

# **MSCI EQUAL WEIGHTED INDEXES METHODOLOGY**

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## 1 INTRODUCTION

For over 35 years, MSCI has constructed the most widely used international equity indexes for institutional investors. In calculating its international equity indexes, MSCI employs market capitalization weighting where each constituent in the index is weighted by its free float-adjusted market capitalization. Over time, investors have expressed a desire for index providers to additionally provide indexes based on alternative weighting schemes. For example, MSCI calculates a GDP weighted version of its international equity indexes as some investment professionals prefer to weight countries in a composite index by a variable, like GDP, other than market capitalization.

The MSCI Equal Weighted Indexes offer another alternative to market capitalization-weighted indexes. In the MSCI Equal Weighted Indexes, each security has the same weight, i.e. the weight of each security is set to unity on the rebalancing date. Between two rebalancings, the weight of securities will deviate from the equal weight based on the performance of each security.

This document describes the methodology that MSCI uses to calculate the MSCI Equal Weighted Indexes by applying equal weights to the constituents of the corresponding free float-adjusted market capitalization weighted MSCI global equity indexes (herein, “Parent Indexes”).

## **2 CONSTRUCTING THE MSCI EQUAL WEIGHTED INDEXES**

The MSCI Equal Weighted Indexes are constructed from the applicable MSCI country and composites indexes and have the same constituents as the underlying Parent Indexes. At construction and at each rebalancing, each issuer in the equal weighted index is given an equal weight (i.e.  $1/N$ , where  $N$  is the number of issuers in the Parent Index). Between two rebalancings, the weightings of constituents will change due to price performance. If there are multiple securities of the same issuer in the index, the issuer will be equal weighted and the securities will be free float-adjusted market capitalization weighted.

At each rebalancing, a constraint factor is calculated for each constituent in the MSCI Equal Weighted Index. The constraint factor is defined as the weight in the MSCI Equal Weighted Index at the time of the rebalancing divided by the weight in the Parent Index. The constraint factor remains constant between index reviews except in case of corporate events as described below

### **3 MAINTAINING THE MSCI EQUAL WEIGHTED INDEXES**

#### **3.1 QUARTERLY AND SEMI-ANNUAL INDEX REVIEWS**

The MSCI Equal Weighted Indexes are rebalanced quarterly, and the changes are implemented as of the close of the last business day of February, May, August and November, to coincide with the Index Reviews of their Parent Indexes. The pro forma Indexes are announced five business days before the effective date<sup>1</sup>.

#### **3.2 ONGOING EVENT RELATED CHANGES**

In general, the MSCI Equal Weighted Indexes follow the event maintenance of the Parent Index. Changes in the Parent Index are reflected simultaneously in the MSCI Equal Weighted Indexes.

##### **3.2.1 REBALANCING DUE TO AN IPO ADDED TO THE PARENT INDEX AS AN EARLY INDEX INCLUSION**

Early inclusions of new securities to the Parent Index, such as IPOs, will be simultaneously added to the current equal weighted index with a constraining factor reflecting a weight that its issuer would have had as a result of an equal weighted index rebalancing. The weights of existing constituents are then accordingly adjusted so as to bring the total weight of the index to 100%. For example, if there are nine constituents in the index prior to the IPO inclusion, the IPO will be included with an estimated weight at approximately 10%. The weight of the remaining 9 securities will be then proportionately reduced to bring the total weight of the index to 100%.

##### **3.2.2 ADDITIONS AND DELETIONS DUE TO CORPORATE EVENTS**

The general treatment of additions and deletions due to corporate events is aimed at minimizing turnover in the MSCI Equal Weighted Indexes.

A security added to the Parent Index following a corporate event (e.g., merger, acquisition, spinoff) will also be added to the MSCI Equal Weighted Index with an estimated capped weight.

In the event of a merger or an acquisition where an index constituent acquires another index constituent or merges with another index constituent, the remaining company is

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<sup>1</sup> Some MSCI Equal Weighted Indexes follow a different index review cycle. The list of such indexes is provided in the Appendix

maintained in the index with a constraint factor calculated as the weighted average of the constraint factors before the corporate event.

If a spun off security of an index constituent is added to the Parent Index, it will be added to the MSCI Equal Weighted Index with the same constraint factor as the Parent Security.

A constituent deleted from the Parent Index following a corporate event will be simultaneously deleted from the MSCI Equal Weighted Index.

**4 APPENDIX 1**

The list of MSCI Equal Weighted Indexes that follow a different index review cycle than that described in Section 3.1 is as follows:

Index Name	Rebalancing Frequency	Announcement Date
MSCI World Mid Cap Equal Weighted Index	Semi-annual (May and November SAIR)	Nine days before the effective date
MSCI Europe Mid Cap Equal Weighted Index	Semi-annual (May and November SAIR)	Nine days before the effective date

**The following sections have been modified since May 2011:**

Section 3.1: Quarterly and Semi-Annual Index Reviews

- Updated

Appendix

- Deleted

Appendix 1

- New Section

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