

# MSCI ACWI Large Cap Ex Select Business Involvement Screens Index Methodology

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## 1. Introduction

The MSCI ACWI Large Cap Ex Select Business Involvement Screens Index (the ‘Index’<sup>1</sup>) aims to represent the performance of an investment strategy that excludes:

- Companies involved in Red Flag ESG Controversies or failing to comply with the United Nations Global Compact Principles; or
- Companies associated with controversial weapons, nuclear weapons; or
- Companies deriving revenue from tobacco, or gambling, or civilian firearms; or
- Companies deriving revenue from thermal coal or oil sands.

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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. Please refer to Appendix II for more details.

## 2. Constructing the Index

The Index uses company ratings and research provided by MSCI ESG Research<sup>2</sup> for index construction.

### 2.1 Defining the Parent Index

The Parent Index for the MSCI ACWI Large Cap Ex Select Business Involvement Screens Index is MSCI ACWI Large Cap Index (the “Parent Index”).

### 2.2 Eligible Universe

The Eligible Universe comprises of all securities from the Parent Index that meet each of the below eligibility criteria.

#### 2.2.1 ESG Controversies Score Eligibility Criteria

The Index uses MSCI ESG Controversies Score to identify those companies that are involved in very serious controversies involving the environmental, social or governance impact of their operations or products and services. Companies are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for inclusion in the Index.

#### 2.2.2 Controversial Business Involvement Criteria

The Index uses 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 exclusion criteria are excluded from the Index.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Oil Sands
- Gambling
- United Nations Global Compact principles

Please refer to Appendix I for details on these criteria.

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<sup>2</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.

## 2.3 Treatment of Unrated Companies

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

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

## 2.4 Weighting Scheme

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

### 3. Maintaining the Index

#### 3.1 Index Reviews

The Index is reviewed on a quarterly basis to coincide with the regular Index Review of the MSCI Global Investable Market Indexes. The changes are implemented as of the close of the last business day of February, May, August, and November.

In general, MSCI uses MSCI ESG Research data<sup>3</sup> (including MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research and MSCI Climate Change Metrics) as part of the end of the month preceding the Index Review 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.

The pro forma index is, in general, announced nine business days before the effective date.

#### 3.2 Ongoing Event-Related Maintenance

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**

New securities added to the Parent Index (such as IPOs, other early inclusions and migrations from a different size-segment) will not be added to the Index at the time of event implementation. Such securities will be considered for addition in the Index at the subsequent Index Review.

##### **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. Reevaluation for continued inclusion in the Index 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.

<sup>3</sup> See section 4 for details of data sourced from MSCI ESG Research used in 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/latest/CE>

## 4. MSCI ESG Research

The Index is a product of MSCI Inc. that utilizes 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 Index uses the following MSCI ESG Research product: MSCI ESG Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

### 4.1 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>.

### 4.2 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>.

### 4.3 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.

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



## Appendix I: ESG Exclusion Criteria

The Index exclude companies involved in:

### 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>.

### Nuclear Weapons

- All companies that produce nuclear warheads or missiles.
- All companies that produce essential components developed or significantly modified for exclusive use in nuclear weapons.
- All companies that produce delivery platforms exclusively for deploying nuclear weapons.
- All companies that provide support services for nuclear weapons.
- All companies that produce essential components that could be used for nuclear weapons, but were not developed or significantly modified exclusively for such purpose.
- All companies that produce delivery platforms capable of deploying nuclear weapons, but were not developed or significantly modified exclusively for such purpose.
- All companies that produce essential components for delivery platforms exclusively for deploying nuclear weapons.

### Civilian Firearms

- All companies that produce firearms and small-arms ammunitions intended for civilian markets.
- All companies deriving 5% or more revenue from the production wholesale or retail of firearms and ammunition intended for civilian use.

### Tobacco

- All companies involved in the production of tobacco products. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.
- All companies deriving 5% or more reported revenue (or, where not disclosed, maximum estimated revenue) from the production, distribution or retail of tobacco products. This includes companies that are licensor of brand names for tobacco products, or are suppliers of tobacco products. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.

### Thermal Coal

- All companies deriving 5% 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.

- All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

**Oil Sands**

- All companies deriving 5% or more revenue (either reported or estimated) from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of oil sands reserves with no associated extraction revenues; revenue from intra-company sales.

**Gambling**

- All companies deriving 5% or more reported revenue (or, where not disclosed, maximum estimated revenue) from gambling operations, including online or mobile gambling.
- All companies deriving 15% or more reported revenue (or, where not disclosed, maximum estimated revenue) from gambling operations, which includes online or mobile gambling, and supporting activities from gambling.

**United Nations Global Compact principles**

- All companies that fail to comply with the United Nations Global Compact principles (UN Global Compact Alignment value of “Fail”).

## Appendix II: Methodology Set

The Index is 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 – <https://www.msci.com/index/methodology/latest/XCW>
- ESG Factors In Methodology\*

The Methodology Set for the Index 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.

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