

Insights from MSCI May 2023 Index Review

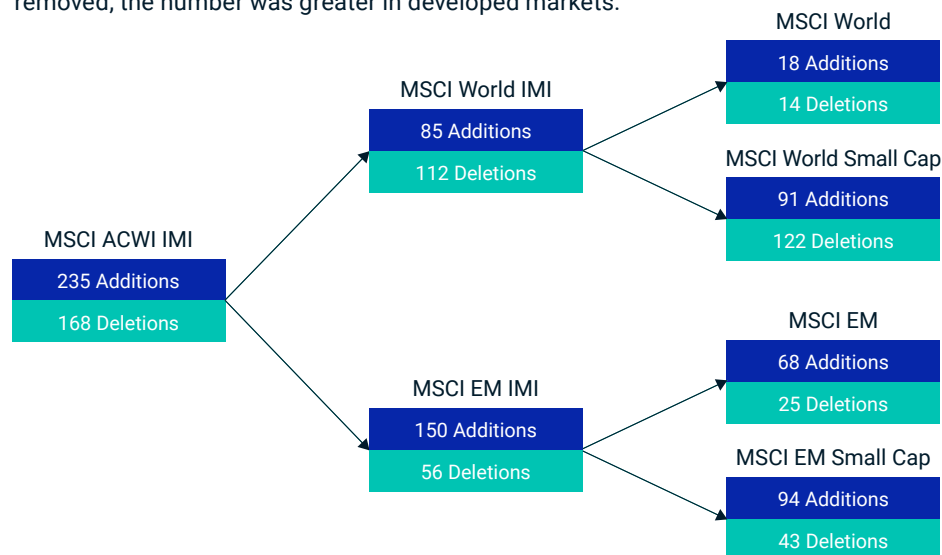
On **May 11th**, we communicated that **235 securities were added** and **168 securities were removed** from the MSCI ACWI Investable Market Index (IMI), MSCI's flagship global equity index. The MSCI ACWI IMI is designed to represent the performance of the investment universe of large/mid and small cap companies across developed and emerging market countries. It covers approximately 99% of the global equity investment opportunity by free float-adjusted market capitalization.

On **May 19th**, as a follow-up, we communicated **the changes to derived indexes** like our **ESG, Factors and Thematic indexes** which are impacted by the changes in MSCI ACWI IMI.

As market cap indexes change, there will be an impact in any derived index, which uses that market cap index as a parent/starting universe. In addition to the changes in the parent index, each derived index will be impacted by its own methodology and rules which will be defining the selection and weighting of constituents.

Further Granularity

Our methodology applies a **building block approach across geographies and company sizes**. This aims to enable investors to see **how the global investable opportunity has changed at a more granular level**. For example, in this rebalance we saw a lot more additions in emerging markets as captured by the MSCI Emerging Markets Index than in the MSCI World Index. On the other hand, when we look at the securities that were removed, the number was greater in developed markets.



In the MSCI World Index, most of the additions are securities that are now meeting the free float adjusted market capitalization requirement.

In the MSCI Emerging Markets Index, most of the securities added were newly eligible Chinese securities through the expansion of the Stock Connect program, which was established for connectivity of trading and clearing between mainland China's (Shanghai and Shenzhen) and Hong Kong's securities markets. This program allows international investors to trade mainland securities through the Hong Kong Exchange.

Impact on the Indexes

To assess the impact on the indexes of these changes, we calculate one-way index turnover to measure the percentage change in the composition of the index. This index turnover corresponds to the proportion of assets that should be bought in a portfolio replicating the index. As a portfolio has a fixed dollar amount, the amount of assets that should be bought exactly corresponds to the amount of assets that should be sold:



Index turnover is influenced by the number and size of securities added or deleted as well as other changes impacting security index market capitalization, such as free float update.

Market Size-Segment Cut-offs

At each rebalance, and for each market, MSCI reviews the market size segment cutoffs to ensure they remain appropriate. Each company is only assigned to one size segment.

As an example, the table below shows the market size segment cutoffs for the USA, the largest developed market, and China, the largest emerging market at the May rebalance.

Size segment	USA	China
Large Cap	27,591	6,939
Mid Cap	8,811	2,510
Small Cap	339	296

What happens next?

June 1, 2023 – Effective date of the index changes.

While the index changes were announced on May 11th and May 19th, they will be implemented for the market cap indexes and the derived indexes by June 1st. MSCI announces the results of the review providing sufficient lead time prior to implementation to allow for the market and market participants to adjust to the information.

Additional Highlights

- As announced on May 5, 2023, MSCI will not implement additions and will freeze any upward size migrations of certain American Depositary Receipts (ADRs) where underlying shares are not available for trading (underlying shares are unlisted) as part of the May 2023 Index Review, following the feedback from market participants regarding the free float availability of such securities.
- In light of currently observed market accessibility issues, MSCI will not implement changes as part of this Index Review for any securities classified in Bangladesh, Egypt, Kenya, Nigeria, or Sri Lanka for the MSCI Bangladesh, MSCI Egypt, MSCI Kenya, MSCI Nigeria, and MSCI Sri Lanka Indexes or impacted composite indexes.
- Following the GICS® structure update earlier in the year¹, MSCI will implement changes to the relevant sectoral indexes as part of the May 2023 Index Review, effective June 1, 2023. The largest changes (by free float market capitalization) at a sector level are:

Name	Country	Current sector	New sector
Visa A	US	Information Technology	Financials
Mastercard A	US	Information Technology	Financials
Automatic Data Process	US	Information Technology	Financials
Paypal Holdings	US	Information Technology	Financials
Target Corp	US	Consumer Discretionary	Consumer Staples

¹ Visit GICS® - Global Industry Classification Standard - MSCI for more details. GICS® (Global Industry Classification Standard) is the global industry classification standard jointly developed by MSCI Inc. and S&P Global.

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