

MSCI USA Momentum SR Variant Index Methodology

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1. Introduction

The MSCI USA Momentum SR Variant Index (here in ‘the Index’¹) is designed to represent the performance of a strategy that seeks higher exposure to a momentum factor.

The Index selects top 125 securities from the MSCI USA Index (here in, ‘the Parent Index’) with higher Momentum Score, while aiming to restrict the turnover to 30% at each Index Review. Additionally, the capping is applied on constituent weights to mitigate the concentration in the Index.

¹ The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix II for more details.

2. Index Construction Methodology

The Index construction rules are defined in sections 2.1 to 2.5 below.

2.1 Applicable Universe

The Applicable Universe includes all the constituents of the Parent Index.

2.2 Defining the Momentum Score

The Momentum Score for each security is calculated using the formulae defined in section 2.2 of the MSCI Momentum Indexes Methodology².

In the absence of Momentum Score, a security is not considered for inclusion in the Index.

2.3 Security Selection

The Index selects top 125 securities from the Applicable Universe with the highest Momentum Score.

If two securities have the same Momentum Score, then the security with higher weight in the Parent Index is selected first.

2.4 Security Weighting

The selected securities are weighted by the product of their market capitalization weight in the Parent Index and the Momentum Score.

*Momentum Weight = Momentum Score * Market Capitalization Weight in the Parent Index*

The above weights are then normalized to 100%.

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

2.5 Diversification Considerations

The Index is designed to take into account certain diversification rules. After the application of the rules described in section 2.4, the following steps are performed³.

- The sum of the weights of all group entities representing more than 5% weight will be constrained at 25%,
- A buffer of 10% of the value is applied on the aggregation factor of 5% and the aggregation constraint of 25%. More specifically, as part of a rebalancing, the aggregated weight of all group entities with weight above 4.5%, cannot exceed 22.5% of the Index weight,

² For more details, the methodology book is available at <https://www.msci.com/index/methodology/latest/Momentum>

³ The diversification rules here follow the MSCI 25/50 Indexes methodology but using different constraints

- At the regular quarterly Index Review or at conditional rebalance, the weight of group entities will be capped at 5%. However, the weights of group entities can go beyond 5% in between rebalances,
- Between two Index Review effective dates, the Index is rebalanced at the end of any business day on which the constraint of 25% for group entities representing more than 5% is breached,
- The above reweighting resulting from group entity capping would take priority over any other methodological requirement.

3. Maintaining the Index

3.1 Index Reviews

3.1.1 Quarterly Index Reviews

The Index is rebalanced on a quarterly basis to coincide with the February, May, August, and November Index Reviews of the MSCI Global Investable Market Indexes.

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

3.1.2 Conditional Rebalancing

In addition to the quarterly Index Reviews, the Index undergoes ad-hoc rebalancing subject to meeting certain trigger criteria. The details of the ad-hoc rebalancing are provided in Appendix III of the MSCI Momentum Indexes Methodology⁴. The trigger condition for ad-hoc rebalancing is checked every month except for the four quarterly scheduled Index Reviews in February, May, August, and November.

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

3.1.3 Security Selection and Security Weighting During Index Reviews

At each Index Review, an iterative approach is used to select the securities with the highest Momentum Score from the Parent Index while removing securities with the lowest Momentum Score from the existing Index constituents, while aiming to restrict the turnover at 30%. The details of the iterative approach are provided in Appendix I.

Security weighting and diversification considerations as defined in the sections 2.4 and 2.5 are applicable during Index Reviews.

3.2 Ongoing Event Related Changes

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

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the Index.

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 in the Index.

⁴ For more details, the methodology book is available at <https://www.msci.com/index/methodology/latest/Momentum>

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 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/latest/CE>

Appendix I: The Iterative Approach

A. Parameters

- The maximum weight of an Index constituent at an issuer level will be restricted to 5% at each Index Review.
- The maximum one-way turnover for the Index will be restricted to 30% at each Index Review.

B. Initial Selection

- Define the Current Selection as all the securities which are existing Index constituents excluding securities which are deleted from the Parent Index.
- Define the Eligible Universe as all the constituents of the Parent Index excluding securities which are in the Current Selection.
- If the number of securities in the Current Selection is less than 125, then select the securities with the highest Momentum Score from the Eligible Universe to the Current Selection, till it reaches the count of 125. If two securities have the same Momentum Score, then the security with higher weight in the Parent Index is selected first.
- If the number of securities in the Current Selection is greater than 125, then remove the securities with the lowest Momentum Score from the Current Selection, till it reaches the count of 125. If two securities have the same Momentum Score, then the security with lower weight in the Parent Index is removed first.
- Calculate the security weights as described in the section 2.4 above and calculate the Index turnover. If the Index turnover breaches the 30% threshold value, the securities in the Current Selection will be the selected securities for the Index Review else below iterative steps will be applicable.

C. The Iterative Steps

Below steps are iteratively applied:

1. If the Index turnover is less than the 30% threshold value, then define the Current Selection as all securities selected till the previous iteration. At the first step, the Current Selection is all securities selected in the initial selection step.
2. Define the Eligible Universe as all the constituents of the Parent Index excluding securities which are in the Current Selection.
3. Add the security with the highest Momentum Score from the Eligible Universe to the Current Selection while simultaneously removing the security with the lowest Momentum Score from the Current Selection. If two securities have the same Momentum Score, then the security with higher weight in the Parent Index is selected first and the security with lower weight in the Parent Index is removed first.
4. Apply the security weights as described in the section 2.4 and calculate the Index turnover.
5. The iterative steps are repeated from steps 1-4 till any of the below exit conditions is met.

D. Exit Conditions

1. If the turnover value from the above step 4 of the iterative steps is greater than the 30% threshold value.
2. If there is no security within the Eligible Universe that has higher Momentum Score than any of the securities in the Current Selection.

If any of the above exit condition is met, then the securities in the Current Selection, as defined in above step 1 of the iterative steps (without the updates done in above step 3 of the final iteration), will be selected as the Index constituents for the Index Review

Appendix II: Methodology Set

The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set – <https://www.msci.com/index/methodology/latest/ReadMe>
- MSCI Corporate Events Methodology – <https://www.msci.com/index/methodology/latest/CE>
- MSCI Fundamental Data Methodology – <https://www.msci.com/index/methodology/latest/FundData>
- MSCI Index Calculation Methodology – <https://www.msci.com/index/methodology/latest/IndexCalc>
- MSCI Index Glossary of Terms – <https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies – <https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology – <https://www.msci.com/index/methodology/latest/GICS>
- MSCI Global Investable Market Indexes Methodology – <https://www.msci.com/index/methodology/latest/GIMI>
- MSCI Momentum Indexes Methodology – <https://www.msci.com/index/methodology/latest/Momentum>
- MSCI 25 50 Indexes Methodology - <https://www.msci.com/index/methodology/latest/2550>

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage <https://www.msci.com/index/methodology> in the section ‘Search Methodology by Index Name or Index Code’.

Appendix III: Changes to this Document

Updates as of February 2024:

- Prior to February 2024 Index Review, the Index followed the MSCI USA Momentum Index, wherein all changes driven by the index rebalances of the MSCI USA Momentum Index were distributed over multiple days (Staggering) leading into the rebalancing effective date. Effective February 2024 Index Review, the step of staggering is removed.
- Index Review frequency has been updated from semi-annual to quarterly frequency, effective February 2024 Index Review.
- Effective February 2024 Index Review, the methodology selection and weighting scheme has been updated. Diversification considerations are applied.

These updates are reflected in the relevant sections of the methodology book.

Updates as of August 2024:

- Section 2.5 for the diversification considerations has been updated for 5% capping of group entity.

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