

# MSCI Capped Indexes Methodology

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## 1 Introduction to the MSCI Capped Indexes

In calculating its international equity indexes, MSCI employs market capitalization weighting where each constituent in the index is weighted by its free float-adjusted market capitalization. Applying free float-adjusted market capitalization weighting may result in large sector, geographical or company concentration in certain cases. MSCI Capped Indexes are designed to provide an alternative to purely free float-adjusted market capitalization weighted indexes by constraining the maximum sector, geographical or constituent weights.<sup>1</sup>

In addition to the MSCI Capped Indexes, MSCI constructs and calculates the MSCI 10/40 Indexes, MSCI 25/50 Indexes, MSCI 35/65 Indexes and MSCI 10/50 Indexes. These indexes are specifically intended for funds subject to regulatory constraints on maximum weights.

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<sup>1</sup> The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix IV for more details.

## 2 Constructing the MSCI Capped Indexes

The MSCI Capped Indexes are constructed from underlying MSCI indexes (herein, "Parent Indexes"). For each capped index, the following is defined:

- a criterion for grouping constituents of the Parent Index
- the maximum weight to be applied for such groups

Constituents of the Parent Index can be grouped as follows:

- by country or region
- by sector, industry group, industry or sub-industry, based on the Global Industry Classification Standard (GICS®<sup>2</sup>)
- by stock exchange or currency of price
- by group entity<sup>3</sup>
- by issuer
- each constituent may be considered as a single group

At construction and at each rebalancing, if the weight of any group in the Parent Index is greater than the maximum weight, its weight will be capped at the maximum weight. Within the capped group, securities are weighted in proportion to their free float-adjusted market capitalization. The weight of the securities outside of the capped group will be increased in proportion to their weight prior to such capping.

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<sup>2</sup> GICS®, the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence. For more information visit <https://www.msci.com/our-solutions/indexes/gics>

<sup>3</sup> for a definition and a description of the maintenance of Group Entities, please refer to the MSCI 10/40 methodology at <https://www.msci.com/index-methodology>

## 3 Maintaining the MSCI Capped Indexes

### 3.1 Quarterly Index Reviews

Coinciding with the Index Reviews of the MSCI Global Investable Market Indexes, the MSCI Capped Indexes are generally rebalanced on the last business day of February, May, August and November as described under Section 2 above. The MSCI Capped pro forma indexes are generally announced nine business days before the effective date, unless otherwise specified in the respective methodologies.

Intra-quarter weights will fluctuate according to market movements.

### 3.2 Rebalancing due to non-compliance

A maximum intra-quarter weight may be defined. If the weight of a group increases above the maximum intra-quarter weight, the index will be rebalanced as described under Section 2 above.

### 3.3 Ongoing Event Related Changes

In general, the MSCI Capped Indexes follow the event maintenance of the MSCI Global Investable Market Indexes. Changes in the Parent Index are reflected simultaneously in the MSCI Capped Index.

#### 3.3.1 Early inclusions of new securities to the Parent Index

Early inclusions of new securities to the Parent Index outside of the Quarterly and Semi-Annual Index Reviews, such as IPOs, will be added to the MSCI Capped Index. The weight of the added security will be capped if required as per Section 2 above.

#### 3.3.2 Additions and deletions due to corporate events

The general treatment of additions and deletions due to corporate events aims at reducing turnover in the MSCI Capped Index.

A security added to the Parent Index following a corporate event (acquisition, spinoff or merger) will also be added to the MSCI Capped index with an estimated capped weight.

A constituent deleted from the Parent Index following a corporate event will be simultaneously deleted from the MSCI Capped Index.

## 4 Specific Capping Methodologies

This section describes the specific index capping methodologies that are available as part of the MSCI Capped Indexes methodology:

### 4.1 MSCI 10/40 Indexes

The MSCI 10/40 Indexes constrain the weight of any single group entity at 10%, and the sum of the weights of all group entities representing more than 5% weight at 40%, with a buffer of 10% applied on these limits at each index rebalancing. Further details of the MSCI 10/40 Indexes are available at: <https://www.msci.com/index-methodology>.

### 4.2 MSCI 25/50 Indexes

The MSCI 25/50 Indexes constrain the weight of any single group entity at 25%, and the sum of the weights of all group entities representing more than 5% weight at 50%, with a buffer of 10% applied on these limits at each index rebalancing. Further details of the MSCI 25/50 Indexes are available at: <https://www.msci.com/index-methodology>.

### 4.3 MSCI 20/20 Indexes

The MSCI 20/20 Indexes constrain the weight of any single group entity at 20%, with a buffer of 10% applied on this limit at each index rebalancing. The MSCI 20/20 Indexes are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and November, to coincide with the Index Reviews of their Parent Indexes. The MSCI 20/20 Indexes are in general rebalanced nine business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

The MSCI 20/20 Indexes are also rebalanced on an “as needed” basis. This means that a MSCI 20/20 Index is rebalanced at the end of any day on which the constraints as specified above (without the buffer) are breached, so that the MSCI 20/20 Index will always be within the constraints before the opening of the following trading day. The other index construction and index maintenance rules for the MSCI 20/20 Indexes are as described in Sections 2 and 3 respectively of this document.

## 4.4 MSCI 20/35 Indexes

The MSCI 20/35 Indexes constrain the weight of the largest group entity at 35%, and all other group entities at 20%, with a buffer of 10% applied on these limits at each index rebalancing.

The MSCI 20/35 Indexes are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and November, to coincide with the Index Reviews of their Parent Indexes. The MSCI 20/35 Indexes are in general rebalanced nine business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

The MSCI 20/35 Indexes are also rebalanced on an “as needed” basis. This means that a MSCI 20/35 Index is rebalanced at the end of any day on which the constraints as specified above (without the buffer) are breached. The rebalancing will take place as of the close of the day when the index breaches the constraints, so that the MSCI 20/35 Index will always be within the constraints before the opening of the following trading day. The other index construction and index maintenance rules for the MSCI 20/35 Indexes are as described in Sections 2 and 3 respectively of this document.

## 4.5 MSCI EM Beyond BIC Index

The MSCI EM Beyond BIC Index is a sub-set of the MSCI Emerging Markets Index that excludes Brazil, India and China. In addition, the weight of any country is constrained at 15%. The other index construction and index maintenance rules for the MSCI EM Beyond BIC Index are as described in Sections 2 and 3 respectively of this document.

## 4.6 MSCI 35/65 Indexes

The MSCI 35/65 Indexes constrain the weight of the largest security at 35%, and the sum of the weights of the largest five securities at 65%, with a buffer of 5% applied on these limits at each index review. The indexes are designed to take into account the concentration limits defined by the National Commission for the Pension System (“Comision Nacional del Sistema de Ahorro para el Retiro” or CONSAR) in Mexico.

The MSCI 35/65 Indexes are rebalanced on a semi-annual basis, coinciding with the May and November I Index Reviews of the MSCI Global Investable Market

Indexes (GIMI). The MSCI 35/65 Indexes are in general rebalanced nine business days before the effective date. The changes resulting from the rebalancing are announced on the same day.

The MSCI 35/65 Indexes are also rebalanced on an “as needed” basis to maintain the 35/65 constraints on any given day. This means that a MSCI 35/65 Index is rebalanced at the end of any day on which the constraints as specified above (without the buffer) are breached. The rebalancing will take place as of the close of the day when the index breaches the constraints, so that the MSCI 35/65 Index will be within the constraints at the opening of any day. The other index construction and index maintenance rules for the MSCI 35/65 Indexes are as described in Sections 2 and 3 respectively of this document.

Similar to the MSCI 25/50 Indexes<sup>4</sup>, Minimizing the tracking error between the MSCI 35/65 Index and the Parent Index, while keeping the index turnover to a reasonable level, is another important objective of the current methodology. This is achieved by rebalancing the MSCI 35/65 Index using an optimization process that aims to minimize the constituent weight differences between the MSCI 35/65 Index and the Parent Index.

## 4.7 MSCI Adaptive Capped Indexes

For the MSCI Adaptive Capped Indexes, a maximum multiple (“L”) of the benchmark weight of the corresponding Parent Index is set. The MSCI Adaptive Capped Indexes then constrain the weight of any single security to the level of a “cap weight” derived using this maximum benchmark multiple L. All the securities from the underlying index having weights higher than the derived cap weight are constrained to the cap weight. Remaining securities are assigned a weight that is equivalent to L multiplied by the weight of the security in the underlying index. The cap weight can change from one Index Review to the next. Further details of the MSCI Adaptive Capped Indexes are available at: <https://www.msci.com/index/methodology/latest/AdptiveCapped>.

## 4.8 MSCI 10/50 Indexes

The MSCI 10/50 Indexes constrain the weight of the largest group entity at 10%, and the sum of the weights of all group entities representing more than 5% weight at 50%, with a buffer of 10% applied on these limits at each index review.

The MSCI 10/50 Indexes are rebalanced quarterly. Changes are implemented as of the close of the last business day of each February, May, August and

<sup>4</sup> <https://www.msci.com/index-methodology>



November. The MSCI 10/50 Indexes are in general rebalanced nine business days before the effective date.

Similar to the MSCI 25/50 Indexes, another important objective of the current methodology is to minimize the tracking error between the MSCI 10/50 Index and the Parent Index, while keeping the index turnover to a reasonable level. This is achieved by rebalancing the MSCI 10/50 Index using an optimization process that aims to minimize the constituent weight differences between the MSCI 10/50 Index and the Parent Index. However, unlike the MSCI 25/50 Indexes methodology, the index does not rebalance in case the 10/50 constraints are breached between the announcement date and the effective date.

## Appendix I: Handling Infeasible Capping

If the index does not have enough constituents required to rebalance the index, the buffers<sup>5</sup>, if applicable, would be reduced as required as a first step. If the index is still unable to rebalance using the reduced buffers<sup>6</sup>, MSCI will temporarily maintain the Index for a minimum of two months before discontinuation, by adding the necessary number of securities to the index. The index discontinuation will follow the Index Termination Policy as per the MSCI Index Policies<sup>7</sup> and will coincide with a scheduled index review. The securities to be added to an index for temporary maintenance will be chosen based on the below criteria:

- Securities deleted from the MSCI Capped Index that triggered the decrease in the number of entities, provided they remain eligible, e.g., exhibit required liquidity, were not deleted due to financial difficulties, etc.
- Eligible securities of relevant size not included in the Parent Index, e.g., largest small cap size-segment securities if the Parent Index is a MSCI Standard Index.

In the event that no securities are eligible for temporary inclusion to the MSCI Capped Index, MSCI will be providing an index, as close as possible to the capping constraints.

<sup>5</sup> A buffer of the value of each constraint is used in order to reduce the risk of noncompliance due to short term market movements between two rebalancings.

<sup>6</sup> A minimum number of constituents in the Parent Index is required at any point in time for an MSCI Capped Index to be rebalanced using buffer rules. In the event the number of constituents drops below this minimum, MSCI would reduce the buffer value. For more details, please refer to the specific capped methodology at <https://www.msci.com/index-methodology>

<sup>7</sup> For further details, see MSCI – Index Policies at <https://www.msci.com/index-methodology>

## Appendix II: Methodology for the MSCI Israel Capped Index

The MSCI Israel Capped Index is constructed from the MSCI Israel IMI (the “Parent Index”). The MSCI Israel Capped Index is constructed and maintained in accordance with the MSCI 25/50 Indexes methodology described in section 4.2, effective January 28, 2016.

Prior to January 28, 2016, the Index was constructed and maintained as per the rules described in section 2 for the MSCI Capped Indexes methodology by applying a capping constraint of 24% to the constituents of the Parent Index at each Quarterly Index Review.

## Appendix III: Methodology for the MSCI Saudi Arabia IMI Capped Index

The MSCI Saudi Arabia IMI Capped Index is constructed from the MSCI Saudi Arabia IMI. The MSCI Saudi Arabia IMI Capped Index is constructed and maintained in accordance with the MSCI 20/35 Indexes methodology described in section 4.4.

## Appendix IV: Methodology Set

The Index is 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>

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’.

## Changes to the Methodology Book

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE SEPTEMBER 2013:

Section 1: Introduction

- Inclusion of MSCI 35/65 Indexes

Section 4: Specific Capping Methodologies

- Addition of MSCI 35/65 index methodology

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE MAY 2015:

Section 4: Specific Capping Methodologies

- Addition of MSCI Adaptive Capped Indexes methodology

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE NOVEMBER 2015:

Appendix I: Methodology for the MSCI Israel Capped Index

- Addition of Appendix I

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE JANUARY 2016:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Addition of Appendix II

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE NOVEMBER 2016:

Appendix III: Phasing in the Context of the Reclassification of Pakistan

- Addition of Appendix III

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE AUGUST 2019:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Updated Appendix II

Appendix III: Phasing in the Context of the Reclassification of Pakistan

Removed Appendix III

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE FEBRUARY 2019:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Updated Appendix II

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE FEBRUARY 2021:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Updated Appendix II

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED AS OF MAY 2022:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Added Pakistan to the list of Eligible Markets

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED AS OF AUGUST 2023:

Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.

All references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” of the MSCI GIMI were replaced with “Index Reviews”.

Clarification of missing updates from September 2018 edition to May 2022 edition:

- Addition of MSCI 10/50 index methodology
- Change rebalancing notification date from 5 days to 9 days for MSCI 20/20 Indexes and MSCI 20/35 Indexes
- Addition of APPENDIX III
- Addition of APPENDIX IV
- Section 4.5. Updated to clarify the removal of Russia from the EM Beyond BIC Index effective March 10, 2022 following its market reclassification to Standalone

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Removed footnote for Serbia

THE FOLLOWING SECTIONS HAVE BEEN MODIFIED AS OF FEBRUARY 2024:

Appendix II: Methodology for the MSCI FM 15% Country Capped Index

- Removal of Nigeria

THE FOLLOWING SECTION HAS BEEN MODIFIED AS OF MAY 2024:

Appendix II: Methodology for the MSCI Frontier Markets 15% Country Capped Index

- Removed section as the list of eligible markets for the MSCI Frontier Markets 15% Country Capped Index is now fully aligned with its parent MSCI Frontier Market Index. This is to reflect the conclusions from the Consultation on Changes to the List of Eligible Markets for the MSCI Frontier Markets 100 and MSCI Frontier Markets 15% Country Capped Indexes

Appendix IV: Methodology Set

- Added details on the Methodology Set for the Indexes



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