

# **MSCI Global Fossil Fuels Exclusion Indexes Methodology**

**June 2023**

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# 1 Introduction

The MSCI Global Fossil Fuels Exclusion Indexes (the 'Indexes') have been developed for use by institutional investors, including pension funds, who aim to eliminate or reduce some or all fossil fuel reserves exposure from their investments. The MSCI Global Fossil Fuels Indexes are currently available in the following two variants:

MSCI Global ex Fossil Fuels Indexes

MSCI Global ex Coal Indexes

These indexes are free float-adjusted market capitalization weighted.<sup>1</sup>

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<sup>1</sup> The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI's webpage <https://www.msci.com/index-methodology> in the section 'Search Methodology by Index Name or Index Code'.

The Methodology Set includes a document 'ESG Factors in Methodology' that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).

## 2 Constructing the MSCI Global Fossil Fuels Exclusion Indexes

### 2.1 Underlying Universe

The selection universe for the Indexes is defined by the constituents of the MSCI Global Investable Market Indexes (GIMI).

### 2.2 Screening Criteria

#### 2.2.1 Fossil Fuel Reserves

The Indexes use company research provided by MSCI ESG Research<sup>2</sup> to determine eligibility for index inclusion. In particular, the indexes use MSCI ESG Climate Change Metrics to identify companies with fossil fuel reserves.

##### MSCI Global ex Fossil Fuels Indexes

Companies that have proved & probable coal reserves and/or oil and natural gas reserves used for energy purposes are excluded from the MSCI Global ex Fossil Fuels Indexes. Specifically, companies that meet the following criterion are excluded:

- Flagged for “Fossil Fuel Reserves – Energy Application”

##### MSCI Global ex Coal Indexes

Companies that have proved & probable coal reserves used for energy purposes are excluded from the MSCI Global ex Coal Indexes. Specifically, companies that meet both of the following criteria are excluded:

- Flagged for “Fossil Fuel Reserves – Energy Application”
- Flagged for “Evidence of Total Coal Reserves”

<sup>2</sup> See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited sources 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. MSCI Limited is the benchmark administrator for the MSCI indexes.

### Description of factors used:

Factor Name	Description
Fossil Fuel Reserves – Energy Application	This factor identifies companies, regardless of their industries, with evidence of owning fossil fuel reserves used most likely for energy applications. For high-intensity industries (belonging to Energy and Utilities GICS Sector & Diversified Metals & Mining GICS Sub-Industry), this factor flags companies with evidence of fossil fuel reserves (excluding Metallurgical Coal). For other industries, it flags companies with evidence of fossil fuel reserves (excluding Metallurgical Coal) and deriving revenue from business segments associated with energy application of fossil fuels such as Thermal Coal mining, Oil & Gas exploration & production and downstream activities e.g. refining; distribution & retail; pipeline & transportation; trading and fossil fuel- based power generation. Fossil fuel reserves are defined as proved and probable reserves (i.e. 2P) for coal and proved reserves (i.e. 1P) for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.
Evidence of Total Coal Reserves	This factor identifies companies that provide evidence of owning coal reserves, including those that own less than 50% of a reserves field. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.

### 2.2.2 Missing Data

Companies not assessed by MSCI ESG Research on fossil fuel reserves data are not eligible for inclusion in the Indexes.

## 3 Maintaining the MSCI Global Fossil Fuels Exclusion Indexes

### 3.1 Index Reviews

The Indexes are reviewed on a quarterly basis to coincide with the regular Index Reviews of the MSCI Global Investable Market Indexes. The changes are implemented as of the close of the last business day of February, May, August and November. At index reviews, all companies in the underlying universe are reviewed and eligible companies are added to the Indexes. Existing constituents may be deleted from the Indexes if they are identified as having fossil fuel reserves and are screened according to the criteria described in Section 2. Any constituent that is deleted from the Parent index as a result of an index review is also deleted from the Indexes.

The pro forma MSCI Global Fossil Fuels Exclusion Indexes are generally announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data<sup>3</sup> (MSCI ESG Climate Change Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of MSCI Global Fossil Fuels Exclusion Indexes. 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 Indexes.

### 3.2 Ongoing Event-Related Maintenance

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

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

There are no deletions from the Index between Index Reviews on account of a security identified as having fossil fuel reserves.

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<sup>3</sup> See section 4 for details of data sourced from MSCI ESG Research used in the Indexes.

EVENT TYPE	EVENT DETAILS
<b>New additions to the Parent Index</b>	New securities added to the Parent Index (such as IPOs, other early inclusions and migrations from a different size-segment) will not be added to the Index at the time of event implementation. Such securities will be considered for addition in the Index at the subsequent Index Review.
<b>Spin-Offs</b>	All securities created as a result of the spin-off of an existing Index constituent will not be added to the Index at the time of event implementation. Reevaluation for addition in the Index will occur at the subsequent Index Review.
<b>Merger/Acquisition</b>	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.
<b>Changes in Security Characteristics</b>	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.

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 utilize 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 Indexes use the following MSCI ESG Research product: MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited.

### 4.1 MSCI Climate Change Metrics

MSCI Climate Change Metrics provides 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.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-change-solutions>



## Appendix I: Changes to this Document

The following sections have been updated as of August 2016:

### Section 4: Maintaining the MSCI Global Fossil Fuels Exclusion Indexes

- Clarification on use of ESG data for securities whose data were published later than at the end of the month preceding Index Review.

The following sections have been updated as of May 2017:

### Section 2: Screening Criteria

- Updated link to the MSCI ESG CarbonMetrics

### Section 4.1: Index Reviews

- Updated to include the announcement date of the pro forma indexes.

The following sections have been updated as of December 2017:

### Section 2: Screening Criteria

- Removed the last paragraph

### Section 3.2: Exclusion Criteria

- Clarified the exclusion criteria for companies with fossil fuel reserves

The following sections have been updated as of November 2019:

### Section 2: MSCI ESG Research

- Changed section name from “Screening Criteria”
- Added details on MSCI ESG Climate Change Metrics

### Section 3.1: Underlying Universe

- Updated to refer to the MSCI Global Investable Market Indexes

### Section 3.2: Screening Criteria

- Updated the fossil fuel reserves related criteria
- Added a sub-section on missing data

### Section 3.3: Index Construction

- Removed the section

## Section 4.2: Ongoing Event-Related Maintenance

- Clarified the treatment of different types of corporate events

The following sections have been updated as of June 2023:

## Section 3: Maintaining the MSCI Global Fossil Fuels Exclusion Index

- Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.
- All references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” of the MSCI GIMI were replaced with “Index Reviews”.

## Section 4: MSCI ESG Research

- Moved that section after section 3 (Maintaining the MSCI Global Fossil Fuels Exclusion Indexes)
- Updated the descriptions of MSCI ESG Research products.

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