

# **MSCI ESG Leaders Indexes Methodology**

December 2024

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## 1. Introduction

The MSCI ESG Leaders Indexes<sup>1</sup> ('the Indexes') are free float-adjusted market capitalization-weighted indexes designed to represent the performance of companies that are selected from an underlying index based on Environmental, Social and Governance (ESG) criteria. These criteria exclude constituents based on involvement in specific business activities, as well as ESG ratings and exposure to ESG controversies. The Indexes are derived from underlying MSCI indexes ("Parent Indexes") and aim to achieve sector weights that reflect the sector weights of the corresponding Parent Indexes. The Index construction targets 50% free float-adjusted market capitalization coverage of each Global Industry Classification Standard (GICS®)<sup>2</sup> sector by selecting constituents primarily based on criteria including the ESG rating, the trend in that rating and the company's industry-adjusted ESG score.

Currently, MSCI constructs the Indexes for the Standard size-segment in all Developed and Emerging Markets and the Small Cap size-segment in the USA<sup>3</sup>.

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<sup>1</sup> The MSCI ESG Leaders Indexes will be renamed to the MSCI Selection Indexes, effective February 3, 2025.

<sup>2</sup> GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

<sup>3</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 V for more details.

## 2. Constructing the Indexes

### 2.1 Underlying Universe

The Underlying Universe for the Indexes is defined by the constituents of the MSCI Global Investable Market Indexes (“GIMI”).

### 2.2 Eligibility Criteria

The Indexes use company ratings and research provided by MSCI ESG Research<sup>4</sup> to determine eligibility for Index inclusion.

#### 2.2.1 ESG Ratings Eligibility

The Indexes use MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies are required to have an MSCI ESG Rating of ‘BB’ or above to be eligible for inclusion in the Indexes.

#### 2.2.2 ESG Controversies Score Eligibility

The Indexes use MSCI ESG Controversies Scores to identify companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Companies are required to have an MSCI ESG Controversies Score of 3 or above to be eligible for inclusion in the Indexes.

#### 2.2.3 Controversial Business Involvement Criteria

The 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 Indexes. Please refer to Appendix II for details on these criteria.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Alcohol
- Conventional Weapons
- Gambling
- Nuclear Power

<sup>4</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.

- Fossil Fuel Extraction
- Thermal Coal Power

## 2.3 Index Construction

Currently MSCI constructs MSCI ESG Leaders Indexes for:

- The Standard size-segment in all Developed and Emerging Markets; and
- The Small Cap size-segment in the USA.

The Indexes for the Standard size-segment are constructed at a regional level, with the exception of North America which is built separately for Canada and the USA. Each regional Index targets 50% of the free float-adjusted market capitalization within each GICS sector of the underlying Parent Index.

The following regional Indexes are aggregated to construct the MSCI World ESG Leaders Index.

MSCI Regional ESG Leaders Index	Region	Parent Index
MSCI Pacific ESG Leaders Index	Developed Asia Pacific	MSCI Pacific Index
MSCI Europe & Middle East ESG Leaders Index	Developed Europe & Middle East	MSCI Europe & Middle East Index
MSCI Canada ESG Leaders Index	Canada	MSCI Canada Index
MSCI USA ESG Leaders Index	USA	MSCI USA Index

The following regional Indexes are aggregated to construct the MSCI EM ESG Leaders Index.

MSCI Regional ESG Leaders Index	Region	Parent Index
MSCI Emerging Markets Asia ESG Leaders Index	Emerging Asia	MSCI Emerging Markets Asia Index
MSCI Emerging Markets Europe, Middle East & Africa ESG Leaders Index	Emerging Europe, Middle East & Africa	MSCI Emerging Markets Europe, Middle East & Africa Index
MSCI Emerging Markets Latin America ESG Leaders Index	Emerging Latin America	MSCI Emerging Markets Latin America Index

The MSCI USA Small Cap ESG Leaders Index is constructed by targeting 50% of the free float-adjusted market capitalization within each sector of the MSCI USA Small Cap Index. The MSCI USA IMI ESG Leaders Index is created by aggregating the MSCI USA ESG Leaders Index and the MSCI USA Small Cap ESG Leaders Index.

The MSCI World ESG Leaders Index and the MSCI EM ESG Leaders Index are aggregated to construct the MSCI ACWI ESG Leaders Index.

The Large Cap and Mid Cap size-segments of the Indexes are derived from the Standard size-segment.

The Indexes for other regions and countries are determined by including securities from the particular region/country from the MSCI ACWI ESG Leaders Index and weighting them according to their free float-adjusted market capitalization. For example, the MSCI EAFE ESG Leaders Index and the MSCI China ESG Leaders Index are constructed by including those securities from the MSCI ACWI ESG Leaders Index which are a part of the MSCI EAFE Index and the MSCI China Index respectively and weighting them in the proportion of their free float-adjusted market capitalization.

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

## 3. Maintaining the Indexes

### 3.1 Annual Index Review

The Indexes are reviewed on an annual basis in May to coincide with the May Index Review of the Parent Index, and the changes are implemented at the end of May. In general, the pro forma Indexes are announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data<sup>5</sup> (including MSCI ESG Ratings, MSCI ESG Controversies Scores, MSCI 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 Indexes. 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 Indexes.

At each Annual Index Review, the Eligible Universe is updated, and the composition of the Index is reassessed in order to target 50% free float-adjusted cumulative market capitalization of each sector of the Parent Index.

#### 3.1.1 Updating the Eligible Universe

The Eligible Universe is updated during each Annual Index Review.

Companies that are currently not constituents of the Indexes are evaluated using the same eligibility criteria described in Section 2.2.

Existing constituents of the Indexes are maintained in the Eligible Universe if they meet all the following conditions:

- MSCI ESG Rating of 'BB' or above
- MSCI ESG Controversies Score of 1 or above
- Not screened by the business involvement criteria described in Section 2.2.3

#### 3.1.2 Ranking of Eligible Securities

For each sector, eligible securities of the regional Parent Index as described in Section 2.2 are ranked based on the following criteria:

- ESG Rating
- ESG Trend (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend)<sup>6</sup>
- Current Index membership (existing constituents above non-constituents of the Indexes)
- Industry-adjusted ESG scores
- Decreasing free float-adjusted market capitalization

<sup>5</sup> See section 4 for details of data sourced from MSCI ESG Research used in the Indexes.

<sup>6</sup> Please refer to Appendix I for more details.

### 3.1.3 Selection of Eligible Securities

For each sector, eligible securities of the regional Parent Index are then selected from the ranked Eligible Universe in the following order until the target 50% coverage by cumulative free float-adjusted market capitalization is reached:

- Securities in the top 35% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 35%
- 'AAA' and 'AA' rated securities in the top 50% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 50%
- Current Index constituents in the top 65% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 65% if that security is a current index constituent
- Remaining eligible securities in the ranked universe

Please see Appendix I for additional details on the ranking and selection rules.

## 3.2 Quarterly Index Reviews

The Indexes are also reviewed on a quarterly basis in February, August and November to coincide with the regular Index Reviews of the Parent Indexes. The changes are implemented at the end of February, August and November. The pro forma Indexes are in general announced nine business days before the effective date.

For the Quarterly Index Reviews, MSCI ESG Ratings, MSCI ESG Controversies Score assessments and MSCI BISR data are taken as of the end of the month preceding the Index Reviews, i.e., January, July and October. 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 Indexes.

At the Quarterly Index Reviews, existing constituents are deleted from the Indexes if they do not meet the eligibility criteria described in Section 3.1.1. Existing constituents that meet the eligibility criteria are retained in the index.

Additions, from the eligible securities as per Section 2.2, are made only to those sectors where the current market capitalization coverage is less than 45%, until the 50% target is reached.

Market price movements may cause small deviations in the sector coverage between two Index Reviews. Therefore, in order to minimize turnover, a buffer of 10% is used on the target coverage of 50% to define under-representation.

## 3.3 Ongoing Event-Related Maintenance

The following section briefly describes the treatment of common corporate events within the Indexes.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the Parent Index.



Parent Index deletions will be reflected simultaneously.

There are no deletions from the Indexes between Index Reviews on account of a security becoming ineligible because of MSCI ESG Rating downgrade and/or decrease in MSCI ESG Controversies Score and/or change in business involvement.

## EVENT TYPE

## EVENT DETAILS

### New additions to the Parent Index

New securities added to the Parent Index (such as IPOs, other early inclusions and migrations from a different size-segment) will be added to the Indexes on the date of security inclusion only if they meet the eligibility criteria described in Section 2.2 and the market capitalization coverage of the sector to which the security belongs is less than 45%.

### Spin-Offs

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

### Merger/Acquisition

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 book.

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

### 4.1 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>.

### 4.2 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>.

### 4.3 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 <https://www.msci.com/legal/disclosures/esg-disclosures>.

### 4.4 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.

#### 4.4.1 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).

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

## Appendix I: Guidelines on Achieving the Target Sector Coverage of 50%

The MSCI ESG Leaders Indexes target 50% coverage of the free float-adjusted market capitalization of each GICS sector of the regional Parent Index. The underlying principle in the construction of the indexes is to achieve cumulative sector coverage closest to 50%, while aiming to maintain index stability.

The following guidelines are used in achieving the target cumulative sector coverage of 50%:

- For each sector, the eligible companies of the regional Parent Index are first ranked based on the company level ESG Rating.
- If two companies have the same ESG Rating, the company with better ESG Trend is given priority. ESG Trend is defined as the direction of the change in ESG Rating as of the latest review of the ESG Rating for a company.
  - Positive ESG Trend is given the highest priority. Positive ESG Trend indicates any upgrade in ESG Rating of any scale as of the latest review of the company's ESG Rating.
  - Neutral ESG Trend indicates an unchanged ESG Rating as of the latest review of the company's ESG Rating. Also, companies that receive a re-initiated ESG Rating due to a change in the ESG Ratings Industry are considered to have a neutral ESG Trend.
  - Negative ESG Trend is given the lowest priority. Negative ESG Trend indicates any downgrade in ESG Rating of any scale as of the latest review of the company's ESG Rating.
- In case of two companies with the same ESG Rating and the same ESG Trend, the existing ESG Leaders index constituent is given priority to maintain index stability. Between two existing constituents with the same ESG Rating and the same ESG Trend, the company with the higher industry-adjusted ESG score is given priority. For two existing ESG Leaders Index constituents with the same industry-adjusted ESG score, the security with the largest free float-adjusted market capitalization is given priority.
- The cumulative sector coverage at each rank is calculated.
- In each sector, companies are selected as per the rules mentioned in Section 3.1.2 until the cumulative sector coverage crosses 50% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 50% as the "marginal company".
  - If the marginal company is a current ESG Leaders Index constituent, then it is always selected.
  - If the marginal company is not a current ESG Leaders Index constituent, then it is selected only if the cumulative sector coverage with the marginal company is closer to 50% compared to the cumulative sector coverage without the marginal company.
- The minimum cumulative sector coverage is set to 45%.
  - The marginal company is always selected if this is required to achieve cumulative sector coverage of 45%.
- Securities which are ineligible as per Section 3.1.1 will not be selected even if the cumulative sector coverage after selection of all eligible securities is below 50%.

## Appendix II: Controversial Business Involvement Criteria

MSCI ESG Research has developed a framework designed to define significant involvement in controversial activities. According to this framework, there are four levels of restrictiveness: Most Restrictive, Highly Restrictive, Moderately Restrictive, Least Restrictive.

Each controversial activity screened by the MSCI ESG Leaders Indexes (except Fossil Fuel Extraction and Thermal Coal Power) is assigned to one of these restrictiveness levels.

### **“Most Restrictive” screen applied**

- 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 Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>

### **“Highly Restrictive” screen applied**

- 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

### **“Moderately Restrictive” screen applied**

- Civilian Firearms
  - All companies deriving 5% or more revenue from the production 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 15% 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 deriving 5% or more revenue from the production of tobacco-related products
  - All companies deriving 15% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

### **"Least Restrictive" screen applied**

- Alcohol
  - All companies deriving 10% or more revenue from the production of alcohol-related products
- Conventional Weapons
  - All companies deriving 10% or more revenue from the production of conventional weapons and components
- Gambling
  - All companies deriving 10% or more revenue from ownership of operation of gambling-related business activities
- Nuclear Power
  - All companies deriving 10% or more revenue from the ownership or operation of nuclear power plants

### **No specific restrictiveness level applied**

- Fossil Fuel Extraction
  - All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining and unconventional oil and gas extraction.
    - *Thermal Coal Mining:* Revenue 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
    - *Unconventional Oil & Gas Extraction:* Revenue from 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.
- Thermal Coal Power
  - All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

## Appendix III: Methodology Transition

### June 2013

Prior to the May 2013 Index Review, the MSCI ESG Leaders Indexes were constructed using Global Socrates ESG Ratings. Effective May 2013 Index Review, MSCI ESG Leaders Indexes transitioned to MSCI ESG IVA Ratings. Any company that had an ESG Rating of 'CCC' or lower was not eligible for inclusion in the MSCI ESG Leaders Indexes. The MSCI ESG Leaders Indexes were constructed by targeting 50% of the free float-adjusted market capitalization of each GICS sector of the underlying MSCI regional ESG Leaders Index.

### June 2016

Effective May 2016 Index Review, the MSCI ESG Leaders Indexes reflected enhancements to the MSCI ESG Controversies (formerly known as MSCI Impact Monitor). The details of the changes are as given below.

The changes to MSCI ESG Controversies included adjusting the scoring model to align the scores with individual controversy case levels, including the introduction of an Orange flag, and the removal of specific controversial business involvement (CBI) criteria from the model to refocus the ESG Controversies scores on event-driven controversies.

MSCI implemented the following changes to the MSCI ESG Leaders Indexes methodology effective June 1, 2016 to maintain consistency with the existing index construction objectives:

1. As per the old MSCI ESG Impact Monitor methodology, securities which had an Impact Monitor score of 0 and 1 had a Red controversy flag. Under the new methodology, only securities with an ESG controversies score of 0 have a Red controversy flag. For indexes where constituents were ineligible to be included in the index if their Impact Monitor score was 0 or 1 (current Red controversy flag), the exclusion criteria was changed to ESG Controversies score = 0 in order to continue to only exclude securities with Red controversy flag in the MSCI ESG Leaders Indexes.
2. MSCI Impact Monitor earlier incorporated exclusion rules based on controversial business involvement criteria related to alcohol, tobacco, gambling, nuclear power, conventional weapons and controversial weapons. Therefore, additional exclusion rules based on the controversial business involvement criteria related to alcohol, tobacco, gambling, nuclear power, conventional weapons and controversial weapons that were incorporated in the old MSCI Impact Monitor scores were introduced as part of the methodology of the MSCI ESG Leaders Indexes. The details of the exclusion rules are mentioned in Appendix II.

### June 2018

Prior to the May 2018 Annual Index Review, existing constituents of the MSCI ESG Leaders Indexes could be maintained in the eligible universe if their MSCI ESG Rating was 'B' or above. Effective from the May 2018 Annual Index Review, existing constituents are required to have MSCI ESG Rating of 'BB' or above in order to be maintained in the eligible universe.

## **December 2020**

Effective from the November 2020 Index Review, the controversial business involvement criteria have been enhanced to reflect the framework designed by MSCI ESG Research to define significant involvement in controversial activities. According to this framework, there are four restrictiveness levels: Most Restrictive, Highly Restrictive, Moderately Restrictive, Least Restrictive. Also, screens for Fossil Fuel Extraction and Thermal Coal Power were added.



## Appendix IV: MSCI Country and Region ESG Leaders Indexes

The MSCI Country and Region ESG Leaders Indexes are constructed with an aim to represent the performance of companies that have high Environmental, Social and Governance (ESG) performance.

The MSCI Country ESG Leaders Indexes aim to target sector weights that reflect the relative sector weights of the underlying country Index to limit the systematic risk and country specific risk introduced by the ESG selection process. Currently the MSCI Country ESG Leaders Indexes can be constructed for the Standard size-segment in any Developed and Emerging Markets.

The MSCI Region ESG Leaders Indexes can be constructed for regions different than those used in the construction of the MSCI ESG Leaders Indexes and aim to target sector weights that reflect the relative sector weights of the underlying regional Index. Currently the MSCI Region ESG Leaders Indexes can be constructed for the Standard size-segment in any regions in Developed and Emerging Markets.

The MSCI Country and Region ESG Leaders Indexes are constructed by applying the index construction rules detailed in Section 2 at the level of the respective country or region covered by the index, instead of the specific regional level used in the construction of MSCI ESG Leaders Indexes.

The MSCI Country and Region ESG Leaders Indexes target 50% of the free float-adjusted market capitalization of each GICS sector of the Parent Country or Region Index. The MSCI Country and Region ESG Leaders Indexes follows the same index review cycle, maintenance rules and corporate events treatment as the MSCI ESG Leaders Indexes as described in Section 3.

## Appendix V: 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>
- MSCI Index Calculation Methodology – <https://www.msci.com/index/methodology/latest/IndexCalc>
- MSCI Index Glossary of Terms – <https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies – <https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology – <https://www.msci.com/index/methodology/latest/GICS>
- MSCI Global Investable Market Indexes Methodology – <https://www.msci.com/index/methodology/latest/GIMI>
- MSCI Global ex Controversial Weapons Indexes Methodology – [www.msci.com/index/methodology/latest/XCW](https://www.msci.com/index/methodology/latest/XCW)
- 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 VI: Changes to this Document

### The following sections have been modified as of November 2014:

Section 2: MSCI ESG Research and Section 3: Constructing the MSCI ESG Leaders Indexes

- Clarification of MSCI ESG Leaders Index construction rules

Section 4: Maintaining the MSCI ESG Leaders Indexes

- Enhancement of treatment of corporate events

### The following sections have been modified as of May 2016:

Section 2: MSCI ESG Research

- Updated to include the impact of the change in the MSCI ESG Controversies Scores methodology on MSCI ESG Leaders Indexes methodology

Section 3: Constructing the MSCI ESG Leaders Indexes

- Changed Section 3 to update the eligibility criteria for inclusion in MSCI ESG Leaders Indexes and to include clarification on the construction of regional and country level ESG Leaders Indexes

Section 4: Maintaining the MSCI ESG Leaders Indexes

- Updated to clarify the treatment of ESG Rating downgrade or decrease in ESG Controversies scores between index reviews

Appendix I: Guidelines on achieving the target sector coverage of 50%

- Added a clarification to specify that non-eligible securities would not be included to increase the sector coverage to 50%

Appendix II: Controversial Business Involvement Criteria

- Added details of controversial business involvement criteria applicable effective June 2016

Appendix III: Methodology Transition

- Added details which highlight the changes to the MSCI ESG Leaders Indexes effective June 2016

### The following sections have been modified as of June 2016:

Section 3.2.3: Controversial Business Involvement Criteria

- Updated to include civilian firearms to the list of controversial businesses

Appendix II: Controversial Business Involvement Criteria

- Updated the controversial business involvement criteria pertaining to Tobacco
- Addition of the controversial business involvement criteria pertaining to Civilian Firearms

### The following sections have been modified as of November 2016:

Appendix IV: MSCI Country ESG Leaders Index

- Added details for construction of Country ESG Leaders Indexes

**The following sections have been modified as of May 2017:**

Section IV: Maintaining the MSCI ESG Leaders Indexes

- Clarification on use of ESG data for securities whose data would be available after the end of the month preceding Index Review

**The following sections have been modified as of June 2017:**

- Methodology book updated to reflect the change in name of MSCI Global Sustainability Index to MSCI ESG Leaders Indexes

**The following sections have been modified as of February 2018:**

Appendix IV: MSCI Country and Region ESG Leaders Indexes

- Updated to include MSCI Region ESG Leaders Indexes

**The following sections have been modified as of May 2018:**

Section 3: Constructing the MSCI ESG Leaders Indexes

- Removed the references to minimum ESG Ratings and ESG Controversies Score for existing constituents

Section 4: Maintaining the MSCI ESG Leaders Indexes

- Added references to minimum ESG Ratings and ESG Controversies Score for existing constituents
- Updated the ranking rules to reflect the addition of the ESG Trend criterion

Appendix I: Guidelines on Achieving the Target Sector Coverage of 50%

- Added clarifications

Appendix II: Controversial Business Involvement Criteria

- Updated the controversial business involvement criteria pertaining to Controversial Weapons

**The following sections have been modified as of February 2019:**

Appendix I: Guidelines on Achieving the Target Sector Coverage of 50%

- Updated the guidelines to reflect the addition of the ESG Trend criterion

**The following sections have been modified as of March 2019:**

Appendix V: MSCI Extended ESG Leaders Indexes

- Added details for the methodology of the MSCI Extended ESG Leaders Indexes

**The following sections have been modified as of October 2019:**

Appendix V: MSCI Extended ESG Leaders Indexes

- Added details for the methodology of the MSCI EM Extended ESG Leaders 5% Issuer Capped Indexes

**The following sections have been modified as of November 2020:**

Section 3.2.3: Controversial Business Involvement Criteria

- Added screens for 'Fossil Fuel Extraction' and 'Thermal Coal Power'

#### Section 4.1.3: Selection of Eligible Securities

- Clarified the selection rules

#### Section 4.3: Ongoing Event-Related Maintenance

- Clarified the maintenance rules

#### Appendix II: Controversial Business Involvement Criteria

- Updated the controversial business involvement criteria for each activity according to the framework designed by ESG Research
- Added screens for 'Fossil Fuel Extraction' and 'Thermal Coal Power'

#### Appendix V: MSCI Extended ESG Leaders Indexes

- Added the MSCI Canada IMI Extended ESG Leaders Index, MSCI EAFE Extended ESG Leaders Index and the MSCI Canada IMI Extended ESG Leaders 5% Issuer Capped Index to the list of indexes under the methodology

#### **The following sections have been modified as of December 2020:**

##### Appendix II: Controversial Business Involvement Criteria

- Updated the description of the 'Nuclear Power' screen

#### **The following sections have been modified as of May 2021:**

##### Appendix V: MSCI Extended ESG Leaders Indexes

- Updated the branding and capping for the MSCI Canada IMI Extended ESG Leaders 10% Issuer Capped Index

#### **The following sections have been modified as of August 2022:**

##### Section 4.1.2: Ranking of Eligible Securities

- Updated footnote

##### Appendix I: Guidelines on Achieving the Target Sector Coverage of 50%

- Clarified the definition of 'ESG Trend' and the priority rules for companies that have the same ESG Rating but a different ESG Trend

#### **The following sections have been modified as of November 2022:**

##### Section 4.1.2: Ranking of Eligible Securities

- Clarified the priority rules for existing constituents of the MSCI ESG Leaders Indexes

#### **The following sections have been modified as of May 2023:**

##### Section 1: Introduction

- Updated the description of the MSCI ESG Leaders Indexes and added footnote on Methodology Set

##### Section 3: Maintaining the MSCI ESG Leaders Indexes

- 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”)

## Section 4: MSCI ESG Research

- Moved that section after the Section 3 (Maintaining the MSCI ESG Leaders Indexes)
- Added the definition of industry-adjusted ESG score under Section 4.1 (MSCI ESG Ratings)

### **The following sections have been modified as of November 2023:**

## Section 2: Constructing the Indexes

- Clarified the eligibility criteria for ESG Ratings and ESG Controversy Scores.

## Appendix V: MSCI Extended ESG Leaders

- Removed the MSCI Extended ESG Leaders Indexes methodology from the Appendix. This methodology now has a separate methodology book

## Section 2.4: Treatment of Unrated Companies

- New section detailing the treatment of companies with ratings and research not available from MSCI ESG Research

### **The following section has been modified as of January 2024:**

## Appendix V: Methodology Set

- Added details on the Methodology Set for the Indexes

### **The following section has been modified as of August 2024**

## Section 2.4: Treatment of Unrated Companies

- Added the treatment of companies when business involvement screening research or climate change metrics research not available from MSCI ESG Research

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

## Section 1: Introduction

- Added a new footnote announcing the methodology name change

## Section 4: MSCI ESG Research

- Updated section to add details on Climate Change products

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