MSCI CHINA ALL SHARES ESG UNIVERSAL 3% RISK CONTROL SELECT INDEX

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1 Introduction

The MSCI China All Shares ESG Universal 3% Risk Control Select Index (the "Index") aims to represent the performance of the MSCI China All Shares ESG Universal Index while targeting an annualized volatility of 3%.

The Index incorporates various adjustments in its calculations as described in this methodology book.

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2 Constructing the MSCI China All Shares ESG Universal 3% Risk Control Select Index

The MSCI China All Shares ESG Universal 3% Risk Control Select Index is constructed by applying the following steps to the MSCI China All Shares ESG Universal Index:

- Defining the Parent Index
- Constructing the Cost-deducted Parent Index
- Constructing the Volatility Target Index
- Applying the MSCI Excess Return Indexes methodology[1].

2.1 DEFINING THE PARENT INDEX

The Index is constructed from the MSCI China All Shares ESG Universal Index (the "Parent Index").

2.2 CONSTRUCTING THE COST-DEDUCTED PARENT INDEX

The Cost-deducted Parent Index is constructed by applying the following formula:

$$CIL_t = CIL_{t-1} \times \{(\frac{BIL_t}{BIL_{t-1}}) - ReplicationCost \times \frac{ACT(t-1,t)}{360}\}$$

Where:

$CIL_t =$ Index Level of the Cost-deducted Parent Index on date t

$BIL_t =$ Index Level of Parent Index on date t

$ReplicationCost =$ 0.50%

$ACT(t-1,t)$ = number of actual calendar days between day t-1 and t

2.3 CONSTRUCTING THE VOLATILITY TARGET INDEX

The objective of the Volatility Target Index is to replicate the performance of the strategy that targets 3% of volatility by varying the weights of the cost-deducted Parent Index and a cash component.

The Volatility Target Index is calculated in accordance with the below formula:

$$IL_t = IL_{t-1} \times (1 + IR_t)$$

[1] Please refer to the MSCI Excess Return Indexes methodology at www.msci.com/index-methodology

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Where:

IL_t is the Volatility Target Index levels on day t

IR_t is the Volatility Target Index return on day t, calculated in accordance with the following formula:

$$IR_t = W_t \times E_t + (1 - W_t) \times CashRet_t - TC_t$$

Where:

$$W_t = \text{Minimum}\left(1, \frac{TargetRiskLevel}{\sigma_t}\right)$$

Where:

$TargetRiskLevel = 3\%$

$\sigma_t =$ volatility[2] of the Cost-deducted Parent Index

$$E_t = \frac{CIL_t}{CIL_{t-1}} - 1$$

$$CashRet_t = Rate_{t-1} \times \frac{ACT(t-1, t)}{360}$$

Where:

$Rate_{t-1} =$ SOFR[3] (Secured Overnight Financing Rate)

$ACT(t-1, t) =$ number of actual calendar days between day t-1 and t

TC_t is used to represent rebalancing costs that may arise at the Index rebalance and determined in accordance with the following formula:

$$TC_t = C \times \text{ABS}(W_t - W_{t-1})$$

where:

$C = 0.10\%$

W_t, W_{t-1} : Cost-deducted Parent Index weight as of day t and day $t-1$ respectively

[2] Please refer to the Appendix for details on volatility calculation

[3] LIBOR USD rate is used until 1-Dec-2014 as of day t-1, post which SOFR is used

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2.4 APPLICATION OF THE MSCI EXCESS RETURN INDEXES METHODOLOGY

The MSCI Excess Return Indexes Methodology[4] is applied sequentially on the Volatility Target index from Section 2.3 to construct the MSCI China All Shares ESG Universal 3% Risk Control Select Index. The short-term rate used for the application of the excess return methodology is SOFR (Secured Overnight Financing Rate)[5].

[4] Please refer to the MSCI Excess Return Indexes methodology at www.msci.com/index-methodology

[5] LIBOR USD rate is used until 1-Dec-2014 as of day t-1, post which SOFR is used

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3 Maintenance of the Index

3.1 INDEX REVIEWS

The Index is reviewed on a daily basis as per steps described in Section 2.

3.2 ONGOING EVENT RELATED CHANGES

In general, the Index follows the event maintenance of the Parent Index. Any security added or deleted from a Parent Index follows the same treatment in the corresponding MSCI Custom Weighted Index that uses the component index.

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Appendix: Volatility Calculation

The returns of the Cost-deducted Parent Index in USD are used for volatility estimation. The volatility estimation approach takes into account both the short-term and the long-term volatility trends of the Cost-deducted Parent Index and is calculated as the maximum of two volatility estimates: the short-term realized volatility estimate, calculated over a short horizon of 20 days, and the long-term realized volatility estimate, calculated over a long horizon of 60 days.

The volatility estimation approach uses equally weighted daily gross total returns of Cost-deducted Parent Index for both horizons.

The volatility calculation formulae are described below:

$$Volatility_t =$$

$$Max(Short\text{-}term\ Realized\ Volatility_t, Long\text{-}term\ Realized\ Volatility_t)$$

$$Realized\ Volatility_t = \sqrt{252 \times Variance(t)}$$

$$Variance(t) = (1/N) \times \sum_{t^*-N+1}^{t^*} \{\ln(\frac{CIL_t}{CIL_{t-1}})\}^2$$

Where:

N = Total number of historical trading days used for variance calculation and varies for short-term volatility estimate (N = 20) and long-term volatility estimate (N = 60)

$t^* = t - i$

Where:

i is the number of “days lag” in the return calculation used for computing volatility (i.e., the lag between the return date and the volatility calculation date), 2 days

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