

# MSCI World Select Climate Target Index\*

\* A CUSTOM INDEX CALCULATED BY MSCI BASED ON THE STOCK EXCLUSIONS DEFINED BY  
LÄNSFÖRSÄKRINGAR

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## 1. Introduction

The MSCI World Select Climate Target Index aims to represent the performance of a strategy that is designed to maximize the MSCI Low Carbon Transition (LCT) Score while exhibiting risk and return characteristics similar to those of the underlying market capitalization weighted index.

The Index is constructed by selecting constituents of the MSCI World Index through an optimization process that aims to maximize exposure to the LCT Score for a target tracking error budget and increase the allocations to companies with high ESG Scores under certain constraints.

The Index aims to be sector-diversified and targets companies with high LCT Scores in each sector.

The Index also, via an exclusion list from Länsförsäkringar, aims to exclude companies involved in serious violations of international norms and conventions, controversial weapons, fossil fuels and tobacco. Additionally, the Index excludes all stocks in the Energy Sector, stocks of companies involved in uncertified production of palm oil and top emitters of Scope 1+2 Emissions with respect to their sector peers<sup>1</sup>.

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<sup>1</sup>The Index is governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix II for more details.

## 2. Constructing the Index

The Index uses company ratings and research provided by MSCI ESG Research<sup>2</sup> for the Index construction.

Constructing the MSCI World Select Climate Target index involves the following steps:

- Defining the underlying Parent Index
- Defining the exclusion criteria
- Defining the optimization constraints
- Determining the optimized portfolio.

### 2.1 Parent Index

Index construction starts with the MSCI World Index (the “Parent Index”). The Index then excludes some stocks from the Parent Index based on exclusion criteria as listed in Section 3.2.

### 2.2 Security Exclusion Criteria

Securities from the Parent Index which meet any of the below criteria are not considered for inclusion in the Index:

- **Specific Stock Exclusions:** The MSCI World Select Climate Target Index, excludes all securities listed for exclusion by Länsförsäkringar AB's (LFAB) Asset Management and Mutual Fund Company.

The exclusion list is determined and signed off by LFAB in accordance with LFAB's Sustainability policy<sup>3</sup> and the referenced methodology document<sup>4</sup>.

The exclusion list<sup>5</sup> is sent by LFAB to MSCI via e-mail at least 14 business days prior to the effective date of the index review and is also publicly available.

The exclusions are reviewed and updated quarterly and made effective to coincide with the MSCI Quarterly Index Reviews as of the close of the last business day of February, May, August and November.

- **Energy Sector:** The MSCI World Select Climate Target Index, excludes all securities of companies that belong to the Energy Sector as per the Global Industry Classification Standard (GICS ®).

<sup>2</sup> 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.

<sup>3</sup> <https://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/lf-fondforvaltning/criteria-andlist-of-excluded-companies.pdf>.

<sup>4</sup> <https://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/lf-fondforvaltning/mifid/lf%20process-of-exclusion.pdf>.

<sup>5</sup> [https://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/lf-fondforvaltning/kopia-av%20excluded-companies-from-index-excel\\_.xlsx](https://www.lansforsakringar.se/globalassets/aa-global/dokument/ovrigt/aa-om-oss/lf-fondforvaltning/kopia-av%20excluded-companies-from-index-excel_.xlsx)

- **Palm Oil:** The MSCI World Select Climate Target Index, excludes all securities of companies that meet the below criteria

$$\% \text{Revenue from Palm Oil Production} * \frac{(100 - \% \text{RSPO Certified})}{100} \geq 5$$

where % **Revenue from Palm Oil Production** - The recent-year percent of revenue, or maximum estimated percent, a company has derived from the production of Palm Oil.

% **RSPO Certified** - The percentage of the company's palm oil holdings / estates that are certified by the Roundtable on Sustainable Palm Oil.

- **Carbon Exclusions:** The constituents of the Parent Index are ranked in descending order of Scope 1 + Scope 2 emissions intensity. If two stocks have the same emissions intensity, the stock with the lower parent weight will be assigned a higher rank.

Top ranked stocks from each GICS Sector are excluded till the total number of stocks excluded from the GICS Sector is not more than 20% of the number of stocks in the GICS Sector in the Parent Index.

## 2.3 Defining the Optimization Constraints

Constituents are selected to maximize exposure to higher LCT scores, subject to maintaining risk and return characteristics similar to the Parent Index. LCT scores are normalized and used in the optimization process.

Optimization maximizes the Index's exposure to LCT scores for a given predicted tracking error of 1%. Optimization is a quantitative process that considers the market capitalization weights from the Parent Index, LCT scores and additional constraints to select and weight the constituents of the Index. Normalization of the LCT scores allows the optimization process to assess each score in the context of the overall distribution of the LCT scores. Please refer to Appendix 1 for the Optimization constraints.

## 2.4 Determining the Optimized Portfolio

The Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model. The optimization uses universe of eligible securities and the specified optimization objective and constraints to determine the constituents of the MSCI Select Climate Target Index.

## 3. Maintaining the Index

### 3.1 Quarterly Index Reviews

The Index is rebalanced on a quarterly basis to coincide with the regular Index Reviews (Semi-Annual Index Reviews in May and November and Quarterly Index Reviews in February and August) of the MSCI Global Investable Market Indexes. Changes are implemented at the end of February, May, August and November. The pro forma indexes are in general announced nine business days before the effective date.

LCT scores used for the Quarterly Index Reviews will be taken as of the end of the month preceding the Index Review, i.e., January, April, July and October.

At each Index Review, the optimization process outlined in Section 3 is implemented.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI Business Involvement Screening Research, and MSCI Climate Change Metrics) as of the end of the month preceding the Index Reviews. 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.

### 3.2 Ongoing Event-Related Maintenance

The general treatment of corporate events in the MSCI World Select Climate Target 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 MSCI World Select Climate Target Index.

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

#### 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.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index/methodology/latest/CE>

## 4. MSCI ESG Research

The Index is a product 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 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 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>.

### 4.3 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/legal/disclosures/climate-disclosures>



## Appendix I: Optimization Constraints

At each Quarterly Index Review, the following optimization constraints are used to ensure replicability and investability:

### Optimization Constraints

No.	Parameter	Values
1	Ex-Ante Tracking Error	1.0%
2	Minimum Constituent Weight	0.05%
3	Constituent Active Weight	+/-2%
4	Maximum Security Weight as a Multiple of its weight in the Parent Index	20
5	Active Sector Weights	+/-5%
6	Active Country Weights*	+/-5%
7	Minimum aggregate weight in companies with an ESG Rating of AAA and AA	1.2x
8	One Way Turnover during May and November Index Review	10%
9	One Way Turnover during Feb an Aug Index Review	5%
10	Specific Risk Aversion	0.075
11	Common Factor Risk Aversion	0.0075

\* Active Country Weights – In case there are countries in the MSCI World Index which weigh less than 2.5% in the MSCI World Index, then for such countries the active country upper bound of +5% is not applicable. When a country weighs less than 2.5% in MSCI World Index then the upper bound of country weight in the MSCI World Select Climate Target Index is set at three times of the country's weight in MSCI World Index.

**Infeasible Solution** - During the Quarterly Index Reviews, in case there is no optimal solution that satisfies all the optimization constraints, the following constraints will be relaxed one by one, until an optimal solution is found:

1. The turnover constraint will be relaxed in steps of 1% up to a maximum of 30%, until a feasible solution is found.
2. If a feasible solution is not found at turnover of 30%, the turnover is maintained at the maximum value of 30%.
3. The predicted tracking error will be relaxed in steps of 0.1% up to a maximum of 5 times of the original predicted tracking error until an optimal solution is found.



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

## Appendix II: 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>
- 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 III: Changes to this Document

**The following sections have been modified as of February 2024:**

Section 4: MSCI ESG Research

- Moved that section after the Section 3 (Maintaining the MSCI World Select Climate Target Index)
- Updated the descriptions of MSCI ESG Research products

Appendix I: Optimization Constraints

- Steps clarification for Infeasible Solution

Appendix II: Methodology Set

- Added details on the Methodology Set for the Index

**The following section has been modified as of May 2024**

Section 3.2: Ongoing Event-Related Maintenance

- Clarification of the Spin-Off Treatment

**The following section has been modified as of November 2024**

Appendix I: Optimization Constraints

- Updated language for Infeasible Solution

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