

METHODOLOGY BOOK FOR:

- **MSCI WORLD IMI NEW PHARMA
SELECT INDEX**
- **MSCI WORLD IMI NEW PHARMA
SELECT 5% DECREMENT INDEX**

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1 Introduction

The MSCI World IMI New Pharma Select Index (the 'Index') aims to represent the performance of a set of companies from the MSCI World Investable Market Index (the 'Parent Index') that are either:

1. Expected to derive significant revenue from products and services related to genomic innovation and its applications in biotechnology and healthcare or
2. Expected to have a significantly high percentage of revenues allocated to Research & Development (R&D) expenses within the World IMI Pharmaceuticals GICS Subindustry.

The Index is constructed as a combination of the two resultant components.

The MSCI World IMI New Pharma Select 5% Decrement Index aims to represent the performance of the MSCI World IMI New Pharma Select Index, while applying a constant markdown ('synthetic dividend') of 5% on an annual basis, expressed as a percentage of performance.

2 Constructing the Index

2.1 Determining the components of the Index

The MSCI World IMI New Pharma Select Index is constructed by combining the stocks from the following components using the rules described in section 2.2:

- MSCI ACWI IMI Genomic Innovation Index
- Pharmaceuticals Component: The component includes MSCI World IMI Index constituents classified in the Pharmaceuticals GICS¹ subindustry. The eligible universe is constructed by selecting the securities with high percentage of sales spent on R&D and Capex.

2.2 Determining the Eligible Universe of the Index

An eligible universe for each component described in section 2.1 is constructed using the following steps.

2.2.1 Genomic Innovation Eligible Universe

The Genomic Innovation eligible universe is constructed by selecting securities from the MSCI ACWI IMI Genomic Innovation Index which are also part of the MSCI World Investable Market Index (IMI). Please refer to the methodology document for the MSCI ACWI IMI Genomic Innovation Index for details including the calculation of relevance scores at <https://www.msci.com/index-methodology>.

The following steps are followed to construct the Genomic Innovation eligible universe:

1. Securities from the Parent Index which are present in the top half of the Genomic Innovation eligible universe by relevance score are selected in the eligible universe.
2. The stocks in the eligible universe are weighted by the product of their relevance score and their float adjusted market capitalization. The weights of selected stocks are then normalized to sum to 100%.
3. The security weights are then capped at 10% to avoid concentration in the eligible universe.

¹ GICS, the Global Industry Classification Standard jointly developed by MSCI and S&P Global.

2.2.2 Pharmaceuticals Eligible Universe

The Pharmaceuticals component is constructed by selecting the MSCI World IMI Index constituents classified in the Pharmaceuticals GICS subindustry.

The Pharmaceuticals eligible universe is constructed using the following rules:

1. The eligible universe is constructed by selecting the top half of securities in the Pharmaceuticals component by percentage of sales spent on R&D and Capex. The details of the calculation of the percentage of sales spent on R&D and Capex is provided in Appendix 1.
2. The stocks in the Pharmaceuticals eligible universe are weighted in proportion of their float adjusted market capitalization. The weights of selected stocks are then normalized to sum to 100%.
3. The security weights are capped at 10% to avoid concentration in the eligible universe.

2.3 Selected Universe

The selected universe is constructed by combining stocks from the Genomic Innovation and the Pharmaceuticals eligible universe.

The weight of each stock in the selected universe is calculated as follows:

$$w_i^{selected} = \sum_{C(j)} \frac{1}{2} \times w_i^{C(j)}$$

where:

- $w_i^{selected}$ is the weight of stock i in the Selected Universe
- $w_i^{C(j)}$ is the weight of stock i in the eligible universe $C(j)$

2.4 Liquidity Screening Criteria

Securities in the selected universe that have a 3-month average daily trading value (3M ADTV) less than or equal to 5 million USD are excluded from the selected universe. For the calculation of ADTV, please refer to Appendix 2.

2.5 Security Weight Capping

Securities in the selected universe after the liquidity screening criteria as detailed in section 2.4 form the final index constituents.

Additionally, the minimum security weight is constrained at 0.25% and the maximum security weight is capped at 5%.

2.6 Applying the decrement

The MSCI Decrement Indexes methodology² is applied on the MSCI World IMI New Pharma Select Index to construct the MSCI World IMI New Pharma Select 5% Decrement Index using the following parameters:

Sr.No.	Methodology Parameters	MSCI World IMI New Pharma Select 5% Decrement Index
1	Currency of Calculation	EUR
2	Parent Index	MSCI World IMI New Pharma Select Index
3	Return Variant of the Parent Index	Net Total Return
4	Decrement Type	Fixed Percentage
5	Decrement Application	Geometric
6	Decrement Value	5%
7	Day-count Convention	Act / 365
8	Index Floor	0
9	Decrement Frequency	Daily

² Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>

3 Maintaining the Index

3.1 Semi-Annual Index Review

The index is reviewed on a Semi-Annual basis in May and November to coincide with the May and November Semi-Annual Index Reviews of the Parent Index, and the changes are implemented at the end of May and November. In general, the pro forma index is announced nine business days before the effective date.

During the Semi-Annual Index Review, the eligible universe and selected universe are updated.

3.2 Ongoing event-related maintenance

The general treatment of corporate events in the index 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.

The following section briefly describes the treatment of common corporate events within the index.

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 not be added to the index.
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.

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

Appendix 1: Calculation of Percentage of Sales spent on R&D and Capex

The percentage of Sales spent on R&D and Capex is calculated as:

$$\% \text{ Sales spent on R\&D and Capex} = \text{Capital Expenditures to Sales Ratio}_t + \text{Research and Development Expenses to Sales Ratio}_t$$

For more details on the calculation of fundamental data, please refer to the MSCI Fundamental Data Methodology (<https://www.msci.com/index-methodology>).

Appendix 2: Calculation of 3-Month Average Daily Traded Value (ADTV)

$$ADTV = ATV / 252$$

Where:

- ADTV = 3-month Average Daily Traded Value
- ATV = 3-month Annualized Traded Value

For details on the calculation of ATV, please refer to the MSCI Fundamental Data Methodology (<https://www.msci.com/index-methodology>).

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