

## **METHODOLOGY BOOK FOR:**

- **MSCI USA ESG SCREENED SELECT INDEX**
- **MSCI UK ESG SCREENED SELECT INDEX**
- **MSCI EM ESG SCREENED SELECT INDEX**
- **MSCI EUROPE EX UK ESG SCREENED SELECT INDEX**
- **MSCI PACIFIC EX JAPAN ESG SCREENED SELECT INDEX**
- **MSCI JAPAN ESG SCREENED SELECT INDEX**

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# 1 Introduction

The MSCI USA ESG Screened Select Index, the MSCI UK ESG Screened Select Index, the MSCI EM ESG Screened Select Index, the Europe ex UK ESG Screened Select Index, the MSCI Pacific ex Japan ESG Screened Select Index, and the Japan ESG Screened Select Index (herein, “MSCI ESG Screened Select Indexes”) aim to represent the performance of a free float-adjusted market capitalization weighted investment strategy that excludes companies that are associated with the following controversial business involvement criteria:

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

In addition, the MSCI ESG Screened Select Indexes also exclude companies that fail to comply with the United Nations Global Compact Principles, the United Nations Guiding Principles for Business and Human Rights, and the International Labour Organization’s fundamental principles and broader set of labour standards.

## 2 MSCI ESG Research

The MSCI ESG Screened Select Indexes use company ratings and research provided by MSCI ESG Research LLC. In particular, the indexes use the following two MSCI ESG Research products: MSCI Business Involvement Screening Research and MSCI Climate Change Metrics.

For details on MSCI ESG Research's full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

### 2.1 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).

### 2.2 MSCI CLIMATE CHANGE METRICS

MSCI Climate Change Metrics is designed to support investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, and factoring climate change research into their risk management processes. It provides Carbon Emissions, Fossil Fuel exposure, environmental impact (i.e., clean technology) data and screens, as well as climate-related risk exposure and management assessment on companies.

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

## 3 Constructing the MSCI ESG Screened Select Indexes

### 3.1 SELECTION UNIVERSE

The Selection Universe for the MSCI ESG Screened Select Indexes is defined by the constituents of the MSCI Global Investable Market Indexes (GIMI) (the “Parent Indexes”).

The Parent Indexes for the MSCI ESG Screened Select Indexes are defined 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

### 3.2 ELIGIBILITY CRITERIA

The MSCI ESG Screened Select Indexes use research provided by MSCI ESG Research to determine eligibility for index inclusion.

#### 3.2.1 VALUES AND CLIMATE CHANGE-BASED EXCLUSIONS

The MSCI ESG Screened Select Indexes use MSCI ESG Business Involvement Screening Research and MSCI Climate Change Metrics to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the MSCI ESG Screened Select Indexes. Please refer to the Appendix for details on these criteria.

- Controversial Weapons
- Nuclear Weapons
- Firearms
- Thermal Coal
- Oil Sands and Arctic Oil & Gas
- Unconventional Oil & Gas

- Tobacco
- Gambling
- Adult Entertainment
- Predatory Lending

In addition to the above, companies that fail to comply with the United Nations Global Compact Principles, the United Nations Guiding Principles for Business and Human Rights and the International Labour Organization’s fundamental principles and broader set of labour standards are also excluded from the Indexes.

### 3.3 WEIGHTING SCHEME

The remaining securities, after the exclusions based on Section 3.2, are weighted in proportion of their free float-adjusted market capitalization.

## 4 Maintaining MSCI ESG Screened Select Indexes

### 4.1 QUARTERLY INDEX REVIEWS

The MSCI ESG Screened Select Indexes are reviewed on a quarterly basis to coincide with the regular Index Reviews of the Parent Indexes. The changes are implemented as of the close of the last business day of February, May, August and November. The pro forma indexes are typically announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data as of the end of the month preceding the Index Reviews. For some securities, this 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 ESG Screened Select Indexes.

### 4.2 ONGOING EVENT-RELATED MAINTENANCE

The following section briefly describes the treatment of common corporate events within the MSCI ESG Screened Select Indexes.

No new securities will be added (except where noted below) to the Index between Index Reviews. Only Parent Index constituents are eligible for addition. Parent Index deletions will be reflected simultaneously.

There are no deletions from the MSCI ESG Screened Select Indexes between Index Reviews on account of a security becoming ineligible because of any change in the ESG data.

#### 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 MSCI ESG Screened Select Indexes.

##### **Spin-Offs**

All securities created as a result of the spin-off of an existing Index constituent will not be added to the MSCI ESG Screened Select Indexes at the time of event implementation. Reevaluation for addition in the

	Indexes will occur at the subsequent Index Review.
<b>Merger/Acquisition</b>	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.
<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 book.

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



## Appendix – Values and Climate-Based Exclusion 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 which are engaged in, or are otherwise exposed to, the production of 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.
- **Firearms**
  - All companies deriving any revenue from the production of firearms and/or small arms ammunition intended for retail to civilians, as well as companies deriving more than 10% of their revenue from the distribution (wholesale or retail) of firearms and/or small arms ammunition intended for civilian use.

- **Thermal Coal**
  - All companies deriving more than 5% of their revenue from thermal coal extraction.
  - All companies deriving more than 25% of their revenue from thermal coal-based power generation.
- **Oil Sands and Arctic Oil & Gas**
  - All companies deriving more than 5% of their revenue from the production and generation of tar sands (also known as oil sands).
  - All companies deriving more than 5% of their revenue from arctic oil and gas exploration.
- **Unconventional Oil & Gas**
  - All companies deriving 5% 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 any revenue from the manufacture of tobacco products, including cigarettes, cigars, blunts, beedis, kreteks, smokeless tobacco, snuff, snus and chewing tobacco, as well as companies that grow or process raw tobacco leaves.
  - All companies deriving more than 10% of their revenue from tobacco-related activities, such as distributors, licensors, retailers or suppliers (e.g. machinery, paper, filters).
- **Gambling**
  - All companies deriving more than 10% of their revenue from owning or operating gambling facilities such as casinos, racetracks, bingo halls, or other betting establishments, including: horse, dog, or other racing events that permit wagering; lottery operations; online gambling; bingo; slot machines; mobile gambling; and sporting events that permit wagering.

- **Adult Entertainment**
  - All companies deriving more than 5% of their revenue from the production and/or distribution of adult entertainment, as well as any other activity related to sexually explicit content.
- **Predatory Lending**
  - All companies deriving more than 5% 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 – United Nations Global Compact Compliance**
  - 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), the United Nations Guiding Principles for Business and Human Rights and the International Labour Organization's fundamental principles and broader set of labour standards.

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