

The MSCI logo is displayed in white, serif, uppercase letters on a dark blue rectangular background.A decorative graphic consisting of two thin, light blue curved lines that cross each other in the center, creating a lens-like shape. The MSCI logo is on the left side of the left curve, and the text 'ESG Index Overview' is on the right side of the right curve.

ESG Index Overview

MSCI Global Socially Responsible Indexes

An Overview for Corporates

March 2014

Introduction

The MSCI Global Social Responsibility Indexes are free float-adjusted market capitalization weighted indexes designed to include companies that have strong performance in managing their environmental, social and governance (ESG) risks and opportunities, and to avoid companies involved in certain controversial business activities.

These indexes aim to target sector weights that reflect the relative sector weights of the underlying parent indexes (each a “Parent Index”) to limit the systematic risk introduced by the ESG selection process. Overall the MSCI Global Social Responsibility Indexes target coverage of 25% of the Parent Index.

Currently, MSCI constructs MSCI Global Social Responsibility Indexes for the standard size-segment in all Developed Markets.

MSCI ESG Research

MSCI Global Social Responsibility Indexes are constructed using ESG ratings and analysis provided by MSCI ESG Research via three ESG company evaluation products: MSCI ESG Intangible Value Assessment, MSCI ESG Impact Monitor, and Business Involvement Screening Research.

MSCI ESG Intangible Value Assessment (IVA)

MSCI ESG Research provides an analysis of how well a company is managing its material environmental, social and governance (ESG) risks and opportunities through MSCI ESG’s Intangible Value Assessment (IVA) company report.

Each company report includes an overall company ESG rating and scores for each identified key ESG issue. ESG ratings are calculated relative to sector peers, and are assigned on a 7-point scale, AAA-CCC.

Identify Key ESG Drivers of ESG Risks and Opportunity for Each Industry

MSCI ESG Research identifies four to seven key ESG issues for which companies in a particular industry currently generate environmental or social externalities or opportunities. These are issues where companies in these industries may be at risk of being forced to internalize unanticipated costs associated with those externalities, or failing to take advantage of product opportunities related to certain environmental or social factors.

Evaluate Risk Exposure and Risk Management

MSCI ESG IVA analysts calculate each company’s exposure to key ESG risks and opportunities based on a breakdown of a company’s business: its core product segments or business activities, and the geographic locations of its assets or revenues.

MSCI ESG analysts then assess if a company has developed robust strategies and demonstrated a strong track record of managing its risks and opportunities.

Rank and Rate Each Company against Industry Peers

Using an industry-specific key issue weighting model, companies are rated and ranked in comparison to their industry peers. The companies in each industry undergo an annual review and are updated on a rolling basis as well as in response to major events.

For a more detailed discussion of MSCI's ESG Ratings (IVA) Methodology, please [click here](#).

MSCI ESG Impact Monitor

MSCI ESG Research provides assessments of company involvement in ESG-related controversies via its ESG Impact Monitor company report. Companies are scored on 0-10 scale, with a "0" representing the most serious controversy. The overall company score is determined by the lowest scored ESG controversy.

The evaluation framework used in MSCI ESG Impact Monitor is designed to be consistent with international norms represented in widely accepted global conventions, including the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact.

MSCI Business Involvement Screening Research (BISR)

MSCI ESG Research provides research on controversial business activities for investors that need to screen their portfolios. Examples of business activities covered include companies involved in the production and sale of alcoholic beverages or tobacco products, companies that produce military weapons or civilian firearms, or companies involved in the nuclear power industry.

Inclusions/Exclusion Rules for MSCI Global Social Responsibility Indexes

Exclusion Criteria

Companies that are involved in the following activities are excluded from the MSCI Global Socially Responsible Indices

- Alcohol
- Gambling
- Tobacco
- Military Weapons
- Civilian Firearms
- Nuclear Power
- Adult Entertainment
- Genetically Modified Organisms (GMO)

Non-Constituent Eligibility

All non-constituents of the MSCI Global Social Responsibility Indexes **must have** an ESG rating of 'A' or above **and** an Impact Monitor score of "4" or above **to be eligible** for addition to any of the MSCI Global Social Responsibility Indexes.

Constituent Eligibility

A constituent of an MSCI Global Social Responsibility Index ESG will be removed from the index if either of the following occurs:

- The constituent's IVA rating falls to "CCC" or "B".
- The constituent's IM score falls to <2.

Annual Index Review

MSCI Global Social Responsibility Indexes are maintained with the objective of avoiding companies involved in controversial business activities and to include companies that have high ESG performance while seeking to achieve index stability. The composition of the MSCI Global Social Responsibility Indexes is reviewed on an annual basis in May to coincide with the May Semi-Annual Index Review of MSCI Global Investable Market Indices (GIMI). The changes are implemented at the end of May. ESG ratings and scores used for the Annual Index Review are taken as of the end of April.

At the Annual Index Review, the composition of the MSCI Global Social Responsibility Indexes is reconstructed by the following rules:

All companies that are not eligible for inclusion in the index are removed.

For each sector, the constituents of the regional Parent Index are first ranked based on the company level ESG Rating, followed by current index membership, ESG Scores and then by decreasing free float adjusted market capitalization. Constituents for the ESG index are then selected until the targeted 25% coverage by cumulative free float adjusted market capitalization is achieved.

Please consult the [methodology book](#) of the MSCI Global Social Responsibility Indexes for a more detailed description of the index rules.

Changes at Quarterly Reviews

MSCI Global Social Responsibility Indexes are maintained on a quarterly basis following the Parent Index Quarterly Index Reviews in August and February, and the Semi-Annual Index Review in November.

Removals

A constituent of an MSCI Global Social Responsibility Index ESG will be removed from the index if **either** of the following occurs:

- The constituent's IVA rating falls to "CCC" or "B".
- The constituent's IM score falls to <2.

Additions

An eligible non-constituent can be added only in those sectors where the current market capitalization coverage is less than 25%.

Please consult the [methodology book](#) of the MSCI Global Social Responsibility Indexes for a more detailed description of the index rules.

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About MSCI

MSCI Inc. is a leading provider of investment decision support tools to investors globally, including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and governance tools.

The company's flagship product offerings are: the MSCI indexes with approximately USD 8 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; ISS corporate governance research, data and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

¹ As of September 30, 2013, as reported on January 31, 2014 by eVestment, Lipper and Bloomberg

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