Index specific signals calculated for each of the following six MSCI World Factor Indexes (“the Component Indexes⁴”).

- MSCI World Value Index
- MSCI World Growth Index
- MSCI World Equal Weighted Index
- MSCI World High Dividend Yield Index
- MSCI World Quality Index
- MSCI World Momentum Index

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 1 for more details.

² Please refer to MSCI Factor Indexes methodologies at <https://www.msci.com/index-methodology> for more details on each of the six Component Indexes for the MSCI USA Factor Switch Select Index.

³ The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix 1 for more details.

⁴ Please refer to MSCI Factor Indexes methodologies at <https://www.msci.com/index-methodology> for more details on each of the six Component Indexes for the MSCI World Factor Switch Select Index.

2 Constructing the Index

2.1 MSCI USA Factor Switch Select Index

The MSCI USA Factor Switch Select Index is constructed by selecting securities that belong to MSCI USA Index (“the USA Parent Index”).

At each Monthly Index Review and at initial construction, signal values are calculated for each of the six Component Indexes as follows:

Component Index	Indicator ⁵	Signal	Signal Value
MSCI USA Value Index	P/E MSCI USA Value Index – P/E MSCI USA Index	Current Month Indicator Value ⁶ – Average Indicator Value ⁷	If Signal > 0, then ‘1’ Else ‘0’
MSCI USA Growth Index	Spread of “P/E – P/E Fwd” MSCI USA Growth Index – Spread of “P/E – P/E Fwd” MSCI USA Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then ‘1’ Else ‘0’
MSCI USA Equal Weighted Index	NOC / ENOC of the MSCI USA Index	Average Indicator Value – Current Month Indicator Value	If Signal > 0, then ‘1’ Else ‘0’
MSCI USA High Dividend Yield Index	YIELD of the MSCI USA HDY Index – YIELD of the MSCI USA Index	Average Indicator Value – Current Month Indicator Value	If Signal > 0, then ‘1’ Else ‘0’
MSCI USA Quality Index	One-month return of MSCI USA Quality Index – One-month return of MSCI USA Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then ‘1’ Else ‘0’

⁵ Please refer to Appendix 2 for more details on variables used in the indicator calculation namely P/E, P/E Fwd, NOC, ENOC, YIELD, One-Month Return and Three-Month Return

⁶ Current Indicator is the latest value of Indicator calculated as of last end of month.

⁷ Average Indicator is the average value of Current indicator calculated over last 6 months.

MSCI USA Momentum Index	Three-month return of MSCI USA Index – One-month return of MSCI USA Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then '1' Else '0'
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The MSCI USA Factor Switch Select Index allocates weight to securities of each of the six Component Indexes, as calculated below:

$$W_{C_j} = \frac{SV_{C_j}}{\sum_j SV_{C_j}}$$

where:

W_{C_j} is the target weight of the Component Index C_j

SV_{C_j} is the signal value (0 or 1) for Component Index C_j

C_j is one of the six component indexes as defined above

In the event, none of the Component Indexes have a signal value = 1, the MSCI USA Factor Switch Select Index allocates 100% weight to all the securities in MSCI USA Index i.e., the MSCI USA Factor Switch Select Index selects all the securities of MSCI USA index.

2.2 MSCI World Factor Switch Select Index

The MSCI World Factor Switch Select Index is constructed by selecting securities that belong to MSCI World Index (“the World Parent Index”).

At each Monthly Index Review and at initial construction, signal values are calculated for each of the six Component Indexes as follows:

Component Index	Indicator ⁸	Signal	Signal Value
MSCI World Value Index	P/E MSCI World Value Index – P/E MSCI World Index	Current Month Indicator Value ⁹ – Average Indicator Value ¹⁰	If Signal > 0, then '1' Else '0'
MSCI World Growth Index	Spread of “P/E – P/E Fwd” MSCI World Growth Index – Spread of “P/E – P/E Fwd” MSCI World Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then '1' Else '0'

⁸ Please refer to Appendix 2 for more details on variables used in the indicator calculation namely P/E, P/E Fwd, NOC, ENOC, YIELD, One-Month Return and Three-Month Return

⁹ Current Indicator is the latest value of Indicator calculated as of last end of month.

¹⁰ Average Indicator is the average value of Current indicator calculated over last 6 months.

MSCI World Equal Weighted Index	NOC / ENOC of the MSCI World Index	Average Indicator Value – Current Month Indicator Value	If Signal > 0, then '1' Else '0'
MSCI World High Dividend Yield Index	YIELD of the MSCI World HDY Index – YIELD of the MSCI World Index	Average Indicator Value – Current Month Indicator Value	If Signal > 0, then '1' Else '0'
MSCI World Quality Index	One-month return of MSCI World Quality Index – One-month return of MSCI World Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then '1' Else '0'
MSCI World Momentum Index	Three-month return of MSCI World Index – One-month return of MSCI World Index	Current Month Indicator Value – Average Indicator Value	If Signal > 0, then '1' Else '0'

The MSCI World Factor Switch Select Index allocates weight to securities of each of the six Component Indexes, as calculated below:

$$W_{C_j} = \frac{SV_{C_j}}{\sum_j SV_{C_j}}$$

where:

W_{C_j} is the target weight of the Component Index C_j

SV_{C_j} is the signal value (0 or 1) for Component Index C_j

C_j is one of the six component indexes as defined above

In the event, none of the Component Indexes have a signal value = 1, the MSCI World Factor Switch Select Index allocates 100% weight to all the securities in MSCI World Index i.e., the MSCI World Factor Switch Select Index selects all the securities of MSCI World Index.

2.3 Security Weighting

At each Index Review and at initial construction, the securities selected for inclusion in the Indexes are assigned the weights $W_{Sec_i}^{CI}$ and the weights are subsequently normalized to sum to 100%.

For each of the Indexes, the weight of each security is calculated as follows:

$$W_{Sec_i}^{CI} = \sum_j W_{C_j} W_{Sec_i}^{C_j}$$

where:

$W_{Sec_i}^{CI}$ is the weight of security Sec_i in the Indexes

W_{C_j} is the target weight of the Component Index C_j

$W_{Sec_i}^{C_j}$ is the weight of security Sec_i in the Component Index C_j

Sec_i refers to securities within corresponding component index C_j

C_j is one of the six component indexes as defined above

3 Maintaining the Index

3.1 Monthly Index Reviews

The Indexes are reviewed on a monthly basis and rebalanced at the 4th business day of each month. The pro forma indexes are announced three business days before the rebalance date.

3.2 Ongoing Event Related Changes

The following section briefly describes the treatment of common corporate events within the Indexes. Changes in Index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

No new securities will be added (except where noted below) to the indexes between Index Reviews. For cases where additions are noted below, securities will be added to the indexes only if added to the respective Parent Index. Parent Index deletions will be reflected simultaneously.

EVENT TYPE

EVENT DETAILS

New additions to the Parent Index

A new security added to any of the Parent Indexes (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 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>.

Appendix 1: 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 – www.msci.com/index/methodology/latest/ReadMe
- MSCI Corporate Events Methodology – www.msci.com/index/methodology/latest/CE
- MSCI Index Calculation Methodology – www.msci.com/index/methodology/latest/IndexCalc
- MSCI Index Glossary of Terms – www.msci.com/index/methodology/latest/IndexGlossary
- MSCI Index Policies – www.msci.com/index/methodology/latest/IndexPolicy
- MSCI Global Industry Classification Standard (GICS) Methodology – www.msci.com/index/methodology/latest/GICS
- MSCI Global Investable Market Indexes Methodology – www.msci.com/index/methodology/latest/GIMI

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 2: Variables used in Signal Value Calculation

The variables used in signal value calculation mentioned in Section 2 are as follows:

- **P/E**
 - P/E refers to Price to Earnings Ratio of the given Component Index as of last end of month. For more details on P/E, please refer to the MSCI Fundamental Data Methodology at <https://www.msci.com/index-methodology>

- **P/E Fwd**
 - P/E Fwd refers to Price to Earnings Forward Ratio of the given Component Index as of last end of month. For more details on P/E Fwd, please refer to the MSCI Fundamental Data Methodology at <https://www.msci.com/index-methodology>

- **YIELD**
 - YIELD refers to Dividend Yield of the given Component Index as of last end of month. For more details on YIELD, please refer to the MSCI Fundamental Data Methodology at <https://www.msci.com/index-methodology>

- **NOC**
 - NOC refers to Number of constituents in a given Index as on last end of month

- **ENOC**
 - ENOC refers to Effective Number of Constituents of a given Index as on last end of month. It is calculated as the Inverse of the Herfindahl–Hirschman index (HHI) using Security Closing Weights of the Index as of last end of month. Herfindahl–Hirschman index (HHI) is calculated as follows:

$$HHI = \sum_i (W_{sec_i} * W_{sec_i})$$

where:

W_{sec_i} is the closing weight of constituents as of last end of month

- **One-Month Return**
 - One-Month Return of a given index is calculated as follows:

$$\text{One-Month Return} = (P_{T-1}/P_{T-2}) - 1$$

where:

P_{T-1} is the Index Level of the Net return variant of a component index as of last end of month

P_{T-2} is the Index Level of the Net return variant of a component index as of month end prior to last end of month

- **Three-Month Return**

- Three-Month Return of a given index is calculated as follows:

$$\text{Three-Month Return} = (P_{T-1}/P_{T-4}) - 1$$

where:

P_{T-1} is the Index Level of the Net return variant of a component index as of last end of month

P_{T-4} is the Index Level of the Net return variant of a component index as of month end three months prior to last end of month

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