

MSCI ACWI IMI Climate Change Healthcare Select Index

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1 Introduction

The MSCI ACWI IMI Climate Change Healthcare Select Index (the 'Index') aims to represent the performance of a select set of companies associated with the development of new products and services focused on the cure, treatment, management and prevention of diseases linked to climate change factors such as air pollution, global warming and environmental carcinogens, based on the below index methodology criteria.

2 Constructing the Index

The Indexes use company ratings and research provided by MSCI ESG Research¹ for the Index construction.

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

The Index selects companies which are assessed to have high exposure to the following business activities –

- Management of allergies (e.g., allergic rhinitis, dust mite allergy) related to air pollution
- Treatment and prevention of infectious enteric diseases linked to global warming
- Solutions for chronic respiratory disorders (e.g., sleep apnea, obstructive pulmonary disorder) related to air pollution
- Portable oxygen and oxygen therapy solutions
- Devices for remote patient monitoring
- Ventilatory care solutions
- Care for cancers (e.g., melanoma) exacerbated by global warming
- Mental health care
- Zoonotic disease mitigation

2.1 The set of relevant words and phrases² used for constituent selection

MSCI uses a broad set of relevant words and phrases derived from the Index objective which are important to describing the products and services of companies focused on the cure, treatment, management and prevention of diseases linked to various climate change factors.

2.2 Company level data used for assessing company exposure

The following data is used at the company level:

- Business segment information from company annual reports and vendor data sources: business segment names, assigned SIC codes³ and related revenue.

¹ See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

² For more details on the steps followed to generate the set of relevant words and phrases, please refer to <https://www.msci.com/www/research-paper/indexing-change-understanding/01647260939>.

³ Company's business segments are assigned with a specific SIC (Standard Industry Classification) description for products and services, used by official agencies within the US government. These descriptions provide additional information on the nature of the segment.

- English language summary description of the company’s business activities from public sources.

2.3 Eligible universe

All stocks from the Parent Index which satisfy any of the following criteria are selected for the eligible universe.

2.3.1 Selection on business segments

Company identified business segment names are compared against the set of relevant words. Companies from the Parent Index which include at least one relevant word in their business segment names are included in the eligible universe.

2.3.2 Selection on company’s summary description

The company’s summary business description is compared against the set of relevant words. Companies from the Parent Index which include at least two distinct relevant words in their summary description are included in the eligible universe.

2.4 Selected business segments

‘Selected business segments’ are business segments which include at least one relevant word. These are the business segments based on which stocks are selected in section 3.3.1.

2.5 SIC code selection

Company business segments are mapped to an SIC code. The SIC code selection is a set of all the SIC codes which satisfy the following criteria

- The SIC code is mapped to at least one of the ‘selected business segments’ as described in section 3.4.
- The SIC code is assigned to the business segments of at least two different stocks from the eligible universe. SIC code 9999 is not selected.

2.6 Calculating the stock relevance score

A relevance score for all stocks in the eligible universe is calculated. The relevance score for a company is calculated by taking into account the portion of company’s revenue which is derived from the selected business segments (as described in section 3.4) filtered via the SIC code selection (as described in section 3.5).

The relevance score is not an explicit measurement or estimate of the proportion of revenue that the company derives from business activities exposed to the theme.

2.6.1 Relevance score discount factor

A stock level relevance score discount factor is calculated by normalizing the cumulative frequency of relevant words in the company’s summary description relative to all companies selected on summary business descriptions as described in section 3.3.2.

At company’s business segment level, the revenue discount factor is applied on revenue from a ‘selected SIC code’. The revenue discount factor is 1 for revenue derived from ‘selected business segment’.

2.6.2 Relevance score

Relevance score for stocks in the eligible universe is calculated as follows:

Relevance score = [revenue from the selected business segments (as described in section 3.4) + relevance score discount factor * revenue from the selected SIC code (as described in section 3.5)] / Total company revenue.

2.7 Selected universe

2.7.1 Relevance Score

Stocks in the eligible universe that have a relevance score of 50% or more are included in the selected universe.

2.7.2 ESG Controversy Score

ESG Controversy Score = 0 (‘Red Flag’ companies) – Companies involved in very severe business controversies as defined by the MSCI ESG Controversies Methodology are excluded from the selected universe.

Missing ESG Controversy Score – Companies not assessed by MSCI ESG Research’s MSCI ESG Controversy Scores are excluded from the selected universe.

2.7.3 ESG Rating

ESG Rating = ‘CCC’ – Companies having an MSCI ESG Rating of ‘CCC’ are excluded from the selected universe.

Missing ESG Rating – Companies which are not rated by MSCI ESG Research for an MSCI ESG Rating are not excluded from the selected universe.

2.8 Weighting scheme

Stocks included in the Index are weighted by the product of relevance score and their weight in the Parent Index. The weights are then normalized to 100%. Additionally, constituent weights are capped at the issuer level to mitigate concentration risk in the Index. The issuer weight in the Index is capped at 5%.

3 Maintaining the Index

3.1 Semi-Annual Index Review

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

During the Semi-Annual Index Review, the eligible universe and selected universe are updated.

In general, MSCI uses the company business segment names, business description and revenue data as of the rebalancing date for the Semi-Annual Index Review.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI Climate Change Metrics, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available. This approach aims to capture timely updates to ESG Ratings of the constituents and coincides with the rebalancing of the relevant MSCI Parent Indexes.

3.2 Annual Index Review

The set of relevant words (as described in section 3.1) are reviewed annually by MSCI during the May Semi-Annual Index Review. In general, MSCI completes this review of relevant words nine business days before the effective date of the May Semi-Annual Index Review.

3.3 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.

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 if the spin-off security is also added to the Parent Index. 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>.

4 MSCI ESG Research

The Index is a product of MSCI Inc. that utilizes information such as company ratings and research provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI ESG Research products: MSCI ESG Ratings and MSCI ESG Controversies. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH. MSCI ESG Ratings

MSCI ESG Ratings aim to measure entities’ management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from ‘AAA’ to ‘CCC’, indicating how an entity manages relevant key issues relative to industry peers.

The MSCI ESG Ratings methodology can be found at: <https://www.msci.com/legal/disclosures/esg-disclosures>.

4.1 MSCI ESG Controversies Score

MSCI ESG Controversies provide assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

The MSCI ESG Controversies methodology can be found at: <https://www.msci.com/legal/disclosures/esg-disclosures>.

Appendix I: 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>
- 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 II: Changes to this Document

The following sections have been modified since January 2022:

- Introduction
- The set of relevant words and phrases
- Calculating the stock relevance score

The following sections have been modified since November 2024:

- 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.”
- ESG Research Section moved to the end (changed from Section 2 to Section 4)
- Added details on the Methodology Set for the Index.

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To learn more, please visit www.msci.com.

The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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