

# **MSCI ACWI IMI Digital Health ESG Filtered Index**

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## 1 Introduction

The MSCI ACWI IMI Digital Health ESG Filtered Index (the 'Index') aims to represent the performance of companies that are associated with the development of new products and services focused on telehealth, medical robots and automation in healthcare, while excluding those involved in certain controversial business activities or with relatively low MSCI ESG Controversies scores or MSCI ESG Ratings.

## 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 three MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies Score and MSCI ESG Business Involvement Screening Research. 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 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>.

## 2.3 MSCI ESG Business Involvement Screening Research

MSCI ESG Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

For more details on MSCI ESG Business Involvement Screening Research, please refer to [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_BISR.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf).

### 3 Constructing the Index

The Index is constructed by selecting stocks from the MSCI ACWI Investable Market Index (IMI) (the '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–

- **Medical robotics:** Includes medical and surgical robots which enable and assist precise, minimally invasive and complex procedures. Medical robotics also includes robotic devices used to augment the rehabilitation process.
- **Clinical lab automation:** Includes automation of the key pre- and post-analytical steps, using advanced assay technologies and workflow automation software to provide accurate, high-quality results with minimal human intervention.
- **Automated diagnostics:** Includes AI powered diagnostics using data science for computational drug analysis, next generation sequencing platforms, early pathogen detection, neuroimaging and radiology using machine learning & deep learning.
- **Telemedicine and telehealth:** Includes provision of remote healthcare through digital platforms, digital connected devices for remote patient monitoring, platforms for virtual outpatient care visits and consultations including diagnosis, treatment, and medicine prescription management through telepharmacy.
- **Bioinformatics & Healthcare data analytics:** Includes healthcare computational analytics and quantitative metrics through wearable technologies to monitor personal health. It also includes biotelemetry to provide predictive analytics and healthcare solutions.
- **Advanced medical materials & devices:** Includes hardware to support automated diagnostics and complex surgical procedures. It also includes 3D printed medical devices for precision medicine, innovative biomaterials, next generation prosthetics, medical lasers and automated drug delivery and monitoring systems.
- **Healthcare Infotech:** Includes technology services including diagnostic information service, virtual surgical simulators, software for data management of electronic medical health records & sequencing outputs and platforms for medical administrative digitization.

MSCI may seek input from outside market experts on the ongoing evolution of the themes underlying the Index. However, such input is advisory only in nature. MSCI alone decides whether to use such input at all or to what extent. Receipt of such input, like any other feedback on MSCI indexes, may or may not lead to a change to the Index or index methodology.

### 3.1 Determining the Eligible Universe of the Index

The Eligible Universe of the Index is constructed by selecting all securities from the Parent Index that have a Relevance Score<sup>1</sup> of 25% or more. Further filtering is applied as below.

#### 3.1.1 ESG exclusion criteria

##### Controversial business exclusion criteria

Securities of companies involved in following businesses are excluded from the Eligible Universe:

- Controversial Weapons
- Conventional Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Unconventional Oil & Gas
- Arctic Oil & Gas
- Oil Sands
- UN Global Compact Violators

Please refer to Appendix 1 for more details on these criteria.

##### 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 Eligible Universe.

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<sup>1</sup> For details of calculation of Relevance Scores for business activities defined earlier in section 3, please refer to the MSCI Thematic Relevance Score Methodology document (available on <https://www.msci.com/index-methodology>).

- Missing Controversy Score – Companies not assessed by MSCI ESG Research’s MSCI ESG Controversy Scores are excluded from the Eligible Universe.

### **ESG Rating**

- Missing ESG Rating – Companies which are not rated by MSCI ESG Research for an MSCI ESG Rating are excluded from the Eligible Universe.

### **3.1.2 Liquidity screening criteria**

Securities that have a 3-month average daily trading value (3M ADTV) less than 3 million USD are excluded from the Eligible Universe. For the calculation of ADTV, please refer to Appendix 2.

### **3.1.3 Size screening criteria**

Securities that have a free-float market capitalization less than 200 million USD are excluded from the Eligible Universe.

### **3.1.4 Emerging Markets (EM) country filter**

Emerging Markets (EM) securities from only the below select countries are eligible for inclusion in the final Index:

- China
- Taiwan
- South Korea
- South Africa
- Brazil
- Thailand
- Malaysia
- Mexico

## **3.2 Filtered Universe**

The Filtered Universe is constructed by excluding securities from the Eligible Universe which are in the bottom quartile by Industry Adjusted ESG Score<sup>2</sup>.

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<sup>2</sup> For details, please refer to the MSCI ESG Ratings Methodology document (available on [ESG Investing: ESG Ratings - MSCI](#))



### 3.3 Security selection

Securities in the Filtered Universe are ranked in descending order of their Relevance Score. If multiple securities have the same Relevance Score, then the security having a higher weight in the Parent Index is given a higher rank.

The top N securities from the Filtered Universe are selected where N is determined by:

$N = \text{Minimum} (\text{Maximum} (\text{Securities in the top half of the Ranked Universe}, 60), 250)$

The top 'N' securities from the Ranked Universe are selected for inclusion in the Index. If the number of securities in the universe is below 60, all the securities in the Ranked Universe are selected for inclusion in the Index.

### 3.4 Final Universe

At each rebalancing, all the securities eligible for inclusion after step 3.3 are reweighted in line with the MSCI Adaptive Capped Indexes Methodology<sup>3</sup>, applying a fixed multiplier L set to 5. Further capping is applied as described below.

#### 3.4.1 Emerging Markets (EM) weight capping

The aggregate weight of Emerging Markets (EM) securities in the final Index is capped at the aggregate weight of Emerging Markets (EM) in the Parent Index + 10% to limit the geographical exposure of the Index to Emerging Markets.

#### 3.4.2 Security weight capping

Additionally, Index constituents' weights are capped at 15% at the security level to mitigate concentration risk.

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<sup>3</sup> For details, please refer to the MSCI Adaptive Capped Indexes Methodology available on <https://www.msci.com/index-methodology>

## 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, Filtered Universe and Final Universe are updated.

In general, MSCI uses Relevance Score data as of two business days prior to 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.

#### 4.1.1 Security selection buffer rules

To reduce Index turnover and enhance Index stability, a buffer rule of 25% is applied during the on-going Semi-Annual Index Reviews. For example, if the Index targets 60 securities, buffers are applied between rank 46 and 75. The securities in the Ranked Universe (as detailed in section 3.3) with a Relevance Score rank at or above 45 will be added to the final Index on a priority basis. The existing constituents that have a Relevance Score rank between 46 and 75 are then successively added until the number of securities in the final Index reaches 60. If the number of securities is below 60 after this step, the remaining securities in the Ranked Universe with the highest Relevance Score rank are added until the number of securities in the final Index reaches 60.

### 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: Controversial Business Exclusion Criteria

Companies whose activities meet the following values- and climate change-based criteria, as evaluated by MSCI ESG Research, are excluded from the Index.

### Values-based Exclusions Criteria:

- Controversial Weapons
  - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>.
- Nuclear Weapons
  - All companies that manufacture nuclear warheads and/or whole nuclear missiles.
  - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).
  - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
  - All companies that provide auxiliary services related to nuclear weapons.
  - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles).
  - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons.
  - All companies that manufacture components for nuclear-exclusive delivery platforms.

- Civilian Firearms
  - All companies classified as “Producer” of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets.
  - All companies deriving 5% or more revenue from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
- Tobacco
  - All companies classified as a “Producer”.
  - All companies deriving 5% or more aggregate revenue from the production, distribution, retail and supply of tobacco-related products.
- Conventional Weapons
  - All companies deriving 10% or more revenue from the production of conventional weapons and components.
  - All companies deriving 10% or more aggregate revenue from weapons systems, components, and support systems and services.

Climate Change-based Exclusions Criteria:

- Thermal Coal
  - All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.
  - All companies deriving 5% or more revenue (either reported or estimated) from the thermal coal-based power generation.
  - All companies generating 10% or more power from thermal coal.
  - All companies that own thermal coal reserves.
- Unconventional Oil & Gas
  - All companies deriving 5% or more revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal-seam gas, coal-bed methane as well as Arctic onshore/offshore reserves.

- Arctic Oil & Gas
  - All companies deriving 5% or more revenue from Arctic Oil.
  - All companies deriving 5% or more revenue from Arctic Gas.
  - All companies with evidence of producing Arctic oil. This factor does not capture revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of Arctic oil reserves with no associated extraction revenues; revenue from intra-company sales.
  - All companies with evidence of producing Arctic gas. This factor does not capture revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of Arctic gas reserves with no associated extraction revenues; revenue from intracompany sales.
- Oil Sands
  - All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded.
- Global Norms – United Nations Global Compact Compliance
  - All companies that fail to comply with the United Nations Global Compact principles.

## Appendix 2: 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 Index Calculation Methodology (<https://www.msci.com/index-methodology>).



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