

Bloomberg R&D Leaders Select Index Methodology

March 2024

Bloomberg

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Introduction

The Bloomberg R&D Leaders Select Index is constructed to track the performance of the top 50 companies that seek to return implicit value to shareholders by reinvesting in their own growth. It aims to include companies that have consistently increased their Research & Development expenditures for at least 3 consecutive years and have a meaningful portion of their Sales devoted to Research & Development.

This document is intended to be read in conjunction with the [Bloomberg US Domestic Indices Methodology](#); these documents collectively constitute the index methodology for this Index.

Section 1: Overview

Name	Bloomberg R&D Leaders Select Index
Base date	2007-04-23
Inception Date	2024-03-04
Rebalance	Quarterly
Publication	Weekdays
Currency	USD
Tickers	BINVENT (Price Return) BINVENTT (Total Return) BINVENTN (Net Return)

Section 2: Index Eligibility Process

Parent Universe

To be selected for the Bloomberg R&D Leaders Select Index, a security must be a member of the Bloomberg US 1000 Index (B1000). Please refer to the Bloomberg US Domestic Indices methodology through the link below for additional details.

[Bloomberg US Domestic Indices Methodology](#)

Multiple Classes of Securities

One security per issuer is permitted. If an issuer has multiple securities, then the security currently in the Index will take precedence if it has met all other criteria for eligibility. Otherwise, the security with the highest 90-day average daily value traded is eligible for inclusion in the Index.

Section 3: Index Construction Process

Index Selection Process

All securities that satisfy the Index Eligibility Process in Section 2 are eligible for inclusion in the Index.

Investability Screening

A security must satisfy the following conditions:

1. It must have data available as of the Selection Date, t , for the following:
 - a. R&D Expenditures as of t , $t-1$, $t-2$, and $t-3$;
 - b. Revenue as of t ;
 - c. Issuer Free Float Market Capitalization as of t ; and
 - d. 90-Day Average Daily Value Traded as of t ;
2. It must be in the top 90th percentile of the Parent Universe as defined above by Issuer Free Float Market Capitalization as of the Selection Date
3. It must be in the top 90th percentile of the Parent Universe as defined above by 90-day Average Daily Value Traded as of the Selection Date

R&D Growth Screening

Of the securities that remain after applying the Investability Screening, a security must have three consecutive years of positive R&D Expenditures growth, as defined below.

$$\left(\frac{R\&D_t}{R\&D_{t-1}} - 1\right) > 0, \left(\frac{R\&D_{t-1}}{R\&D_{t-2}} - 1\right) > 0, \left(\frac{R\&D_{t-2}}{R\&D_{t-3}} - 1\right) > 0$$

Where:

R&D R&D Expenditures as of t
t Selection Date

R&D to Sales Screening

Of the securities that remain after applying the R&D Growth Screening, a security must be in the top 90th percentile by R&D to Sales ratio, as defined below.

$$\left(\frac{R\&D_t}{Revenue_t}\right)$$

Where:

R&D R&D Expenditures as of t
Revenue Revenue as of t
t Selection Date

Market Capitalization Screening

Of the securities that remain after applying the R&D to Sales Screening, the top 50 by Issuer Free Float Market Capitalization are included in the Index.

Index Selection Process Exception Rules

If there are less than 30 issuers in the Index after all of the rules in the Index Selection Process have been applied, then the R&D to Sales Screening is relaxed and the issuers with the highest R&D to Sales ratio that failed the R&D to Sales Screening but that passed all of the other screenings are added to the Index until there are 30 issuers selected for inclusion in the Index. If there are still less than 30 issuers in the Index, then the remaining ineligible issuers that passed the Investability Screening are ranked by their R&D Expenditures (as of Selection Date, t), and issuers are added to the Index until there are 30 issuers selected for inclusion in the Index.

Index Weighting

The Index is modified market cap weighted. An issuer's initial weight, W_i , is set, as shown below, according to its Issuer Free Float Market Capitalization.

$$W_i = \frac{FMC_i}{\sum_1^M FMC_i}$$

Where:

FMC_i Issuer Free Float Market Capitalization of security i as of the Selection Date
 W_i Initial weight of security i
M Number of Index members

Issuers' weights are then capped such that:

- No issuer's weight shall exceed 8%
- The top 5 issuers by Issuer Free Float Market Capitalization may have a weight exceeding 4%
- Issuers outside of the top 5 by Issuer Free Float Market Capitalization with weight greater than 4% have their weight capped at 4%

- No sector's weight shall exceed 40%, where a sector refers to the Bloomberg Industry Classification Standard (BICS) level 1 sector

Any excess weight from capping is distributed proportionally to all the remaining uncapped issuers until all the above conditions are satisfied.

Index Rebalance and Reconstitution

The Index is reconstituted semi-annually in April and October and rebalanced quarterly in January, April, July, and October.

Selection Date

The Index Eligibility Process and Index Selection Process are applied using data as of the last day in March and September.

Index Share Determination Date

Index Weighting is determined using prices as of the last day in March, June, September, and December.

Index Announcement Date

An Index reconstitution and rebalance announcement date shall be the 2nd Friday in April, July, October, and January, respectively.

Index Effective Date

The Index reconstitutions and rebalances go effective after the close of trading on the 3rd Friday in April, July, October, and January, respectively.

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Selection Date	Last Day			X						X			
Share Determination Date	Last Day			X			X			X			X
Announcement Date	2 nd Friday	X			X			X			X		
Effective Date	3 rd Friday	X			X			X			X		

Section 4: Index Maintenance

Index Calculation

Refer to the [Bloomberg US Domestic Indices Methodology](#) for index calculation details.

Deletion Policy

Index securities are not deleted outside Index Rebalance and Reconstitution window except in the case of a delisting.

Addition Policy

Index securities are not added outside of the Index reconstitution.

Replacement Policy

Index securities are not replaced outside of the Index reconstitution.

Corporate Actions

Refer to [Bloomberg US Domestic Indices Non-Market Cap Corporate Action Methodology](#) for the treatment of corporate actions.

Section 5: Risks and Limitations

Risks

The following is a summary of certain risks associated with the Index but is not meant to be an exhaustive list of all risks associated with the Index. Although the Index is designed to be representative of the markets it is measuring, it may not be representative of every use case. There is also inherent, though transparent, judgment in its construction, as outlined in this Methodology. The Index is designed for general applicability and not to address the individual circumstances and needs of users. BISL does not advise about the usefulness of the Index to a particular circumstance; users are therefore encouraged to seek their own counsel for such matters. This Methodology is subject to change, which may impact its usefulness to users. Although efforts will be made to alert users of any change, every individual user may not be aware of them. Such changes may also significantly impact the usefulness of the Index. BISL may also decide to cease publication of this Index. BISL maintains internal policies regarding user transitions, but no guarantee is given that an adequate alternative is available generally or for a particular use case. Markets for stocks, as with all markets, can be volatile. As the Index is designed to measure this market, it could be materially impacted by market movements, thus significantly affecting the use or usefulness of the Index for some or all users. Also, certain equity markets are less liquid than others – even the most liquid markets may suffer periods of illiquidity. Illiquidity can have an impact on the quality or amount of data available to BISL for calculation and may cause the Index to produce unpredictable results.

Limitations of the index

Though the Index is designed to be representative of the markets it measures or otherwise aligns with its stated objective, it may not be representative in every case or achieve its stated objective in all instances. It is designed and calculated strictly to follow the rules of this Methodology, and any Index level or other output is limited in its usefulness to such design and calculation.

Markets can be volatile, including those market interests that the Index measures or upon which the Index is dependent to achieve its stated objective. For example, illiquidity can have an impact on the quality or amount of data available to the administrator for calculation and may cause the Index to produce unpredictable or unanticipated results.

In addition, market trends and changes to market structure may render the objective of the Index unachievable or to become impractical to replicate by investors.

In particular, the Index measures global equity markets. As with all equity investing, the Index is exposed to market risk. The value of equities fluctuate with the changes in economic forecasts, interest rate policies established by central banks and perceived geopolitical risk. The Index does not take into account the cost of replication and as a result a tracking portfolio's returns will underperform the Index with all else equal. As the Index is designed to measure those markets, it could be materially impacted by market movements, thus significantly impacting the use or usefulness of the fixings for some or all users.

In addition, certain sub-indices may be designed to measure smaller subsets of the Index such as specific styles, size, and sector. Some of these sub-indices have very few qualifying constituents and may have none for a period of time. During such period, the sub-index will continue to be published at its last value, effectively reporting a 0% return, until new constituents qualify. If no constituents are expected to qualify (due to changes in market structure and other factors), the sub-index may be discontinued. In such an event, this discontinuation will be announced to index users.

Section 6: Benchmark Oversight and Governance

Benchmark Governance Structure

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Index and data reviews

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Expert judgement

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Conflicts of interest

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Restatement policy

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Cessation policy

Please refer to the BISL Benchmark Procedures Handbook available [here](#).

Appendix A: ESG Disclosure

EXPLANATION OF HOW ESG FACTORS ARE REFLECTED IN THE KEY ELEMENTS OF THE BENCHMARK METHODOLOGY	
Item 1. Name of the benchmark administrator.	Bloomberg Index Services Limited ("BISL")
Item 2. Type of benchmark or family of benchmarks. <i>Choose the relevant underlying asset from the list provided in Annex II to Commission Delegated Regulation (EU)2020/1816.</i>	Equity
Item 3. Name of the benchmark or family of benchmarks.	Bloomberg R&D Leaders Select Index
Item 4. Does the benchmark methodology for the benchmark or family of benchmarks take into account ESG factors?	No
<p>Item 5. Where the response to Item 4 is positive, please list below, for each family of benchmarks, those ESG factors that are taken into account in the benchmark methodology, taking into account the ESG factors listed in Annex II to Delegated Regulation (EU) 2020/1816.</p> <p>Please explain how those ESG factors are used for the selection, weighting or exclusion of underlying assets.</p> <p>The ESG factors shall be disclosed at an aggregated weighted average value at the level of the family of benchmarks.</p>	
(a) List of environmental factors considered:	Not applicable
(b) List of social factors considered:	Not applicable
(c) List of governance factors considered	Not applicable
<p>Item 6. Where the response to Item 4 is positive, please list below, for each benchmark, those ESG factors that are taken into account in the benchmark methodology, taking into account the ESG factors listed in Annex II to Delegated Regulation (EU) 2020/1816, depending on the relevant underlying asset concerned.</p> <p>Please explain how those ESG factors are used for the selection, weighting or exclusion of underlying assets.</p> <p>The ESG factors shall not be disclosed for each constituent of the benchmark, but shall be disclosed at an aggregated weighted average value of the benchmark.</p> <p>Alternatively, all of this information may be provided in the form of a hyperlink to a website of the benchmark administrator included in this explanation. The information on the website shall be easily available and accessible. Benchmark administrators shall ensure that information published on their website remains available for five years.</p>	
(a) List of environmental factors considered:	As above
(b) List of social factors considered:	As above
(c) List of governance factors considered:	As above
Item 7. Data and standards used	
(a) Data input. <i>(i) Describe whether the data are reported, modelled or sourced internally or externally.</i> <i>(ii) Where the data are reported, modelled or sourced externally, please name the third party data provider.</i>	Not Applicable
(b) Verification and quality of data. <i>Describe how data are verified and how the quality of those data is ensured.</i>	Not Applicable
(c) Reference standards <i>Describe the international standards used in the benchmark methodology.</i>	Not Applicable
Date on which information has been last updated and reason for the update:	March 2024

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