

MSCI IMI Accelerating Change Sector Select Index

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1 Introduction

The MSCI ACWI Accelerating Change Sector Select Index (the 'Index') aims to represent the performance of a set of companies associated with the development of new products and services focused on one or more of the following themes:

- Genomic Innovation
- Next Generation Internet Innovation
- Efficient Energy
- Logistics
- Pharmaceuticals GICS Subindustry
- Household & Personal Products GICS Subindustries

2 MSCI ESG Research

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. It consists of an integrated suite of tools and products to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

The Index uses company ratings and research provided by MSCI ESG Research. In particular, this index uses the following MSCI ESG Research products: MSCI Climate Change Metrics. For details on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

2.1 MSCI Climate Change Metrics

MSCI Climate Change Metrics is designed to support investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, and factoring climate change research into their risk management processes. It provides Carbon Emissions, Fossil Fuel exposure, environmental impact (i.e., clean technology) data and screens, as well as climate-related risk exposure and management assessment on companies.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-change-solutions>

3 Constructing the Index

3.1 Determining the components of the Index

The MSCI ACWI Accelerating Change Sector Select Index is constructed by combining the stocks from the following components using the rules described below:

- MSCI ACWI IMI Genomic Innovation Index
- MSCI ACWI IMI Next Generation Internet Innovation Index
- MSCI Efficient Energy Index
- Logistics Component: The logistics theme aims to measure the performance of a set of companies associated with providing logistics and warehousing products and services.
- Pharmaceuticals Component: The component includes MSCI ACWI Index constituents classified in the Pharmaceuticals GICS¹ subindustry. The eligible universe is constructed by selecting the securities with high percentage of sales spent on R&D and Capex.
- Household & Personal Products Component: The component includes MSCI ACWI Index constituents classified in the Household Products and Personal Products GICS subindustries. The eligible universe is constructed by selecting the securities with high float adjusted market capitalization.

3.2 Determining the Eligible Universe of the Index

An eligible universe for each component described in section 3.1 is constructed using the following steps.

3.2.1 Genomic Innovation Eligible Universe

The Genomic Innovation universe is constructed by selecting securities from the MSCI ACWI IMI Genomic Innovation Index which are a part of the MSCI ACWI Index. Please refer to the methodology document for the MSCI ACWI IMI Genomic Innovation Index for details on calculation of relevance score at <https://www.msci.com/index-methodology>.

The following steps are followed to construct the Genomic Innovation eligible universe:

¹ GICS, the Global Industry Classification Standard jointly developed by MSCI and S&P Global.

1. The Genomic Innovation universe is first divided into “Top Half” and “Bottom Half” by their float adjusted market capitalization.
2. The Top Half and Bottom Half are then divided into quartiles such that, in each half, the highest quartile holds the securities with the highest relevance scores and the bottom quartile holds the securities with the lowest relevance scores.
3. The eligible universe is constructed by selecting the top three quartiles of securities from the Top Half and the top quartile of securities from the Bottom Half to achieve diversification over the size segments.
4. The stocks in the eligible universe are weighted by the product of their relevance score and their float adjusted market capitalization. The weights of selected stocks are then normalized to sum to 100%.
5. The security weights are then capped at 20% to avoid concentration in the eligible universe.

3.2.2 Next Generation Internet Innovation Eligible Universe

The Next Generation Internet Innovation eligible universe is constructed by selecting securities from the MSCI ACWI IMI Next Generation Internet Innovation Index which are a part of the MSCI ACWI Index.

Please refer to the methodology document for the MSCI ACWI IMI Next Generation Internet Innovation Index for details on calculation of relevance score at <https://www.msci.com/index-methodology>.

The construction for the Next Generation Internet Innovation eligible universe follows the five steps as detailed for the Genomic Innovation eligible universe in section 3.2.1.

3.2.3 Efficient Energy Eligible Universe

The Efficient Energy eligible universe is constructed by selecting securities from the MSCI Efficient Energy Index which are a part of the MSCI ACWI Index.

Please refer to the methodology document for the MSCI Efficient Energy Index for details on calculation of relevance score at <https://www.msci.com/index-methodology>.

The relevance scores for the securities in the Efficient Energy eligible universe are combined with the Low Carbon Transition (LCT) Score² in order to incorporate a quantitative assessment of Climate Change. The securities in the Efficient Energy eligible universe with a Low Carbon Transition (LCT) score greater than or equal to 7

² Please refer to methodology document MSCI Climate Change Indexes on <https://www.msci.com/index-methodology> for details on LCT Score.

are combined with the relevance scores in the Efficient Energy eligible universe to arrive at the combined scores.

The combined scores for securities in the Efficient Energy eligible universe are calculated as: $\text{Maximum (Relevance Score in the Efficient Energy eligible universe, (LCT Score} \geq 7) / 10)$

The construction for the Efficient Energy eligible universe follows the five steps as detailed for the Genomic Innovation eligible universe in section 3.2.1 using the combined scores.

3.2.4 Logistics Eligible Universe

The Logistics eligible universe is constructed by selecting securities from the Logistics component which are a part of the MSCI ACWI Index.

Please refer to Appendix 1 for details on calculation of the Logistics theme relevance scores.

The construction for the Logistics eligible universe follows the five steps as detailed for the Genomic Innovation eligible universe in section 3.2.1.

3.2.5 Sector Eligible Universe

The Pharmaceuticals and Household & Personal Products components are constructed using the following rules:

1. The Pharmaceuticals component is constructed by selecting the MSCI ACWI Index constituents classified in the Pharmaceuticals GICS subindustry.
2. The Household Products and Personal Products component is constructed by selecting the MSCI ACWI Index constituents classified in the Household Products and Personal Products GICS subindustries.

The Sector eligible universe is constructed as a union of all securities in the Pharmaceuticals eligible universe and the Household & Personal Products eligible universe. The construction rules are detailed below:

1. Pharmaceuticals eligible universe: The eligible universe is constructed by selecting the top half of securities in the Pharmaceuticals component by percentage of sales spent on R&D and Capex. The details of the calculation of the percentage of sales spent on R&D and Capex is provided in Appendix 2.
2. Household & Personal Products eligible universe: The eligible universe is constructed by selecting the top half of securities in the Household & Personal Products component by float adjusted market capitalization.

3. The stocks in the Sector eligible universe are weighted in proportion of their float adjusted market capitalization. The weights of selected stocks are then normalized to sum to 100%.
4. The security weights are capped at 20% to avoid concentration in the eligible universe.

3.3 Selected Universe

The selected universe is constructed by combining stocks from each eligible universe as described in section 2.2.2 in the following proportion. Each theme is assigned a “scaling factor” in order to form the selected universe.

Theme Eligible Universe	Scaling Factor
Genomic Innovation	15%
Next Generation Internet Innovation	40%
Efficient Energy	15%
Logistics	15%
Sector	15%

The weight of each stock in the selected universe is calculated as follows:

$$w_i^{selected} = \sum_{C(j)} Theme\ Scaling\ Factor \times w_i^{C(j)}$$

where:

- $w_i^{selected}$ is the weight of stock i in the Selected Universe
- $w_i^{C(j)}$ is the weight of stock i in the high exposure eligible universe $C(j)$
- Theme Scaling Factor is the factor assigned to each theme in the above table

3.4 Liquidity Screening Criteria

Securities in the selected universe that have a 3-month average daily trading value (3M ADTV) less than or equal to 5 million USD are excluded from the selected universe. For the calculation of ADTV, please refer to Appendix 3.

3.5 Quality Screening Criteria

Securities in the selected universe that are in the bottom decile of the selected universe by the Quality Score are excluded from the selected universe. For the calculation of the Quality Score, please refer to Appendix 4.

3.6 Security Weight Capping

Securities in the selected universe after the liquidity and quality screening criteria as detailed in section 2.4 and 2.5 form the final index constituents.

Additionally, the minimum security weight is constrained at 0.25% and the maximum security weight is capped at 5%.

4 Maintaining the Index

4.1 Semi-Annual Index Review

The index is reviewed on a Semi-Annual basis in May and November to coincide with the May and November Semi-Annual 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.

4.2 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.

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 1: Construction Rules for the Logistics Component

Introduction

The Logistics Component aims to measure the performance of a set of companies associated with providing logistics and warehousing products and services.

1 Constructing the Component

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

The component selects companies which are assessed to have to business activities such as –

- Warehouses and storage space
- Order fulfillment
- Logistics and network design
- Fleet management
- Inventory management
- Supply chain management
- Customs filing and related activities

1.1 The set of relevant words and phrases³ used for constituent selection

MSCI uses a broad set of relevant words and phrases derived from the component objective that describe companies involved in business of providing logistics and warehousing products and services.

1.2 Eligible Universe and Relevance Score Calculation

Please refer to Sections 2.2 to 2.6 for the MSCI ACWI IMI Digital Economy Index at <https://www.msci.com/index-methodology> for details on the construction of the eligible universe and relevance score calculation.

³ 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>

1.3 Selected universe

Stocks from the eligible universe with a relevance score of 25% or more are included in the selected universe. Further filtering is applied to the selected universe as detailed below.

1.3.1 GICS[®] sector and sub industry filtering

Stocks mapped to the following GICS[®] sub industries are excluded from the selected universe.

No.	GICS [®] Sector	GICS [®] Sub Industries
1	Energy	<ul style="list-style-type: none"> Oil & Gas Equipment & Services Oil & Gas Storage & Transportation Oil & Gas Refining & Marketing
2	Materials	<ul style="list-style-type: none"> Specialty Chemicals
3	Consumer Discretionary	<ul style="list-style-type: none"> Restaurants
4	Consumer Staples	<ul style="list-style-type: none"> Tobacco Food Retail
4	Communication Services	<ul style="list-style-type: none"> Advertising

1.4 Weighting scheme

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

2 Maintaining the Logistics Component

2.1 Semi-Annual Index Review

The component is reviewed on a Semi-Annual basis in May and November to coincide with the May and November Semi-Annual 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.

2.2 Ongoing event-related maintenance

The maintenance of the Logistics Component follows the event related maintenance similar to the event related maintenance for the MSCI ACWI IMI Digital Economy Index. Please refer to section 3 of the MSCI ACWI IMI Digital Economy Index methodology at <https://www.msci.com/index-methodology>.

Appendix 2: Calculation of Percentage of Sales spent on R&D and Capex

The percentage of Sales spent on R&D and Capex is calculated as:

$$\% \text{ Sales spent on R\&D and Capex} = \text{Capital Expenditures to Sales Ratio}_t + \text{Research and Development Expenses to Sales Ratio}_t$$

For more details on the fundamental data, please refer to the MSCI Fundamental Data Methodology (<https://www.msci.com/index-methodology>).

Appendix 3: Calculation of 3-Month Average Daily Traded Value (ADTV)

$$ADTV = ATV / 252$$

Where:

- ADTV = 3-month Average Daily Traded Value
- ATV = 3-month Annualized Traded Value

For details on the calculation of ATV, please refer to the MSCI Fundamental Data Methodology (<https://www.msci.com/index-methodology>).

Appendix 4: Calculation of the Quality Score

The quality score for each security in the MSCI ACWI Index is calculated based on all quality factors - Profitability, Investment Quality, Earnings Quality, Leverage and Earnings Variability from the relevant Barra Equity Model (currently GEMTL). A quality score is derived from the combined score by standardizing the latter and winsorizing at +/- 3.

$$\text{Quality Score} = (0.2) * \text{Profitability} + (0.2) * \text{Investment Quality} + (0.2) * \text{Earnings Quality} + (-1) * (0.2) * \text{Earnings Variability} + (-1) * (0.2) * \text{Leverage}$$

The following sections have been modified since January 2022:

- Introduction
- Appendix 1:
 - Introduction
 - The set of relevant words and phrases

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