

# **MSCI WORLD EX AUSTRALIA SMALL CAP QUALITY 150 INDEX METHODOLOGY**

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## 1 Introduction

The MSCI World ex Australia Small Cap Quality 150 Index aims to capture the performance of a quality growth strategy by identifying the largest 150 stocks based on the free float market capitalization of the securities in the MSCI World ex Australia Small Cap Index tilted by the Quality Score. The Quality Scores are based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

## 2 Constructing the MSCI World ex Australia Small Cap Quality 150 Index

### 2.1 APPLICABLE UNIVERSE

The applicable universe for the MSCI World ex Australia Small Cap Quality 150 Index includes all constituents of the MSCI World ex Australia Small Cap Index (the “Parent Index”).

### 2.2 ELIGIBLE UNIVERSE

The eligible universe of securities is composed of all constituents of the Parent Index that pass the Quality screening criteria and get selected in the Quality component of the Index.

#### 2.2.1 QUALITY SCREENING

The constituents of the Parent Index will be weighted and rebalanced in accordance with the MSCI Quality Indexes Methodology. The methodology is available at: <https://www.msci.com/index-methodology>.

#### 2.2.2 QUALITY SCORES

The Quality Score for each security is calculated by combining Z-Scores of three winsorized fundamental variables, namely Return on Equity, Debt to Equity and Earnings Variability. The details of the determination of Quality Score is in accordance with section 2.2 of the MSCI Quality Indexes Methodology.

### 2.3 SECURITY SELECTION

From the eligible universe, the top 150 securities, ranked in descending order based on their Quality Weight (refer to section 2.4), are selected for inclusion in the MSCI World ex Australia Small Cap Quality 150 Index.

### 2.4 WEIGHTING SCHEME

The securities in the Index are weighted as per the weighting scheme used in the MSCI Quality Indexes methodology. At each rebalancing, all the securities eligible for inclusion in the MSCI World ex Australia Small Cap Quality 150 Index are weighted by the product of their market capitalization weight in the Parent Index and the Quality Score.

*Quality Weight = Quality Score \* Market Capitalization Weight in the Parent Index*

The above weights are then normalized to 100%. The final security level inclusion factor is determined as the ratio of the final security level weight and the security level pro forma market capitalization weight in the Parent Index.

Additionally, constituent weights are capped at 5% at issuer level to mitigate concentration risk.

### **3 Maintaining the MSCI World ex Australia Small Cap Quality 150 Index**

#### **3.1 SEMI-ANNUAL INDEX REVIEWS**

The MSCI World ex Australia Small Cap Quality 150 Index is rebalanced on a semi-annual basis, usually 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 Global Investable Market Indexes. Fundamental variables as of the end of April and October are used respectively. This approach aims to capture timely updates to Quality characteristics of the companies and coincides with the rebalancing frequency of the Parent Index.

The pro forma MSCI World ex Australia Small Cap Quality 150 Index are announced nine business days before the effective date of each review.

#### **3.2 ONGOING EVENT RELATED CHANGES**

The general treatment of corporate events in the MSCI World ex Australia Small Cap Quality 150 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 World ex Australia Small Cap Quality 150, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI World ex Australia Small Cap Quality 150.

The following section briefly describes the treatment of common corporate events within the MSCI World ex Australia Small Cap Quality 150 Index.

No new securities will be added (except where noted below) to the Indexes 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 book.

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

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at:

<https://www.msci.com/indexregulation>

To learn more, please visit [www.msci.com](http://www.msci.com).

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