

# **MSCI ACWI IMI SDG Impact Select Index Methodology**

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# 1 MSCI ACWI IMI SDG Impact Select Index

The MSCI ACWI IMI SDG Impact Select Index (the 'Index') aims to represent the performance of a set of companies from MSCI ACWI IMI that are associated with positive contribution to the United Nations Sustainable Development Goals<sup>1</sup> (SDGs) through their products or services, as defined using the following measures:

- Alternative Energy
- Hydro Power Generation
- Energy Efficiency
- Green Building
- Sustainable Water
- Pollution Prevention
- Sustainable Agriculture
- Nutrition
- Major Disease Treatment
- Sanitation
- Contraceptives
- Affordable Real Estate
- SME Finance
- Education
- Connectivity – Digital Divide

The MSCI ACWI IMI SDG Impact Select Index also applies a set of exclusions criteria to screen companies with business activities that are not considered aligned with the overall objective of contributing to the 17 SDGs. Additionally, the Index applies a minimum weight filter, as well as sector and issuer capping.<sup>2</sup>

<sup>1</sup> The 2030 Agenda for Sustainable Development, which was adopted by UN Member States in 2015, serves as a shared blueprint and consists of the 17 SDGs. These goals are an urgent call for action by all countries through global partnership. (<https://sdgs.un.org/goals>)

<sup>2</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

## 2 Constructing the MSCI ACWI IMI SDG Impact Select Index

The Indexes use company ratings and research provided by MSCI ESG Research<sup>3</sup> for the Index construction.

### 2.1 Selection Universe

The underlying universe for the MSCI ACWI IMI SDG Impact Select Index is defined by the constituents of the MSCI ACWI Investable Market Indexes (IMI, the 'Parent Index'), from which two separate universes of stocks are constructed (as described in sections 2.2 to 2.3).

### 2.2 Filtered Universe

#### 2.2.1 ESG Filter

The MSCI ACWI IMI SDG Impact Select Index uses MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research, MSCI Climate Change Metrics, and MSCI Impact Solutions' SDG Alignment to determine eligibility. The exclusions filters are as follows:

- Controversial Weapons
- Nuclear Weapons
- Conventional Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal Mining
- Thermal Coal-based Power Generation
- Oil Sands Extraction

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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>3</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.

- UN Global Compact Violations
- ESG Controversies Score
- ESG Ratings
- SDG Net Alignment
- Country exclusions

Please refer to Appendix 1 for details on these criteria.

## 2.2.2 Country filter

Securities listed on local exchanges in any of the below select countries<sup>4</sup> are excluded from the final index:

- India
- Russia
- Saudi Arabia
- Kuwait
- Pakistan
- Egypt

## 2.3 SDG Impact Universe

The MSCI ACWI IMI SDG Impact Select Index uses MSCI Impact Solutions' Sustainable Impact Metrics, MSCI ESG Business Involvement Screening Research, and MSCI Climate Change Metrics to identify companies that have exposure to products and services that aim to contribute to the UN Sustainable Development Goals. Companies in the Filtered Universe that have an aggregated revenue of 50% or more from the following categories ('SDG Revenue') are included in the SDG Impact Universe:

- Alternative Energy
- Hydro Power Generation
- Energy Efficiency
- Green Building
- Sustainable Water

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<sup>4</sup> If securities listed in Kazakhstan, Kenya, Ukraine or Vietnam are added to MSCI ACWI IMI, they will be excluded from these indexes

- Pollution Prevention
- Sustainable Agriculture
- Nutrition
- Major Disease Treatment
- Sanitation
- Contraceptives
- Affordable Real Estate
- SME Finance
- Education
- Connectivity – Digital Divide

### 2.3.1 Selection Criteria

Within each GICS®<sup>5</sup> Sector, companies selected are ranked based on their SDG Revenue, from which the top 50 securities are selected. If two or more companies have the same SDG Revenue, priority is given based on their free float-adjusted market capitalization, from largest to smallest. For sectors that have less than 50 securities, all securities are included in the Index.

## 2.4 Weighting Scheme

Selected constituents of the MSCI ACWI IMI SDG Impact Select Index are weighted as follows:

### 2.4.1 Security Weighting

Securities that meet the selection criteria outlined in Section 2.3 are weighted by the product of the aggregated SDG Revenue and their free float-adjusted market capitalization. The weights are then normalized to sum to 100%.

### 2.4.2 Minimum Weight Filter

The combined index applies a filter whereby each newly added constituent's weight is held at a minimum threshold of 2 basis points, whereas an existing constituent can be retained in the Index at a minimum threshold of 1 basis point. Securities that do not meet the threshold specified are deleted from the final index.

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<sup>5</sup> GICS, the Global Industry Classification Standard, jointly developed by MSCI Inc. and S&P Global.

### 2.4.3 Sector and Issuer Capping

The maximum weight of any sector in the MSCI ACWI IMI SDG Impact Select Index is capped at 20%, while the maximum weight of any issuer is capped at 4.5%. After applying both sector and issuer capping, excess weights are distributed among remaining sectors in proportion of their existing sector weights in the Index. Within sectors that are allocated excess weights, the weights are distributed among constituents within the sector while meeting the issuer capping requirements.

## 3 Maintaining the MSCI ACWI IMI SDG Impact Select Index

### 3.1 Semi-Annual Index Review

The MSCI ACWI IMI SDG Impact Select Index is reviewed on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Index Reviews of the Parent Index. The pro forma index is generally announced nine business days before the effective date.

As a rule, MSCI uses MSCI ESG Research data<sup>6</sup> (including MSCI Impact Solutions, MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG 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 Index. 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 MSCI ACWI IMI SDG Impact Select Index.

At each Semi-Annual Index Review, the Filtered and SDG Impact universes are updated based on the criteria outlined in sections 2.2 to 2.3.

### 3.2 Quarterly Index Reviews

The MSCI ACWI IMI SDG Impact Select Index is also reviewed on a quarterly basis to coincide with the regular Index Reviews of the Parent Indexes. The changes are implemented at the end of February and August. The pro forma indexes are generally announced nine business days before the effective date.

At the Quarterly Index Reviews, the Index is not reconstructed. However, issuer capping is applied, ensuring that the maximum weight of any issuer is capped at 4.5%.

### 3.3 Ongoing Event-Related Maintenance

The general treatment of corporate events in the MSCI ACWI IMI SDG Impact Select 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

<sup>6</sup> See section 4 for details of data sourced from MSCI ESG Research used in the Indexes.



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 Index.

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 MSCI ACWI IMI SDG Impact Select Index between Index Reviews on account of a security becoming ineligible because of reduced SDG revenue falling below the threshold, decrease in MSCI ESG Controversies Score, change in SDG Alignment assessment, and/or change in business involvement.

EVENT TYPE	EVENT DETAILS
<b>New additions to the Parent Index</b>	A new security added to the Parent Index (such as IPO and other early inclusions) will not be added to the index.
<b>Spin-Offs</b>	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 if the spin-off security is also added to the Parent Index. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.
<b>Merger/Acquisition</b>	<p>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.</p> <p>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.</p>
<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.

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 Impact Solutions, 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 Impact Solutions: Sustainable Impact Metrics

MSCI Impact Solutions' Sustainable Impact Metrics is designed to identify companies that derive revenue from products or services with positive impact on society and the environment. The Sustainable Impact Metrics are comprised of six Environmental Impact categories and seven Social Impact categories arranged by theme.

#### MSCI Sustainable Impact Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	1. Alternative energy
		2. Energy efficiency
		3. Green building
	Natural capital	4. Sustainable water
		5. Pollution prevention
		6. Sustainable agriculture
Social Impact	Basic needs	7. Nutrition
		8. Major Disease Treatment
		9. Sanitation
		10. Affordable Real Estate
	Empowerment	11. SME Finance
		12. Education
		13. Connectivity – Digital divide

Under each of the actionable environmental and social impact themes, MSCI ESG Research has identified specific categories of products and services that it has determined companies can offer as potential solutions to environmental and social challenges.

More detailed taxonomy for each category can be found in Section 2.4 of the MSCI ACWI Sustainable Impact Index Methodology available at <https://www.msci.com/index-methodology>.

## 4.2 MSCI Impact Solutions: SDG Alignment

MSCI Impact Solutions' SDG Alignment is designed to provide a holistic view of companies' net contribution – both positive and negative – towards addressing each of the 17 UN Sustainable Development Goals (SDGs). SDG Alignment assessments and scores include analysis of companies' operations, products and services, policies, and practices and their net contribution – positive and adverse – to addressing key global challenges.

The MSCI SDG Alignment framework provides 17 SDG Net Alignment scores and 17 SDG Net Alignment assessments (including Strongly Aligned, Aligned, Neutral, Misaligned and Strongly Misaligned) for each of the 17 global goals. In addition, the model offers assessments and scores for two dimensions, product alignment and operation alignment, for each company and for each of the 17 goals.

For more details on MSCI Impact Solutions including MSCI SDG Alignment, please refer to <https://www.msci.com/our-solutions/esg-investing/impact-solutions>.

## 4.3 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>.

## 4.4 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>.

## 4.5 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).

## 4.6 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-solutions>

## Appendix I: ESG Exclusions Criteria

Companies are excluded based on the following MSCI Business Involvement Screening Research, MSCI Climate Change Metrics, MSCI ESG Controversies, MSCI ESG Ratings and MSCI SDG Alignment filters:

- **Controversial Weapons**
  - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>
- **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

- **Conventional Weapons**

- All companies deriving 5% or more revenue from the production of conventional weapons
- All companies deriving 10% or more aggregate revenue from weapons systems, components, and support systems and services

- **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 aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.

- **Tobacco**

- All companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This category also covers companies that grow or process raw tobacco leaves.
- All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply, and licensing of tobacco-related products

- **Thermal Coal Mining**

- All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (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.

- **Thermal Coal-based Power Generation**

- All companies deriving 5% or more revenue (either reported or estimated) from the thermal coal-based power generation

- **Oil Sands Extraction**
  - All companies deriving 5% or more revenue (either reported or estimated) from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. It does not cover revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of oil sands reserves with no associated extraction revenues; revenue from intra-company sales.
- **United Nations Global Compact Compliance**
  - All companies that fail to comply with the United Nations Global Compact principles.
- **ESG Controversies Score**
  - Companies assessed as having involvement in ESG controversies that are classified as Red Flags (MSCI ESG Controversy Score of 0). A Red Flag indicates an ongoing Very Severe ESG controversy implicating a company directly through its actions, products, or operations.
- **ESG Ratings**
  - All companies assessed as having an MSCI ESG Rating of 'B' and 'CCC'
- **SDG Net Alignment**
  - All companies that are assessed as Strongly Misaligned and Misaligned on their Net Alignment to any of the 17 SDGs

Note on Unrated Securities or Securities with Missing Coverage:

- Companies that are not assessed on MSCI ESG Research's ESG Controversies, ESG Ratings, and SDG Alignment are excluded from the final universe.



## Appendix II: Changes to this Document

**The following sections have been modified effective July 2023:**

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.”

Appendix I: Companies Involved in Red Flag ESG Controversies. Clarified the exclusion criteria for companies involved in ESG Controversies.

Section 4: MSCI ESG Research

- Moved section after the Section 3.
- Updated descriptions of MSCI ESG Research products.

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