

# **MSCI CYCLICAL AND DEFENSIVE SECTORS INDEXES METHODOLOGY**

**November 2018**

**CONTENTS**

- 1 Introduction ..... 3
- 2 Constructing MSCI Cyclical and Defensive Sectors Indexes ..... 4
  - 2.1 Constituent Selection: ..... 4
  - 2.2 Weighting Scheme: ..... 4
- 3 Maintaining the Indexes..... 5
  - 3.1 Quarterly Index Reviews ..... 5
  - 3.2 Ongoing Event Related and GICS Changes..... 5
    - 3.2.1 GICS® Changes .....5
- Appendix I: MSCI Cyclical and Defensive Sectors Capped Indexes ..... 6

## 1 INTRODUCTION

The MSCI Cyclical and Defensive Sectors Indexes (each, an “Index”) are designed to track the performance of the opportunity set of global cyclical and defensive companies across various Global Industry Classification Standard (GICS®) sectors. The Indexes are designed to serve as a benchmark and as a research tool for analyzing cyclical and defensive companies respectively.

## 2 CONSTRUCTING MSCI CYCLICAL AND DEFENSIVE SECTORS INDEXES

### 2.1 CONSTITUENT SELECTION:

The Indexes are constructed from applicable MSCI country and regional indexes (each, a “Parent Index”).

The following GICS sectors are classified as Cyclical sectors:

- Consumer Discretionary
- Financials
- Real Estate
- Industrials
- Information Technology
- Materials
- Communication Services

All constituent securities from these sectors are included in the MSCI Cyclical Sectors Indexes.

The following GICS sectors are classified as Defensive sectors:

- Consumer Staples
- Energy
- Healthcare
- Utilities

All constituent securities from these sectors are included in the MSCI Defensive Sectors Indexes.

### 2.2 WEIGHTING SCHEME:

For each Index, the constituents are weighted based on their free float market capitalization. To mitigate the impact of sector concentration and stock-specific risk, capped versions may be made available as per the MSCI Capped Index Methodology, available at:

<https://www.msci.com/index-methodology>

Appendix I has additional details on MSCI Cyclical and Defensive Sectors Capped indexes.

### **3 MAINTAINING THE INDEXES**

#### **3.1 QUARTERLY INDEX REVIEWS**

The Indexes are rebalanced on a quarterly basis in February, May, September and November, coinciding with the Index Reviews of the Parent Index. The pro forma Indexes are generally announced nine business days before the effective date.

#### **3.2 ONGOING EVENT RELATED AND GICS CHANGES**

In general, the Indexes follow the event maintenance of the corresponding Parent Indexes.

Except when the new security results from an event affecting an existing constituent (e.g., spin off, merger), there will be no early inclusion of new securities to the Index. New additions to the Parent Index outside the regular Index Reviews will be added to the Index at the next regularly scheduled Index Review. For example, an early inclusion to the Parent Index following an IPO in September would only be considered for inclusion to the Index at the following November Quarterly Index Review. Likewise, if a security experiences a GICS reclassification into the Cyclical or Defensive sectors due to a corporate event, it will only be considered for inclusion to the Indexes during the next regularly scheduled Index Review.

If a security is deleted from the Parent Index due to a corporate event, it will be removed from the Index at the effective date of the event. Similarly, if a security experiences a GICS reclassification out of the Cyclical or Defensive sectors following a corporate event, it will be removed from the Indexes at the effective date of the event.

##### **3.2.1 GICS® CHANGES**

Regular monthly and annual GICS reviews may result in the migration of a security into or out of the Cyclical or Defensive sectors. Newly eligible securities after such a GICS® change will only be considered for inclusion in the Indexes during the following regularly scheduled Index Review. Any existing constituent moving out of the Cyclical or Defensive sectors will be deleted from the Indexes at the effective date of the GICS change (as of the close of the last business day of the given month).

## **APPENDIX I: MSCI CYCLICAL AND DEFENSIVE SECTORS CAPPED INDEXES**

The MSCI Cyclical and Defensive Sectors Capped Indexes follow similar index construction rules as the market capitalization weighted indexes except that for each Index the sectors comprising the Index are equal weighted at each Quarterly Index Review. Constituent weights of stocks within the respective sectors are based on free float-adjusted market capitalization.

The pro forma Indexes are generally announced nine business days before the effective date. Note that the equal weighting of sectors is done for the pro forma Index as of the effective date, based on the closing prices as of the Index review announcement date. For cases where the sector weights deviate from equal weighting as a result of market price movements or corporate events between the announcement date and the effective date, the equal-weighting is not applied again. Similarly, even if any sector weights deviate from equal weighting as a result of market price movements or corporate events between two Quarterly Index Reviews, no reweighting is applied.

The maintenance rules are similar to the market capitalization weighted indexes as mentioned in section 3.

**The following sections have been modified since June 2014:**

Section 2: Constructing MSCI Cyclical and Defensive Sectors Indexes

- Updated the section 2.1 to reflect the revisions to GICS Structure in 2016. Added Real Estate to the list of Cyclical Sectors

**The following sections have been modified since August 2016:**

Section 2: Constructing MSCI Cyclical and Defensive Sectors Indexes

- Updated the section 2.1 to reflect the revisions to GICS Structure in 2018. Removed Telecommunication Services sector from the list of Defensive Sectors and added the newly created Communication Services sector to the list of Cyclical Sectors

## CONTACT US

clientservice@msci.com

### AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
Sao Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

### EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

### ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Tokyo	+ 81 3 5290 1555

\* = toll free

## ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 98 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at [www.msci.com](http://www.msci.com).



## NOTICE AND DISCLAIMER

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from

MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.