

MSCI World ex Australia Enhanced Value Top 250 Select Index Methodology

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1 Introduction

The MSCI World ex Australia Enhanced Value Top 250 Select Index aims to represent the performance of a set of 250 securities that exhibit relatively higher value characteristics compared to the Parent Index while excluding companies that are involved in controversial, nuclear and conventional weapons, and tobacco.

2 MSCI ESG Research

The MSCI World ex Australia Enhanced Value Top 250 Select Index uses research provided by MSCI ESG Research LLC. In particular, the MSCI World ex Australia Enhanced Value Top 250 Select index uses the MSCI ESG Business Involvement Screening Research product.

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

MSCI ESG BUSINESS INVOLVEMENT SCREENING RESEARCH

MSCI ESG Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

For more details on MSCI ESG Business Involvement Screening Research, please refer to http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf

3 Constructing the MSCI World ex Australia Enhanced Value Top 250 Select Index

The MSCI World ex Australia Enhanced Value Top 250 Select Index (the “Index”) is constructed from the MSCI World ex Australia Index (the “Parent Index”) in the following steps:

1. Eligible Universe Screening
2. Applying the MSCI ESG Enhance Value Indexes Methodology
3. Security Selection
4. Applying Sector Neutrality

3.1 ELIGIBLE UNIVERSE SCREENING

The MSCI World ex Australia Enhanced Value Top 250 Select Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the Index. Please refer to Appendix 1 for details on these criteria.

- Controversial Weapons
- Nuclear Weapons
- Conventional Weapons
- Tobacco

3.2 APPLYING THE MSCI ENHANCED VALUE INDEXES METHODOLOGY

The MSCI Enhanced Value Indexes methodology¹ is applied to the securities selected from the previous step, with the exception that the securities’ weights will not be adjusted to implement sector neutrality. The securities are assigned weights in the proportion of their free float-adjusted market capitalization multiplied by their Final Value Score².

¹ Please refer to the MSCI Enhanced Value Indexes methodology at www.msci.com/index-methodology

² Final Value Score calculated as per Section 2.2 of the MSCI Enhanced Value Indexes methodology

3.3 SECURITY SELECTION

The top 250 securities, ranked in descending order based on the Value score-adjusted weights calculated in the previous step, are then selected for inclusion in the Index.

3.4 APPLYING SECTOR NEUTRALITY

The security weights are then adjusted to implement sector neutrality, i.e. the weight of each sector in the MSCI World ex Australia Enhanced Value Top 250 Select Index is equated with the weight of that sector in the Parent Index. This is done by rescaling the weights of the constituents within each sector to reflect the effective Parent Index sector weight.

4 Maintaining the MSCI World ex Australia Enhanced Value Top 250 Select Index

4.1 SEMI-ANNUAL INDEX REVIEWS

The Index is reviewed on a semi-annual basis, coinciding with the May and November Semi-Annual Index Reviews of the Parent Index. Fundamental variables as of the end of April and October are used respectively. This approach aims to capture timely updates to the Value characteristics of the companies and coincide with the rebalancing frequency of the relevant Parent Index. The pro forma index is typically announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data (including MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews for the rebalancing of the MSCI World ex Australia Enhanced Value Top 250 Select 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 MSCI World ex Australia Enhanced Value Top 250 Select Index.

4.2 BUFFER RULES

To reduce Index turnover and enhance index stability, buffer rules are applied as follows.

4.2.1 SECURITY SELECTION BUFFER

A security selection buffer of 50% is applied during the on-going index review when applying the MSCI Enhanced Value Index methodology as per Section 3.2 of this methodology book.

For example, the Index targets 350 securities during that step, the buffers are applied between rank 176 and 525. The securities in the Parent Index with a value score rank at or above 175 will be added to the Index on a priority basis. The existing constituents that have a value score rank between 176 and 525 are then successively added until the number of securities in the Index reaches 350. If the number of securities is below 350 after this step, the remaining securities in the Parent Index with the highest value score rank are added until the number of securities reaches 350.

4.2.2 TURNOVER BUFFER

A turnover buffer of 50% is applied during the on-going index review.

For example, if the on-going rebalancing results in changing the weight of a security from $x\%$ to $y\%$, then the effective change in weight will be:

$$\text{Effective pro forma constituent weight} = x + (y - x)/2$$

The turnover buffer is not applied on deletions.

4.3 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI World ex Australia Enhanced Value Top 250 Select 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. There will be no additions to the Index in between Index Reviews.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI World ex Australia Enhanced Value Top 250 Select Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI World ex Australia Enhanced Value Top 250 Select Index.

The following section briefly describes the treatment of common corporate events within the MSCI World ex Australia Enhanced Value Top 250 Select 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 not be added to the

Merger/Acquisition

Index at the time of event implementation.

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: ESG Screening Criteria

Companies, whose activities meet the following criteria, as determined by MSCI ESG Research, are excluded from the MSCI World ex Australia Enhanced Value Top 250 Select Index:

- **Controversial Weapons**
 - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>
- **Nuclear Weapons**
 - All companies that manufacture nuclear warheads and/or whole nuclear missiles
 - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
 - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
 - All companies that provide auxiliary services related to nuclear weapons
 - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons
 - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons
 - All companies that manufacture components for nuclear-exclusive delivery platforms
- **Conventional Weapons**
 - All companies deriving 5% or more revenue from the production of conventional weapons and components
 - All companies deriving 15% or more aggregate revenue from weapons systems, components, and support systems and services



- **Tobacco**
 - All companies classified as a “Producer”
 - All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

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