

MSCI Europe Index

The MSCI Europe Index is a stock market index that measures the performance of large and mid-cap companies across developed countries in Europe.

With 432 constituents, the index covers approximately 85% of the market capitalization across developed countries in the European region.^{1, 2}

¹ As of July 31, 2021

² Free-float-adjusted

What companies does it include?

The MSCI Europe index focuses on large and mid-cap companies.

The way we define large- and mid- is based on a percentile approach, rather than a fixed number of companies. If we rank the companies in the European stock markets, large-cap companies would be those that capture (approximately) the highest 70% of the total market capitalization, while mid-cap companies would capture the subsequent 15% (approximately).

Let's see how this has played out over the last decade.

Number of Names	July 2 011	July 2016	July 2021
MSCI Europe	462	447	432
Large-Caps	209	205	197
Mid-Caps	253	242	235

Data as of July 31, 2021

By going beyond large-caps, one can capture a larger opportunity set (pun intended) of smaller but still investable stocks.

By having a percentile approach to segmenting markets, we allow for the index to evolve with market size and structure through time.

What has been the performance impact?

From a performance perspective, including mid-cap exposure has had a positive impact thus far. To illustrate this, we include in the table below the performance of the MSCI Europe Index, alongside the performance of MSCI Europe Large Cap and MSCI Europe Mid Cap Indexes, which are subsets of the MSCI Europe Index.

Returns	MSCI Europe	MSCI Europe Large Cap	MSCI Europe Mid Cap
Year to Date	13.9	13.8	14.2
1 Year	31.5	29.5	39.8
3 Years	8.2	7.6	10.6
5 Years	9.8	9.3	12.0
10 Years	6.1	5.6	8.3

Data as of July 31, 2021

For all the time periods listed above, the inclusion of mid-caps led the MSCI Europe to outperform an index that would focus purely on large-caps.



Can you tell me more about what constitutes a developed market?

The classification of a country as developed, emerging or frontier is based on a dedicated framework anchored by three pillars:

- » Economic development
- » Size and liquidity requirements
- » Market accessibility

For a country to be classified as developed, it will have to meet the following criteria:³

- » Economic development: Country Gross National Income (GNI) per capita 25% above the World Bank high-income threshold for three consecutive years
- » Size and liquidity requirements: five or more companies meeting minimum size requirements (full and free-float market capitalization) and liquidity requirement (annualized traded values)
- » Market accessibility: needs to exhibit a very high openness to foreign investment and ease of movement of capital

³ As of July 30, 2021

What are the developed markets in Europe and how are they represented in the index?

There are currently 15 developed markets in Europe: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the U.K.⁴

The largest country, by market capitalization, is the U.K., which represents 22.3% of the index. The next four countries by size in the index are: France (17.8%), Switzerland (15.4%), Germany (14.4%) and Netherlands (6.9%).

Country weights change over time, as markets and economies evolve. By having an index construction not bound by a fixed number of constituents, our indexes can better capture that evolution.

What about the businesses these companies represent?

MSCI Europe provides exposure to a diverse set of sectors.

Sector	Current Weights (%)
Energy	4.2
Materials	8.5
Industrials	15.0
Consumer discretionary	11.9
Consumer staples	12.7
Health care	14.5
Financials	15.4
IT	8.6
Communication Services	3.8
Utilities	4.2
Real estate	1.4

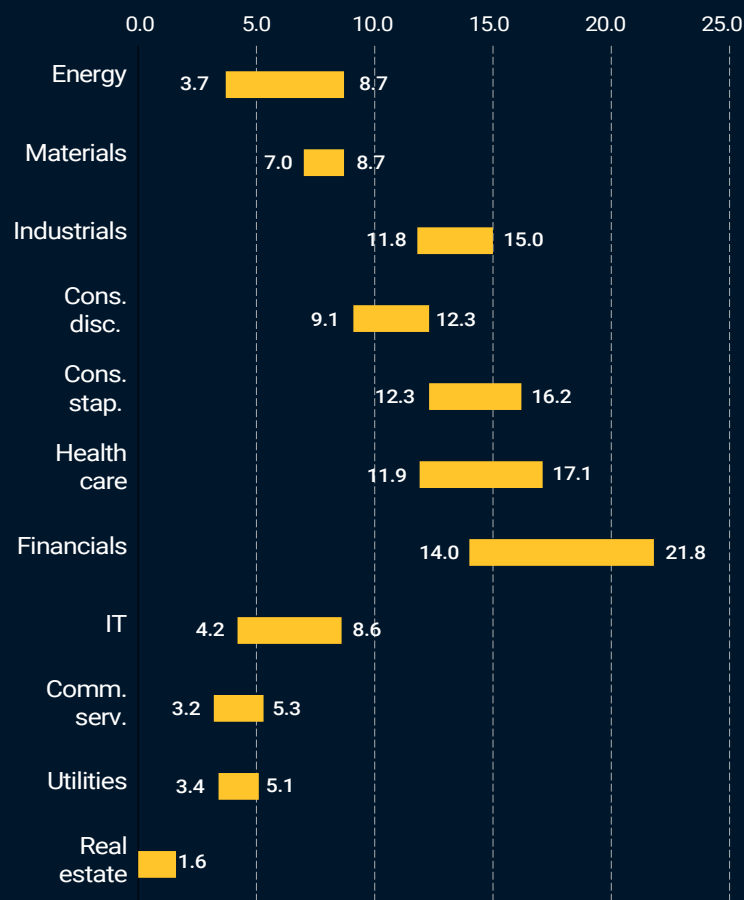
Data as of July 31, 2021

By incorporating mid-caps, the MSCI Europe Index becomes more diversified, from a sector perspective, than if it were to only focus on large-caps.

For example, while a large-cap index would currently have a very small allocation to Real Estate, the MSCI Europe gains a greater weight for that sector through its mid-cap allocation.

Sector weights do change over time, as markets and economies evolve. By having an index construction not bound by a fixed number of constituents, our

MSCI Europe - Minimum and Maximum Weights by Sector



Data as of July 31, 2021

indexes can better capture that evolution. The chart below shows the minimum and maximum weights for each sector over the last five years.

The ranges above show the dynamic nature of the underlying economies through time. For example, Financials are now substantially smaller than back in 2016, while Industrials and Healthcare have gone from representing around 10% of the index each five years ago, to nearly 15% each most recently.

Another interesting evolution has been that of the Energy sector, which has halved in size over the last five years.

4 As of July 30, 2021

Note:

- » Real Estate was defined as a separate sector in late 2016.
- » In 2018, there were composition changes in the Communication Services, Consumer Discretionary and IT sectors to reflect the increased integration among telecommunications, media and internet companies.

Anything else I should know about this index?

This is an index that includes companies based in any of the developed markets in Europe.

However, that does not mean that it is a purely domestic index. As globalization expands, European companies are increasingly integrated in global supply chains and have a consumer base that is distributed worldwide. This brings diversification of revenue sources and adds an international dynamic to the results of these companies.

If we use our Economic Exposure dataset, we can see where revenue originates for all the companies in the MSCI Europe Index.⁵

Economic Exposure	Europe and Middle East	Emerging Markets	North America	Pacific
MSCI Europe	39.7%	30.3%	24.7%	5.3%

Data as of July 31, 2021

European companies are increasingly more international, and the majority of their revenue comes from outside Europe.

⁵ As of July 31, 2021

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