GLOBAL X INSIGHTS

Introducing the Global X PureCap^{SM} Suite: Exploring Innovation Beyond Traditional Sector Investing

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On July 23rd, we listed five ETFs as part of our PureCap^{SM} suite: the Global X PureCap^{SM} MSCI Consumer Discretionary ETF (GXPD), Global X PureCap^{SM} MSCI Communication Services ETF (GXPC), Global X PureCap^{SM} MSCI Information Technology ETF (GXPT), Global X PureCap^{SM} MSCI Consumer Staples ETF (GXPS), and the Global X PureCap^{SM} MSCI Energy ETF (GXPE).

This suite of ETFs represents an evolution beyond traditional sector-based investing. As concentration in certain industries increases, the security weighting caps often built into indexes have become more impactful. The Global X PureCap^{SM} suite includes five ETFs that aim to track the MSCI USA sector indexes in sectors that would be most impacted by weighting caps. By seeking to track uncapped sector indexes, our PureCap^{SM} suite can potentially provide exposure that is more reflective of the actual concentration within each sector represented.

Key Takeaways

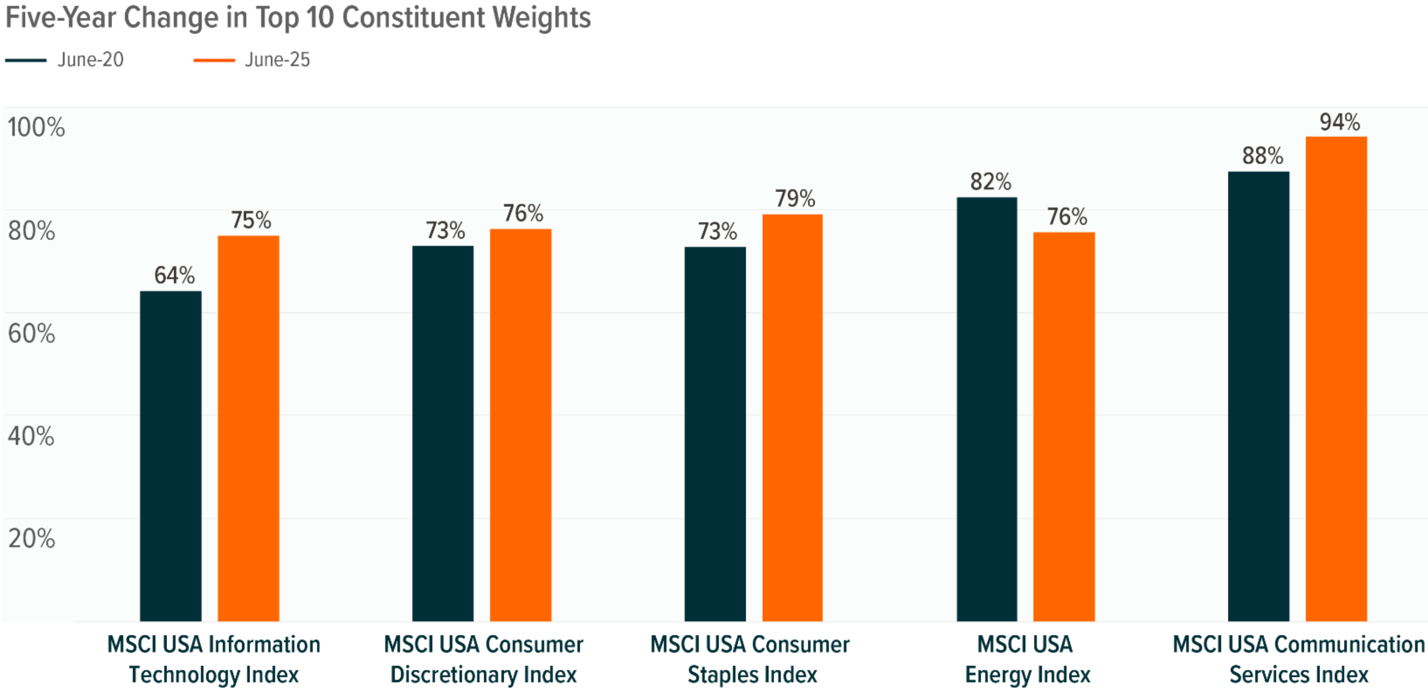
- Funds registered under the Investment Company Act of 1940 (“40 Act”) must adhere to weighting restrictions, including a limitation that a company cannot exceed 25% of a fund’s assets and the aggregate weight of companies representing 5% or more of the fund cannot exceed 50%.[1] This is generally known as the “25/50 rule”.
- The 25/50 rule is frequently integrated directly into indexes that funds track, and this has grown more impactful for sector-focused investments as concentration has risen.
- The PureCap^{SM} funds can potentially serve as better building blocks for investors that use sector funds to replicate a full equity index and are seeking pure market capitalization exposure.

Why Indexes Aren’t Always Free from Fund-Level Rules

The 25/50 rule is a diversification requirement under Subchapter M of the Internal Revenue Code that must be followed by all regulated investment companies to maintain pass-through taxation. While this rule applies equally to all 40 Act ETFs and mutual funds, including our PureCap^{SM} suite, it does not have to apply to indexes. Despite this, indexes that are designed to be tracked by funds generally incorporate a version of those diversification requirements directly into their rules.

The impact of the decision to incorporate fund diversification rules on indexes that are designed to track a certain sector depends on how concentrated that sector is. The more concentrated it is, the more the weights of the largest constituents must be adjusted to align with fund diversification requirements. Over time, the concentration of certain sectors has risen dramatically as the market caps of the largest companies have grown. This has heightened the effect that weighting caps on sector indexes have had over time.

CERTAIN SECTOR CONCENTRATIONS HAVE INCREASED OVER TIME



Source: Morningstar Direct. 6/30/2020 and 6/30/2025.
Constituents are subject to change and do not represent fund holdings.

Introducing the Global X PureCap Suite

To address these growing distortions, Global X developed a new suite of ETFs that aims to reflect the uncapped or pure market capitalization sector composition more accurately. The Global X suite of PureCap℠ ETFs includes five funds that aim to track distinct sectors indexes derived from the MSCI USA Index, which covers approximately 85% of the market capitalization in the United States.

Ticker	ETF	Index
GXPD	Global X PureCap℠ MSCI Consumer Discretionary ETF	MSCI USA Consumer Discretionary Index
GXPC	Global X PureCap℠ MSCI Communication Services ETF	MSCI USA Communication Services Index
GXPT	Global X PureCap℠ MSCI Information Technology ETF	MSCI USA Information Technology Index
GXPS	Global X PureCap℠ MSCI Consumer Staples ETF	MSCI USA Consumer Staples Index
GXPE	Global X PureCap℠ MSCI Energy ETF	MSCI USA Energy Index

While the PureCap℠ suite is subject to the same diversification requirements as any other regulated investment company, minimizing return deviations between the funds and the uncapped indexes may offer a more accurate representation of the full economic footprint of the largest constituents within each sector. The funds seek to minimize return deviations from their respective indexes while adhering to diversification rules through representative sampling. At certain times, the funds may invest in ETFs or securities with similar characteristics to index constituents in an effort to closely track the index. In essence, the PureCap℠ funds target a portfolio that is more reflective of the true composition for each sector, while traditional sector funds incorporate regulatory constraints through the selection of indexes that they aim to track.

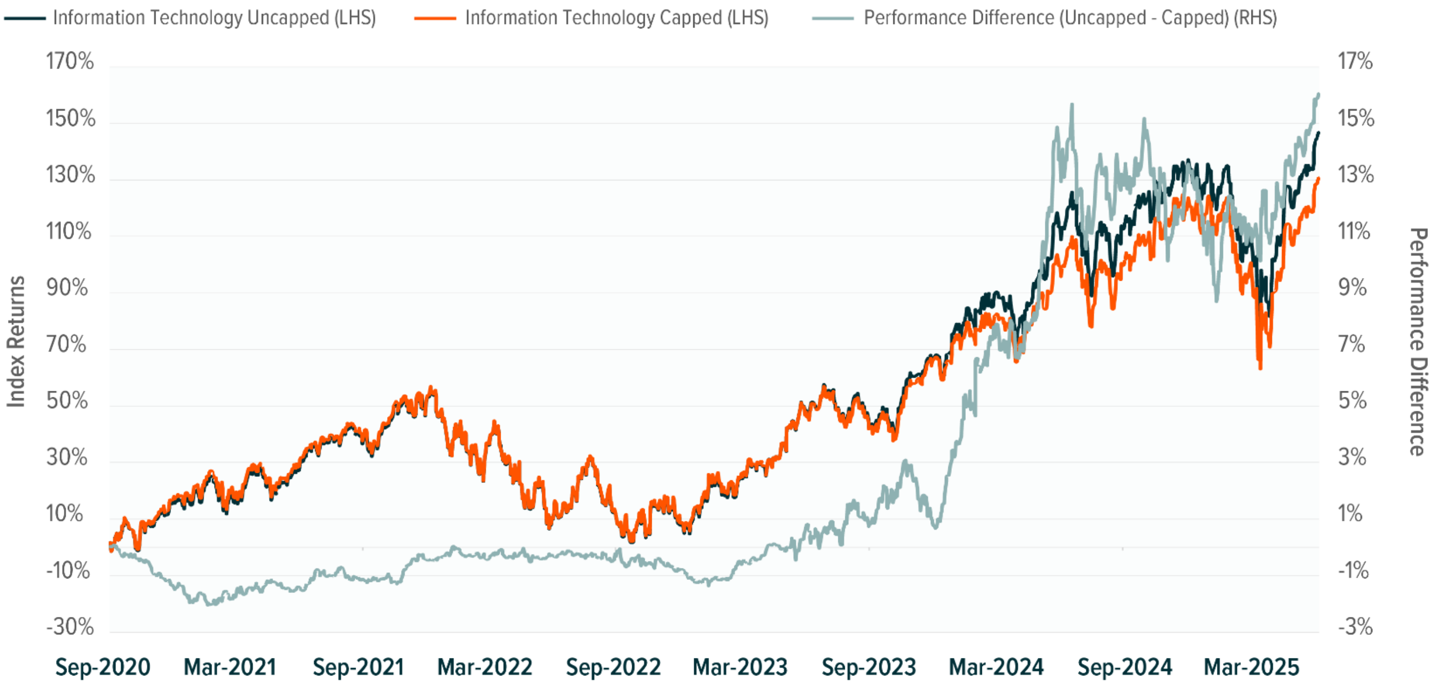
Small Differences Potentially Making Large Impacts

While the methods in which the 25/50 rule are applied may seem to be of minor importance, they can have a significant effect on weighting, performance, and the ability to use sector ETFs as a building block for a broader equity portfolio.

Taking the MSCI Information Technology Sector as an example, the top three weights belong to Nvidia, Microsoft, and Apple. In the uncapped index, these three companies account for 57% of the weights. In the capped version, the MSCI USA IMI 25/50 Information Technology Index, these constituents account for 46%.[2] That 11-percentage point difference across just three names contributed to the outperformance of the uncapped index by 12% since their common inception in 2020.

CONCENTRATED CONSTITUENTS SUPPORTED OUTPERFORMANCE

Total Return of Uncapped Information Technology Sector Index Returns Relative to Capped



Source: Morningstar Direct. Data from 9/22/2020 – 6/30/2025. Information Technology Capped, MSCI USA IMI Information Technology 25-50 Index (Gross). Information Technology Uncapped, MSCI USA Information Technology Index (Gross).

Index returns are for illustrative purposes only and do not represent actual Fund performance. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Beyond affecting performance, the weighting deviations can create challenges for investors that use sector indexes to construct a broad equity portfolio. Deconstructing an equity index into its component sectors can allow investors to take active tilts, but weighting caps may cause unintended differences. The table below demonstrates that effect by comparing the weights of the top 10 constituents in the MSCI USA Index relative to the implied weights for both the capped and uncapped indexes. Implied weights are calculated as the product of the relevant sector weight in the MSCI USA Index and the constituent weight in the corresponding sector index. Within the top 10 holdings alone, the deviation is significant. The total difference is over 8% and the single-constituent difference is as high as 1.6%.

UNCAPPED INDEXES MAY MAKE BETTER BUILDING BLOCKS

Implied weight of MSCI USA's 10 Largest Constituents in a Capped and Uncapped Construction

Source: MSCI, data as of 6/30/2025.

*Uncapped Indexes refers to the combination of the MSCI USA Sector series while Capped Indexes refers to the combination of the MSCI USA IMI 25/50 Sector series.

Conclusion: Reframing Sector Exposure for Modern Markets

As sector concentration has intensified and the limitations of traditional capped indexes become more pronounced, the Global X PureCap℠ suite offers a modern approach to sector investing that we believe aligns more closely with the evolving economic footprint of leading companies. By seeking to track uncapped sector indexes and using a representative sampling strategy, the PureCap℠ ETFs aim to preserve the integrity of index-based investing while working within regulatory boundaries. For investors aiming to construct precise, sector-driven allocations or potentially replicate broad benchmarks more accurately, the PureCap℠ approach represents a meaningful evolution in beyond traditional sector-based investing.

Related ETFs

GXPD – Global X PureCap℠ MSCI Consumer Discretionary ETF

GXPC – Global X PureCap℠ MSCI Communication Services ETF

GXPT – Global X PureCap℠ MSCI Information Technology ETF

GXPS – Global X PureCap℠ MSCI Consumer Staples ETF

GXPE – Global X PureCap℠ MSCI Energy ETF

Click the fund name above to view current performance and holdings. Holdings are subject to change. Current and future holdings are subject to risk.

Footnotes

1. Internal Revenue Code § 851(b)(3)(A)-(B).
2. MSCI, data as of 5/31/2025.

Investing involves risk, including the possible loss of principal. Investments concentrated in a particular sector tend to be more volatile than the overall market. GXPC, GXPD, GXPT, GXPS, and GXPE are non-diversified.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the funds. Brokerage commissions will reduce returns.

Carefully consider the Funds' investment objectives, risks, and charges and expenses before investing. This and other information can be found in the Funds' summary or full prospectuses, which are available at globalxetfs.com. Please read the prospectus carefully before investing.

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