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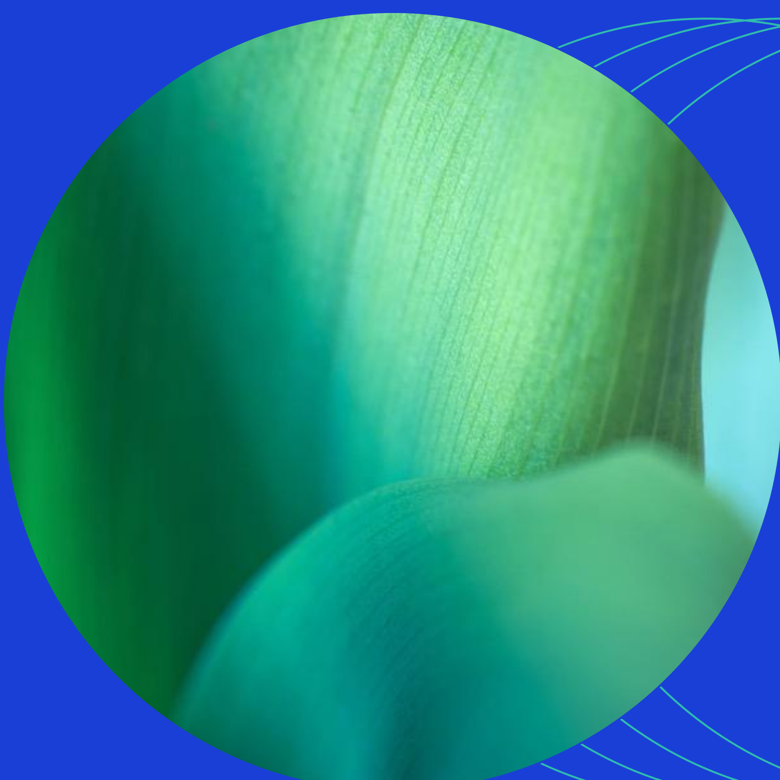
MSCI USA Cyclical Defensive Allocator Select Index Methodology



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1 Introduction

The MSCI USA Cyclical Defensive Allocator Select Index[1] (the "Index") aims to represent the performance of a strategy that dynamically allocates between the MSCI USA Cyclical Sectors Index[2] and the MSCI USA Defensive Sectors Index[3] based on relative factor exposures to Earnings Yield and Short Interest.

[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] The variant used for MSCI USA Cyclical Sectors Index is Gross Total Return.

[3] The variant used for MSCI USA Defensive Sectors Index is Gross Total Return.

2 Index Construction

2.1 MSCI USA Cyclical Defensive Allocator Select Index

The Index uses the Earnings Yield Signal and Short Interest Signal calculated as per Sections 2.2 and 2.3 to rotate between the following two component indexes:

- MSCI USA Cyclical Sectors Index
- MSCI USA Defensive Sectors Index

At initial construction and at each monthly rebalance, the weights to the component indexes are assigned as follows:

Earnings Yield Signal	Short Interest Signal	Cyclical Index Weight	Defensive Index Weight
>= 0	>= 0	100%	0%
< 0	< 0	0%	100%
>= 0	< 0	100%	0%
< 0	>= 0	100%	0%

The allocation logic is summarized as follows:

- When one of the two signals is greater than or equal to 0, the Index allocates 100% to the MSCI USA Cyclical Sectors Index and 0% to the MSCI USA Defensive Sectors Index.
- When both signals are less than 0, the Index allocates 0% to the MSCI USA Cyclical Sectors Index and 100% to the MSCI USA Defensive Sectors Index.

2.2 Calculating the Earnings Yield Signal

At each Index Review, the Earnings Yield[4] Signal is calculated as the difference between the index-level weighted average Earnings Yield factor exposures of the MSCI USA Cyclical Sectors Index and the MSCI USA Defensive Sectors Index, using constituent data as of four business days prior to the rebalancing date (T−4).

For each component index, the index-level Earnings Yield exposure is calculated as:

$$Index\ Earnings\ Yield = \sum (w_{i,t-1} * EY_{i,t-1})$$

Where:

- $w_{i,t-1}$ = closing weight of security i in the component index as of T−4

[4] Please refer to Appendix II for more information on factor definitions

- $EY_{i,t-1}$ = Earnings Yield (earnyild) factor exposure of security i from the Barra GEMTR model as of T−4

The Earnings Yield Signal is then calculated as:

$$Earnings\ Yield\ Signal = Index\ Earnings\ Yield_{Cyc} - Index\ Earnings\ Yield\ _{Def}$$

Securities with missing Earnings Yield factor data are assigned a factor exposure of zero for the purpose of this calculation.

2.3 Calculating the Short Interest Signal

At each Index Review, the Short Interest Signal[5] is calculated as the difference between the index-level weighted average Short Interest factor exposures of the MSCI USA Cyclical Sectors Index and the MSCI USA Defensive Sectors Index, using constituent data as of four business days prior to the rebalancing date (T−4).

For each component index, the index-level Short Interest exposure is calculated as:

$$Index\ Short\ Interest = \sum (w_{i,t-1} * SI_{i,t-1})$$

Where:

- $w_{i,t-1}$ = closing weight of security i in the component index as of T−4
- $SI_{i,t-1}$ = Short Interest (shortint) factor exposure of security i from the Barra GEMTR model as of T−4

The Short Interest Signal is then calculated as:

$$Short\ Interest\ Signal = Index\ Short\ Interest\ _{Cyc} - Index\ Short\ Interest\ _{Def}$$

Securities with missing Short Interest factor data are assigned a factor exposure of zero for the purpose of this calculation.

[5] Please refer to Appendix II for more information on factor definitions

3 Maintenance of the Indexes

3.1 Monthly Index Reviews

The Index is reviewed on a monthly basis and rebalanced on the 1st business day of each month. The pro forma Index is announced three business days before the effective date which is the 1st business day of each month.

3.2 Ongoing Event Related Changes

The Index is derived from the existing MSCI USA Cyclical Sectors Index and MSCI USA Defensive Sectors Index. As a result, corporate events are reflected in the Index as they occur and as they are captured in the two component indexes.

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 Index Methodology in the section ‘Search Methodology by Index Name or Index Code’.

Appendix II: Factor Definitions

The methodology presently uses MSCI Barra Global Total Market Equity Trading Model[6] ("GEMTR") for the signal calculation. A new release of the relevant Barra Equity Model may replace the former version within a suitable timeframe.

The Earnings Yield factor exposure (earnyild in GEMTR) measures the ratio of a company's earnings to its price, capturing the relative valuation of a security. Securities with higher earnings relative to their market price have a positive exposure to this factor. A higher index-level weighted average Earnings Yield for the cyclical index relative to the defensive index indicates that cyclical sectors are relatively more attractively valued.

The Short Interest factor exposure (shortint in GEMTR) measures the level of short interest in a security, capturing the ratio of shares sold short to the total number of shares available for borrowing. Securities with high short interest have a positive exposure to this factor. A lower index-level weighted average Short Interest for the cyclical index relative to the defensive index indicates that cyclical sectors face less short-selling pressure.

[6] For more information related to the MSCI Barra Global Total Market Equity Trading Model please refer to [Barra Global Total Market Equity Models - MSCI]

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