

Methodology Book For:

- MSCI USA IMI and ACWI ADR Momentum Select Long / Short Index
- MSCI USA IMI and ACWI ADR Momentum Select Short Index
- MSCI USA IMI and ACWI ADR Momentum Select Long Index



Contents

1 Introduction 3

2 Constructing the Index..... 4

2.1 MSCI USA IMI and ACWI ADR Momentum Select Long Index 4

2.2 MSCI USA IMI and ACWI ADR Momentum Select Short Index 4

2.3 Optimized Index 5

2.3.1 Defining the Reference Index..... 5

2.3.2 Defining the Alpha Score..... 5

2.3.3 Defining the Eligible Universe 5

2.3.3.1 Liquidity Screen 5

2.3.3.2 Specific Risk Screen 6

2.3.3.3 Alpha Screen..... 6

2.3.3.4 Shorting Cost Screen 6

2.3.4 Defining the Optimization Setup 6

2.3.5 Optimization Constraints.....7

2.3.6 Determining the Optimized Index7

3 Maintaining the Index..... 9

3.1 Index Review 9

3.2 Ongoing Event Related Changes..... 9

Appendix I: Methodology Set11

Appendix II: Description of Alpha Score 12

Appendix III: Defining Trade Limits 13

Appendix IV: New Release of Barra® Equity Model or Barra® Optimizer.....14

Contact us 15

Notice and disclaimer 16

1 Introduction

The MSCI USA IMI and ACWI ADR Momentum Select Long / Short Index (herein, “the Index”)¹ is constructed from a long/short strategy that seeks high active exposure to Momentum Barra Factor.

To arrive at the Index, two component indexes, the MSCI USA IMI and ACWI ADR Momentum Select Long Index and the MSCI USA IMI and ACWI ADR Momentum Select Short Index, are combined in a fixed proportion at each rebalancing. For details on construction of the MSCI USA IMI and ACWI ADR Momentum Select Long Index and the MSCI USA IMI and ACWI ADR Momentum Select Short Index, please refer to Sections 2.1, 2.2 and 2.3.

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 I for more details.

2 Constructing the Index

The Index is constructed by combining the following two components:

- MSCI USA IMI and ACWI ADR Momentum Select Long Index
- MSCI USA IMI and ACWI ADR Momentum Select Short Index

The MSCI USA IMI and ACWI ADR Momentum Select Long Index² and the MSCI USA IMI and ACWI ADR Momentum Select Short Index³ are constructed from the Optimized Index. Please refer to Section 2.3 for more details on the Optimized Index⁴.

At each Index Review, the components are combined based on the following weights and return variants to create the MSCI USA IMI and ACWI ADR Momentum Select Long / Short Index:

Component Index	Fixed Weight	Return
MSCI USA IMI and ACWI ADR Momentum Select Long Index	100%	NTR
MSCI USA IMI and ACWI ADR Momentum Select Short Index	-100%	GTR

2.1 MSCI USA IMI and ACWI ADR Momentum Select Long Index

The MSCI USA IMI and ACWI ADR Momentum Select Long Index (“Long Index”) aims to represent the performance of all securities from the Optimized Index with positive security weights.

All the securities from the Optimized Index with positive weights are selected for inclusion in the Long Index using the same weights as in the Optimized Index. The weights of the selected securities from the Optimized Index are then normalized to 100%.

2.2 MSCI USA IMI and ACWI ADR Momentum Select Short Index

The MSCI USA IMI and ACWI ADR Momentum Select Short Index (“Short Index”) aims to represent the performance of all securities from the Optimized Index with negative security weights.

All the securities from the Optimized Index with negative weights are selected for inclusion in the Short Index using the same weights as in the Optimized Index. The weights of the selected securities from the Optimized Index are then normalized to 100%.

² Refer to Section 2.1 for more details

³ Refer to Section 2.2 for more details

⁴ Refer to Section 2.3 for more details

2.3 Optimized Index

The Optimized Index is constructed by combining the MSCI USA IMI⁵ and MSCI ACWI ADR Index⁶ (the “Parent Index”). The following steps are applied in the construction of the Optimized Index:

- Defining the Reference Index
- Defining the Alpha Score
- Defining the Eligible Universe
- Defining the Optimization Setup
- Determining the Optimized Index

The steps mentioned above are defined in detail in the subsequent sections.

2.3.1 Defining the Reference Index

The Reference Index is the MSCI USA Index⁷, which is used as the basis to calculate the relative GICS^{®8} sector and Industry Factor exposures⁹.

2.3.2 Defining the Alpha Score

The Alpha score is determined by calculating the winsorized (at +/-3) z-score for the Barra Momentum factor score. The Barra Momentum factor score definition is given in Appendix II.

2.3.3 Defining the Eligible Universe

The Eligible Universe is constructed from the Parent Index after applying the following screens.

2.3.3.1 Liquidity Screen

- Securities listed as American Depository Receipts (“ADRs”) from the Parent Index with 3-month ADTV greater than or equal to USD 20 million are eligible for inclusion in the Optimized Index.

⁵ The Methodology the Index can also be accessed from MSCI’s webpage or at https://www.msci.com/eqb/methodology/meth_docs/MSCI_GIMIMethodology_Apr2022.pdf

⁶ The Methodology the Index can also be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> or at <https://www-cdn.msci.com/documents/10199/76174a58-c325-7a27-c4d6-8d8ad0193698>

⁷ The Methodology the Index can also be accessed from MSCI’s webpage or at https://www.msci.com/eqb/methodology/meth_docs/MSCI_GIMIMethodology_Apr2022.pdf

⁸ GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices

⁹ Relative exposures are aggregated weights of the reference index grouped by each GICS sector.

- Securities listed as regular equity from the Parent Index with 3-month ADTV greater than or equal to USD 10 million are eligible for inclusion in the Optimized Index.

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

$$ADTV = \frac{ATV}{252}$$

Where:

- ADTV = 3-Month Average Daily Traded Value
- ATV¹⁰ = 3-Month Annualized Traded Value¹¹

2.3.3.2 Specific Risk Screen

Securities from the Parent Index with a specific risk z-score, as measured by the GEMTL Barra Equity Model and winsorized at +/-3, falling within the top 10th percentile (highest specific risk) of the Parent Index, are excluded from the Eligible Universe of the Index.

2.3.3.3 Alpha Screen

Securities from the Parent Index without an Alpha score (as defined in Section 2.3.2) are not eligible for inclusion in the Optimized Index.

2.3.3.4 Shorting Cost Screen

Securities from the Parent Index with shorting cost more than 400 basis points (bps) or missing are not eligible for inclusion in the Optimized Index.

2.3.4 Defining the Optimization Setup

The optimization objective is to maximize the Alpha score less a penalty for total (net) risk at the time of rebalancing. The Common Factor Risk Aversion¹² and Specific Risk Aversion¹³ parameters in the optimization are set to 0.0015 and 0.015, respectively. The optimization is performed using US Dollar as a base currency.

¹⁰MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>.

¹¹Securities with missing values for ATV are ineligible for selection.

¹² This parameter is the multiplier on the systematic (factor) risk term in the quadratic optimization objective. It penalizes portfolio variance that comes from exposures to common factors (e.g., industries, styles, macro variables).

¹³ This parameter is the multiplier on the idiosyncratic (specific) risk term in the objective. It penalizes variance unique to individual assets that is not explained by factors.

2.3.5 Optimization Constraints

At each Index Review, the following optimization constraints are employed, which aim to meet the objectives of the Optimized Index while ensuring replicability and investability:

#	Constraint Description	Bounds
1	Minimum and Maximum weight of security relative to cash	-2.0%, 2.0%
2	Exposure range of Non-Target Barra Style Factors relative to cash	-0.1 to 0.1
3	Net Exposure range of Industry Factors relative to cash	-0.05 to 0.05
4	Active Exposure range of Industry Factors relative to Reference Index, for Long Leg	-0.05 to 0.05
5	Active Exposure range of Industry Factors relative to Reference Index, for Short Leg	-0.05 to 0.05
6	Min and Max net weight to each GICS® sector relative to cash	-2%,2%
7	Active Weight range of GICS® sector by side relative to the Reference Index, for Long Leg	-2% to 2%
8	Active Weight range of GICS® sector by side relative to the Reference Index, for Short Leg	-2% to 2%
9	Gross leverage	200% (100% Long and 100% short)
10	3-month ADTV Trade Limit ¹⁴	10%

- At each index rebalancing, the weight of each index constituent will not change more than a predefined Trade Limit linked to the stock's Average Daily Traded Value (ADTV).
- At each index rebalancing, each security is subject to both absolute bounds of +2% / -2% and Trade Limit based bounds. The upper bound is defined as the minimum of the absolute and Trade Limit upper bounds, and the lower bound is defined as the maximum of the absolute and Trade Limit lower bounds.

2.3.6 Determining the Optimized Index

¹⁴Please refer to Appendix III for the detailed information of the Trade Limit.

The Optimized Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model¹⁵. The optimization uses the Eligible Universe as the universe of eligible securities and the specified optimization objective and constraints to determine the Optimized Index.

¹⁵Please refer to Appendix IV for the detailed information on model usage.

3 Maintaining the Index

3.1 Index Review

The Index is reviewed semi-monthly, at the 1st and 11th Business Day of each Month ('the effective date'). In general, the pro forma index is announced three business days before the effective date.

MSCI uses Barra Equity Model data as of the day before the pro-forma rebalancing day is used. ATV and Shorting-Cost data as of the last end of month preceding the pro-forma rebalancing day are used.

3.2 Ongoing Event Related Changes

The general treatment of corporate events in the non-market capitalization weighted indexes 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.

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. 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 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.

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

Appendix I: 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 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 by Name or Code’.

Appendix II: Description of Alpha Score

The GEMTL style factor targeted in the Optimized Index is the Barra Momentum factor score, which is the winsorized (at +/- 3) z-score of the Momentum factor taken from the relevant Barra Equity Model (currently GEMTL) for each security.

Appendix III: Defining Trade Limits

In the semi-monthly Index Review, the Trade Limit for each security (i.e., the maximum-security weight change) is calculated as 10% of its Average Daily Traded Value, assuming a portfolio value of 1 billion USD:

$$\text{Trade Limit} = (10\% \times \text{Average Daily Traded Value}) / 1 \text{ billion}$$

The Average Daily Traded Value of a security is calculated as the average of the daily traded values in the one month prior to the Index Review Date. The daily traded value of a security is equal to the number of shares traded during the day, multiplied by the closing price of that security.

Appendix IV: 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.

Contact us

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AMERICA

United States	+ 1 888 588 4567 *
Canada	+ 1 416 687 6270
Brazil	+ 55 11 4040 7830
Mexico	+ 52 81 1253 4020

EUROPE, MIDDLE EAST & AFRICA

South Africa	+ 27 21 673 0103
Germany	+ 49 69 133 859 00
Switzerland	+ 41 22 817 9777
United Kingdom	+ 44 20 7618 2222
Italy	+ 39 02 5849 0415
France	+ 33 17 6769 810

ASIA PACIFIC

China	+ 86 21 61326611
Hong Kong	+ 852 2844 9333
India	+ 91 22 6784 9160
Malaysia	1800818185 *
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