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MSCI EMU Select Profitability Leaders and Decrement Indexes Methodology

Contents

1 Introduction

The MSCI EMU Select Profitability Leaders Index[1] (the 'Index') aims to represent the performance of an investment strategy that selects 40 securities from MSCI EMU Index based on their market capitalization, ESG Governance scores and an aggregated metric of Return on Asset (ROA). The index aims to select securities that display sustainable and persistent profitability.

The MSCI EMU Select Profitability Leaders Decrement 5% Index aims to represent the performance of the MSCI EMU Select Profitability Leaders Index, while applying a constant markdown ('synthetic dividend') expressed in percentage terms as per the MSCI Decrement Indexes Methodology[2] .

[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 V for more details.
[2] Please refer to the MSCI Decrement Indexes methodology at www.msci.com/index-methodology

2 Constructing the Index

The Index uses company ratings and research provided by MSCI Solutions[3] to determine eligibility for index construction

The Index is constructed from the MSCI EMU Index (herein, the "Parent Index").

The following steps are applied in the construction of the Index.

- Applicable Universe
- ESG Governance Score Screen
- Security Selection
- Weighting Scheme

After the above steps, the following additional step is applied to construct the MSCI EMU Select Profitability Leaders Decrement 5% Index

- Applying the MSCI Decrement Indexes Methodology

2.1 Applicable Universe

The applicable universe for the Index is constructed by selecting top 50 securities from the Parent Index based on their free float market capitalization.

2.2 ESG Governance Score Screen

The index uses the MSCI ESG Governance Score[4] to exclude the bottom 5 stocks from the applicable universe, as ranked based on their ESG Governance Score.

In case of two or more securities having the same governance score the security with the higher weight in the Parent Index is given higher rank.

2.3 Security Selection

After applying ESG Governance Score screen, the top 40 securities with the highest rank based on the below described ROA[5] ranking scheme are included in the final index.

3 See Section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI Solutions LLC, a separate subsidiary of MSCI Inc. MSCI Solutions is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

4 Please refer appendix I for details

5 Please refer appendix II for details

2.3.1 ROA Ranking Scheme

The top 40 securities are selected based on Final Rank, where:

Final Rank = Avg (Rank1, Rank2)

In case of two or more securities having the same value of Final Rank the security with higher Rank1 is given higher Final Rank.

- Definition of Rank 1: Ranking of each security in descending order of latest available ROA.

In case of two or more securities having the same latest available ROA the security with the higher weight in the Parent Index is given higher Rank1.

- Definition of Rank 2: Ranking of each security in descending order of the average of the differences between latest available ROA and past 3-,6- and 9-year ROA. Please refer to appendix III for detailed formula.

In case of two or more securities having the same value for average of the differences between latest available ROA and past 3-,6- and 9-year ROA the security with the higher weight in the Parent Index is given higher Rank2.

If the value of ROA for any security is missing, then the index fills it with zero for that security.

2.4 Security Weighting

The above selected 40 securities are classified into four buckets derived from their final ranks. Securities belonging to the same bucket are allocated equal weights. Securities in each Bucket are assigned weights according to the table below:

Bucket	Corresponding Security Rank Range	Weight of each Securities in the Rank Bucket
1	1-10	5.00%
2	11-20	3.00%
3	21-30	1.50%
4	31-40	0.50%

2.5 Applying The MSCI Decrement Indexes Methodology

The MSCI Decrement Indexes Methodology is applied on the index using the parameters mentioned in Appendix IV, to construct the MSCI EMU Select Profitability Leaders Decrement 5% Index.

3 Maintaining the Index

3.1 Index Reviews

The Index is reviewed on a quarterly basis, coinciding with the regular Index Reviews of the Parent Index.

The pro forma Index is typically announced nine business days before the effective date.

3.2 Ongoing Event Related Changes

The general treatment of corporate events in the MSCI EMU Select Profitability Leaders Index aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor's participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the Index.

The following section briefly describes the treatment of common corporate events. No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously.

Event Type	Event Details
New additions to the Parent Index	A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.
Spin-Offs	All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.
Merger/Acquisition	For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

	If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.
Changes in Security Characteristics	A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted Indexes.

The MSCI Corporate Events methodology book is available at: https://www.msci.com/index-methodology

4 MSCI Solutions

The Index is a product of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI Solutions LLC (MSCI Solutions), a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI sustainability and climate products: MSCI Governance Metrics. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI Governance Metrics

MSCI Solutions publishes corporate governance research, scores and rankings through MSCI Governance Metrics and within the corporate governance section of MSCI ESG Ratings.

The MSCI Governance Metrics model is based on a set of governance and accounting key metrics organized into four themes: Board, Pay, Ownership and Control, and Accounting. This framework is designed to provide consistency, transparency and structural integrity. Context-sensitive scoring deductions associated with each key metric are meant to emphasize behavior over policy.

The MSCI Governance Metrics methodology can be found at:
.https://www.msci.com/legal/disclosures/esg-disclosures

Appendix I: ESG Governance Score Definition

This is an absolute 0-10 corporate governance Score. (Score: 0-10)

This key issue evaluates the extent to which companies' corporate governance practices in specific governance areas – audit, board, compensation/remuneration, shareholder rights -- pose financial risks to shareholders. (Score: 0-10)

Appendix II: Definitions of ROA Descriptor in Barra Global Total Market Equity Model for Long Term Investors

Return on Asset (ROA) is a descriptor for Profitability style factor in MSCI Barra Global Equity Model for Long-Term Investors (GEMLTL).

ROA is Computed as,

$$\boldsymbol{ROA = Earnings/TA}$$

where, Earnings are most recently reported company net earnings, TA is the most recently reported company total assets. For more detailed information on individual factors in GEMLTL, please refer to https://www.msci.com/portfolio-management/

Appendix III: Definition of Rank 2

Rank2 is derived by ranking each security in descending order of the average of the differences between latest available ROA and past 3-, 6- and 9-year ROA:

Rank2 = Rank based on Average [(ROA (current)-ROA (current-3 year); (ROA (current)- ROA (current-6 year); (ROA (current)-ROA (current-9 year)]

Appendix IV: Parameters used for the MSCI Decrement Indexes Methodology

The following parameters are used in the calculation of the Decrement Index.

Sr.No.	Methodology Parameters	MSCI EMU Select Profitability Leaders Decrement 5% Index
1	Currency of Calculation	EUR
2	Parent Index	MSCI EMU Select Profitability Leaders Index
3	Decrement Type	Daily Net Total Return
4	Return Variant of the Parent Index	Fixed Percentage Decrement
5	Decrement Application	Geometric Application
6	Decrement Value	5%
7	Day-count Convention	Actual/365
8	Index Floor	0
9	Decrement Frequency	Daily

Appendix V: Methodology Set

The Index is 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 Industry Classification Standard (GICS) Methodology – https://www.msci.com/index/methodology/latest/GICS
- MSCI Global Investable Market Indexes Methodology – https://www.msci.com/index/methodology/latest/GIMI
- MSCI Decrement Indexes Methodology – https://www.msci.com/index/methodology/latest/Decrement
- ESG Factors In Methodology*

The Methodology Set for the Index can also be accessed from MSCI's webpage https://www.msci.com/index-methodology in the section 'Search Methodology by Index Name or Index Code'.

* 'ESG Factors in Methodology' contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion). It can be accessed in the Methodology Set as described above.

Appendix VI: Changes to this Document

The following sections have been modified as of June 2025

Section 1: Introduction

- Added footnote on Methodology Set

Section 4: MSCI Solutions

- New section for MSCI sustainability and climate products

Appendix V: Methodology Set

- Added details on the Methodology Set for the Index

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