

# MarketGrader Global Health Care Leaders Index

## Rulebook and Methodology Overview

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**MarketGrader**  
RESEARCH & INDEXES

## Introduction

The MarketGrader Global Health Care Leaders Index (the “Index”), created and administered by MarketGrader, is designed to provide investors with exposure to the fastest growing and most financially sound companies in the Health Care sector listed across various stock exchanges around the world. MarketGrader selects all index constituents on a semi-annual basis according to criteria described in this document.

## MarketGrader’s Coverage Universe

In order to define the universe from which the Index constituents are selected, it is necessary to first define the coverage of the MarketGrader Research Universe since the Index methodology performs security selection based on the company ratings calculated and published by MarketGrader Research.

The MarketGrader Research Universe is defined as the set of companies traded on public stock exchanges globally that meet the criteria necessary for MarketGrader to perform an in-depth comprehensive fundamental analysis on every company as defined in its proprietary ratings methodology. This methodology is based on 24 indicators, each graded independently, across four fundamental categories: Growth, Value, Profitability and Cash Flow. After grading each company on the 24 indicators, the sum of the grades is normalized into a MarketGrader Score (MG Score) ranging between zero and 100. This MG Score is the basis of the company ratings. To be able to compute the MG Score, MarketGrader therefore requires that a minimum number of fundamental indicators be available for every company in its universe. Furthermore, a minimum number of them must be available consistently over time for a company to be eligible for coverage by MarketGrader. The following criteria are implemented by MarketGrader in the maintenance of its research universe within each of MarketGrader’s primary geographic regions.

### Americas:

The MarketGrader Research Universe includes all public issues defined as common shares and ADRs (American Depositary Receipts) that are listed in non-OTC (over the counter) exchanges. This includes Limited Partnerships (LPs) and Real Estate Investment Trusts (REITs). LPs and REITs are ineligible for inclusion to some indexes on a case-by-case basis. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity “ISO Country” code as defined by FactSet.

### Asia Pacific:

The MarketGrader Research Universe includes all public issues defined as common shares where, according to FactSet, entity types are defined as “public” or “holding companies,” or where entity sub-types are defined as “Limited Partnership.” All issues eligible for universe inclusion must have at least one active trading day within the last 12 calendar days. Company domicile is defined based on the Entity “ISO Country” code as defined by FactSet.

### Europe, Middle East and Africa:

The MarketGrader Research Universe includes all public issues defined as common shares where, according to FactSet, entity types are defined as “public” or “holding companies,” or where entity sub-types are defined as “Limited Partnership.” Only primary listing issues in this region are included in its research universe. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity “ISO Country” code as defined by FactSet.

Across all geographic regions, the MarketGrader Research Universe excludes:

- Companies with zero trailing 12-month revenue and a total market capitalization below USD 500 million.
- Companies with zero annual revenue and a total market capitalization below USD 500 million.
- Companies with zero trailing 12-month revenue and annual sales older than two years prior to the universe evaluation date.
- Companies missing trailing 12-month revenue and annual revenue from most recently reported financial statement.
- Companies with ratings in less than 22 of MarketGrader's 24 fundamental indicators.
- Companies whose most recently filed financials statements are over 12 months old from the date of the universe evaluation date.

#### Review Frequency

The MarketGrader Research Universe is reviewed on a weekly basis, following the last weekly close of equity markets in the U.S.

## MarketGrader’s Global Health Care Leaders Index Investable Universe

The Index’s selection universe is comprised of all common stocks in MarketGrader’s research coverage universe that have received a MarketGrader overall grade consistently for at least six months. For companies listed in countries with quarterly financial filing requirements, only companies that have reported their most recent financials within the last six months are eligible to the MarketGrader Indexes. For companies listed in countries with semi-annual financial filing requirements, only companies that have reported their most recent financials within the last 12 months are eligible for selection to the Index. Additionally, a company’s free float market capitalization as a percentage of total market capitalization must be at least 10% on the Index selection date to be eligible.

The Index selects its constituents from companies domiciled in Developed Economies and in Emerging Economies, as defined by the International Monetary Fund’s World Economic Outlook Database<sup>1</sup>. The lists of eligible Developed and Emerging economies from which companies may be selected appear below.

### Eligible Developed Economy Countries

Australia	Germany	Luxembourg	Sweden
Austria	Hong Kong SAR	Netherlands	Switzerland
Belgium	Ireland	New Zealand	Taiwan
Canada	Israel	Norway	United Kingdom
Denmark	Italy	Portugal	United States
Finland	Japan	Singapore	
France	Korea	Spain	

### Eligible Emerging Economy Countries

Argentina	Egypt	Malaysia	Saudi Arabia
Brazil	Hungary	Pakistan	South Africa
Chile	Indonesia	Peru	Thailand
China	India	Poland	Turkey
Colombia	Mexico	Qatar	Vietnam

Companies that are domiciled in China must also satisfy the following requirements:

- The company’s stock cannot be classified as a “ST” (special treatment) stock by the China Securities Regulatory Commission (CSRC).
- If a company’s stock is temporarily suspended from trading, it is ineligible from inclusion in the Index’s selection universe.
- Total Foreign Ownership of any company’s shares on the selection date cannot exceed 26% of its free float adjusted market capitalization<sup>2</sup>.
- No company may appear in any of the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) Sanctions Lists.
- No company may appear in the U.S. Department of Defense list of “Qualifying Entities Prepared in Response to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999.”

<sup>1</sup> <https://www.imf.org/en/Publications/WEO>

<sup>2</sup> Foreign Ownership Limit Thresholds are based on figures published daily by the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

Companies that are domiciled in India must also satisfy the following requirement:

- The stock cannot be included in the 'Red Flag List' maintained and published by the National Securities Depository Limited (NDSL) of India, which governs foreign ownership limits of Indian securities. A 'red flag' is activated for listed Indian companies whenever the foreign investment is within 3% of the aggregate 'Foreign Portfolio Investors' (FPI) limits.

## **The MarketGrader Global Health Care Leaders Index**

### **Introduction**

The MarketGrader Global Health Care Leaders Index consists of 100 fundamentally sound companies in the Health Care sector that are domiciled and listed in any of the Eligible Developed or Emerging Economy countries defined in the investable universe. The Index constituents are selected on the basis of the strength of their fundamentals as measured by the MarketGrader Score (0 to 100).

### **Index Names and Index Codes**

#### Price Return Series

- Index Name: MarketGrader Global Health Care Leaders Index – Price Return
- Short Name: MG Global Health Care PR
- Symbols: MGGHCPR (USD)

#### Net Total Return Series

- Index Name: MarketGrader Global Health Care Leaders Index – Net Total Return
- Short Name: MG Global Health Care NTR
- Symbols: MGGHCNR (USD)

#### Gross Total Return Series

- Index Name: MarketGrader Global Health Care Leaders Index – Gross Total Return
- Short Name: MG Global Health Care TR
- Symbols: MGGHCTR (USD)

### **Base Date and Base Index Level**

The Index's base date is December 31, 2007. Its base level is 100.

### **Currency**

The Index is calculated in US Dollars.

### **Index Reconstitution and Rebalance Dates**

The Index is reconstituted and rebalanced after the close of trading on U.S. exchanges on the third Friday of March and September. The Index constituents are selected on the Tuesday of the previous week, or ten (10) calendar days prior to the reconstitution and rebalance date.

### **Index Methodology**

#### 1. Investable Universe

All companies in the MarketGrader Global Health Care Leaders Index Investable Universe (as defined above) that are part of the Health Care sector, as identified by the MarketGrader Global Classification System, provided they meet the following investability criteria at the time of the Index's reconstitution and rebalance:

- The company had a market capitalization of at least USD 500 million.
- The company's stock had a 3-month average trading volume of at least USD 2 million.

For companies domiciled in China, issues trading on the Mainland China Exchanges must be a part of the Hong Kong Stock Connect Program.

## 2. Selection of Index Constituents

MarketGrader implements a proprietary methodology based on 24 indicators, each graded independently, across four fundamental categories: Growth, Value, Profitability and Cash Flow, which seeks to identify the companies with the strongest fundamentals. After grading each company on the 24 indicators, the sum of the grades is normalized into a MarketGrader Score (MG Score) ranging between zero and 100. Each company in the MarketGrader Global Health Care Leaders Index Investable Universe has a MG Score.

Once all companies in the underlying Investable Universe are graded at each rebalance selection date, MarketGrader selects the 100 companies with the highest MG Scores subject to the following criteria:

- No more than 20 companies may be domiciled in Emerging Economies (in the aggregate across all emerging countries).
- No more than 10 companies may be domiciled in any single country classified as an Emerging Economy.

If on the selection date a company is an existing Index constituent and its market capitalization falls below USD 500 million, but no lower than USD 450 million, the company will remain in the Index (the "Size Buffer" rule).

If on the selection date a company is an existing Index constituent but its ranking within the global health care investable universe falls below the top 100 stocks, but not lower than 110<sup>th</sup>, the company will remain in the Index (the "Score Buffer" rule).

If an Index constituent is dual listed in more than one of the exchanges in the underlying Investable Universe and the non-constituent issue has a higher MG Score than the Index constituent, the Index constituent will remain in the Index and not be replaced by the other issue even if the latter has a higher MG Score.

If two issues of the same company with a dual listing are eligible for selection to the Index based on their MG Score (provided that one is not already an Index constituent), MarketGrader will select the issue with the higher three-month average daily trading volume (in USD) for inclusion in the Index.

## 3. Foreign Ownership Limit Deletion Rules (for companies domiciled in China)

If at any time the free float adjusted market capitalization of an Index constituent reaches a foreign ownership percentage of 26%, the stock will be put on a Foreign Ownership Limit (FOL) watch list for possible deletion at the 27% threshold. If the stock reaches the 27% threshold, it will be deleted from the Index on the third trading day following the first day it reached such threshold. The stock will then be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and a cash component will be introduced into the Index, with a value equal to the cash value, and remain in the Index until the next rebalance effective date.

#### 4. Stock Connect Program Deletion Rules (for companies domiciled in China)

If at any time an Index constituent that trades on one of China's Mainland stock exchanges (Shanghai Stock Exchange or Shenzhen Stock Exchange) through the Hong Kong Stock Connect Program is moved to the 'Sell Only' list (which means that foreign investors can only sell but not buy the stock through the Connect Program), it will be deleted from the Index. The deletion will take place on the third trading day following the announcement that the stock was moved to the 'Sell Only' list. The stock will then be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and a cash component will be introduced into the Index, with a value equal to the cash value, and remain in the Index until the next rebalance effective date.

#### **Constituent Weighting Methodology**

The Index is re-weighted at each rebalance date according to the Index weights that were determined on the Friday following the selection date ("re-weight date"), which is also one week prior to the Index's official rebalance date. The Index weights are based on each constituent's Free Float Market Capitalization on the re-weight date, with the total Index weight per constituent capped at 5%. In other words, no Index constituent will have a weight that exceeds 5% of the total Index value on the re-weight date. Additionally, the minimum Index weight per constituent is 0.25%. In other words, no Index constituent will have a weight that is less than 0.25% of the total Index value on the re-weight date.

#### **Index Calculation Agent, Index Calculation Methodology and Corporate Actions**

The Index's calculation agent is Refinitiv Indices. The Index is calculated according to the Refinitiv Global Equity Indices divisor driven methodology, available [here](#). Corporate actions are handled according to the Refinitiv Equity Indices Corporate Action Methodology, available [here](#).