

MSCI ACWI IMI Future Education Index

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1 Introduction

The MSCI ACWI IMI Future Education Index (the 'Index') aims to represent the performance of a set of companies that are expected to derive significant revenue from the development of new products and services for higher and professional education, educational technology as well as other services such as student accommodation and student loans.

2 Constructing the Index

The Index is constructed by selecting stocks from a 'Parent Index'¹ based on rules explained in the following sections.

The Index selects companies which are assessed to have high exposure to business activities such as –

- online, digital and connected learning platforms for higher education, professional education, distance education, certification and skill development,
- hardware such as webcams, headsets, widescreen displays, biometric ids and sensors as well as telepresence and video conferencing devices,
- other education services such as student loans and student housing

MSCI may seek input from outside market experts on the ongoing evolution of the theme underlying the index. However, such input is advisory only in nature. Use of any such input is at MSCI's discretion and may or may not lead to a change to the index or index methodology.

2.1 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 education sector.

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 codes² and related revenue.

¹ Use of some indexes as Parent Indexes may result in a low number of constituents, which may affect replicability

² 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.

- An English language summary description of the company's business activities from public sources is used.

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 as described in section 2.3.1.

2.5 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 2.4.
- 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.

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 2.4) filtered via the SIC code selection (as described in section 2.5).

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 2.3.2.

At a company's business segment level, the revenue discount factor is applied on revenue from each selected SIC code as described in section 2.5. 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 2.4) + relevance score discount factor * revenue from the selected SIC code (as described in section 2.5)] / Total company revenue.

2.7 Selected universe

Stocks in the eligible universe that have a relevance score of 25% or more are included in the selected universe.

2.8 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 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 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.

3.2 Annual Index Review

The set of relevant words (as described in section 2.1) 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. 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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* = toll free

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