

# **MSCI EUROZONE ESG TILT SELECT GOVERNMENT BOND INDEXES METHODOLOGY**

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# 1 Introduction

The MSCI Eurozone ESG Tilt Select Government Bond Indexes<sup>1</sup> (the 'Index') aim to represent the performance of an investment strategy that adjusts the market value weights of the bonds based on the ESG metrics of the issuers to increase exposure to those with better ESG Ratings<sup>2</sup>.

The underlying eligible universe is composed of fixed coupon paying, EUR denominated investment grade rated local currency government bonds of specific time to maturities.

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<sup>1</sup> The MSCI Eurozone ESG Tilt Select Government Bond Indexes include the MSCI Eurozone 1Y-3Y ESG Tilt Select Government Bond Index, the MSCI Eurozone 3Y-5Y ESG Tilt Select Government Bond Index and the MSCI Eurozone 7Y-10Y ESG Tilt Select Government Bond Index.

<sup>2</sup> The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present Index methodology document. Please refer to Appendix I for more details.

## 2 Index Construction Methodology

Constructing the Index involves the following steps:

- Defining the Underlying Universe
- Defining the Eligible Universe
- Determining the ESG Tilt Score
- Defining the Weighting Scheme

### 2.1 Defining the Underlying Universe

To construct the Underlying Universe, maturity carve-out indexes are derived from the MSCI Eurozone Government Bond Index as defined in the following table. For details on the construction of MSCI Eurozone Government Bond Index, please refer to MSCI Government Bond Indexes Methodology available at: <https://www.msci.com/index-methodology>.

MSCI Index Name	Maturity Date Screen
<b>MSCI Eurozone Government Bond 1Y-3Y Index</b>	Exclude bonds from MSCI Eurozone Government Bond Index where the time to maturity is greater than 3 years
<b>MSCI Eurozone Government Bond 3Y-5Y Index</b>	Exclude bonds from MSCI Eurozone Government Bond Index where the time to maturity is less than or equal to 3 years and greater than 5 years
<b>MSCI Eurozone Government Bond 7Y-10Y Index</b>	Exclude bonds from MSCI Eurozone Government Bond Index where the time to maturity is less than or equal to 7 years and greater than 10 years

### 2.2 Defining the Eligible Universe

The Index uses company ratings and research provided by MSCI ESG Research<sup>3</sup> to determine eligibility for Index inclusion. Each issuer in the Eligible Universe needs to satisfy all the conditions enlisted below –

- Issuer ESG Rating must be better than CCC. Issuers that do not have an ESG Rating are ineligible for inclusion in the Index
- Issuer must be a “Ratified Signatory” of the Paris Agreement
- Issuer must not be classified as “Not Free” as per Freedom House

<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 and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

## 2.3 Determining the ESG Tilt Score

MSCI ESG Government Ratings provide an opinion of sovereign and sub-sovereign entities' exposure to and management of ESG risks. MSCI ESG Research defines ESG risks to sovereign or sub-sovereign entities as environmental, social, or governance-related issues that could impact the long-term sustainability of their economies. Ratings are relative in nature and are assigned on a global scale from AAA (Best-in-Class) to CCC (Worst-in-Class). Using the MSCI ESG Government Ratings, issuers in the Eligible Universe are assigned an ESG Rating Tilt Score as illustrated in the table below:

ESG Rating	ESG Rating Tilt Score
AAA	2.0
AA	2.0
A	1.0
BBB	1.0
BB	1.0
B	1.0

## 2.4 Defining the Weighting Scheme

At each rebalancing, all securities in the Eligible Universe are weighed by the product of their market value weight in the underlying Eligible Universe and their ESG Rating Tilt Score.

**Security Weight = ESG Rating Tilt Score \* Market Value Weight in the Eligible Universe**

The above weights are then re-normalized to 100%.

### 3 Index Rebalancing & Maintenance

#### Index Review

- The composition of the Index is reviewed monthly, with an effective rebalancing impact on the first business day of the month (Rebalancing Date). For clarification, bonds are added to the Index on the closing of the last business day of every month, however, the return impact is on the Rebalancing Date, that is the first business day of the following month.
- Change in the Index composition is based on the latest data available as of three days prior to the Rebalancing Date “T”, which is defined as the Cut-Off Date. Any inclusion or exclusion criteria satisfied for a given security in the universe, after the Cut-Off Date, will generally become effective at the following monthly rebalancing; should conditions remain unchanged. In exceptional cases, for instance, cases of input data correction, MSCI can reduce the Cut-Off Date for Index rebalancing from T-3 to T-2, T-1, or T. In such instances, MSCI will notify Index clients of such changes via announcement.
- MSCI will disclose proforma index rebalancing results from the second business day of each month. MSCI will freeze the pro forma index rebalancing results as of the Cut-Off Date.
- Bonds are either added to or deleted from the Index solely on monthly Rebalancing Dates. For existing index components, any changes to index eligibility will only be reflected at the subsequent monthly rebalancing.
- Any cash that accrues within the Index in each month is re-invested on a pro-rata basis across the index constituents, on the immediately following Rebalancing Date. In essence, cash in the index is removed on rebalancing and the composition of the Index effected on the Rebalancing Date will have zero accrued cash balance.
- Specific variants of the total return calculation of the Index on the Rebalancing Date may be adjusted for transaction costs<sup>4</sup> as securities are added to the index at the offer price.

For further information on index total return calculation and corporate events handling please refer to the MSCI Fixed Income Index Calculation Methodology<sup>5</sup>. For the holiday calendar used in the indexes, please refer to the MSCI Fixed Income Data Methodology<sup>6</sup>.

<sup>4</sup> Refer to the MSCI Fixed Income Index Calculation Methodology for detail. Available at <https://www.msci.com/index-methodology>

<sup>5</sup> Refer to the MSCI Fixed Income Index Calculation Methodology for detail. Available at <https://www.msci.com/index-methodology>

<sup>6</sup> The methodologies are 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 Climate Change Metrics, MSCI Climate Value-at-Risk, MSCI ESG Sustainable Impact Metrics, MSCI ESG Controversies and MSCI ESG Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

### 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>.

## Appendix I: Methodology Set

The Indexes are 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/FIInfo>
- MSCI Fixed Income Data Methodology –  
<https://www.msci.com/index/methodology/latest/FIDATA>
- MSCI Fixed Income Calculation Methodology –  
<https://www.msci.com/index/methodology/latest/FIINDEXCALC>
- MSCI Fixed Income Glossary of Terms –  
<https://www.msci.com/index/methodology/latest/FIGLOSS>
- MSCI Fixed Income Index Policies –  
<https://www.msci.com/index/methodology/latest/FIINDEXPOLICY>
- MSCI Government Bond Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/FIGOV>
- ESG Factors In Methodology\*

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’.

\* ‘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.



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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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