

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 that are expected to derive significant revenue from 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 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 two MSCI ESG Research products: MSCI ESG Ratings and MSCI ESG Controversies Score. For details on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

2.1 MSCI ESG Ratings

MSCI ESG Ratings provides research, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities.

MSCI ESG Ratings provides an overall company ESG rating - a seven-point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers.

For more details on MSCI ESG Ratings, please refer to: <https://www.msci.com/esg-ratings>.

2.2 MSCI ESG Controversies Score

MSCI ESG Controversies (formerly known as MSCI Impact Monitor) provides assessments of controversies concerning the 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.

For more details on MSCI ESG Controversies Score, please refer to: <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

3 **Constructing the Index**

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 (e.g. malaria, dengue etc.) 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

3.1 **The set of relevant words and phrases 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 engaged in the development of new products and services focused on the cure, treatment, management and prevention of diseases linked to various climate change factors.

3.2 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 codes¹ and related revenue.
- An English language summary description of the company’s business activities from public sources is used.

3.3 Eligible universe

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

3.3.1 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.

3.3.2 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.

3.4 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 as described in section 3.3.1.

3.5 SIC code selection

Company business segments are mapped to a 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.

¹ 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.

- The SIC code is assigned to the business segments of at least two different stocks from the eligible universe. The SIC code 9999 is not selected.

3.6 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).

3.6.1 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 a company’s business segment level, the revenue discount factor is applied on revenue from each selected SIC code as described in section 3.5. The revenue discount factor is 1 for revenue derived from ‘selected business segment’.

3.6.2 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.

3.7 Selected universe

3.7.1 Relevance Score

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

3.7.2 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.

3.7.3 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.

3.8 Weighting scheme

Stocks in the selected universe are weighted by the product of relevance score and their float adjusted market capitalization. The weights are then normalized to sum 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%.

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.

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.

4.2 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.

4.3 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. 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>

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