

Methodology Book For:

- **MSCI World Select Smart Security and Defense Tilted Index**
- **MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index**

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1 Introduction

The MSCI World Select Smart Security and Defense Tilted Index¹ (“the Index”) is constructed by combining the MSCI World Index and the Smart Security and Defense Subset Index² in fixed proportion of 80% and 20% respectively.

The MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index aims to represent net performance of the Index while applying a constant markdown (‘synthetic dividend’) of 4.5% on an annual basis, expressed as a percentage of net performance.

¹ The Index are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix 2 for more details.

² Please refer to section 2.2 of this methodology for details on the index

2 Constructing the Indexes

The Index is constructed by combining the following two components:

- MSCI World Index
- Smart Security and Defense Subset Index

The Smart Security and Defense Subset Index is constructed from MSCI ACWI IMI Smart Security and Defense Index³ (the “Parent Index”). The Smart Security and Defense Subset Index aims to represent the performance of a set of 10 securities from EMU, Switzerland, Japan and USA that have the highest weight in the Parent Index⁴.

In addition to the above steps, MSCI Decrement Indexes Methodology⁵ is applied to the Index to construct the MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index.

2.1 MSCI World Select Smart Security and Defense Tilted Index

At each Index Review, the constituents of the Smart Security and Defense Subset Index and the MSCI World Index are combined in the below proportion and renormalized subsequently to create MSCI World Select Smart Security and Defense Tilted Index:

Component Index	Weight
Smart Security and Defense Subset Index	20%
MSCI World Index ⁶	80%

Between successive rebalancing, the weights of the component indexes will evolve based on the performance of the component indexes.

³ Uncapped version of the MSCI ACWI IMI Smart Security and Defense Index is used as the Parent Index

⁴ Please refer to the methodology document at <http://www.msci.com/index-methodology>.

⁵ Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>.

⁶ Note that the lowest weighted average relevance score of the Smart Security and Defense Subset would be 25%, hence if the weighted average relevance score of MSCI World Index is 0%, in such a case, the exposure of the MSCI World Select Smart Security and Defense Tilted Index to the Smart Security and Defense theme would be 5%. Additionally, in cases where the weighted average relevance score for the Smart Security and Defense theme of the MSCI World Index is greater than or equal to 25%, the MSCI World Select Smart Security and Defense Tilted Index can have a lower weighted average relevance score than the MSCI World Index for the Smart Security and Defense theme.

2.2 Smart Security and Defense Subset Index

The Smart Security and Defense Subset Index comprises of all securities from the Parent Index that pass each of the below screening. The Smart Security and Defense Subset Index uses company ratings and research provided by MSCI ESG Research⁷ to determine eligibility for index construction.

2.2.1 Business Involvement Screen

The Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the business activities of Controversial Weapons. Companies that meet the below listed business involvement criteria are excluded from the Index:

- Cluster Bombs
- Landmines
- Depleted Uranium Weapons
- Chemical and Biological Weapons
- Blinding Laser Weapons
- Non-Detectable Fragments
- Incendiary Weapons (White Phosphorus)

Please refer to MSCI Global Ex-Controversial Weapons Indexes Methodology available at <https://www.msci.com/indexmethodology> for more details on these criteria.

2.2.2 Liquidity Screen

Securities from the Parent Index with 3-month ADTV greater than or equal to USD 10 million are eligible for inclusion in the Smart Security and Defense Subset Index.

ADTV is defined as Average Daily Traded Value and is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^8}{252}$$

Where ATV_{3M} is annualized 3-month Average Traded Value of the security.

To avoid multiple securities of the same company in the Smart Security and Defense Subset Index, only the most liquid security for each issuer per its 3-month ADTV is eligible for inclusion in the Smart Security and Defense Subset Index. For any issuer, should two securities have the same 3-month ADTV, the one with the higher weight in the Parent Index is included.

⁷ 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 ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research 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.

⁸ MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>

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



2.2.3 Region Screen

Securities from the Parent Index belonging to the below list of countries or regions are eligible for inclusion in the Smart Security and Defense Subset Index:

- USA
- Japan
- Switzerland
- EMU⁹

2.2.4 Security Selection

From the securities remaining after applying the above screens, top 10 securities are selected, ranked in descending order of their weights in the Parent Index¹⁰ while ensuring the maximum number of securities selected from Japan is capped at 8 securities¹¹.

If all the securities remaining after applying the above screens belong to Japan, then the cap of selecting 8 securities to Japan will not be applied.

If the number of securities remaining after exclusions from above steps is less than 10, then all the securities remaining after exclusions are selected for inclusion in the Smart Security and Defense Subset Index.

2.2.5 Security Weighting

At each Index Review, the securities selected for inclusion in the Smart Security and Defense Subset Index are weighted in proportion to their weights in the Parent Index.

Additionally, constituent weights are capped as per below steps:

- Step 1: Security weights are capped at 25%. If at any Index review, the number of securities selected for inclusion is less than 4, security weight capping is relaxed to 50%
- Step 2: Sum of weight of securities belonging to Japan is capped at 50%¹². If at any Index review, all the securities selected for inclusion belong to Japan, sum of weight of securities belonging to Japan would be 100%.

⁹ EMU region includes all countries that are part of MSCI EMU IMI Index. Please refer to Section 2.5.2 of GIMI methodology document at <https://www.msci.com/index-methodology> for more details.

¹⁰ In case two securities have the same weight in the Parent Index, the security with greater 3-month Average Traded Value is selected.

¹¹ This is to ensure that maximum regional exposure to Japan is kept at 50%

¹² If the security weights capping of Step 1 is breached after applying capping of Step 2, the weights are not capped again.



2.3 Application of the MSCI Decrement Indexes Methodology

The MSCI Decrement Indexes methodology¹³ is applied on the Index to construct the MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index. The parameters for the decrement index are noted in Appendix 1.

¹³ Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>.

3 Maintaining the Index

3.1 Index Reviews

The Index is reviewed on a quarterly basis as per the steps described in Section 2, coinciding with the February, May, August, and November Index Reviews of the MSCI World Index.

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

3.2 Daily Decrement Calculation

The performance of the MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index is computed by reducing the performance of the Index by a fixed percentage, on a daily basis using parameters detailed in Appendix 1.

3.3 Ongoing Event-Related Changes

The general treatment of corporate events in the non-market capitalization weighted indexes 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.

The following section briefly describes the treatment of common corporate events within the Smart Security and Defense Subset Index¹⁴.

No new securities will be added (except where noted below) to the Smart Security and Defense Subset Index between Index Reviews. For cases where additions are noted below, securities will be added to the Smart Security and Defense Subset 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

A new security added to the Parent Index (such as IPO and other early inclusions) will not be added to the Smart Security and Defense Subset 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

¹⁴ MSCI World Index follows its own methodology of corporate events treatment. The Index is derived from the underlying MSCI World Index and the Smart Security and Defense Subset. As a result, corporate events are reflected in the Index as they occur and as they are captured in the underlying indexes.



amount of shares involved in deal consideration, while cash proceeds will be invested across the Smart Security and Defense Subset 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 Smart Security and Defense Subset 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 Smart Security and Defense Subset 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 ESG Research

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI ESG Research products: MSCI ESG Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI ESG Business Involvement Screening Research

MSCI ESG 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/disclosures/esg-disclosures>.

Appendix 1: Parameters used for the MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Index

	MSCI World Select Smart Security and Defense Tilted 4.5% Decrement Parameters	Parameters
1	Currency of Calculation	EUR
2	Return Variant of the MSCI World Select Smart Security and Defense Tilted Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	4.5%
6	Day-count Convention	Actual / 365
7	Index Floor	0
8	Decrement Frequency	Daily



Appendix 2: 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 Decrement Indexes Methodology - www.msci.com/index/methodology/latest/Decrement
- MSCI Global ex Controversial Weapons Indexes Methodology – <https://www.msci.com/index/methodology/latest/XCW>
- MSCI ACWI IMI Smart Security & Defense Index Methodology – <https://www.msci.com/index/methodology/latest/ACWIIMISMA RTSECDEF>

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’.



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To learn more, please visit www.msci.com.

The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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