

MSCI ESG Screened Select Indexes Methodology

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1 Introduction

The MSCI ESG Screened Select Indexes¹ (“the Indexes”) are free float-adjusted market capitalization-weighted indexes that exclude companies from underlying MSCI indexes (“Parent Indexes”) based on Environmental, Social and Governance (ESG) criteria. The following companies are excluded:

- Companies that are associated with controversial, civilian and nuclear weapons as well as adult entertainment, tobacco, gambling, predatory lending, oil sands or arctic oil & gas or
- Companies that derive revenues from thermal coal power and extraction of select fossil fuels or
- Companies that are not in compliance with the United Nations Global Compact principles, or United Nations Guiding Principles for Business Human Rights or International Labour Organization’s fundamental and broad principles.

¹ 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 Indexes

The Indexes use company ratings and research provided by MSCI ESG Research² for the Index construction.

The Parent Index for the MSCI ESG Screened Select Indexes are in the table below:

Index Name	Parent Index
MSCI USA ESG Screened Select Index	MSCI USA Index
MSCI UK ESG Screened Select Index	MSCI United Kingdom Index
MSCI EM ESG Screened Select Index	MSCI EM (Emerging Markets) Index
MSCI Europe ex UK ESG Screened Select Index	MSCI Europe ex UK Index
MSCI Pacific ex Japan ESG Screened Select Index	MSCI Pacific ex Japan Index
MSCI Japan ESG Screened Select Index	MSCI Japan Index
MSCI ACWI ESG Screened Select Special Weighted Index	MSCI ACWI Index
MSCI ACWI ex Europe ESG Screened Select Special Weighted Index	MSCI ACWI ex Europe Index
MSCI ACWI ex UK ESG Screened Select Special Weighted Index	MSCI ACWI ex UK Index
MSCI North America ESG Screened Select Index	MSCI North America Index

2.1 Eligible Universe

The Eligible Universe for the Indexes is defined by applying the following exclusions from the Parent Index:

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Adult Entertainment
- Gambling
- Predatory Lending
- Thermal Coal
- Unconventional Oil & Gas
- Oil Sands
- Artic Oil & Gas

² 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.

In addition to the above, companies are also excluded from the Indexes if they exhibit any of the following characteristics:

- Failure to comply with the United Nations Global Compact Principles (UN Global Compact Alignment value of “Fail”).
- Failure to comply with the United Nations Guiding Principles for Business and Human Rights (UN Global Guiding Principles value of “Fail”).
- Failure to comply with the International Labour Organization’s (ILO) fundamental and broad principles (ILO Core Principles and ILO Broad Principles value of “Fail”).

Please refer to Appendix I for details on these criteria.

2.2 Weighting Scheme

The remaining securities, after the exclusions based on section 2.1, are weighted in proportion of their free float-adjusted market capitalization.

The MSCI ACWI ESG Screened Select Special Weighted Index, MSCI ACWI ex Europe ESG Screened Select Special Weighted Index and the MSCI ACWI ex UK ESG Screened Select Special Weighted Index apply regional neutrality to align the weights of regions to their respective Parent Indexes. Please see Appendix II for more details on regional neutrality and the definition of regions.

2.3 Treatment of Unrated Companies

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

- MSCI ESG Controversies

3 Maintaining the Indexes

3.1 Quarterly 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.

In general, MSCI uses MSCI ESG Research data³ (including MSCI ESG Controversies Scores, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the 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.

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

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 Indexes between Index Reviews. For cases where additions are noted below, securities will be added to the Index only if added to the Parent Index.

Parent Index deletions will be reflected simultaneously.

There are no deletions from the MSCI ESG Screened Indexes between Index Reviews on account of a security becoming ineligible because of a change in business involvement and/or failure to comply with the UN Global Compact Principles and/or decrease in MSCI ESG Controversies Score.

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 not be added to the Indexes at the time of event implementation. Reevaluation for addition in the Indexes will occur at the subsequent Index Review.

Merger/Acquisition

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.

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



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.

The MSCI Corporate Events methodology book is available at: <https://www.msci.com/index-methodology>.

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 products: MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research and MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited.

4.1 MSCI ESG Controversies

MSCI ESG Controversies provide 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/esg-and-climate-methodologies>.

4.2 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.

For more details on MSCI ESG Business Involvement Screening Research, please refer to http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf.

4.3 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 – ESG Exclusions Criteria

Companies, whose activities meet the following values and climate-based criteria, as evaluated by MSCI ESG Research, are excluded from the Indexes:

- **Controversial Weapons**
 - All companies with any tie to controversial weapons (including, but not limited to, cluster munitions, biological/chemical weapons, landmines, depleted uranium weapons, blinding laser, non-detectable fragments and/or incendiary weapons).
- **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 “Produce” of firearms and/or small arms ammunition intended 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 distribution (wholesale or retail) of firearms and/or small arms ammunition intended for civilian use.
- **Thermal Coal**
 - All companies deriving 5% or more revenue from thermal coal extraction (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
 - All companies deriving 25% or more revenue (either reported or estimated) from thermal coal-based power generation.
- **Oil Sands**
 - All companies deriving 5% or more revenue from the production and generation of tar sands (also known as oil sands).

Arctic Oil & Gas

- All companies deriving 5% or more revenue from arctic oil exploration or arctic gas exploration. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude. This includes offshore or onshore oil and gas production.

• Unconventional Oil & Gas

- All companies deriving 15% or more revenue (either reported or estimated) from the extraction of 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.

• Tobacco

- All companies deriving 5% or more revenue from the production of tobacco-related products.
- All companies deriving 15% or more revenue from the distribution of tobacco-related products.
- All companies deriving 15% or more revenue from the retail of tobacco-related products.
- All companies deriving 15% or more revenue from the supply of tobacco-related products.

• Gambling

- All companies deriving 5% or more revenue from the ownership or operation of gambling related business activities.
- All companies deriving 15% or more revenue from providing support or services to gambling related business activities.

• Adult Entertainment

- All companies deriving 5% or more revenue from the production of adult entertainment materials.
- All companies deriving 15% or more revenue from the distribution of adult entertainment materials
- All companies deriving 15% or more revenue from the retail of adult entertainment materials

• Predatory Lending

- All companies deriving 5% or more of their revenue from predatory lending practices, which refers to the imposition of unfair and abusive loan terms on borrowers by engaging in deception, fraud, or manipulation through aggressive sales tactics, and taking unfair advantage of a borrower's lack of understanding about complicated transactions.

• Global Norms

- All companies which have been deemed to have failed to comply with the UN Global Compact Principles (which cover human rights, labour standards, the environment and anti-corruption),
- All companies which have deemed to have failed United Nations Guiding Principles for Business and Human Rights.



- All companies which have deemed to have failed to comply with the International Labour Organization's fundamental principles and broader set of labour standards.

Appendix II: Applying Regional Neutrality

The MSCI ACWI ESG Screened Select Special Weighted Index, MSCI ACWI ex Europe ESG Screened Select Special Weighted Index and the MSCI ACWI ex UK ESG Screened Select Special Weighted Index apply an additional step of regional neutrality. The aggregate weight of regions defined below in the Indexes are aligned to the respective weight of those regions in the respective Parent Indexes by rescaling the weights of the constituents from the defined regions.

Security weights are aggregated to form the following regions as per the classifications in the MSCI Global Investable Market Indexes:

- USA
- Canada
- United Kingdom
- Europe & Middle East ex UK
- Japan
- Pacific ex Japan
- Emerging Markets

A turnover buffer of 50% is applied during the on-going index review.

For example, if the on-going rebalancing results in changing the weight of a security from x% to y% then the effective change in weight will be:

$$\text{Effective pro forma constituent weight} = x + (y-x)/2$$

The turnover buffer is not applied on deletions.

Appendix III: Changes to this Document

The following sections have been updated as of April 2023:

Section 3.1: Selection Universe

- Added details for the MSCI North America ESG Screened Select Index

The following sections have been modified as of November 2023:

Section 2.1: Constructing the Index

- Added three more indexes that apply special weighting.

Section 2.3

- Highlighted that the three indexes apply regional neutrality.

Section 2.4: Treatment of Unrated Companies

- Added section to detail the treatment of companies with ratings and research not available from MSCI ESG Research

Appendix 1: ESG Exclusions Criteria

- Modified the ESG screening criteria for Controversial Weapons, Civilian Firearms, Adult Entertainment, Gambling, Tobacco, Thermal Coal Mining, Thermal Coal Predatory Lending, Power Generation, Oil Sands, Arctic Oil & Gas and Unconventional Oil and Gas.

Appendix 2: Applying Regional Neutrality

- Defined the regions and described how regional neutrality is applied.

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