

MSCI EMU SELECT DYNAMIC 50% RISK WEIGHTED INDEX & MSCI USA SELECT DYNAMIC 50% RISK WEIGHTED INDEX METHODOLOGY

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1 INTRODUCTION

The MSCI EMU Select Dynamic 50% Risk Weighted Index & MSCI USA Select Dynamic 50% Risk Weighted Index include securities in descending order of risk weight from the parent MSCI EMU Index and parent MSCI USA Index respectively, where the aggregated risk weight of selected securities is 50% of the Parent Index. Each selected security is then reweighted so that stocks with lower risk are given higher index weights.

2 INDEX CONSTRUCTION METHODOLOGY

1.1 APPLICABLE UNIVERSE

The applicable universe includes all the existing constituents of an underlying MSCI parent Index (herein, a “Parent Index”). This approach aims to provide an opportunity set with sufficient liquidity and capacity.

1.2 DETERMINATION OF RISK WEIGHTS

The security level risk weights for each constituent in the Parent Index are computed in accordance with the MSCI Risk Weighted Indexes methodology¹.

1.3 SECURITY SELECTION

For the initial construction of the Index all constituents of the Parent Index are ranked in descending order of risk weight as defined in section 1.2.

All the securities (so ordered) where the associated cumulative risk weight aggregates to 50% of the total risk weight of the Parent Index are selected for inclusion in the Index.

1.4 WEIGHTING SCHEME

The securities selected in the Index in the previous step are weighted as per their risk weights as computed in section 1.2

¹ <https://www.msci.com/index-methodology>

2 MAINTAINING THE INDEX

2.1 SEMI-ANNUAL INDEX REVIEWS

The Indexes are rebalanced on a semi-annual basis, usually as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Global Investable Market Indexes. The pro forma Index is in general announced nine business days before the effective date.

At each Semi-Annual Index Review, the constituents of the Parent Index are ranked in descending order of their risk weight as defined in section 1.2. For the selection process, a buffer of 20% of the targeted aggregate risk weight of 50% is used to mitigate turnover in the Index. Securities are selected in the following order until the cumulative risk weight aggregates to 50%:

- First, select all securities such that their associated cumulative risk weight aggregates to $50\% \times 0.8$
- Second, all current constituents of the Index ordered on the basis of their risk weight, for which the associated cumulative risk weight aggregates to between $[50\% \times 0.8]$ and $[50\% \times 1.2]$
- Third, remaining securities whose associated cumulative risk weight aggregates to $50\% \times 0.8$ and beyond.

The securities selected in the Index are weighted as per their risk weights.

2.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI EMU Select Dynamic 50% Risk Weighted & MSCI USA Select Dynamic 50% Risk 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.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI EMU Select Dynamic 50% Risk Weighted & MSCI USA Select Dynamic 50% Risk Weighted Indexes, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI EMU Select Dynamic 50% Risk Weighted & MSCI USA Select Dynamic 50% Risk Weighted Indexes.

The following section briefly describes the treatment of common corporate events within the MSCI EMU Select Dynamic 50% Risk Weighted & MSCI USA Select Dynamic 50% Risk Weighted Indexes.

No new securities will be added (except where noted below) to the Indexes between Index Reviews. For cases where additions are noted below, securities will be added to the Indexes 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 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	<p>For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.</p> <p>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.</p>
Changes in Security Characteristics	A security will be removed from the Index if there are changes in its characteristics (country, sector, size segment, etc.) Reevaluation for inclusion in the 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>.

The following sections have been modified since May 2015:

- The details on the Corporate Events treatment are now included in Section 2.2.

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