

MSCI RETURN SPREAD INDEXES METHODOLOGY

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1 INTRODUCTION

The MSCI Return Spread Indexes aim to represent the performance of a strategy based on the return spread between a long position on constituents of one underlying component Index while taking a short position on constituents of another component Index.

The MSCI Return Spread Indexes include the following indexes:

- MSCI EAFE - Emerging Markets Return Spread Index
- MSCI Emerging Markets - EAFE Return Spread Index
- MSCI USA Cyclical Sectors - USA Defensive Sectors Return Spread Index
- MSCI USA Defensive Sectors - USA Cyclical Sectors Return Spread Index
- MSCI EAFE IMI - Emerging Markets IMI 150/50 Return Spread Index
- MSCI Emerging Markets IMI - EAFE IMI 150/50 Return Spread Index
- MSCI EAFE IMI - Emerging Markets IMI 130/30 Return Spread Index
- MSCI Emerging Markets IMI - EAFE IMI 130/30 Return Spread Index
- MSCI USA Cyclical Sectors - USA Defensive Sectors 150/50 Return Spread Index
- MSCI USA Defensive Sectors - USA Cyclical Sectors 150/50 Return Spread Index
- MSCI USA Cyclical Sectors - USA Defensive Sectors 130/30 Return Spread Index
- MSCI USA Defensive Sectors - USA Cyclical Sectors 130/30 Return Spread Index

This methodology book provides a description of the rules and guidelines followed by MSCI for the construction and maintenance of the MSCI Return Spread Indexes.

2 CONSTRUCTING THE MSCI RETURN SPREAD INDEXES

The MSCI Return Spread Indexes are constructed using the MSCI Short and Leveraged Daily Indexes Methodology.

Additionally, for select Indexes (as noted in Table 1, in section 2.1), the MSCI Decrement Indexes Methodology is applied in the construction of the Indexes.

2.1 APPLYING THE MSCI SHORT AND LEVERAGED DAILY INDEXES METHODOLOGY

The MSCI Return Spread Indexes are designed to represent the performance of a strategy that is long on constituents of the “Long Component Index” and short on constituents of the “Short Component Index”.

The component indexes within the MSCI Return Spread Indexes are periodically reset to the pre-defined weights as detailed in the following Table 1. For the MSCI Return Spread Indexes which are reset on a monthly basis, the weights of either component indexes may drift based on daily performance differential of respective component indexes during the month.

The MSCI Return Spread Indexes are computed using a variant of the MSCI Short and Leveraged Daily Indexes Methodology¹ that does not apply stock borrowing costs or the overnight risk-free rates.

The MSCI Return Spread Index return is calculated daily by subtracting the daily index return of the Short Component Index from the daily index return of the Long Component Index, as per the applicable weights for each component index on a given day.

Table 1: MSCI Return Spread Indexes composition

Index	Reset-weighting Frequency	Long Component Weight	Long Component Index	Short Component Weight	Short Component Index	Annual Decrement
MSCI EAFE - Emerging Markets Return Spread Index	Daily	100%	MSCI EAFE Index	100%	MSCI Emerging Markets Index	NA
MSCI Emerging Markets - EAFE Return Spread Index	Daily	100%	MSCI Emerging Markets Index	100%	MSCI EAFE Index	NA

¹MSCI Short and Leveraged Daily Indexes methodology is available at <https://www.msci.com/index-methodology>

MSCI USA Cyclical Sectors - USA Defensive Sectors Return Spread Index	Daily	100%	MSCI USA Cyclical Sectors Index	100%	MSCI USA Defensive Sectors Index	NA
MSCI USA Defensive Sectors - USA Cyclical Sectors Return Spread Index	Daily	100%	MSCI USA Defensive Sectors Index	100%	MSCI USA Cyclical Sectors Index	NA
MSCI EAFE IMI - Emerging Markets IMI 150/50 Return Spread Index	Monthly	150%	MSCI EAFE IMI Index	50%	MSCI Emerging Markets IMI	0.40%
MSCI Emerging Markets IMI - EAFE IMI 150/50 Return Spread Index	Monthly	150%	MSCI Emerging Markets IMI Index	50%	MSCI EAFE IMI Index	0.40%
MSCI USA Cyclical Sectors - USA Defensive Sectors 150/50 Return Spread Index	Monthly	150%	MSCI USA Cyclical Sectors Index	50%	MSCI USA Defensive Sectors Index	0.30%
MSCI USA Defensive Sectors - USA Cyclical Sectors 150/50 Return Spread Index	Monthly	150%	MSCI USA Defensive Sectors Index	50%	MSCI USA Cyclical Sectors Index	0.30%
MSCI EAFE IMI - Emerging Markets IMI 130/30 Return Spread Index	Monthly	130%	MSCI EAFE IMI Index	30%	MSCI Emerging Markets IMI Index	0.24%
MSCI Emerging Markets IMI - EAFE IMI 130/30 Return Spread Index	Monthly	130%	MSCI Emerging Markets IMI Index	30%	MSCI EAFE IMI Index	0.24%
MSCI USA Cyclical Sectors - USA Defensive Sectors 130/30 Return Spread Index	Monthly	130%	MSCI USA Cyclical Sectors Index	30%	MSCI USA Defensive Sectors Index	0.18%
MSCI USA Defensive Sectors - USA Cyclical Sectors 130/30 Return Spread Index	Monthly	130%	MSCI USA Defensive Sectors Index	30%	MSCI USA Cyclical Sectors Index	0.18%

Sectors 130/30 Return Spread Index			Index			
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Please refer to Appendix I for further details on the component indexes of above MSCI Return Spread Indexes.

2.2 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

For the MSCI Return Spread Indexes noted in Table 1 where an “Annual Decrement”² on the index levels is applicable, the MSCI Decrement Indexes methodology³ is applied using the parameters mentioned in Appendix 2.

² This decrement to index level is meant to represent annual fee applicable for leverage in excess of 100% for the long component index and borrowing cost for the short component index

³ MSCI Decrement Indexes methodology is available at <https://www.msci.com/index-methodology>

3 MAINTAINING THE MSCI RETURN SPREAD INDEXES

3.1 ONGOING EVENTS RELATED CHANGES

The MSCI Return Spread Indexes are derived from underlying MSCI Indexes. As a result, corporate events are reflected in these Indexes as they occur and as they are captured in the underlying MSCI Indexes.

APPENDIX I: METHODOLOGY FOR COMPONENT INDEXES

The following Component Indexes are used in the construction of the MSCI Return Spread Indexes.

MSCI EAFE INDEX

The MSCI EAFE Index is constructed and maintained in accordance with the MSCI Global Investable Market Indexes methodology.

The MSCI EAFE Index, net variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Net Daily Total Return Index methodology described in the MSCI Index Calculation Methodology⁴.

MSCI EMERGING MARKETS (EM) INDEX

The MSCI Emerging Markets (EM) Index is constructed and maintained in accordance with the MSCI Global Investable Market Indexes methodology.

The MSCI Emerging Markets (EM) Index, net variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Net Daily Total Return Index methodology described in the MSCI Index Calculation Methodology.

MSCI EAFE IMI INDEX

The MSCI EAFE IMI Index is constructed and maintained in accordance with the MSCI Global Investable Market Indexes methodology.

The MSCI EAFE IMI Index, net variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Net Daily Total Return Index methodology described in the MSCI Index Calculation Methodology.

MSCI EMERGING MARKETS (EM) IMI INDEX

The MSCI Emerging Markets (EM) IMI Index is constructed and maintained in accordance with the MSCI Global Investable Market Indexes methodology.

⁴ MSCI Index Calculation Methodology is available at <https://www.msci.com/index-methodology>

The MSCI Emerging Markets (EM) IMI Index, net variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Net Daily Total Return Index methodology described in the MSCI Index Calculation Methodology.

MSCI USA CYCLICAL SECTORS INDEX

The MSCI USA Cyclical Sectors Index is constructed and maintained in accordance with the MSCI Cyclical and Defensive Sectors Indexes methodology⁵.

The MSCI USA Cyclical Sectors Index, gross variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Gross Daily Total Return Index methodology described in the MSCI Index Calculation Methodology.

MSCI USA DEFENSIVE SECTORS INDEX

The MSCI USA Defensive Sectors Index is constructed and maintained in accordance with the MSCI Cyclical and Defensive Sectors Indexes methodology.

The MSCI USA Defensive Sectors Index, gross variant in USD measures the performance of the Index in US Dollar (USD), calculated as per the MSCI Gross Daily Total Return Index methodology described in the MSCI Index Calculation Methodology.

⁵ MSCI Cyclical and Defensive Sectors Indexes methodology is available at <https://www.msci.com/index-methodology>

APPENDIX 2: PARAMETERS USED FOR THE MSCI DECREMENT INDEXES METHODOLOGY

The following parameters are used in the calculation of the Indexes noted in section 2.2.

MSCI Decrement Index Methodology Parameters		
1	Currency of Calculation	USD
2	Decrement Type	Fixed Percentage Decrement
3	Decrement Application	Geometric
4	Decrement Value	As per the decrement value noted in Section 2.1
5	Day-count Convention	Act/360
6	Index Floor	0
7	Decrement Frequency	Daily

The following sections have been modified since April 2017

Update to Section 2 and Appendix 1 to include the index construction parameters for the following new indexes:

- MSCI EAFE IMI - Emerging Markets IMI 150/50 Return Spread Index
- MSCI Emerging Markets IMI - EAFE IMI 150/50 Return Spread Index
- MSCI EAFE IMI - Emerging Markets IMI 130/30 Return Spread Index
- MSCI Emerging Markets IMI - EAFE IMI 130/30 Return Spread Index
- MSCI USA Cyclical Sectors - USA Defensive Sectors 130/30 Return Spread Index
- MSCI USA Cyclical Sectors - USA Defensive Sectors 150/50 Return Spread Index
- MSCI USA Defensive Sectors - USA Cyclical Sectors 130/30 Return Spread Index
- MSCI USA Defensive Sectors - USA Cyclical Sectors 150/50 Return Spread Index

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