

# **MSCI Climate Paris Aligned Benchmark Select Indexes Methodology**

**May 2025**

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## 1. Introduction

The MSCI Climate Paris Aligned Benchmark Select Indexes<sup>1</sup> (“the Indexes”) are designed to support investors seeking to reduce their exposure to transition and physical climate risks and who wish to pursue opportunities arising from the transition to a lower-carbon economy while aligning with the Paris Agreement requirements. The Indexes are designed to exceed the minimum standards of the EU Paris-Aligned Benchmark<sup>2</sup>. The Indexes are constructed from their corresponding market capitalization weighted indexes (“the Parent Indexes”) through an optimization process that aims to:

- Exceed the minimum technical requirements laid out in the EU Delegated Act<sup>3</sup>
- Reduce the Index’s exposure to physical risk arising from extreme weather events by at least 50%
- Increase the weight of companies which are exposed to climate transition opportunities and reduce the weight of companies which are exposed to climate transition risks
- Increase the weight of companies with credible carbon reduction targets through the weighting scheme
- Achieve a modest tracking error compared to the Parent Index and low turnover
- Ensure that the index-level sustainable exposure (which reflects a particular interpretation of the company-level sustainable investment assessment as per Article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR)<sup>4</sup> along with an associated aggregation method) meets the relevant index-level sustainable exposure percentage (“Index SE%”) thresholds. The minimum thresholds vary depending on the respective MSCI Parent Index and are listed in Appendix I.

<sup>1</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 IX for more details.

<sup>2</sup> The corresponding minimum requirements are defined in Commission Delegated Regulation (EU) 2020/1818, available under [https://eur-lex.europa.eu/eli/reg\\_del/2020/1818/oj](https://eur-lex.europa.eu/eli/reg_del/2020/1818/oj). MSCI’s approach to meeting these requirements is described in the MSCI EU CTB/PAB Index Framework, available under <https://www.msci.com/index/methodology/latest/EUCTBPABIndexFramework>. In case changes to the Index methodology are required to maintain compliance with the regulatory CTB/PAB labels, MSCI will issue an announcement prior to implementing the changes in the methodology. MSCI will not conduct a formal consultation for such an update.

<sup>3</sup> On December 3, 2020, the European Commission has published the delegated acts in the Official Journal ( <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1818&from=EN>) which contain the minimum technical requirements for the EU Paris-aligned Benchmarks. In case there are changes in the EU delegated acts and an update to the Index methodology is required, MSCI will issue an announcement prior to implementing the changes in the methodology. MSCI will not conduct a formal consultation for such an update.

<sup>4</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

## 2. Constructing the Indexes

The Indexes use company ratings and research provided by MSCI ESG Research<sup>5</sup> to determine eligibility for index inclusion.

### 2.1 Eligible Universe

The Eligible Universe is constructed from the constituents of the Parent Indexes by excluding securities of companies based on the exclusion criteria listed below:

1. **Controversial Weapons**: All companies involved in Controversial Weapons as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes.
2. **ESG Controversies**: All 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
3. **Tobacco**: All companies with involvement in Tobacco as defined by the methodology of the MSCI Global ex Tobacco Involvement Indexes.
4. **Environmental Harm**: All companies assessed as having involvement in environmental controversies that are classified as Red (MSCI Environmental Controversy Score of 0) or Orange Flags (score of 1).
  - A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations.
  - An Orange Flag indicates an ongoing Severe ESG controversy implicating a company directly, or a Very Severe ESG controversy that is either partially resolved or indirectly attributed to the company's actions, products, or operations.
5. **Thermal Coal**
  - **Thermal Coal Mining**: All companies deriving 1% 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 excludes 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 (either reported or estimated).
  - **Thermal Coal Distribution**: All companies with evidence of thermal coal distribution or transport involvement. This includes transport of thermal coal by road, rail, shipping or air, and physical trading of thermal coal. It does not include involvement in storage of thermal coal, or involvement in metallurgical coal-related activities.

<sup>5</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.

6. **Oil & Gas:** All companies deriving 10% or more revenue from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, petrochemicals, pipelines and transportation and refining but excluding biofuel production and sales and trading activities.
7. **Power Generation:** All companies deriving 50% or more revenue from thermal coal based power generation, liquid fuel based power generation and natural gas based power generation.

Further, companies based on the following exclusion criteria are also excluded.

8. **Weapons:**
  - a. All companies deriving 5% or more revenue from the production of conventional weapons and components
  - b. All companies deriving 10% or more revenue (or, where not disclosed, maximum estimated revenue) from the production of conventional weapons, components for such products or support systems and services for such products; production of biological or chemical weapons, components for such products; production of nuclear weapons, exclusive and dual-use delivery platform capable to deliver such products, intended and dual-use components of such products, services provided for such products; and the production of blinding laser, incendiary or non-detectable fragments weapons in their most recently completed fiscal year.
9. **Nuclear Weapons:** All Companies with activities classified under “Minimal Tolerance”
10. **Civilian Firearms:** All companies classified as “Producer” or deriving 5% or more revenue from the manufacture and retail of civilian firearms and ammunition.
11. **Oil Sands:** All companies deriving 5% or more revenue from oil sands extraction.

Please refer to Appendix II for details on the criteria used for the 9, 10 and 11.

## 2.2 Optimization Constraints

At each Semi-Annual Index Review, the indexes are constructed using an optimization process that aims to achieve replicability and investability as well as minimize ex-ante tracking error relative to the Parent Indexes subject to the following constraints:

1. Transition and physical risk objectives – constraints detailed in Table 1
2. Transition opportunities objectives – constraints detailed in Table 2
3. Diversification objectives – constraints detailed in Table 3

Table 1: Constraints imposed to meet transition and physical risk objectives

No.	Transition and Physical Risk Objective	Target Value
1.	Minimum reduction in Greenhouse Gas (GHG) Intensity (Scope 1+2+3 <sup>6</sup> ) relative to the Parent Indexes	50.5%

<sup>6</sup> Prior to the May 2020 Semi-Annual Index Review (SAIR) of the Indexes, the Weighted Average Carbon Emissions Intensity has been calculated based on Scope 1+2 Emissions.

No.	Transition and Physical Risk Objective	Target Value
2.	Minimum average reduction (per annum) in GHG Intensity relative to GHG Intensity at the Base Date <sup>7</sup>	10%
3.	Minimum active weight in High Climate Impact Sector <sup>8</sup> relative to the Parent Indexes	0.25%
4.	Minimum reduction in Weighted Average Potential Emissions Intensity relative to Parent Indexes	50%
5.	Minimum increase in weighted average Low Carbon Transition (LCT) Score relative to the Parent Index Please see more detail on LCT Score in Appendix VI	10%
6.	Minimum reduction in Weighted Average Extreme Weather Climate Value-At-Risk (Aggressive Scenario) relative to the Parent Index	50%

*Table 2: Constraints imposed in order to meet transition opportunity objectives*

No.	Transition Opportunity Objective	Target Value
7.	Minimum increase in weighted average LCT Score relative to the Parent Indexes <sup>9</sup>	10%
8.	Minimum ratio of Weighted Average Green Revenue/ Weighted Average Fossil fuels-based Revenue relative to the Parent Indexes	4 times
9.	Minimum increase in Weighted Average Green Revenue relative to the Parent Indexes	100%
10.	Minimum increase in the aggregate weight of Companies Setting Targets relative to the aggregate Parent Indexes weight of such companies that meet the eligibility criteria.  Companies Setting Targets are defined in Appendix V and eligibility criteria are defined in Section 2.1	20%

<sup>5</sup> Prior to the May 2020 Semi-Annual Index Review (SAIR) of the Indexes, the average reduction in WACI has been calculated using Scope 1+2 Emissions since Inception.

<sup>8</sup> For further details on how MSCI assigns companies to either the high or low climate impact sectors, please refer to the MSCI EU CTB/PAB Index Framework available on <https://www.msci.com/index/methodology/latest/EUCTBPABIndexFramework>

<sup>9</sup> The constraint on increase in LCT Score is designed to underweight companies with a low LCT Score (assessed as companies facing risks from a low carbon transition) and overweight companies with a high LCT Score (assessed as companies which may have opportunities from a low carbon transition). Thus, the constraint has been repeated in Table 2 to illustrate how the constraint meets both the objectives.

*Table 3: Constraints imposed to meet diversification objectives*

No.	Diversification Objective	Target Value
11.	Constituent Active Weight	+/- 2%
12.	Minimum constituent weight	0.01%
13.	Security Weight as a multiple of its weight in the Parent Indexes	20x
14.	Active Sector Weights (the Energy GICS Sector is not constrained)	+/- 5%
15.	Active Country Weights <sup>10</sup>	+/- 5%
16.	One Way Turnover	5%
17.	Common Factor Risk Aversion <sup>11</sup>	0.0075
18.	Specific Risk Aversion <sup>12</sup>	0.075

The definitions of the target metrics for the optimization are detailed in Appendix IV.

The Weighted Average GHG Intensity on the base Date and the base dates for the respective indexes are described in Appendix I.

During the Semi-Annual Index Review, in the event that there is no optimal solution that satisfies all the optimization constraints, the following constraints will be relaxed, until an optimal solution is found:

- Relax the one-way index turnover constraint in steps of 1% up to 20%
- Relax the active sector weight constraint in steps of 1% up to +/-20%
- The one-way index turnover constraint and the active sector weight constraint are alternately relaxed until a feasible solution is achieved.

*Table 4: Constraints imposed to meet the minimum Index SE%*

The following optimization constraints on minimum Index SE% are used for each index.

No.	Index	Index SE% Threshold
1	MSCI World Climate Paris Aligned Benchmark Select Index	25%
2	MSCI Europe Climate Paris Aligned Benchmark Select Index	35%
3	MSCI EMU Climate Paris Aligned Benchmark Select Index	40%

<sup>10</sup> In case there are countries in the parent index which weigh less than 2.5% in the parent index then for such countries the active country upper bound of +5% is not applicable. When a country weighs less than 2.5% in parent index then the upper bound of country weight in the Index is set at three times of the country's weight in parent index.

<sup>11</sup> The Common Risk Aversion penalizes systematic risk during the optimization process.

<sup>12</sup> The Systematic Risk Aversion penalizes idiosyncratic (asset-specific) risk during the optimization process.



Please refer to Appendix III for the criteria used to determine the company-level sustainable exposure qualification and the calculation of index-level sustainable exposure.

In the event that no optimal solution is found after the above constraint relaxations are exhausted, the relevant Index will not be rebalanced for that Semi-Annual Index Review.

## 2.3 Determining the Optimized Portfolio

The Indexes are constructed using the Barra Open Optimizer<sup>13</sup> in combination with the relevant Barra Equity Model. The optimization uses universe of eligible securities and the specified optimization objectives and constraints to determine the constituents of the Indexes.

## 2.4 Treatment of Unrated Companies

Companies not assessed by MSCI ESG Research on data for any of the following MSCI ESG Research products are not eligible for inclusion in the Indexes:

- MSCI ESG Controversies
- MSCI Climate Change Metrics
- MSCI Business Involvement Screening Research (BISR)

For the treatment of unrated companies in the calculation of target metrics for the optimization, please refer to Appendix III.

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<sup>13</sup> Please refer to Appendix VII and VIII for more details.

## 3. Maintaining the Indexes

### 3.1 Semi-Annual Index Reviews

The Indexes are rebalanced on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Global Investable Market Indexes. The pro forma Indexes are in general announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data (including MSCI Climate Change Metrics, MSCI Climate Value-at-Risk, MSCI ESG Sustainable Impact Metrics, MSCI ESG Controversies and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews for the rebalancing of the Indexes.

### 3.2 Monthly Review of Controversies

Index constituents are reviewed on a monthly basis for the involvement in ESG controversies. Existing constituents will be deleted if they are assessed as having involvement in ESG controversies that are classified as Red Flags (MSCI ESG Controversies Score of 0). A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations.

MSCI uses MSCI ESG Controversies data as of the end of the month preceding the review (e.g., end of June data for the end of July monthly review). For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Index.

The pro forma Indexes are generally announced nine business days before the first business day of the month.

### 3.4 Ongoing Event Related Changes

The general treatment of corporate events in the Indexes 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.

Additionally, if the frequency of Index Reviews in the Parent Indexes is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Indexes during intermediate Index Reviews will be neutralized in the Index.

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.

## 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 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.

### 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.

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 ESG Controversies, MSCI ESG Business Involvement Screening Research, MSCI Climate Change Metrics, MSCI Impact Solutions, MSCI ESG Ratings, and MSCI ESG Governance Metrics. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

### 4.1 MSCI Climate Change Metrics

MSCI Climate Change Metrics provides 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>

#### 4.1.1 Fossil Fuels and Power Generation Metrics

MSCI ESG Research identifies companies involved in fossil fuel-related assets and activities including fossil fuel reserves, resource extraction, power generation and generation capacity, revenue from such assets and activities and capital investments in such assets and activities. The metrics are based on disclosed activities, disclosed revenue and estimates of revenue that are extrapolated from company disclosures and eligible third-party sources (such as NGOs).

#### 4.1.2 Greenhouse Gas (GHG) Emissions

MSCI ESG Research collects reported emissions and uses proprietary estimation methodologies that follows the GHG Protocol in including carbon dioxide (CO<sub>2</sub>) and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). Emissions of these other gases are accounted for in terms of the quantity of CO<sub>2</sub> that has an equivalent global warming potential.

#### 4.1.3 Low-Carbon Transition (LCT) Risk Assessment

MSCI ESG Research's LCT data assesses companies' exposure to risks and opportunities related to the low-carbon transition (the transition) based on the carbon-intensive nature of their business lines. In particular, in the event that the transition takes place, demand for carbon-intensive products would decline in favor of low- and zero-carbon products, which would put carbon-intensive companies and industries (for example, coal-based power generation and coal mining) at risk of having stranded assets over the long term (5+ years). MSCI ESG Research considers a company exposed to low-carbon transition risks and opportunities through two main transmission channels:

(1) exposure through involvement in carbon-intensive operations, and (2) exposure through involvement in or solutions for carbon-intensive products.

#### 4.1.4 Climate Value-at-Risk (VaR)

Climate VaR provides a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities. Climate VaR is a quantitative assessment calculated at the company and security level. The aggregated company Climate VaR is calculated as a percentage of market value (from -100% to +100%) for multiple climate scenarios and includes the valuation impacts arising from technology opportunities, policy risks and physical risks. The Climate VaR model uses a data-driven approach, examining a company's positioning within its industry and the regions where it operates. It considers the potential costs and profits associated with different climate scenarios, including the impacts of carbon pricing, regulatory changes, and physical climate events. By simulating these scenarios, the model estimates how climate change could affect a company's financial performance and overall valuation.

For more details on MSCI Climate Change Metrics, please refer to:

<https://www.msci.com/legal/disclosures/climate-disclosures>

## 4.2 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.

For more details on MSCI Sustainable Impact Metrics, please refer to <https://www.msci.com/legal/disclosures/esg-disclosures>.

### 4.3 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/legal/disclosures/esg-disclosures>.

### 4.4 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>.

## Appendix I: Decarbonization Trajectory of Indexes

The Weighted Average GHG Intensity on the Base Date ( $W_1$ ) is used to compute the target Weighted Average GHG Intensity at any given Semi-Annual Index Review ( $W_t$ ) as per the below formula.

$$W_t = W_1 * 0.90^{\frac{(t-1)}{2}}$$

Where 't' is the number of Semi-Annual Index Reviews since the Base Date. The table below shows the Weighted Average GHG Intensity on the Base Date ( $W_1$ ) for each of the regions where the Indexes are constructed:

Index	Parent Index	Base Date	$W_1$ (tCO <sub>2</sub> /M\$ Enterprise Value + Cash)
MSCI World Climate Paris Aligned Benchmark Select Index	MSCI World Index	June 01, 2020	223.83
MSCI Europe Climate Paris Aligned Benchmark Select Index	MSCI Europe Index	June 01, 2020	270.23
MSCI EMU Climate Paris Aligned Benchmark Select Index	MSCI EMU Index	June 01, 2020	306.37

The calculation of the targeted decarbonization trajectory is specified in section 4 of the MSCI EU CTB/PAB Index Framework.<sup>14</sup>

<sup>14</sup> For further details on the MSCI EU CTB/PAB Index Framework, please refer to:  
<https://www.msci.com/index/methodology/latest/EUCTBPABIndexFramework>

## Appendix II: Additional ESG Exclusions Criteria

### Activities Classified Under “Minimal Tolerance”

#### **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).
- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons.
- All companies that manufacture components for nuclear-exclusive delivery platforms.

#### **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 revenue from the manufacture and retail of civilian firearms and ammunition.

### Activities Not Classified Under Any Specific Tolerance Level

#### **Oil Sands**

- All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded.



## Appendix III: Company-Level Sustainable Exposure Calculation of Index SE%

A company qualifies as having company-level sustainable exposure if it meets all the following conditions:

1. MSCI ESG Rating of “BB” or above<sup>15</sup>
2. MSCI ESG Controversies Score of 2 or above<sup>16</sup>
3. At least one of the following conditions is met:
  - a. Derives 20% or more aggregate revenue from any of the thirteen social and environmental impact categories of Sustainable Impact Metrics (including nutrition, sanitation, major diseases treatment, SME finance, education, connectivity, affordable real estate, alternative energy, energy efficiency, green building, pollution prevention, sustainable agriculture and sustainable water)
  - b. Has one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (SBTi)
4. Not flagged by the following business involvement criteria:
  - a. Has any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), in line with the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>
  - b. Derives 1% 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
  - c. Manufactures tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco
  - d. Derives 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

The index-level sustainable exposure is calculated as the sum of the weight of companies in the index that qualify as having company-level sustainable exposure.

<sup>15</sup> The condition is not met if the MSCI ESG Rating is missing for the company.

<sup>16</sup> The condition is not met if the MSCI ESG Controversies Score is missing for the company.

## Appendix IV: MSCI Climate Value-at-Risk

The MSCI Climate Value-at-Risk measurement helps investors to assess future costs related to climate change and understand what those future costs could mean in the current valuation of securities. The premise of Climate Value-at-Risk is to aggregate costs related to specific climate risks and calculate what these costs might signify about financial performance into the foreseeable future.

### **4°C Aggregated Physical Risk Equity Climate VaR (IPCC SSP3-7.0, Aggressive Outcome) [%]**

An equity's "worst-case" (95<sup>th</sup> percentile) downside or upside potential, expressed as a percentage of the equity's market value, assuming trends in extreme cold, extreme heat, extreme precipitation, heavy snowfall, extreme wind, coastal flooding, fluvial flooding, river low flow, tropical cyclones and wildfires continue along the 4°C IPCC SSP3-7.0 scenario.

## Appendix V: Calculation of Target Metrics

### Greenhouse Gas (GHG) Emissions Intensity

MSCI ESG Research collects company-specific direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions (GHG) data from company public documents and/or the Carbon Disclosure Project. If a company does not report GHG emissions, then MSCI ESG Research estimates Scope 1 and Scope 2 GHG emissions.

MSCI ESG Research estimates company-specific indirect (Scope 3) GHG emissions from the Scope 3 Carbon Emissions Estimation Model. The data is generally updated on an annual basis.

### Calculation of GHG Intensity

Carbon emissions of a company are normalized for size by dividing annual carbon emissions by Enterprise Value including Cash (EVIC). The Carbon Emissions Intensity is calculated using the latest Scope 1+2 carbon emissions, Scope 3 carbon emissions and EVIC of a company.

Security Level GHG Intensity (Scope 1+2+3) =

$$(\text{Unadjusted Security Level GHG Intensity (Scope 1+2)} + \text{Unadjusted Security Level GHG Intensity (Scope 3)}) * (1 + \text{EVIAF})$$

Unadjusted Security Level GHG Intensity (Scope 1+2) =

$$\frac{(\text{Scope 1} + 2 \text{ Carbon Emissions})}{\text{EVIC (in M\$)}}$$

If Scope 1+2 carbon emissions and/or EVIC are not available, the average Scope 1+2 intensity of all the constituents of the MSCI ACWI in the same GICS Industry Group in which the security belongs is used.

Unadjusted Security Level GHG Intensity (Scope 3) =

$$\frac{(\text{Scope 3 Carbon Emissions})}{\text{EVIC (in M\$)}}$$

If Scope 3 carbon emissions and/or EVIC are not available, the average Scope 3 intensity of all the constituents of the MSCI ACWI in the same GICS Industry Group in which the security belongs is used.

Enterprise Value Inflation Adjustment Factor (EVIAF) =

$$\left( \frac{\text{Average(EVIC)}}{\text{Previous (Average(EVIC))}} \right) - 1$$

Weighted Average GHG Intensity of Parent Index =

$$\sum (\text{Weight in Parent Index} * \text{Security Level GHG Intensity})$$

Weighted Average GHG Intensity of Derived Index =

$$\sum (Index\ Weight * Security\ Level\ GHG\ Intensity)$$

### Calculation of Potential Carbon Emissions Intensity

Security Level Potential Carbon Emissions (PCE) Intensity =

$$\frac{Absolute\ Potential\ Emissions}{EVIC(in\ M\$)}$$

If Absolute Potential Emissions data is not available, MSCI uses zero fossil fuel reserves.

Weighted Average Potential Emissions Intensity of Parent Index =

$$\sum (Weight\ in\ Parent\ Index * Security\ Level\ PCE\ Intensity)$$

Weighted Average Potential Emissions Intensity of Derived Index =

$$\sum (Index\ Weight * Security\ Level\ PCE\ Intensity)$$

### Calculation of Average Decarbonization

On average, the Indexes follow a 10% decarbonization trajectory since the Base Date. The Weighted Average GHG Intensity at the Base Date ( $W_1$ ) is used to compute the target Weighted Average GHG Intensity at any given Semi-Annual Index Review ( $W_t$ ) as per the below formula.

$$W_t = W_1 * 0.90^{\frac{(t-1)}{2}}$$

Where 't' is the number of Semi-Annual Index Reviews since the Base Date.

Thus, for the 3<sup>rd</sup> Semi-Annual Index Review since the Base Date (t=3), the target Weighted Average GHG Intensity will be  $W_1 * 0.90$ .

### Companies Setting Targets

The Index requires a minimum 20% increase in the aggregate weight of companies setting emissions reduction targets relative to the aggregate Parent Index weight of such companies that meet the eligibility criteria. Companies that meet the eligibility criteria are defined in Section 2.1 and companies setting targets are defined as companies that:

- Publish emissions reduction targets and
- Publish their annual emissions and
- Have reduced their GHG intensity by 7% over each of the last 3 years.

## Calculation of Green Revenue to Fossil fuels-based Revenue Multiple

### Green Revenue

For each constituent in the Parent Index, the Green Revenue% is calculated as the cumulative revenue (%) from the six Clean Tech themes which are as follows:

- **Alternative Energy** – products and services that support the transmission, distribution and generation of renewable energy and alternative fuels to reduce carbon and pollutant emissions in supporting affordable and clean energy to combat climate change.
- **Energy Efficiency** – products, and services that support the maximization of productivity in labor, transportation, power and domestic applications with minimal energy consumption to ensure universal access to affordable, reliable and modern energy services.
- **Sustainable Water** – products, services, infrastructure projects and technologies that resolve water scarcity and water quality issues, through minimizing and monitoring current water demand, improving the quality and availability of water supply to improve resource management in both domestic and industrial use.
- **Green Building** – design, construction, redevelopment, retrofitting, or acquisition of green-certified properties to promote mechanisms for raising capacity for effective climate change mitigation and adaptation.
- **Pollution Prevention** – products, services, infrastructure projects and technologies that reduces volume of waste materials through recycling, minimizes introduction of toxic substances, and offers remediation of existing contaminants such as heavy metals and organic pollutants in various environmental media to significantly address pollution in all levels and its negative effects
- **Sustainable Agriculture** – revenues from forest and agricultural products that meet environmental and organic certification requirements to address significantly biodiversity loss, pollution, land disturbance, and water overuse

The Weighted Average Green Revenue% is calculated as:

$$= \sum (Weight\ in\ Index * Green\ Revenue\%)$$

### Fossil fuels-based Revenue

For each constituent in the Parent Index, the Fossil fuels-based Revenue% is calculated as the cumulative revenue (%) from the following sources:

- **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 excludes 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 (either reported or estimated)
- **Revenue%** from the extraction, production and refining of Conventional and Unconventional Oil & Gas. Conventional Oil and Gas includes Arctic onshore/offshore, deep water, shallow

water and other onshore/offshore. Unconventional Oil and Gas includes oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane.

- Revenue% from thermal coal based power generation, liquid fuel based power generation and natural gas based power generation.

The Weighted Average Fossil fuels-based Revenue% is calculated as:

$$= \sum (Weight\ in\ Index * Brown\ Revenue\%)$$

The Green Revenues to Fossil fuels-based Revenues multiple for either the Parent Index or the Index is calculated as a ratio of the Weighted Average Green Revenue to the Weighted Average Fossil fuels-based Revenue as per the formula below:

$$= \frac{Weighted\ Average\ Green\ Revenue\%}{Weighted\ Average\ Brown\ Revenue\%}$$

## Appendix VI: MSCI Low Carbon Transition Risk Assessment

MSCI ESG Research's Low Carbon Transition Risk assessment<sup>17</sup> is designed to identify potential leaders and laggards by measuring companies' exposure to and management of risks and opportunities related to the low carbon transition. The assessment is derived from company disclosures and estimates.

The final output of this assessment is two company-level factors:

- (1) **Low Carbon Transition Category:** This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition (Exhibit 1).
- (2) **Low Carbon Transition Score:** This score is based on a multi-dimensional risks and opportunities assessment and considers both primary and secondary risks a company faces. It is an industry agnostic assessment of a company's position vis-à-vis the transition.

*Exhibit 1: Low Carbon Transition Categories and Scores*

LOW CARBON TRANSITION SCORE	LOW CARBON TRANSITION CATEGORY		LOW CARBON TRANSITION RISK / OPPORTUNITY	INDUSTRY EXAMPLES
SCORE = 0	ASSET STRANDING		Potential to experience "stranding" of physical / natural assets due to regulatory, market, or technological forces arising from low carbon transition.	Coal mining & coal-based power generation; industries in the Oil & Gas value chain
	TRANSITION	PRODUCT	Reduced demand for carbon-intensive products and services. Leaders and laggards are defined by the ability to shift product portfolio to low-carbon products.	Petrol/diesel-based automobile manufacturers
		OPERATIONAL	Increased operational and/or capital cost due to carbon taxes and/or investment in carbon emission mitigation measures leading to lower profitability of the companies.	Cement, Steel
	NEUTRAL		Limited exposure to low carbon transition carbon risk. Though companies in this category could have exposure to physical risk and/or indirect exposure to low carbon transition risk via lending, investment etc.	Consumer Staples, Healthcare
SCORE = 10	SOLUTIONS		Potential to benefit through the growth of low-carbon products and services.	Renewable electricity, Electric vehicles, Solar cell manufacturers

### Calculation methodology

The Low Carbon Transition Categories and Scores are determined by a combination of each company's current risk exposure and its efforts to manage the risks and opportunities presented by the low carbon transition. The 3-step process followed by MSCI ESG Research is explained below.

<sup>17</sup> For more details on MSCI Climate Change Metrics: <https://www.msci.com/climate-change-solutions>

### **Step 1: Measure Low Carbon Transition Risk Exposure**

The first step towards measuring the Low Carbon Transition Risk Exposure for a company is the computation of its estimated total net carbon intensity – which considers operational and product carbon emissions. In the next step, we compute Low Carbon Transition Risk Exposure Category and Score based on total net carbon intensity.

### **Step 2: Assess Low Carbon Transition Risk Management**

In the second step, MSCI ESG Research assesses a company's management of risks and opportunities presented by the low carbon transition. This assessment is based on policies and commitments to mitigate transition risk, governance structures, risk management programs and initiatives, targets and performance, and involvement in any controversies.

### **Step 3: Calculate Low Carbon Transition Category and Score**

In the final step, the Low Carbon Transition Risk Exposure Category and Score that was calculated in Step 1 is adjusted for the strength of management efforts. Following this adjustment, Low Carbon Transition Risk Exposure Score of companies with top or second quartile risk management improves and some top and second quartile companies may move up one category.



## Appendix VII: Barra Equity Model Used in The Optimization

The Indexes currently use an optimization setup using the MSCI Barra Global Equity Model for Long-Term Investors (GEMTLT).

## Appendix VIII: New Release of Barra<sup>®</sup> Equity Model or Barra<sup>®</sup> Optimizer

The methodology presently uses MSCI Barra Global Equity Model for Long-Term Investors (“GEMTLT”) for the optimization. A new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

## Appendix IX: 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/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>
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- MSCI Global Investable Market Indexes Methodology – <https://www.msci.com/index/methodology/latest/GIMI>
- MSCI Global ex Controversial Weapons Indexes Methodology – <https://www.msci.com/index/methodology/latest/XCW>
- MSCI Global ex Tobacco Involvement Index – <https://www.msci.com/index/methodology/latest/ExTobacco>
- MSCI ACWI Sustainable Impact Indexes Methodology – <https://www.msci.com/index/methodology/latest/SI>
- MSCI Climate Paris Aligned Indexes Methodology – <https://www.msci.com/index/methodology/latest/ClimatePAB>
- MSCI EU CTB/PAB Index Framework – <https://www.msci.com/index/methodology/latest/EUCTBPABIndexFramework>
- ESG Factors In Methodology\*

The Methodology Set for the Indexes 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 X: Changes to this Document

**The following sections have been updated as of November 2022:**

- Introduction: Updated to reflect the new requirement on index-level sustainable exposure
- Section 3.3: Updated Optimization Constraints to reflect the optimization constraints on index-level sustainable exposure
- Appendix 3: Introduced to reflect the criteria used to determine the company-level sustainable exposure qualification and the calculation of index-level sustainable exposure

**The following sections have been updated as of May 2023:**

Section 1: Introduction

- Updated the description of the MSCI Climate Paris Aligned Benchmark Select Indexes and added footnote on the Methodology Set

Section 2: Index Construction

- The reference to the Climate Paris Aligned Indexes methodology for the companies setting target constraint was removed
- The language for ESG Controversies and Environmental Controversies were modified using the latest product descriptions from MSCI ESG Research

Section 3: Maintaining the Index

- The reference to the MSCI Global Investable Market Indexes (GIMI) Indexes was updated due to the change towards the Quarterly Comprehensive Index Reviews.

Section 4: MSCI ESG Research

- Moved the section after Section 3 (Maintaining the Indexes)
- Updated the descriptions of MSCI ESG Research products.

Appendix

- Updated the weighted average carbon emissions for the Indexes.
- Added further details for the companies setting target constraint.

**The following sections have been updated as of November 2023:**

Section 2.3

- The definition of companies setting target was enhanced in Table 1 to reflect the enhancement of the methodology at November 2023 Index Review.

Section 2.4

- The treatment of companies with ratings and research not available from MSCI ESG Research was added.

Appendix IV and V

- The MSCI Value-at-Risk section and the Calculation of Target Metrics section was added.

- The Climate Value-at-Risk models were updated in Appendix II and III.

**The following sections have been updated as of May 2024**

Section 2.1 Eligible Universe:

- Clarify description for Thermal Coal Mining screen.

Appendix VI: MSCI Low Carbon Transition Risk Assessment

- Added new Appendix for the Low Carbon Transition Risk Assessment.

Appendix VII and VIII:

- Added details on Barra Open Optimizer and Barra Equity Model

Appendix X: Methodology Set

- Added details on the Methodology Set for the Indexes

**The following sections have been updated as of November 2024**

Section 2.1 Eligible Universe:

- Added exclusion criteria for Weapons.

Section 2.2 : Optimization constraints

- Updated thresholds for selected optimization constraints.

Section 2.4: Treatment of Unrated Companies

- Added the treatment of companies when data on Business Involvement Screening Research or Climate Change Metrics research is not available from MSCI ESG Research

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

Section 4.1: MSCI Climate Change Metrics

- Added sub-sections under Climate Change Metrics to provide additional details on Fossil Fuels related activities, Greenhouse Gas Emissions, Low-Carbon Transition, Climate Value-at-Risk.

**The following section has been modified as of May 2025**

Section 1: Introduction

- Updated footnote with reference to the MSCI EU CTB/PAB Index Framework.

Section 2.1: Eligible Universe

- Updated exclusion criteria of Thermal Coal to add thermal coal distribution screen.

Section 2.2: Optimization Constraints, Appendix V: Calculation of Target Metrics

- Added references to the MSCI EU CTB/PAB Index Framework for the definition of climate impact sectors and calculation of decarbonization trajectory.

Appendix I: Decarbonization Trajectory of Indexes

- Added reference to the MSCI EU CTB/PAB Index Framework for the calculation of the decarbonization trajectory.



## Appendix X: Methodology Set

- Added reference to MSCI EU CTB/PAB Index Framework.

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