

# **MSCI ETF Linked Index Benchmark Family – Benchmark Statement**

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## Benchmark Statement: MSCI ETF Linked Index Family

### 1 Objective of the Indexes in the Family

The MSCI ETF Linked Index benchmark family is comprised of indexes whose aim is to accurately and objectively measure performance of a market or economic reality defined as the investment performance of single or multiple Exchange Traded Funds (“ETFs”).

- 1.1 The ETF linked indexes will be constructed from ETFs which are structured as open-ended funds that fall under the regulatory measures of the Investment Company Act of 1940 and the ETFs that are structured as grantor trusts, falling under the Investment Company Act of 1933 and 1934.
- 1.2 The ETF linked indexes may be constructed from ETFs that represent a particular market segment of an asset class (including commodities, interest rates, fixed income instruments, or corporate equities).
- 1.3 ETFs are tradable globally and hence there is no geographical limit to the nature of underlying index exposure or the listing venue of the ETF itself.
- 1.4 The MSCI ETF Linked Indexes are governed by a number of methodology documents; the MSCI Index Calculation Methodology; and the relevant MSCI Index Policies.
- 1.5 The MSCI ETF Linked Indexes benchmark family also may include custom indexes based on an MSCI methodology with specifications agreed with clients.
- 1.6 The MSCI ETF Linked Indexes benchmark family contains only Non-Significant indexes as defined by Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indexes used as benchmarks.

## 2 Methodology and Index Design Guidelines and Reviews

- 2.1 MSCI indexes in the MSCI ETF Linked Indexes benchmark family aim to accurately and objectively measure performance of a market or economic reality as represented by an investment opportunity set accessible to institutional investors based on a market, market segment, asset class, theme, or investment strategy. MSCI indexes are constructed and maintained with the following prime objectives in mind:
- Representativeness
  - Replicability
  - Efficiency
- 2.2 The index design objectives are achieved through the use of a transparent rules-based methodological approach to index construction and maintenance.
- 2.3 MSCI indexes are rebalanced on a regular schedule ranging from daily to annually. A rebalancing may also be triggered by conditions specified in the relevant methodology.
- 2.4 As part of the regular index rebalancing process, MSCI indexes are reviewed relative to the market or strategy they are designed to reflect. This assists in the evaluation of methodologies for both consistency and effectiveness and may highlight situations where changes in the methodology are warranted to reflect changes in the underlying market opportunity.

## 3 Index Content Governance

- 3.1 MSCI's Index Policy Committee ("IPC") and Equity Index Committee ("EIC") preside over content matters relating to its indexes in the MSCI ETF Linked Indexes benchmark family, such as the development and interpretation of MSCI index methodologies.
- 3.2 The EIC is primarily responsible for supervising the design, development, approval and interpretation of index methodologies. EIC discussions may be informed by feedback from the investment community. Nonetheless, all decisions taken by the committees are the sole responsibility of its members.
- 3.3 The IPC may be consulted on selected index terminations and serves as an escalation point for the EIC. Relevant topics deemed to have material importance, as determined by the EIC, are discussed and decided by the IPC.

## 4 Index Calculation and Discretion

- 4.1 MSCI indexes in the ETF Linked Indexes benchmark family are calculated using published ETF prices according to methodological rules. MSCI does not use any bids, asks, or any estimations as alternatives to ETF prices. MSCI ETF Linked Indexes do not use "contributed" input data.
- 4.2 The published ETF Price can refer to either the ETF Closing Price or ETF Closing NAV as specified in the respective MSCI ETF Linked Index methodology.
- 4.3 The return of the indexes may be determined in a number of currencies including, but not limited to, USD and EUR.

- 4.4 The MSCI ETF Linked Indexes rely on the continued availability of corresponding ETF prices and permission for MSCI to use such data for determining the MSCI ETF Linked Indexes. To the extent that such data is temporarily or permanently unavailable (whether as a result of a market disruption event or otherwise), the MSCI index methodologies apply the fallback measures described below.
- 4.5 In the case of the unavailability of a corresponding ETF price used in the calculation of an MSCI ETF Linked Index level, and in the absence of specific index methodology rules, MSCI carries forward the latest available corresponding ETF price to calculate its indexes. If MSCI determines that another ETF price is more appropriate based on the circumstances, an announcement would be sent to clients with the related information. All such determinations are made by the EIC.
- 4.6 The rules for MSCI index construction, maintenance and calculation are contained in publicly available methodology books and complemented with internal guidelines and operating procedures. Each process is conducted by well-trained personnel according to documented rules and operating procedures.
- 4.7 MSCI’s rules-based index methodologies provide that discretion is not used in the production of the indexes except in unusual cases not effectively addressed by the methodology. These include, but may not be limited to:
- Structural changes to the underlying markets
  - Operational issues experienced by Component Index providers
  - Geo-political events
  - Events beyond human control
- 4.8 Where there may be a need to take an action that is not prescribed in the methodology, senior members across the MSCI Index Research and Data Management departments will develop a proposed approach with the goal of remaining consistent with the goals of the methodology and ensuring timely calculation and distribution. These proposals are reviewed by the EIC. In cases when time permits and the cases are deemed material, MSCI may consult with clients on the proposed approach. MSCI will then announce the decided action to all market participants at the same time.
- 4.9 Typically, MSCI does not publish explicit ex-post analysis of decisions, other than through its regular reviews of indexes and methodologies, but always welcomes feedback from market participants on decisions made.
- 4.10 The framework described above eliminates the exercise of discretion by an individual and ensures any required exercise of discretion is managed through escalation to committees of experts. All committees are governed by terms of reference and all decisions are appropriately documented and archived. The IPC and EIC each have at least 6 members respectively and decisions are reached by consensus.

## 5 Corrections

- 5.1 In the case of data errors that occur in the determination or calculation of an index in the MSCI ETF Linked Index benchmark family, if the impact of the error is below a documented threshold, no historical index restatement is made.
- 5.2 If the impact of the error on performance is above this threshold at the index level, indexes are restated historically.

- 5.3 MSCI applies a 12-month correction period for index errors. Errors discovered that are older than 12 months are generally not corrected.
- 5.4 Corrections related to regular index rebalancings are assessed on a case-by-case basis. MSCI typically considers the following factors in determining the most appropriate corrective action: index investability and replicability as well as potential reverse turnover.
- 5.5 All corrections are announced simultaneously to all market participants.

## 6 Consultations

- 6.1 MSCI indexes in the MSCI ETF Linked Index benchmark family are regularly reviewed and evaluated by the Index Research team. MSCI conducts consultations before making any material changes to an index methodology.
- 6.2 A consultation begins, in general, with an announcement giving the highlights of MSCI proposal(s) and indicating the location of the consultation document on MSCI's website. The announcement is widely distributed through multiple channels including the MSCI website, Bloomberg and Reuters and directly to MSCI's clients. These consultations provide market participants the time and opportunity to comment on any potential changes to the index methodology.
- 6.3 Once a consultation is closed and MSCI has gathered all required feedback, the EIC and if appropriate the IPC, reviews the feedback and makes a decision. Any decision to implement changes is announced publicly prior to implementation.
- 6.4 The final decision, including the rationale that has led to it and high-level participation statistics, is communicated publicly to all market participants at once. Most consultation participants request that their feedback remains confidential. MSCI may nevertheless publicly disclose feedback if specifically requested by respective market participants. In that case, the relevant feedback would be published together with the final results of the consultation.
- 6.5 If the final decision is to change the methodology, it will be part of the announcement, including the timeframe for the implementation of the change. Subsequently, MSCI will update the relevant methodology books.
- 6.6 The length of a consultation and lead time provided for implementation varies depending on the complexity of the topic, breadth of client impact as well as impact on the index composition and is clearly communicated as part of the consultation process. The length of a consultation needs to be sufficient for market participants to meaningfully review what is proposed and to respond.
- 6.7 For custom indexes, changes to any client specifications are discussed directly with the relevant client.

## 7 Index Terminations

- 7.1 While terminations of MSCI indexes in the MSCI ETF Linked Index benchmark family are expected to be rare, MSCI has clear written policies to address them. There may be certain circumstances where the methodology cannot be adapted in which case terminating the index may be required. These circumstances are generally not within MSCI's control and may include significant changes to the structure of the underlying market, drastic changes to the market infrastructure, lack of access to

necessary data, geo-political events, and regulatory changes. Additionally, factors such as methodology convergence or low usage may result in MSCI’s proposal to terminate an index.

7.2 In all of these cases if an index termination is proposed or required, MSCI would proceed as follows:

- The EIC would review the appropriateness and impact of a potential termination.
- MSCI may perform a consultation including a discussion of possible alternatives, if any.
- MSCI would announce the termination of the index . according to its termination policy.
- If practicable, MSCI would continue to calculate the index for an announced period of time to give users the opportunity to transition to another index or otherwise prepare for the termination of the MSCI index.
- In the event that an appropriate alternative MSCI index is established, the details of the methodology governing this index as well as the timing of the transition would be publicly announced in advance of the implementation.

7.3 The termination of a custom index is handled in consultation with the relevant client.

## 8 Index Usage

8.1 MSCI indexes in the MSCI ETF Linked Index benchmark family may be licensed for a variety of purposes, including for research or use as the basis for index-linked investment products. They may be used by a variety of market participants including but not limited to asset owners, portfolio managers, broker-dealers and researchers. Not all uses are appropriate for all users. Market participants should use their judgment when selecting an index for a particular purpose.

8.2 MSCI indexes and the effectiveness of index methodologies can be affected by a number of factors, most of which are beyond MSCI’s control. These may include, but are not limited to, structural changes to the underlying market including decreases in the size and liquidity of the relevant market segment, infrastructure changes, geo-political events and regulatory changes. These circumstances may result in a material change of the methodology as a result. In rare cases, these circumstances may result in the termination of an index.

8.3 If financial product issuers or investment managers choose to use an MSCI index in the MSCI ETF Linked Index benchmark family as the basis of an index-linked financial product or an investment fund, they should consider this possibility, including the potential need to terminate or modify the terms of a financial product resulting from the termination of the calculation of the index.

8.4 MSCI assumes no responsibility for potential use of its indexes in the MSCI ETF Linked Index benchmark family for a particular purpose by clients, whether that use is for research, benchmarking, the basis for an index-linked financial product or investment fund, or some other use. The effective representation of a market or strategy is the primary aim for MSCI.

## 9 Additional Information

Detailed methodology and policy documents, a search function to find the methodology documents governing a specific MSCI index in the MSCI ETF Linked Index benchmark family and vendor reference codes, if available, can be found on <http://www.msci.com/index-methodology>.

## 10 ESG Disclosures

10.1 ESG disclosures are provided as per Commission Delegated Regulation (EU) 2020/1816 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018, as regards to the explanation in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published.

10.2 Commission Delegated Regulation (EU) 2020/1816 includes the following sections:

- Section 1 – Consideration of ESG factors
- Section 2 – Additional disclosure requirements for EU Climate Transition and EU Paris-Aligned benchmarks
- Section 3 – Disclosure of the alignment with the objectives of the Paris agreement

Refer to Appendix II for Section 1 and the details on disclosure pertaining to consideration of ESG factors for the BMR Benchmarks in MSCI ETF Linked Index benchmark family. Sections 2 and 3 are not reported as there are no EU Climate Transition or EU Paris-Aligned benchmarks in the MSCI ETF Linked Index benchmark family as of the date of this report.

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## Appendix I – Key Terms

Key term	Definition
Equity Index Committee (EIC)	The Equity Index Committee (EIC) is primarily responsible for the supervision of the design, development, approval and interpretation of index methodologies. Decisions made by the EIC are the sole responsibility of its members. The committee is staffed strictly by MSCI employees.
Index Policy Committee (IPC)	The Index Policy Committee (IPC) is responsible for final decisions with respect to market classifications and may be consulted on selected index terminations and is an escalation point for the EIC. Relevant topics deemed to have material importance, as determined by the EIC, are discussed and decided by the IPC.
ETFs	ETFs are non-MSCI funds that are listed on an exchange representing performance of an investment strategy in an underlying asset class. These may include, but are not limited to funds tracking an equity, fixed income, commodity, rates or a real asset index, ETFs representing same underlying asset but differentiated by timestamps, calculation methodologies and data providers etc.

## Appendix II – ESG Factors in the Benchmark Statement of BMR Benchmarks in the MSCI ETF Linked Index benchmark family

Explanation of how ESG Factors are reflected in the Benchmark Statement of BMR Benchmarks in the MSCI ETF Linked Index benchmark family	
Section 1 – Consideration of ESG Factors	
<b>Item 1.</b> Name of the benchmark administrator	MSCI Limited
<b>Item 2.</b> Type of benchmark or family of benchmarks	ETF Linked Indexes
<b>Item 3.</b> Name of the benchmark or family of benchmarks	MSCI ETF Linked Index benchmark family
<b>Item 4.</b> Are there in the portfolio of the benchmark administrator any EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks, benchmarks that pursue ESG objectives or benchmarks that take into account ESG factors?	Yes
<b>Item 5.</b> Does the benchmark or family of benchmarks pursue ESG objectives?	No
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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/index-regulation>.

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