MSCI Switzerland IMI High Dividend Yield Low Carbon Select Screens Index Methodology

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Contents

1. Introduction

The MSCI Switzerland IMI High Dividend Yield Low Carbon Select Screens Index[1] ('the Index') is designed to represent the performance of a strategy that seeks high Dividend Yield and systematic integration of environmental, social and governance (ESG) norms.

The Index is constructed by selecting constituents of the MSCI Switzerland IMI Index (the 'Parent Index') and applying an optimization process that aims to maximize the exposure to the Yield factor, minimize Tracking Error, reduce the carbon-equivalent exposure to CO2 and other GHG, as well as reduce its exposure to potential emissions risk of fossil fuel reserves by thirty percent (30%) and improve the weighted-average industry-adjusted ESG score of the Index by ten percent (10%) with respect to the Parent Index using certain constraints described below.

[1] The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix VI for more details.

2. Constructing the Index

The Index uses company ratings and research provided by MSCI ESG Research[2] to determine eligibility for index construction

Constructing the Index involves the following steps:

- Defining the Parent Index and the base currency for optimization
- Defining the Eligible Universe
- Defining the business exclusion criteria
- Defining Dividend Yield-related screens
- Defining the security level carbon exposure
- Defining the optimization setup
- Determining the optimized index

The steps mentioned above are defined in detail in the subsequent sections.

2.1 Defining the Parent Index and the Base Currency for Optimization

Construction of the Index begins with identifying the Parent Index and the Eligible Universe for optimization. The Parent Index serves as the universe of eligible securities for optimization. The Parent Index for the Index is the MSCI Switzerland IMI Index. The optimization is performed from a base currency perspective and does not allow short selling of securities. The default currency is Swiss Franc (CHF).

2.2 Defining the Eligible Universe

The Eligible Universe is constructed by excluding securities from the Parent Index based on the exclusion criteria as described below in Section 2.3 and 2.4., as well as by excluding Real Estate Investment Trusts (REITs)[3].

2.3 Defining the Business Exclusion Criteria

Companies that are involved in specific businesses which have high potential for negative social and/or environmental impact are ineligible for inclusion in the Index.

- Controversial Weapons
- Conventional Weapons
- Nuclear Weapons

[2] See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

[3] Equity Real Estate Investment Trusts and Mortgage Real Estate Investment Trusts as defined by GICS®, the Global Industry Classification Standard, jointly developed by MSCI Inc. and S&P Global

- Civilian Firearms
- Tobacco
- Fossil Fuel Extraction
- Thermal Coal Power

Please refer to Appendix I for more details on these criteria.

Additionally, companies are required to have an MSCI ESG Controversies Score of 1 or above and an MSCI ESG Rating of 'B' or above to be eligible for inclusion.

2.4 Dividend Yield-Related Screens

2.4.1 Dividend Sustainability Screening

Securities with zero or negative payout ratios[4] are not considered for inclusion in the Index. Additionally, securities with an extremely high payout ratio, are also not considered for inclusion in the Index. Under this screen, securities with an extremely high payout ratio defined to be the top 5% of securities by number within the universe of securities with positive payout, are not considered eligible for inclusion in the Index.

2.4.2 Dividend Persistence Screening

Securities with a negative 5-year dividend per share (5Y DPS) growth rate4 are also excluded from the Index. Securities which have insufficient data to calculate a 5Y DPS growth rate are not excluded from the Index.

2.4.3 Price Performance Screening

Securities ranked in the bottom 5% of the universe of securities with negative 1-year Price Performance are excluded from the Index.

2.5 Defining the Security Level Carbon Exposure

The carbon exposure of a security is measured in terms of its greenhouse gas emissions and its potential carbon emissions from fossil fuel reserves. The Index uses MSCI Climate Change Metrics data from MSCI ESG Research.

2.5.1 Greenhouse Gas Emissions

MSCI ESG Research collects company-specific direct (Scope 1) and indirect (Scope 2) greenhouse gas (GHG) emissions data from company public documents and/or the Carbon Disclosure Project. If a company does not report GHG emissions, then MSCI ESG Research uses its proprietary methodology to estimate Scope 1 and Scope 2 GHG emissions.

[4] Please refer to Appendix of MSCI High Dividend Yield Indexes Methodology for definition of Payout Ratio and 5Y DPS growth and their calculation.

2.5.2 Potential Carbon Emissions from Fossil Fuels

MSCI ESG Research collects fossil fuel reserves data where relevant for companies which have reserves, typically in the Oil & Gas, Coal Mining and Electric Utilities industries. Fossil fuel reserves can be used for several applications including energy or industrial (e.g. coking coal used for steel production). Only fossil fuel reserves used for energy are taken into account. The data is updated on an annual basis and based on information disclosed by companies. Sources include company publications, other public records and third party data providers. For newly added companies to the Index where data is not available yet, MSCI uses zero fossil fuel reserves. The size of reserves of a company typically influences its market valuation, and hence MSCI normalizes for size by dividing the potential carbon emissions of the company by its market capitalization.

To convert reserves data to potential carbon emissions, MSCI ESG Research applies a formula from the Potsdam Institute for Climate Impact Research[5].

2.6 Defining the Optimization Setup

The optimization objective aims to maximize the sector-relative gross Dividend Yield z-score of the Index[6], while minimizing the ex-ante Tracking Error relative to the Parent Index at the time of rebalancing.

2.6.1 Calculation of the Sector Relative Grossed-Up Dividend Yield Z-Score

The sector-relative grossed-up Dividend Yield z-score for each security is calculated using the formulae defined in Appendix III.

2.6.2 Optimization Constraints

At each semi-annual Index Review, the following optimization constraints are employed, which aim to ensure replicability and investability:

- The weighted-average Dividend Yield of the Index will be at least 30% more than the weighted-average Dividend Yield of the Parent Index at the time of rebalancing
- The maximum weight of an Index constituent will be restricted to 30 times the weight of the security in the Parent Index
- The issuer weights of the Index will be restricted to 15%
- The sector weights of the Index will not deviate more than +/-5% from the sector weights of the Parent Index
- The size segment (large-cap, mid-cap and small-cap) weights of the Index will not deviate more than +/-5% from the size segment weights of the Parent Index

[5] Malte Meinshausen, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame & Myles R. Allen. Greenhouse-gas emission Target for limiting global warming to 2 °C. Nature 458, 1158- 1162 (30 April 2009) | doi: 10.1038/nature08017; Received 25 September 2008; Accepted 25 March 2009. Supplementary Information, p. 7

[6] Weighted-average sector-relative gross Dividend Yield z- score of the Index

- The minimum weighted-average industry-adjusted ESG score of the Index will be 10% more than the weighted-average industry-adjusted ESG score of the Parent Index at the time of rebalancing
- The minimum reduction in the Weighted Average Carbon Emission Intensity[7] relative to the Parent Index will be 30% at the time of rebalancing
- The minimum reduction in the Potential Emissions per Dollar of Market Capitalization relative to the Parent Index will be 30% at the time of rebalancing
- The minimum number of constituents of the Index will be 20 at the time of rebalancing
- The one-way turnover of the Index is constrained to a maximum of 20% at the time of rebalancing

The Potential Emissions per Dollar of Market Capitalization of the Index is calculated using the formulae defined in Appendix IV.

The Weighted Average Carbon Intensity is calculated using the formulae defined in section 1.2 of MSCI Carbon Footprint Index Ratios Methodology[8].

2.7 Determining the Optimized Index

The Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model[9]. The optimization uses the Eligible Universe as the universe of eligible securities and the specified optimization objective and constraints to determine the Index. Infeasible optimizations are handled as explained in Appendix II.

2.8 Treatment of Unrated Companies

Companies not assessed by MSCI ESG Research on data for any of the following MSCI ESG Research products are not eligible for inclusion in the Indexes.

- MSCI ESG Ratings
- MSCI ESG Controversies
- MSCI Climate Change Metrics
- MSCI Business Involvement Screening Research (BISR)

[7] Carbon Intensity = Scope 1 & 2 Emission / Sales. For Parent Index constituents where the Emissions Intensity is not available, the average Emissions Intensity of all the constituents of the MSCI ACWI Index in the same GICS® Industry Group in which the constituent belongs is used

[8] For details about the methodology, please refer to: https://www.msci.com/index-carbon-footprint-metrics

[9] Please refer to Appendix V for the detailed information on model usage.

3. Maintaining the Index

3.1 Semi-Annual Index Reviews

The Index is 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 Index Reviews of the MSCI Global Investable Market Indexes. Fundamental variables and Barra Equity Model data as of the end of April and October are used respectively.

Similarly, the MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics) used for the semi-annual Index Reviews will be taken as of the end of the month preceding the Index Review i.e., April and October. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available, for the rebalancing of the Index.

The pro forma Index is in general announced nine business days before the effective date.

During each semi-annual Index Review, the constituents of the underlying Parent Index are screened for potential inclusion in the Index according to the screening process described in Section 2.

Existing constituents of the current Index will also be evaluated for continued inclusion using the following screening process:

- If a security is already an Index constituent, it will remain in the Index until it reaches the top 2%, by increasing order of dividend payout. If it is within the top 2% limit, it will be excluded from the Index.
- If a security is already an Index constituent but its 5Y DPS growth rate turns negative, it will still be allowed to remain in the Index, provided that the 1Y DPS growth rate[10] of that security is non-negative. Securities which do not have sufficient data to calculate a 5Y DPS growth rate or 1Y DPS growth rate would still be eligible to remain in the Index.

3.2 Monthly Review of Controversies

Index constituents are reviewed on a monthly basis for the involvement in ESG controversies[11]. Existing constituents will be deleted if they face controversies as defined as defined by MSCI ESG Controversy Score of 0 (‘Red flag’ companies). A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations.

MSCI uses MSCI ESG Controversies data as of the end of the month preceding the review (e.g., end of June data for the end of July monthly review). For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Index.

[10] Please refer to Appendix of MSCI High Dividend Yield Indexes Methodology for definition of 1Y DPS growth and its calculation

[11] The monthly review of ESG controversies is applied within the Index starting July 3, 2023 and is not applicable historically prior to that date

The pro forma Index is generally announced nine business days before the first business day of the month.

MSCI uses MSCI ESG Controversies data as of the end of the month preceding the review (e.g., end of June data for the July monthly review). For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Index.

The pro forma Indexes are generally announced nine business days before the effective date.

3.3 Ongoing Event-Related Changes

The general treatment of corporate events in the Index 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.

The following section briefly describes the treatment of common corporate events within the Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously in the Index.

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	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. 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.
Changes in Security Characteristics	A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued

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/latest/CE.

4. MSCI ESG Research

The Indexes are products of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI ESG Ratings

MSCI ESG Ratings aim to measure entities' management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from 'AAA' to 'CCC', indicating how an entity manages relevant key issues relative to industry peers.

The MSCI ESG Ratings methodology can be found at: https://www.msci.com/legal/disclosures/esg-disclosures.

4.2 MSCI ESG Controversies

MSCI ESG Controversies provides assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0-10 scale, with "0" being the most severe controversy.

The MSCI ESG Controversies methodology can be found at: https://www.msci.com/legal/disclosures/esg-disclosures.

4.3 MSCI ESG Business Involvement Screening Research

MSCI ESG Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

The MSCI Business Involvement Screening Research methodology can be found at: https://www.msci.com/legal/disclosures/esg-disclosures.

4.4 MSCI Climate Change Metrics

MSCI Climate Change Metrics provide climate data & tools to support institutional investors seeking to integrate climate risk & opportunities into their investment strategy and processes. This includes investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, alignment with temperature pathways and factoring climate change research into their risk management processes, in particular through climate scenario analysis for both transition and physical risks.

The dataset spans across the four dimensions of a climate strategy: transition risks, green opportunities, physical risks and 1.5° alignment.

4.4.1 Fossil Fuels and Power Generation Metrics

MSCI ESG Research identifies companies involved in fossil fuel-related assets and activities including fossil fuel reserves, resource extraction, power generation and generation capacity, revenue from such assets and activities and capital investments in such assets and activities. The metrics are based on disclosed activities, disclosed revenue and estimates of revenue that are extrapolated from company disclosures and eligible third-party sources (such as NGOs).

4.4.2 Greenhouse Gas (GHG) Emissions

MSCI ESG Research collects reported emissions and uses proprietary estimation methodologies that follows the GHG Protocol in including carbon dioxide (CO2) and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH4), nitrous oxide (N2O), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). Emissions of these other gases are accounted for in terms of the quantity of CO2 that has an equivalent global warming potential.

For more details on MSCI Climate Change Metrics, please refer to https://www.msci.com/legal/disclosures/climate-disclosures.

Appendix I: Business Exclusion Criteria

- **Controversial Weapons**
    - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at https://www.msci.com/index-methodology.
- **Conventional Weapons**
    - All companies deriving 5% or more revenue from the production of conventional weapons and components.
    - All companies deriving 10% or more aggregate revenue from the production of nuclear, biological, chemical, and conventional weapons and weapons systems, components, and support systems and services.
- **Nuclear Weapons**
    - All companies that manufacture nuclear warheads and/or whole nuclear missiles.
    - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).
    - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
    - All companies that provide auxiliary services related to nuclear weapons.
    - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons.
    - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons.
    - All companies that manufacture components for nuclear-exclusive delivery platforms.
- **Civilian Firearms**
    - All companies classified as “Producer” of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets.
    - All companies deriving 5% or more revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
- **Tobacco**
    - All companies classified as a “Producer”

    - All companies deriving 5% or more aggregate revenue from the production, distribution, retail and supply of tobacco-related products.

- **Fossil Fuel Extraction**
    - All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining and unconventional oil and gas extraction.
        - Thermal Coal Mining: Revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.
        - Unconventional Oil & Gas Extraction: Revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It does not cover all types of conventional oil and gas production including Arctic onshore/offshore, deep water, shallow water and other onshore/offshore.
- **Thermal Coal Power**
    - All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

Appendix II: Handling Infeasible Optimizations

During the semi-annual Index Review, in the event that there is no optimal solution that satisfies all the optimization constraints defined in Section 2.6, the following constraints are relaxed, until an optimal solution is found:

- Relax the turnover constraint in steps of 4%, up to a maximum of 40%
- Relax the weighted-average Dividend Yield improvement constraint in steps of 3%, up to a minimum of 15%
- The maximum turnover and the minimum weighted-average Dividend Yield improvement constraint are alternately relaxed until a feasible solution is achieved. For example, constraints relaxation is executed in the sequence as illustrated below:

Order of Relaxation	Turnover Limit	Weighted-average Dividend Yield improvement
1	24%	30%
2	24%	27%
3	28%	27%
4	28&	24%

In the event that no optimal solution is found after all the above constraints have been relaxed, the Index will not be rebalanced for that Index Review.

Appendix III: Calculation of the Sector Relative Grossed-up Dividend Yield Z-Score

Within each GICS sector, the grossed-up Dividend Yield z-score for each security within the sector is computed as described:

$$z = \frac{(x - \mu)}{\sigma}$$

Where:

- z is the sector-relative grossed-up Dividend Yield z-score of security
- x is the grossed-up Dividend Yield for a given security
- μ is the equal weighted mean of the grossed-up Dividend Yield within the sector
- σ is the equal weighted standard deviation of the grossed-up Dividend Yield within the sector

Appendix IV: Calculation or Carbon Exposure Metrics

Index Potential Carbon Emissions from Fossil Fuels:

- Parent Index Potential Carbon Emissions from Fossil Fuels –

$$\sum_{i} \frac{Float\ Market\ Capitalization\ *\ Absolute\ Potential\ Emissions}{Issuer\ Market\ Capitalization}$$

- Derived Index Potential Carbon Emissions from Fossil Fuels –

$$\sum_{i} \frac{Derived\ Index\ Market\ Capitalization\ *\ Absolute\ Potential\ Emissions}{Issuer\ Market\ Capitalization}$$

Appendix V: New release of Barra® Equity Model or Barra® Optimizer

The methodology presently uses MSCI Barra Global Equity Model for Long-Term Investors (“GEMLTL”) for the optimization. A new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

Appendix VI: Methodology Set

The Index is governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document as mentioned below:

- Description of methodology set – https://www.msci.com/index/methodology/latest/ReadMe
- MSCI Corporate Events Methodology – https://www.msci.com/index/methodology/latest/CE
- MSCI Fundamental Data Methodology – https://www.msci.com/index/methodology/latest/FundData
- MSCI Index Calculation Methodology – https://www.msci.com/index/methodology/latest/IndexCalc
- MSCI Index Glossary of Terms – https://www.msci.com/index/methodology/latest/IndexGlossary
- MSCI Index Policies – https://www.msci.com/index/methodology/latest/IndexPolicy
- MSCI Global Industry Classification Standard (GICS) Methodology – https://www.msci.com/index/methodology/latest/GICS
- MSCI Global Investable Market Indexes Methodology – https://www.msci.com/index/methodology/latest/GIMI
- MSCI Global ex Controversial Weapons Indexes Methodology – https://www.msci.com/index/methodology/latest/XCW
- MSCI High Dividend Yield Indexes Methodology – https://www.msci.com/index/methodology/latest/HDY
- ESG Factors In Methodology*

The Methodology Set for the Index can also be accessed from MSCI's webpage https://www.msci.com/index-methodology in the section 'Search Methodology by Index Name or Index Code'.

* 'ESG Factors in Methodology' contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion). It can be accessed in the Methodology Set as described above.

Appendix VII: Changes to this Document

The following sections have been modified as of July 3, 2023:

- Section 4.2 added to detail the monthly review of controversies and subsequent sections re-numbered
- ESG Research Section moved from Section 2 to Section 4. Updated the descriptions of MSCI ESG Research products.

The following sections have been modified as of February 2025

- The methodology and index name were updated. Effective February 3, 2025, the MSCI Switzerland IMI High Dividend Yield ESG Low Carbon Select Index was renamed to MSCI Switzerland IMI High Dividend Yield Low Carbon Select Screens Index

Section 2.8: Treatment of Unrated Companies

- New section detailing the treatment of companies when ratings and research is not available from MSCI ESG Research
- Added the treatment of companies when business involvement screening research or climate change metrics research are not available from MSCI ESG Research.

Section 4.4: MSCI Climate Change Metrics.

- Added a sub-section under Climate Change Metrics to provide additional details on Fossil Fuels related activities and Greenhouse Gas Emissions.

Appendix VI: Methodology Set

- Added details on the Methodology Set for the Indexes

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