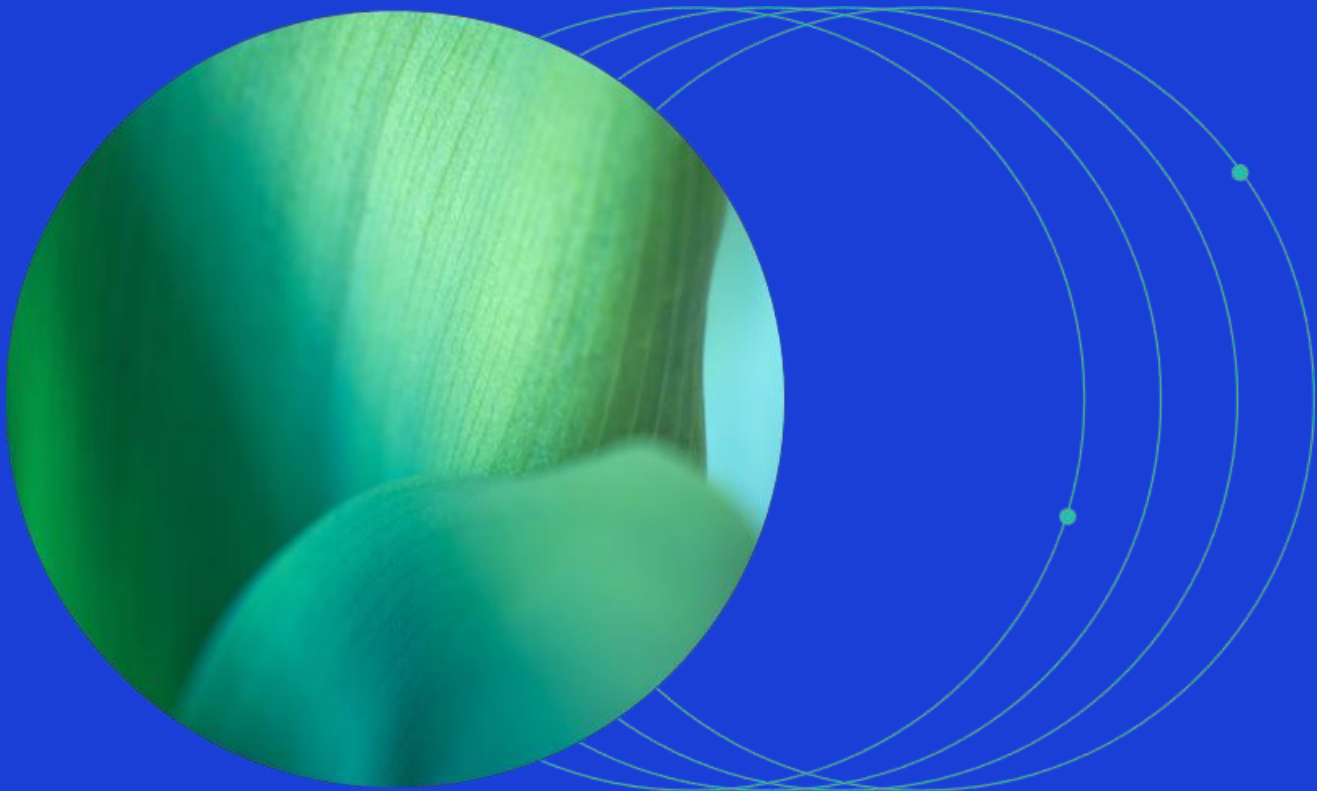




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Methodology Book For MSCI Europe Infrastructure, Aerospace & Defense Select (EUR) Index



Contents

1. Introduction	3
2. Constructing the MSCI Europe Infrastructure, Aerospace & Defense Select (EUR) Index	4
2.1 Applicable Universe	4
2.2 Eligible Universe	4
2.2.1 Controversial Business Involvement	4
2.2.2 Liquidity Filter	5
2.2.3 Single Security per Issuer	5
2.3 Weighting & Capping	5
2.4 Treatment of Unrated Companies	5
3. Maintaining the Index	6
3.1 Index Review	6
3.2 Ongoing Event Related Changes	6
4. MSCI Solutions Research	8
4.1 MSCI Business Involvement Screening Research	8
Appendix I: Controversial Business Involvement Criteria	9
Appendix II: Cap Description	10
Appendix III: Methodology Set	12
Contact Us	13

1. Introduction

The MSCI Europe Infrastructure, Aerospace & Defense Select (EUR) Index ¹ (the 'Index') is designed to represent the performance of European companies selected from the Infrastructure and Aerospace & Defense industries. The Index methodology includes the following elements:

- Exclusion of companies associated with specific business activities.
- A minimum liquidity criterion.
- Single security selection per issuer.
- A simultaneous two-tier capping so that the aggregate weight of the Aerospace & Defense GICS^{®2} subindustry is capped at 30%, while each individual issuer weight is capped at 5%.

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 III for more details.

² GICS is the Global Industry Classification Standard jointly developed by MSCI and S&P Dow Jones Indices.

2. Constructing the MSCI Europe Infrastructure, Aerospace & Defense Select (EUR) Index

2.1 Applicable Universe

The Applicable Universe of the Index is drawn from the combined constituents of the two Parent Index Components, as described below.

Parent Index Component
MSCI Europe Infrastructure Index ³
MSCI Europe Aerospace and Defense Index ⁴

2.2 Eligible Universe

The Eligible Universe of the Index is derived by applying the following filters:

- Controversial Business Involvement
- Liquidity Filter
- Single Security per Issuer

The Index uses research provided by MSCI Solutions LLC⁵ to determine eligibility for Index inclusion.

2.2.1 Controversial Business Involvement

The Index uses MSCI Business Involvement Screening Research to identify companies that are involved in the following activities. Companies meeting these criteria are excluded from the Index. Please refer to Appendix I for details on these criteria⁶.

- Controversial Weapons
- Nuclear Weapons.

³ https://www.msci.com/eqb/methodology/meth_docs/MSCI_Infrastructure_Indexes_Methodology_Feb2022.pdf

⁴ <https://www.msci.com/index/methodology/latest/GIMI>

⁵ See Section 4 for further information regarding Business Involvement data used in the Index 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.

⁶ Controversial Business screenings are applied from the point at which data becomes available; no backfilling is performed.

2.2.2 Liquidity Filter

Securities must have a 3-month annualized Average Traded Value (ATV-3M) equal to or greater than USD 10,000,000 per day. Securities failing this threshold are excluded from the Eligible Universe.

2.2.3 Single Security per Issuer

Where multiple securities belonging to the same issuer pass the ESG and liquidity filters, only one security per issuer is retained. The selection is based on the following sequential criteria:

- Primary criterion: The security with the highest ATV-3M is selected.
- Secondary criterion: In the event of a tie in ATV-3M, the security with the higher free-float market capitalization weight in its respective Parent Index Component is selected.

2.3 Weighting & Capping

Each selected security in the Eligible Universe is assigned a weight proportional to its free-float market capitalization in its respective Parent Index Component. Weights are normalized to sum to 100%.

A simultaneous two-tier capping is then applied to the weighted portfolio. Both constraints are enforced concurrently within a single iterative algorithm (Please refer to Appendix II for details on these criteria):

- Tier 1 — Aerospace & Defense Group Cap: The aggregate weight of all securities that are constituents of the MSCI Europe Aerospace and Defense Index shall not exceed 30% of total index weight.
- Tier 2 — Issuer Cap: The weight of any individual issuer shall not exceed 5% of total index weight.

2.4 Treatment of Unrated Companies

Companies not assessed by MSCI Solutions on data for any of the following MSCI Solutions products are not eligible for inclusion in the Index.

- MSCI Business Involvement Screening Research (BISR)

3. Maintaining the Index

3.1 Index Review

The Index is reviewed on a quarterly basis, usually as of the close of the last business day of February, May, August and November, coinciding with the February, May, August and November Index Reviews of the MSCI Global Investable Market Indexes. In general, the pro forma indexes are announced nine weekdays before the effective date.

In general, MSCI uses MSCI Solutions data⁷ (MSCI Business Involvement Screening Research) and ADTV as of the end of the month preceding the Index Reviews for the rebalancing of the Index. For some securities, such data may not be published by MSCI Solutions by the end of the month preceding the Index Review. For such securities, MSCI will use data published after the end of month, when available, for the rebalancing of the Index.

3.2 Ongoing Event Related Changes

The following section briefly describes the treatment of common corporate events within the Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the Index only if added to the Parent Index. Parent Index deletions will be reflected simultaneously.

EVENT TYPE

EVENT DETAILS

New additions to the Parent Index Component

New securities added to the Parent Index Component (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 not be added to the Index at the time of event implementation. Reevaluation for addition in the Index will occur at the subsequent Index Review.

Merger/Acquisition

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

⁷ See Section 4 for details of data sourced from MSCI Solutions used in the Index

characteristics (country, sector, size segment, etc.). Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further details and illustrations regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index/methodology/latest/CE>

4. MSCI Solutions Research

The MSCI Europe Infrastructure, Aerospace & Defense Select (EUR) Index is a product of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI Solutions LLC, a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI Solutions Research products: MSCI Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI Business Involvement Screening Research

MSCI Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

The MSCI Business Involvement Screening Research methodology can be found at:

<https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>

Appendix I: Controversial Business Involvement Criteria

The Index excludes companies that fail to meet the following criteria. The exclusion framework is applied consistently across the eligible universe at each Index Review.⁸

- **Controversial Weapons**

- All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>.

- **Nuclear Weapons**

- All companies with more than 5% reported revenue (or, where not disclosed, maximum estimated revenue) from nuclear weapons, intended and dual-use components for such products, delivery platforms capable of deploying nuclear weapons, essential components for such delivery platforms, and support services for such products as a percentage of total revenue in its most recently completed fiscal year.

⁸ BISR screenings are applied from the point at which data becomes available; no backfilling is performed.

Appendix II: Cap Description

The capping methodology is applied on issuer and sub industry weights to mitigate the concentration in the Index.

A. Parameters of Capping

The maximum weight of an Index constituent at an issuer level will be restricted to 5%. The maximum weight of the GICS sub-industry Aerospace and Defense will be restricted to 30%. This implies a minimum weight of all GICS sub-industry that are not Aerospace and Defense restricted to 70%

B. Capping Methodology

The capping methodology is iteratively applied with the following steps:

- Find the most violating constraint from all the given constraints (Aerospace sub industry maximum bound and issuer maximum bound).
- For each group (for example, Aerospace sub industry) within all the constraints, the deviation ratio is calculated based on:
 - ratio of current value (for example, weight of issuer 'A' in the Index) to maximum bound (for example, maximum bound of issuer 'A' weight), in case of maximum bound constraint.
 - ratio of minimum bound value (for example, minimum bound of non-Aerospace and Defense sub industry weight to current value (for example, weight of non-Aerospace and Defense sub industry in the Index), in case of minimum bound constraint.
- The most violating constraint is the maximum of all the deviation ratios.
- The most violating constraint is adjusted first to the respective bound value.
- The excess weight (difference of current value to the respective bound value) is distributed proportionally to all the other constituents.
- The iterative capping stops when the most violating constraint ratio (rounded off to 5 decimals) is less than or equal to 1 or it has reached the maximum iteration count. In case of maximum iteration count, the capping steps will return the solution found until this maximum iteration step.
- If the most violating constraint ratio value for each group (for example, Issuer 'A' in Issuer upper bound) is repeated in more than 50 iterations, the capping methodology applies relaxation steps.

C. Relaxation Steps

If the standard capping bounds cannot be satisfied within 50 iterations, a controlled relaxation sequence is applied in the following order:

Step 1: The 5% issuer upper bound is relaxed by +0.5% per step, up to 4 steps (maximum 7%).

Step 2: The 30% Aerospace & Defense group upper bound is relaxed by +0.5% per step, up to 4 steps (maximum 32%).

At each step of relaxation, if the most violating constraint's combination (tier, group, ratio) is repeated more than 50 times, the next step of relaxation is initiated.

If all relaxation steps are exhausted and the same (tier, group, ratio) combination continues to repeat more than 50 times in the final relaxation step, the algorithm stops and returns the first portfolio observed in that final relaxation step where the threshold was crossed, with a flag indicating that the original capping constraints could not be fully met.

Appendix III: 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 Global ex Controversial Weapons Indexes Methodology –
www.msci.com/index/methodology/latest/XCW
- ESG Factors In Methodology*

The Methodology Set for the indexes 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.

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