

MSCI SIZE TILT INDEXES METHODOLOGY

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1 INTRODUCTION

The MSCI Size Tilt Indexes aim to reflect the performance of a Low Size Strategy with high investment capacity. The MSCI Size Tilt Indexes are created by including all the constituents in the Parent Index (defined below) and weighting the constituents using the square root of their market capitalization weight.

MSCI categorizes the MSCI Size Tilt Indexes as part of the family of MSCI Factor Indexes (Risk Premia), which are designed to reflect the systematic elements of particular investment styles or strategies. While capitalization weighted indexes aim to capture the broad market beta, institutional investors may also wish to see additional sources of systematic return associated with particular investment styles and strategies, such as size, value, momentum etc., that may be captured through alternatively weighted indexes.

The MSCI Size Tilt Indexes aim to capture the Low Size premium with a simple and transparent methodology while maintaining reasonably high trading liquidity and investment capacity of constituent companies, as well as moderate Index turnover.

The main potential applications of the MSCI Size Tilt Indexes include:

- Strategic asset allocation: equity market exposure with low size bias
- Portfolio diversification: combine with other systematic betas
- Investment research: tools to study the characteristics of low size strategies

2 INDEX CONSTRUCTION METHODOLOGY

2.1 APPLICABLE UNIVERSE

The applicable universe includes all the existing constituents of an underlying MSCI Parent Index (herein, a “Parent Index”). This approach aims to provide an opportunity set with sufficient liquidity and capacity. The relevant MSCI Parent Index would be any country or regional Index.

2.2 WEIGHTING SCHEME

All the issuers in the Parent Index are weighted by the square root of their free float-adjusted market capitalization weight in the Parent Index.

$$\text{Size Tilt Weight} = \text{Free Float-Adjusted Market Capitalization Weight in the Parent Index}^{0.5}$$

The above weights are then normalized to 100%, and are then capped at the issuer level in order to mitigate concentration risk. The excess weight of such issuers is distributed among the remaining constituents in proportion to their free float market capitalization weight prior to the capping.

1. Issuers in the MSCI Size Tilt Indexes based on broad parent MSCI Indexes (e.g. MSCI World Index, MSCI Emerging Markets Index etc.) will be capped at 5%.
2. Issuers in the MSCI Size Tilt Indexes based on narrow parent MSCI Indexes will be capped at the maximum weight in the Parent Index.

MSCI defines Narrow Parent Indexes as those indexes where the largest free float-adjusted market capitalization weight of a single issuer in the Index is more than 10%.

If there are multiple securities of the same issuer in the Index, the capped size tilt weight calculated above at the issuer level is then re-distributed to all the securities of that issuer in proportion to their free float-adjusted market capitalization weight.

3 MAINTAINING MSCI SIZE TILT INDEXES

3.1 SEMI-ANNUAL INDEX REVIEWS

The MSCI Size Tilt Indexes are rebalanced on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Standard Indexes. The pro forma MSCI Size Tilt Indexes are announced nine business days before the effective date.

Note that the capping of the issuer weight is done for the pro forma index as of the effective date, based on the closing prices as of the index review announcement date. In a case where an issuer weight breaches the cap as a result of market price movements or corporate events between the announcement date and the effective date, the capping is not applied again. Similarly, even if any issuer weight breaches the cap as a result of market price movements or corporate events between two Semi-Annual Index Reviews, no capping is applied.

3.2 ONGOING EVENT RELATED CHANGES

In general, the MSCI Size Tilt Indexes follow the event maintenance of the MSCI Parent Index.

3.2.1 IPOS AND OTHER EARLY INCLUSIONS

IPOs and other newly listed securities will only be considered for inclusion at the next Semi-Annual Index Review in the MSCI Size Tilt Index, even if they qualify for early inclusion in the MSCI Parent Index.

3.2.2 ADDITIONS AND DELETIONS DUE TO CORPORATE EVENTS

The general treatment of additions and deletions due to corporate events aims at minimizing turnover in the MSCI Size Tilt Indexes.

A constituent deleted from the MSCI Parent Index following a corporate event or during the Quarterly Index Review of the Parent Index will be simultaneously deleted from the MSCI Size Tilt Index.

Please refer to Appendix I for more details on the treatment of corporate events.

APPENDIX I: CORPORATE EVENTS TREATMENT

This appendix describes the treatment of the most common corporate events in the MSCI Indexes. Details regarding the treatment of all other corporate events not covered in this appendix can be found in the MSCI Corporate Events Methodology book, available at

http://www.msci.com/products/indexes/country_and_regional/dm/methodology.html

Event Type	Event details	Action
Acquisition	Size Tilt Index constituent acquires another Size Tilt Index constituent	Maintain acquiring company with a constraint factor that is the weighted average of the two constituents and remove acquired company
	Size Tilt Index constituent acquires non Size Tilt Index constituent	Maintain acquiring company
	Non Size Tilt Index constituent acquires Size Tilt Index constituent	Remove acquired company without adding acquiring company
Merger	Size Tilt Index constituent merges with Size Tilt Index constituent	Add new company with a constraint factor that is the weighted average of the two constituents
	Size Tilt Index constituent merges with non Size Tilt Index constituent	Add new company if MSCI links its price history to the Size Tilt Index constituent. New company not added if price history is linked to the non Size Tilt Index constituent
IPO	IPO added to Parent Index	Security will be considered for inclusion in Size Tilt Index at the next semi-annual Index Review
Spin-off	Size Tilt Index constituent spins off security	Add spun-off security to the Size Tilt index with the constraint factor of the spinning off security, if it is included in the Parent Index
Conversion	Security A converted to B, A deleted from Parent Index, B added	B inherits constraint factors from A
Country Reclassification	Domicile of company reviewed: Security A deleted from country A, security B added to country B	B inherits constraint factors from A if it is added to the Parent Index

Event Type	Event details	Action
Stock exchange reclassification	Stock exchange (price source) of company reviewed: Security A deleted, security B added	B inherits constraint factors from A if it is added to the Parent Index

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