

# MSCI EUR IG AGGREGATE ESG TILT SELECT INDEX METHODOLOGY

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Contents

1 Introduction ..... 3

2 Index Construction Methodology ..... 4

    2.1 General guidelines for constructing the underlying universe ..... 4

    2.2 Determination of Combined ESG Tilt Score..... 5

    2.3 Weighting Scheme ..... 6

3 Index Rebalancing & Maintenance ..... 7

    3.1 Monthly Index Review..... 7

4 MSCI ESG Research..... 8

    4.1 MSCI ESG Ratings..... 8

# 1 Introduction

The MSCI EUR IG Aggregate ESG Tilt Select Index (the 'Index') aims to represent the performance of an investment strategy that, by re-weighting market value weights based upon the ESG metrics of the issuers, seeks to increase exposure to issuers with better ESG rating and a positive ESG trend score.<sup>1</sup>

The underlying eligible universe is composed of fixed coupon, Euro denominated investment grade rated bonds from sovereign, sub-sovereign, supranational, government agency and corporate issuers in the global fixed income markets.

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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. The Methodology Set for the Index 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).

## 2 Index Construction Methodology

### General guidelines for constructing the underlying universe

**Issuer Type:** The Index includes EUR denominated bonds issued by the following issuers –

- Sovereigns
- Sub-Sovereigns
- Supranationals
- Government Agencies
- Corporates

**Security Type:** In general, the eligible bond universe includes all bullet, callable, and puttable fixed rate coupon bonds. Issues with tax-advantages, index-linked and perpetual bonds are excluded. Capital securities, such as preferred stock, are not eligible to be part of the Index. The table below summarizes the eligible and ineligible security types.

Eligible Security Types	Ineligible Security Types
Senior and Subordinated Issues	Floating Rate Coupon Bonds
Puttable and Callable Bonds	Inflation Protected Bonds
Bullet Bonds	Perpetual Bonds
Bonds with Step-up / Step-down Coupons	Bonds with sinking fund provision
RegS Bonds	144A bonds
Fixed to Floating Rate Bonds are eligible for inclusion during their fixed rate term only. They are excluded 1 year prior to the conversion date as measured from the effective date of index rebalancing (Rebalancing Date)	Private Placements
	Dual Currency Bonds
	Strips (IO/PO)
	PIKs and Hybrids <sup>2</sup>
	Covered Bonds

**Credit Rating:** Bonds must be rated by either by S&P or Moody's to be eligible for the Index. For bonds that are rated by both S&P and Moody's, the lower rating will be used to determine the Index inclusion criteria. The Index only considers investment grade (IG) bonds as eligible for inclusion.

<sup>2</sup> Equity linked hybrid bonds are ineligible (e.g. - convertible bonds, warrants, preferred shares etc.)

**Maturity:** Each Index constituent must have a maturity greater than or equal to 1 year as measured from the Rebalancing Date (defined below). New additions to the Index must have a maturity greater than or equal to 1 ½ years as measured from the Rebalancing Date.

**Pricing:** Daily bond valuation utilizes bid prices from vendors. Securities not priced by the designated pricing source are not eligible for inclusion in the Index.

**Settlement:** MSCI applies standard same-day (T+0) index settlement convention, unless otherwise specified.

**Size:** At rebalancing, eligible index constituents must have a notional amount outstanding greater than or equal to the thresholds tabulated below.

Index	Security Size Threshold
EUR	EUR 300 million

## Determination of Combined ESG Tilt Score

The Index uses issuer ratings and research provided by MSCI ESG Research<sup>3</sup> to determine eligibility for Index inclusion. Each issuer in the Eligible Universe is assigned a combined ESG score, which is calculated considering its MSCI ESG Rating and its MSCI ESG Rating Trend.

## ESG Rating Score

Using the MSCI ESG Rating, issuers in the Eligible Universe are assigned an ESG Rating score as illustrated in the table below:

ESG Rating	ESG Rating Score
AAA	1.50
AA	1.50
A	1.50
BBB	1.00
BB	0.80
B	0.67
CCC	0.50
NR <sup>4</sup>	0.75

<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.

<sup>4</sup> All issuers which are not rated (NR) by MSCI ESG Research remain eligible for Index inclusion and are assigned an ESG Rating Score of 0.75

## ESG Rating Trend Score

MSCI ESG Rating Trend shows the ESG rating change from prior to current: it is expressed as the number of levels between the current rating and the previous rating. The rating trend is positive for a ratings upgrade (for example, the issuer's ESG rating changed from BBB to AAA), negative for ratings downgrade (for example issuer's ESG rating changed from AA to A) and neutral for no change in the rating.

An 'ESG Rating Trend Score' is assigned to each issuer based on its ESG Rating Trend as per the following table –

ESG Rating Trend*	ESG Rating Trend Score
<b>Positive</b>	2.0
<b>Neutral</b>	1.0
<b>Negative</b>	0.75

\* ESG Rating Trend

- Positive – Issuer's latest ESG Rating has increased by at least one level compared to previous assessment.
- Neutral – Issuer's latest ESG Rating has stayed the same as its ESG Rating from previous assessment or MSCI ESG Research has initiated coverage on the issuer for the first time.
- Negative – Issuer's latest ESG Rating has decreased by at least one level compared to its previous assessment.

## Combined ESG Tilt Score

The Combined ESG Tilt Score is calculated for each issuer as follows:

**Combined Custom ESG Tilt Score = ESG Rating Score \* ESG Rating Trend Score.**

## Weighting Scheme

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

**Security Weight = Combined Custom ESG Tilt Score \* Market Value Weight in the underlying Eligible Universe**

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

## 3 Index Rebalancing & Maintenance

### Monthly 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 last business day of every month, however, the return impact is on the first business day of the month.

In general, change in the Index composition is based on latest data available (including MSCI ESG & Climate data) as of three days prior to the Rebalancing Date, 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 (T-3), 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 an announcement.

Any cash that accrues within the index each month is re-invested on a pro-rata basis across the index constituents on the effective date of rebalancing. The opening index portfolio on the Rebalancing Date starts with zero accrued cash balance.

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 index, please refer to the MSCI Fixed Income Data Methodology<sup>6</sup>.

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

## 4 MSCI ESG Research

The Index is a product of MSCI Inc. that utilize information such as issuer 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 product: MSCI ESG Ratings. MSCI Indexes are administered by MSCI Limited.

### MSCI ESG Ratings

MSCI ESG Ratings and MSCI Government 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.

MSCI Government ESG Ratings reflect how countries' exposure to and management of ESG risk factors may affect the long-term sustainability and long-term competitiveness of their economies. MSCI Government ESG Ratings are based on Government ESG scores for all countries which are translated into a seven-point scale from 'AAA' to 'CCC'<sup>7</sup>.

The methodology and process documents for MSCI ESG Ratings and MSCI Government ESG Ratings can be found at: <https://www.msci.com/esg-and-climate-methodologies>.

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<sup>7</sup> MSCI Government ESG Ratings and MSCI ESG Ratings have different ratings processes and methodologies. Hence, the Government ESG Score distribution used to arrive at the MSCI Government ESG Ratings could be different from the corresponding industry adjusted score distribution used to arrive at the MSCI ESG Ratings.



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