

# **MSCI Extended ESG Leaders Indexes Methodology**

**November 2023**

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## 1. Introduction

The MSCI Extended ESG Leaders Indexes (the “Indexes”)<sup>1</sup> are based on the MSCI ESG Leaders Indexes methodology<sup>2</sup>, with additional Controversial Business Involvement<sup>3</sup> exclusions.

The Indexes are free float-adjusted market capitalization-weighted indexes designed to represent the performance of companies that are selected from an underlying index based on Environmental, Social and Governance (ESG) criteria. These criteria exclude constituents based on involvement in specific business activities, as well as ESG ratings and exposure to ESG controversies. The Indexes are derived from underlying MSCI indexes (“Parent Indexes”) and aim to achieve sector weights that reflect the sector weights of the corresponding Parent Indexes. The Index construction targets 50% free float-adjusted market capitalization coverage of each Global Industry Classification Standard (GICS®)<sup>4</sup> sector by selecting constituents primarily based on criteria including the ESG rating, the trend in that rating and the company’s industry-adjusted ESG score.

<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).

<sup>2</sup> Please refer to the MSCI ESG Leaders Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology)

<sup>3</sup> See section 4 for further information regarding ESG and climate data used in the Index 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.

<sup>4</sup> GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices.

## 2. Constructing the MSCI Extended ESG Leaders Indexes

The Indexes apply the screening, ranking and selection criterion from the MSCI ESG Leaders Index methodology with additional controversial business involvement screens reflected in Section 2.2.1 of this document.

The MSCI ESG Extended ESG Leaders Indexes and the corresponding MSCI ESG Leaders Indexes are included in the table below:

MSCI Extended ESG Leaders Index	MSCI ESG Leaders Index
MSCI USA Extended ESG Leaders Index	MSCI USA ESG Leaders Index
MSCI EM Extended ESG Leaders 5% Issuer Capped Index	MSCI EM ESG Leaders Index
MSCI Canada IMI Extended ESG Leaders 10% Issuer Capped Index	MSCI Canada IMI ESG Leaders Index
MSCI EAFE Extended ESG Leaders Index	MSCI EAFE ESG Leaders Index

### 2.1 Defining the Eligibility Criteria

The Indexes use research provided by MSCI ESG Research<sup>5</sup> to determine the securities eligible for inclusion in accordance with the MSCI ESG Leaders Indexes methodology.

#### 2.1.1 Controversial Business Involvement Criteria

In addition to the Controversial Business Involvement Criteria outlined in the MSCI ESG Leaders Indexes methodology, the underlying universe of the Index is subject to additional criteria for the following business activities:

- **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 distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
  - All companies that earn more than USD 20 million in revenue, from civilian firearms-related products.

<sup>5</sup> See section 4 for further information regarding ESG and climate data used in the Index 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.



## 2.2 Determining the Weights of the Constituents of the MSCI Extended ESG Leaders Issuer Capped Indexes

The MSCI EM Extended ESG Leaders 5% Issuer Capped Index and MSCI Canada IMI Extended ESG Leaders 10% Issuer Capped Index are created by capping the maximum weight of any issuer at 5% and 10% respectively, in accordance with the MSCI Capped Indexes methodology<sup>6</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index.

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<sup>6</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology)

### 3. Maintaining the MSCI Extended ESG Leaders Indexes

#### 3.1 Annual Index Review

The Indexes are reviewed on an annual basis, in accordance with the MSCI ESG Leaders Indexes methodology.

#### 3.2 Quarterly Index Reviews

The Indexes are reviewed on a quarterly basis, in accordance with the MSCI ESG Leaders Indexes methodology.

#### 3.3 Monthly Review of Controversies

Index constituents are reviewed on a monthly basis for the involvement in ESG controversies<sup>5</sup>. Existing constituents will be deleted if they are assessed as having involvement in ESG controversies that are classified as Red Flags (MSCI ESG Controversies Score of 0). A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations. The deletions will be effective on the first business day of the month and the pro forma indexes are generally announced nine business days before the effective date.

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.

#### 3.4 Capping Frequency

Issuer capping for the MSCI EM Extended ESG Leaders 5% Issuer Capped Index and MSCI Canada IMI Extended ESG Leaders 10% Issuer Capped Index is applied in February, May, August and November, coinciding with the Index Reviews of MSCI Global Investable Market Indexes.

#### 3.5 Ongoing Event-Related Maintenance

Corporate Events are reflected in the Indexes in accordance with the MSCI ESG Leaders Indexes methodology.

<sup>5</sup> The monthly review of ESG controversies was implemented effective November 1, 2023

## 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 Ratings, 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 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/esg-and-climate-methodologies>.

### 4.2 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>.

### 4.3 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.

For more details on MSCI ESG Business Involvement Screening Research, please refer to [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_BISR.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf).

### 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.

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



## Appendix 1: Changes to this Document

The following sections have been modified as of November 2023<sup>6</sup>:

Section 3: Maintaining the MSCI Extended ESG Leaders Indexes

- The monthly review of ESG controversies was implemented effective November 1, 2023 and the proforma indexes were announced nine business days before the effective date.

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<sup>6</sup> The MSCI Extended ESG Leaders Indexes methodology was included in the MSCI ESG Leaders Indexes methodology document prior to November 2023.

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