

METHODOLOGY BOOK FOR:
- MSCI USA LOW SIZE INDEX
**- MSCI WORLD EX USA LOW
SIZE INDEX**

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1 INTRODUCTION

This document describes the methodology that MSCI uses to calculate the MSCI Low Size Indexes. This methodology book provides a description of the rules and guidelines followed by MSCI for the construction and maintenance of the MSCI USA Low Size Index and MSCI World ex USA Low Size Index. The index methodology aims to represent the performance of low size strategy by assigning weights in the inverse proportion of natural logarithm of total issuer market capitalization of the constituents.

2 CONSTRUCTING THE MSCI LOW SIZE INDEXES

MSCI Low Size Indexes (herein, “the Index”) are constructed from the applicable MSCI country and region indexes (herein, the “Parent Index”) and have the same constituents as the underlying Parent Indexes (Section 2.1). At each rebalancing, each security in the index is assigned a weight in proportion to the inverse natural logarithm of the total issuer level market capitalization. If there are multiple securities of the same issuer in the index, the issuer will be weighted in the proportion of the inverse natural logarithm of its total market capitalization and the corresponding securities will be allocated issuer weight in the proportion of their weights in the parent index.

$$w_j = \frac{1/\log_e \text{Total Issuer Market Capitalization}_j}{\sum_1^k 1/\log_e \text{Total Issuer Market Capitalization}_j}$$

Where,

w_j is the weight of the issuer j

$\log_e \text{Total Issuer Market Capitalization}_j$ is the natural logarithm of the total market capitalization of the issuer j

k is the total number of issuers in the Parent Index

At each rebalancing, a constraint factor is calculated for each constituent in the MSCI Low Size Index. The constraint factor is defined as the weight in the MSCI Low Size Index at the time of the rebalancing divided by the weight in the corresponding Parent Index. The constraint factor remains constant between index reviews except in case of corporate events as described below in Section 3.

2.1 APPLICABLE UNIVERSE

The Parent Indexes for each of the MSCI Low Size Indexes are as follows:

Index Name	Parent Index
MSCI USA Low Size Index	MSCI USA Index
MSCI World Ex USA Low Size Index	MSCI World Ex USA Index

3 MAINTAINING THE MSCI LOW SIZE INDEXES

3.1 SEMI-ANNUAL INDEX REVIEWS

The MSCI Low Size Indexes are rebalanced semi-annually, and the changes are implemented as of the close of the last business day of May and November, to coincide with the Semi-Annual Index Reviews of their Parent Indexes. The pro forma Indexes are typically announced nine business days before the effective date.

3.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Low Size Indexes 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.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI Low Size Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Low Size Index.

The following section briefly describes the treatment of common corporate events within the MSCI Low Size Indexes.

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 be added to the index at an estimated full market capitalization adjustment factor on the date of security inclusion.

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 book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at: <https://www.msci.com/index-methodology>

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