



**EQM Future of Defence Index**

**NATO**

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## Introduction

### Index Objective

The EQM Future of Defence Index tracks the market performance of companies, listed globally on recognized exchanges, that provide exposure to NATO and select non-NATO ally defense and cyber-defense spending.

### Highlights

The Index uses a modified free float market capitalization weighting algorithm.

### Dates

Reference Dates: Same as Weight Date.

Reconstitution Dates: Indexes reconstitute quarterly on the COB of the fourth Tuesday in January, April, July, and October.

Weight Date: Five trading days prior to the Rebalance/Reconstitution Date.

Rebalance Dates: Indexes rebalance quarterly on the COB of the fourth Tuesday in January, April, July, and October.

### Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein.

The list of the main supplemental documents for this methodology can be found in the Methodologies and Governance tabs on the [Index Resources](#) page as follows:

| Supporting Documents                 |
|--------------------------------------|
| Index Maintenance Policy             |
| Index Governance                     |
| Index Policies                       |
| Methodology Policies                 |
| Glossary                             |
| Index Change and Consultation Policy |

## Eligibility Criteria and Index Construction

### Universe

Global equities trading on major global exchanges headquartered in NATO+ countries and incorporated and/or domiciled within them. NATO+ countries include NATO member countries and select major non-NATO allies as defined in the Appendix.

## Index Construction

### Constituent Selection

The top 60<sup>1</sup> companies by company free float market cap that meet the following requirements are selected:

- Minimum Thematic Exposure: Constituent business operations must derive more than 50% of their revenues from the manufacture and development of military aircraft and/or defense equipment (military armored vehicles & tanks, weapon systems and missiles, munitions and accessories, electronics & mission systems, and naval ships), defense technology applications, or cyber security contracting with a NATO+ member nation verified by publicly available contract information.
- ESG/Human Rights Filter: Constituent business operations must comply with United Nation Global Compact (UNGC) principles and Organization for Economic Cooperation (OECD) Guidelines for Multinational Enterprises and determined by EQM Indexes.
- Market Cap of 1 Billion USD
- 20% Free Float
- 3-month Average Daily Traded Value(ADTV) of 1 million USD

In the event of less than 60 eligible companies, only eligible companies are selected.

### Constituent Weightings & Constraints

Constituents are free-float market cap weighted with the following caps:

- Constituent weighting needs to accommodate the ability to trade 25% of 25 million USD while not exceeding the constituents 90-day ADTV.
- Issuer weights are capped at 5%.
- Issuer weights must be at least 0.2% or the issuer is excluded.
- The cumulative weight of all constituents representing more than 4.5% of the index cannot exceed 40%.
- The cumulative weight of all constituents representing a single country cannot exceed 60% of the total index weight.

Excess weights are redistributed proportionally among the rest of the uncapped securities. This redistribution is repeated iteratively until all capping conditions are met.

## Index Maintenance

### Rebalancing and Reconstitution

The Indexes are rebalanced on the “Rebalance Date” and additionally reconstituted on the “Reconstitution Date”. Pricing used in share weights used for reconstitutions are as of the “Weight Date”. Share weights for the rebalanced Indexes are computed as of the “Weight Date”. Changes to the

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<sup>1</sup> In the case that two or more securities are tied for the 50th position of the ranking, the security with the highest 3-month ADTV is selected for inclusion.

Indexes related to the rebalances are as of the “Rebalance Date”. Additions are only made on reconstitution dates.

## Corporate Actions

Please refer to the Index Maintenance Policy document for information on Corporate Action processing.

## Index Information

Index history availability, base dates and base values are shown in the table below.

| Index                       | Price Index | Base Date  | Base Value | Net Total Return Index | Base Date  | Base Value |
|-----------------------------|-------------|------------|------------|------------------------|------------|------------|
| EQM Future of Defence Index | NATOP       | 12/01/2017 | 100        | NATONT                 | 12/01/2017 | 100        |

## Methodology Updates and Changes<sup>2</sup>

| Date     | Version | Previous                      | New   |
|----------|---------|-------------------------------|---|
| May 2024 | 1.0.0   | Version 1.1 dated 19 Jun 2023 | Methodology converted to new VettaFi format |
| Aug 2024 | 1.0.1   |                               | Added detail to Universe description.       |

## Index Calculation

Please refer to the Index Maintenance Policy document for information on index calculations.

## Index Governance

The index is governed and administered by a VettaFi Index Committee for the purpose of meeting the goals of the index. For more information, please refer to the Index Governance document.

## Index Policies

Please refer to the Index Policies document for information regarding Announcements, Holiday Schedules, Unexpected Exchange Closures, and Recalculation Policy.

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<sup>2</sup> As of May 2024

## Contact Information

For any questions regarding an index, please contact: [index.production@vettafi.com](mailto:index.production@vettafi.com)

## Appendix

### MAJOR Non-NATO Ally Status

US State Department, Bureau of Political-Military Affairs

January 20, 2021

Major Non-NATO Ally (MNNA) status is a designation under U.S. law [\[1\]](#) that provides foreign partners with certain benefits in the areas of defense trade and security cooperation. The Major Non-NATO Ally designation is a powerful symbol of the close relationship the United States shares with those countries and demonstrates our deep respect for the friendship for the countries to which it is extended. While MNNA status provides military and economic privileges, it does not entail any security commitments to the designated country.

Privileges resulting from MNNA designation under [22 U.S.C. §2321k](#) :

- Eligible for loans of material, supplies, or equipment for cooperative research, development, testing, or evaluation purposes.
- Eligible as a location for U.S.-owned War Reserve Stockpiles to be placed on its territory outside of U.S. military facilities.
- Can enter into agreements with the United States for the cooperative furnishing of training on a bilateral or multilateral basis if the financial arrangements are reciprocal and provide for reimbursement of all U.S. direct costs.
- Eligible, to the maximum extent feasible, for priority delivery of [Excess Defense Articles](#) transferred under section 516 of the Foreign Assistance Act (if located on the southern or south-eastern flank of NATO).
- Eligible for consideration to purchase depleted uranium ammunition.

Privileges resulting from MNNA designation under 10 [U.S.C. §2350a](#) :

- Eligible to enter into an MOU or other formal agreement with the U.S. Department of Defense for the purpose of conducting cooperative research and development projects on defense equipment and munitions.
- Allows firms of a MNNA, as with NATO countries, to bid on contracts for maintenance, repair or overhaul of U.S. Department of Defense equipment outside the United States.
- Allows funding to procure explosives detection devices and other counter-terrorism research and development projects under the auspices of the Department of State's [Technical Support Working Group](#).

Currently 18 countries are designated as MNNAs under [22 U.S.C. §2321k](#) and 10 [U.S.C. §2350a](#) :

- Argentina, Australia, Bahrain, Brazil, Colombia, Egypt, Israel, Japan, Jordan, Kuwait, Morocco, New Zealand, Pakistan, the Philippines, Qatar, South Korea, Thailand, and Tunisia.
- In addition, [Pub. L. 107-228](#) provides Taiwan shall be treated as an MNNA, without formal designation as such.