

# FUTURE OF DEFENCE INDEX FACT SHEET

as of 6/30/23



An index designed to provide defence exposure by investing in global companies generating revenues from NATO and non-NATO ally defence and cyber defence spending.

## The Case for Future of Defence

The defence sector has been responsible for many ground-breaking technological advances, from the internet and computers to drones and GPS. Western nations have invested heavily in R&D in order to modernize their defence capabilities.

**1. NATO Defence Budget Accelerated by Recent Events** – Allied nations agreed upon NATO's civil and military budgets for 2023 at a meeting of the North Atlantic Council on 14 December 2022. The civil budget was set at €370.8 million and the military budget was set at €1.96 billion, representing a 27.8% and 25.8% increase, respectively, over 2022 levels.<sup>1</sup>

**2. Need for Modernized Defence Solutions** – Companies exposed to NATO and NATO+ ally spending such as military aircraft, defence equipment, and future of defence applications such as cyber security, stand to benefit from increased spending levels and the need for modernized defence solutions such as unmanned, autonomous jets and combat vehicles and cyber defence solutions.

**3. Global Growth Opportunity** – The global defence market is expected to grow at a CAGR of 5.6% to an expected size of \$718.12 billion by 2027.<sup>2</sup> It is likely that these growth rates will accelerate even further to reflect escalated risks associated with the Russia-Ukraine conflict. Similarly, the global cyber security market is projected to grow at a CAGR of 8.9% from 2023 – 2027. The rise of data breaches and increasing sophistication of cyberattacks poses a global security threat, driving increased adoption of cloud-based cybersecurity solutions.<sup>3</sup>

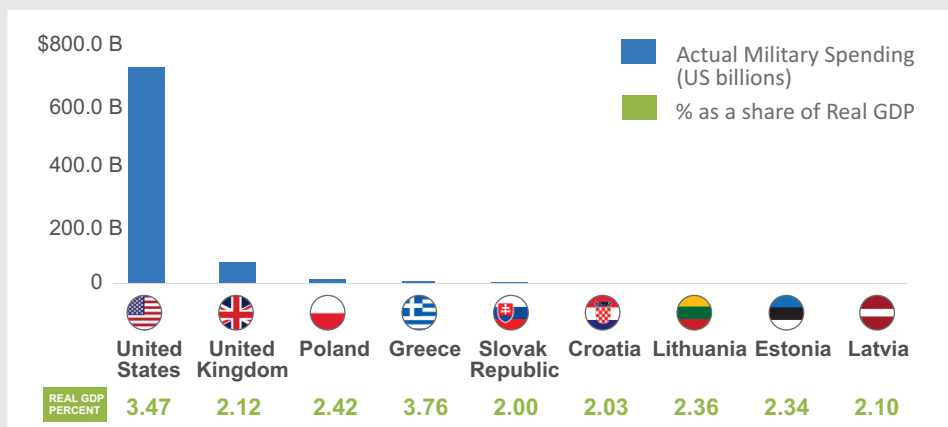
<sup>1</sup> NATO.int, December 14, 2022

<sup>2</sup> Business Research Company, January 2023, <https://www.thebusinessresearchcompany.com/report/defense-global-market-report>

<sup>3</sup> MarketandMarkets, 2022, <https://www.marketsandmarkets.com/Market-Reports/cyber-security-market-505.html>

## NATO Defence Expenditures

**NATO has called for Allies to meet the 2% of GDP guideline for defence spending. 9 of the current 31 member nations are meeting this goal. Others are expected to do so in the future.**



\*As of June 27, 2022

Source: NATO



## Overview

The EQM FUTURE OF DEFENCE Index (NATOTR) is an index designed to provide defence exposure by investing in global companies generating revenues from NATO and non-NATO ally defence and cyber defence spending. Using a passive, rulesbased approach, companies must derive more than 50% of their revenues from the manufacture and development of military aircraft and/or defence equipment or technology applications, or cyber security contracting with a NATO+ member nation verified by publicly available contract information.

|   |   |
|---|---|
| <b>Ticker</b>   | NATONTR                                       |
| <b>Inception Date</b>                                 | 1/30/2023                                     |
| <b>Administration/ Index Calculation/ Publication</b> | BITA GmbH                                     |
| <b>Total # Holdings</b>                               | 51  |
| <b># Countries</b>                                    | 10  |
| <b># US Holdings</b>                                  | 33  |
| <b># Non-US Holdings</b>                              | 18  |
| <b>Rebalance (Jan/Apr/Jul/Oct)</b>                    | Quarterly                                     |
| <b>Weighting Scheme</b>                               | Modified, Free-Float Capitalization weighting |

## Licensing Information

EQM Indexes® LLC licenses its indexes to firms involved in the issuance of Exchange Traded Products (ETPs). If you are interested in licensing an index from EQM Indexes LLC or have an idea for a new index product, contact us at [info@eqmindexes.com](mailto:info@eqmindexes.com).

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**Not investment advice or a recommendation to buy or sell securities. Investors may not invest directly in an index.**

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as of 6/30/23

## Top 10 Constituents

For a complete list of holdings, go to [eqmindexes.com](http://eqmindexes.com).

|    |                              | Index Wt % |
|----|------------------------------|------------|
| 1  | BROADCOM INC                 | 4.87       |
| 2  | THALES SA                    | 4.57       |
| 3  | PALO ALTO NETWORKS INC       | 4.54       |
| 4  | CHECK POINT SOFTWARE TECH    | 4.48       |
| 5  | RHEINMETALL AG               | 4.38       |
| 6  | BAE SYSTEMS PLC              | 4.37       |
| 7  | TREND MICRO INC              | 4.10       |
| 8  | FORTINET INC                 | 3.96       |
| 9  | CISCO SYSTEMS INC            | 3.65       |
| 10 | CROWDSTRIKE HOLDINGS INC - A | 3.44       |

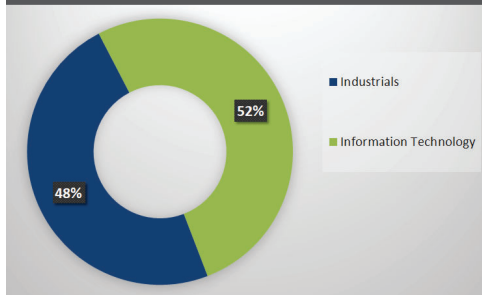
Source: Bloomberg

Inclusion of a security within the Index is not a recommendation by EQM Indexes to buy, sell, or hold such security, nor is it considered to be investment advice. EQM Indexes is not an investment advisor, and makes no representation regarding the advisability of investing in any such security.

## Portfolio Weightings

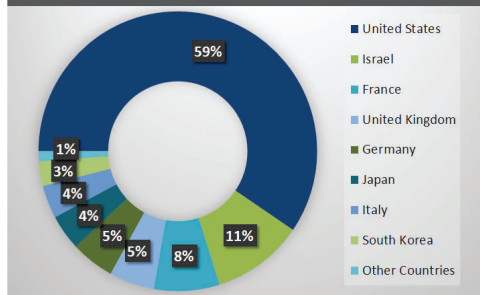
For Illustrative Purposes Only

### Sector Weightings



Source: Bloomberg, EQM Indexes

### Country Weightings



Source: Bloomberg

## About EQM Indexes

EQM Indexes, LLC ("EQM Indexes") is a woman-owned firm dedicated to creating and supporting indexes that track growth industries and emerging investment themes. Co-founded by Jane Edmondson, a former Institutional Portfolio Manager with more than 30 years of investment industry experience, EQM Indexes' index design spans a wide range of asset classes and financial instruments. EQM Indexes does not provide investment advice, nor offer the sale of securities, but does partner and receive compensation in connection with licensing its indices to third parties to serve as benchmarks for Exchange Traded Products ("ETPs"). All information provided by EQM Indexes is impersonal and not tailored to the needs of any person, entity or group of persons. It is not possible to invest directly in an index. EQM Indexes makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. Inclusion of a security within an index is not a recommendation by EQM Indexes to buy, sell, or hold such security, nor is it considered to be investment advice. While EQM Indexes has obtained information from sources believed to be reliable, EQM Indexes does not perform an audit or undertake any duty of due diligence or independent verification of any information it receives.



## Constituent Requirements

In order to be eligible for inclusion in the index, companies must meet the following conditions:

- The initial Universe is composed of global equities trading on a major global exchange headquartered in NATO+ countries which includes NATO member countries and select major non-NATO allies.
- 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), defence technology applications, or cyber security contracting with a NATO+ member nation verified by publicly available contract information.
- Constituent business operations in cyber security, contracted with a NATO+ member country.
- Constituents must be at least \$1 billion USD in market capitalization with a minimum free float of 20%.
- Constituents must have an average daily traded value of at least \$1 million USD over the last three months.
- Maximum country weighting is 60% in aggregate.
- Components must comply with United Nation Global Compact (UNGC) principles and Organisation for Economic Cooperation (OECD) Guidelines for Multinational Enterprises as determined by EQM through a review process of publicly available data provided by the company in regulatory filings (such as Annual Reports, 10-Ks, 10-Qs, 20-Fs, 8-Ks), quarterly earnings reports.
- Index constituents are weighted according to their free-float market capitalization with a maximum weighting of 5% per component and minimum position size of 20 bps at time of rebalance.

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