



ESG Index Overview

# MSCI Global Sustainability Indexes

**An Overview for Corporates**

March 2014

# Introduction

The MSCI Global Sustainability Indexes are free float-adjusted market capitalization weighted indexes designed to include companies with strong management of their environmental, social and governance (ESG) risks and opportunities.

These indexes aim to target sector weights that reflect the relative sector weights of the underlying indexes to limit the systematic risk introduced by the ESG selection process. Overall the MSCI Global Sustainability Indexes target coverage of 50% of the underlying MSCI parent index (“Parent Index”).

Currently, MSCI constructs MSCI Global Sustainability Indexes for the Standard size-segment in all Developed (MSCI World Index) and Emerging Markets (MSCI EM Index), and the Small Cap size-segment in the USA (MSCI USA Small Cap Index).

## MSCI ESG Research

MSCI Global Sustainability Indexes are constructed using ESG ratings and analysis provided by MSCI ESG Research Inc. via two ESG company evaluation products: MSCI ESG Intangible Value Assessment and MSCI ESG Impact Monitor.

### 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 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 performance in 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.

# Inclusions/Exclusion Rules for MSCI Global Sustainability Indexes

## Non-Constituent Eligibility

All non-constituents of the MSCI Global Sustainability Indexes **must have** an ESG rating of ‘BB’ or above **and** an Impact Monitor score of “3” or above **to be eligible** for addition to any of the MSCI Global Sustainability Indexes.

## Constituent Eligibility

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

- The constituent’s IVA rating falls to “CCC”.
- The constituent’s IM score falls to <2.

## Annual Index Review

MSCI Global Sustainability Indexes are maintained with the objective of including companies that have high ESG performance while seeking to achieve index stability. The composition of the MSCI Global Sustainability Indexes is reviewed on an annual basis in May to coincide with the May Semi-Annual Index Review of MSCI Global Investable Market Indexes (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 Sustainability Indexes is reconstructed by the following rules:

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 Global Sustainability Index are then selected until the targeted 50% coverage by cumulative free float adjusted market capitalization is achieved.

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

## Changes at Quarterly Reviews

MSCI Global Sustainability 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 Sustainability Index will be removed from the index if **either** of the following occurs:

- The constituent's IVA rating falls to "CCC".
- 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 45%.

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

## Contact ESG Corporate Communications

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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 basis<sup>1</sup>; 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.

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