

Methodology Book For:

- **MSCI EAFE Regional Select Mean Reversion Index**
- **MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index**

February 2025

Contents

1 Introduction 3

2 Constructing the MSCI EAFE Regional Select Mean Reversion Indexes 4

 2.1 Allocation Strategy 4

 2.2 Applying the MSCI Risk Control Indexes Methodology 4

3 Maintaining the Indexes 5

 3.1 Index Reviews 5

 3.2 Daily Risk Control Application 5

 3.3 Ongoing Event-Related Changes 5

Appendix 1: Methodology Set 6

Appendix 2: Holiday Treatment 7

Appendix 3: MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index 8

Appendix 4: Change to this Document 9

1 Introduction

The MSCI EAFE Regional Select Mean Reversion Indexes¹ (the 'Indexes') consist of following indexes:

- MSCI EAFE Regional Select Mean Reversion Index
- MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index

The MSCI EAFE Regional Select Mean Reversion Index (the 'Index') aims to represent the performance of a strategy that, on a daily basis, allocates 100% weight to one of the four Component Indexes that has the lowest past returns over an observable period. The four Component Indexes in which the Index dynamically selects, are the MSCI EMU Net Total Return Index, the MSCI Japan Net Total Return Index, the MSCI Switzerland Net Total Return Index and the MSCI United Kingdom Net Total Return Index.

The MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index (the 'Risk Control Index') aims to represent the performance of the MSCI EAFE Regional Select Mean Reversion Index, while targeting a risk level of 10%.

¹ The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix 1 for more details.

2 Constructing the MSCI EAFE Regional Select Mean Reversion Indexes

The MSCI EAFE Regional Select Mean Reversion Index is constructed by selecting, on a daily basis, the Component Index that has the lowest past returns over an observable period.

2.1 Allocation Strategy

At each daily Index Review, the following methodology is employed in calculating the past performance indicator² for each of the Component Indexes.

$$Return_t = (IndexLevel_t / IndexLevel_{t-21}) - 1$$

$$PPI_t = \frac{\sum_{i=0}^4 Return_{t-i}}{5}$$

Where:

Return_t – The return for each of the Component Indexes as of t

IndexLevel_t – Index Level for each of the Component Indexes as of t

IndexLevel_{t-21} – Index Level for each of the Component Indexes as of 21 business days prior to t

PPI_t – Past Performance Indicator for each of the Component Indexes as of t

Return_{t-i} – The return for each of the Component Indexes as of i business days prior to t

The Component Index with the lowest PPI calculated as above is allocated 100% weight.

2.2 Applying the MSCI Risk Control Indexes Methodology

The MSCI Risk Control Indexes Methodology³ is applied on Net Total Return variant of the Index to construct the Risk Control Index in excess return variant. The parameters for the Risk Control Index are noted in Appendix 3.

² Please see Appendix 2 for holiday treatment in calculating past performance indicator.

³ Please refer to the MSCI Risk Control Indexes Methodology at <http://www.msci.com/index-methodology> for details as well as intended use of such indexes.

3 Maintaining the Indexes

3.1 Index Reviews

The MSCI EAFE Regional Select Mean Reversion Index is reviewed on a daily basis as per the steps described in Section 2.1. The pro forma Index for the MSCI EAFE Regional Select Mean Reversion Index is announced two business days before the effective date.

3.2 Daily Risk Control Application

The MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index is rebalanced on a daily basis, in accordance with the MSCI Risk Control Indexes Methodology with the parameters detailed in Appendix 3.

3.3 Ongoing Event-Related Changes

The treatment of common corporate events within each of the MSCI EMU Net Total Return Index, the MSCI Japan Net Total Return Index, the MSCI Switzerland Net Total Return Index and the MSCI United Kingdom Net Total Return Index are applied as per the MSCI Global Investable Market Indexes Methodology⁴.

⁴ Please refer to MSCI Global Investable Market Indexes Methodology at: <https://www.msci.com/index-methodology>

Appendix 1: 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 – www.msci.com/index/methodology/latest/ReadMe
- MSCI Corporate Events Methodology – www.msci.com/index/methodology/latest/CE
- MSCI Index Calculation Methodology – www.msci.com/index/methodology/latest/IndexCalc
- MSCI Index Glossary of Terms – www.msci.com/index/methodology/latest/IndexGlossary
- MSCI Index Policies – www.msci.com/index/methodology/latest/IndexPolicy
- MSCI Global Investable Market Indexes Methodology – www.msci.com/index/methodology/latest/GIMI
- MSCI Risk Control Indexes Methodology - <http://www.msci.com/index/methodology/latest/RC>

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’.

Appendix 2: Holiday Treatment

The Index is calculated on each business day. If, on calculation date 't', all the securities of a Component Index are closed (e.g., exchange holiday), then the Index Level for that Component Index on day 't' will be the same as on the previous business day t-1.

Illustrative Example:

On date 't', all the securities of a Component Index have exchange holiday. Hence on date 't', for the Component Index,

$$IndexLevel_t = IndexLevel_{t-1}$$

$$Return_t = (IndexLevel_t / IndexLevel_{t-21}) - 1$$

Which is the same as: $(IndexLevel_{t-1} / IndexLevel_{t-21}) - 1$

In a similar manner, if all the securities of the Component Index have exchange holiday as of t-21, the Component Index Level as of t-21 stays the same as its previous business day.

$$IndexLevel_{t-21} = IndexLevel_{t-22}$$

$$Return_t = (IndexLevel_t / IndexLevel_{t-21}) - 1 = (IndexLevel_t / IndexLevel_{t-22}) - 1$$

Appendix 3: MSCI EAFE Regional Select Mean Reversion 10% Risk Control Index

The following parameters are used for the calculation of the Risk Control Index.

	MSCI Risk Control Indexes Methodology Parameters	Parameters
1	Calendar Rule	Daily
2	Return Variant of MSCI EAFE Regional Select Mean Reversion Index	Net Total Return
3	Risk Free Rate	LIBOR up to 31-Aug-2021 and SOFR effective 01-Sep-2021
4	Risk Free Maturity Rate	Overnight
5	Apply Closed Market Threshold	No
6	Rebalancing Type	Volatility
	Volatility Rebalancing Parameters	
7	Risk Control Level	10%
8	Base Currency of the Component Indexes	USD
9	Maximum Leverage	150%
10	Buffer	5%
11	Volatility Calculation Type	Equal Weighted Volatility
	Estimator Parameters	
12	Number of days for lagged Return	2
13	Short Term number of days estimate	20
14	Long Term number of days estimate	60
15	Return Period	1

Appendix 4: Changes to this Document

The following sections have been updated effective Feb 21, 2025:

- Section 2.1: Updated the allocation weight to the Component Indexes based on their past returns.

In the last version, the Component Indexes was ranked in the ascending order of the PPIs calculated and combined with the following weights based on their ranking:

Order of the past performance indicators	Weight
Rank 1	40%
Rank 2	30%
Rank 3	20%
Rank 4	10%

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