

MSCI WORLD IMI SMART INDUSTRY SELECT 100 INDEX

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1 Introduction

The MSCI World IMI Smart Industry Select 100 Index (the 'Index') aims to represent the performance of a set of 100 companies that are associated with the smart industry theme (and in particular, the ideas of smart production, smart services and smart energy that comprise it) by combining constituents from MSCI indexes that belong to the following listed themes in a diversified manner using optimization.

- Autonomous Technology and Industrial Innovation
- Robotics
- Efficient Energy
- Smart Cities
- Next Generation Internet Innovation

The Index also seeks high exposure to Momentum and Growth factors within the relevant Barra Equity Model and lower risk¹ than MSCI World IMI index. The Index aims to achieve diversification with country and sector constraints.

¹ An estimated security co-variance matrix based on the relevant Barra multi-factor equity model is used to forecast lowest risk. Details about the Barra multi-factor risk models are available at <https://www.msci.com/portfolio-management>

2 ESG Research Framework

The Index uses research provided by MSCI ESG Research. The index uses the following MSCI ESG Research product: MSCI ESG Controversies and MSCI ESG Ratings.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

2.1 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (formerly known as MSCI Impact Monitor) provides assessments of controversies concerning the negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

For more details on MSCI ESG Controversies, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

2.2 MSCI ESG RATINGS

MSCI ESG Ratings provides research, data, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities. MSCI ESG Ratings provides an overall company ESG rating - a seven-point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers, as well as underlying data and metrics used to compile the scores and ratings.

For more details on MSCI ESG Ratings, please refer to <https://www.msci.com/esg-ratings>.

3 Index Construction

The Index is constructed from the MSCI World IMI (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Determining Applicable Universe and the base currency for optimization
- Eligible Universe screening
- Defining the optimization objective and constraints
- Determining the optimized index
- Applying MSCI 10/40 Index methodology

3.1 APPLICABLE UNIVERSE AND THE BASE CURRENCY FOR OPTIMIZATION

The Applicable Universe for the Index is constructed by selecting only those securities from the Parent Index that are also a part of following five MSCI Thematic Indexes:

- MSCI ACWI IMI Efficient Energy Index²
- MSCI ACWI IMI Autonomous Technology & Industrial Innovation Index³
- MSCI ACWI IMI Smart Cities Index⁴
- MSCI ACWI IMI Robotics Index⁵
- MSCI ACWI IMI Next Generation Internet Innovation Index⁶

Constructing the Index begins with determining the Applicable Universe and then applying screens to arrive at the Eligible Universe to perform the optimization. The optimization is performed from a base currency perspective and does not allow short selling of securities. The optimization base currency is USD.

² MSCI ACWI IMI Efficient Energy Index Methodology at [MSCI Efficient Energy Index Methodology](#)

³ MSCI ACWI IMI Autonomous Technology & Industrial Innovation Index Methodology at [MSCI ACWI IMI Autonomous Technology & Industrial Innovation Index](#)

⁴ MSCI ACWI IMI Smart Cities Index Methodology at [MSCI ACWI IMI Smart Cities Index](#)

⁵ MSCI ACWI IMI Robotics Index Methodology at [MSCI Robotics Index Methodology](#)

⁶ MSCI ACWI IMI Next Generation Internet Innovation Index Methodology at [MSCI ACWI IMI Next Generation Internet Innovation Index](#)

The optimization relies on factor exposures for all the securities in the Parent Index and the factor co-variance matrix of the relevant Barra Equity Model⁷.

3.2 ELIGIBLE UNIVERSE SCREENING

3.2.1 LIQUIDITY CRITERIA

Securities with 3-month ADTV greater than or equal to EUR 5 million are eligible for inclusion in the Index.

ADTV is defined as Average Daily Traded Value and is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^8}{252}$$

Where ATV_{3M} is annualized 3-month Average Traded Value of the security.

To avoid multiple securities of the same company in the final index, only the most liquid security for each issuer per its 3-month ADTV, is eligible for inclusion in the Index. For any issuer, should two securities have the same 3-month ADTV, the one with the higher free float-adjusted market capitalization is included.

3.2.2 SIZE CRITERIA

Securities with full market capitalization greater than or equal to EUR 500 million are eligible for inclusion in the Index.

3.2.3 UNRATED COMPANIES

Unrated companies as per the following criteria are not eligible for inclusion in the index.

- Missing Controversy Score – Companies not assessed by MSCI ESG Research on MSCI ESG Controversies.
- Missing ESG Rating – Companies not rated by MSCI ESG Research for an ESG assessment.

⁷ Please refer to Appendix 1 for the detailed information on model usage

⁸ MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>

MSCI Global Investable Market Indexes Methodology at <https://www.msci.com/index-methodology>

3.2.4 ESG CONTROVERSIES SCORE ELIGIBILITY

The Index uses MSCI ESG Controversies Scores to identify those companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Companies are required to have an MSCI ESG Controversies Score of 1 or higher to be eligible for inclusion in the Index.

3.2.5 ESG RATINGS ELIGIBILITY

The Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies having MSCI ESG Rating of 'AAA', 'AA', 'A', 'BBB' or 'BB' are eligible for inclusion in the Index.

3.2.6 SELECT COMPANIES EXCLUSION

The Index excludes the following four companies at each quarterly rebalance:

- Cogent Communications Holdings, Inc.
- Daiseki Co., Ltd.
- Sansan
- West Holdings Corp

3.3 DEFINING THE OPTIMIZATION OBJECTIVE AND CONSTRAINTS

3.3.1 OPTIMIZATION OBJECTIVE

The optimization objective is to maximize the Utility Function with various other optimization constraints as specified in 3.3.2:

$$U = \alpha - Total Risk$$

Where,

Total Risk = ex-ante risk of the portfolio calculated using relevant Barra Equity Model and is a combination of common factor risk and stock specific risk.

CALCULATION OF THE ALPHA SCORE

The composite alpha has a combination of the target factor exposure of each security multiplied by the weights given to each target factor.

$$\alpha(i) = 50\% * MF(i) + 50\% * GF(i)$$

Where,

$\alpha(i)$ = Alpha score for each security i

$MF(i)$ = Factor exposure of each security i to the Momentum⁹factor

$GF(i)$ = Factor exposure of each security i to the Growth¹⁰factor

3.3.2 OPTIMIZATION CONSTRAINTS

The Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model. The optimization uses Eligible Universe and the specified optimization objective and constraints to determine the Index.

At each quarterly rebalance, the following optimization constraints are applied which aim to ensure investability while achieving high exposure to Momentum and Growth factors and lower risk¹¹ than the Parent Index.

| No. | Parameter | Constraint |
|-----|---|--------------|
| 1 | Number of Constituents | 100 |
| 2 | Maximum weight of a single security | 2% |
| 3 | Maximum Weight to a Country | 50% |
| 4 | Maximum Weight to each GICS® sector | 30% |
| 5 | Active exposure to non-target Barra style factors (factors not included in the calculation of alpha score) relative to the Parent Index | (-0.75,0.75) |

⁹ Please refer to Appendix 2

¹⁰ Please refer to Appendix 2

¹¹ An estimated security co-variance matrix based on the relevant Barra multi-factor equity model is used to forecast lowest risk. Details about the Barra multi-factor risk models are available at <https://www.msci.com/portfolio-management>

3.4 DETERMINING THE OPTIMIZED INDEX

The weights of the securities are an outcome of the optimization process. The optimization uses the Eligible Universe and the specified optimization objective and constraints to determine the Optimized Index.

3.5 APPLYING MSCI 10/40 INDEX METHODOLOGY

The Index is designed to take into account the rules applicable for UCITS III compliant funds. Therefore, for MSCI World IMI Smart Industry Select 100 Index, the MSCI 10/40 Index Methodology is applied after the step described in section 3.4.

The details of the MSCI 10/40 Index Methodology are available at <https://www.msci.com/index-methodology>.

4 Maintenance of the MSCI World IMI Smart Industry Select 100 Index

4.1 QUARTERLY INDEX REVIEWS

The Index is reviewed on a quarterly basis as per the steps described in Section 3, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index.

For each rebalance, the Barra Equity Model data as of the end of the month preceding the Index Review are used. This approach aims to capture timely updates to the risk characteristics of the companies and coincide with the rebalancing frequency of the relevant Parent Index.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores) as of the end of the month preceding the Index Reviews for the rebalancing of the Index. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available, for the rebalancing of the Index.

The pro forma index is in general announced nine business days before the effective date.

4.2 ONGOING EVENT-RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the parent index. 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 not 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>

Appendix 1: New Release of BARRA® EQUITY MODEL or BARRA® OPTIMIZER

The methodology presently uses MSCI Barra Global Equity Model for Long-Term Investors (“GEMTL”) for the optimization. A new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

Appendix 2: Definition of Barra GEMLT Momentum and Growth Factor

- The Momentum factor is described using MSCI’s Barra Global Equity Model for Long-Term Investors (GEMLTL). The precise choice of component factors used to represent each broad factor group is governed by the current model used for the optimization, which may change with a new release of the Barra Equity Model.

Momentum

Momentum Factor differentiates stocks based on their performance over the trailing 12 months. When computing Momentum exposures we exclude the most recent returns in order to avoid the effects of short-term reversal.

- The Growth factor is described using MSCI’s Barra Global Equity Model for Long-Term Investors (GEMLTL). The precise choice of component factors used to represent each broad factor group is governed by the current model used for the optimization, which may change with a new release of the Barra Equity Model.

Growth

Definition = $0.7 \cdot \text{EGRLF} + 0.1 \cdot \text{EGRO} + 0.2 \cdot \text{SGRO}$

Where

EGRLF = Analyst-Predicted Earnings Long-term Growth

Long-term (3-5 years) earnings growth forecasted by analysts.

EGRO = Earnings per Share Growth Rate

Annual reported earnings per share are regressed against time over the past five fiscal years. The slope coefficient is then divided by the average annual earnings per share.

SGRO = Sales per Share Growth Rate

Annual reported sales per share are regressed against time over the past five fiscal years. The slope coefficient is then divided by the average annual sales per share.

Appendix 3: Handling Infeasible Optimizations

During the quarterly Index review, in the event that there is no optimal solution that satisfies all the optimization constraints defined in Section 3.3.2, the number of constituents constraint relaxed automatically by setting the number of constituents constraint as a Soft Constraint in the Barra Optimizer, to find an optimal solution.

In the event that there is no optimal solution after the above constraints have been relaxed, the MSCI World IMI Smart Industry Select 100 Index will not be rebalanced for that Index review.

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