

# MSCI Top ESG Select Indexes Methodology

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## 1. Introduction

The methodology book covers the following indexes:

- MSCI World Top ESG Select Index
- MSCI World Top ESG Select 4.5% Decrement Index
- MSCI Europe Top ESG Select Index
- MSCI Europe Top ESG Select 4.5% Decrement Index
- MSCI EM Top ESG Select Index
- MSCI EM Top ESG Select 5% Decrement Index
- MSCI Asia Pacific Top ESG Select Index
- MSCI Asia Pacific Top ESG Select 5% Decrement Index
- MSCI North America Top ESG Select Index
- MSCI North America Top ESG Select 4.5% Decrement Index
- MSCI World Health Care Top ESG Select Index
- MSCI World Health Care Top ESG Select 4.5% Decrement Index

The MSCI Top ESG Select Indexes (‘the Indexes’) aim to represent the performance of a set of stocks that have a relatively robust ESG profile from underlying market capitalization weighted indexes (‘the Parent Indexes’).

The MSCI Top ESG Select Decrement Indexes aims to represent the performance of the MSCI Top Select Screens Indexes, while applying a constant markdown (‘synthetic dividend’) on an annual basis, expressed as a percentage of performance.

## 2. Constructing the Indexes

### 2.1 Underlying Universe

The Indexes are constructed from their respective Parent Indexes, as shown in the table below.

Index Name	Parent Index
MSCI World Top ESG Select Index	MSCI World
MSCI World Top ESG Select 4.5% Decrement Index	
MSCI Europe Top ESG Select Index	MSCI Europe
MSCI Europe Top ESG Select 4.5% Decrement Index	
MSCI EM Top ESG Select Index	MSCI Emerging Markets
MSCI EM Top ESG Select 5% Decrement Index	
MSCI Asia Pacific Top ESG Select Index	MSCI Asia Pacific
MSCI Asia Pacific Top ESG Select 5% Decrement Index	
MSCI North America Top ESG Select Index	MSCI North America
MSCI North America Top ESG Select 4.5% Decrement Index	
MSCI World Health Care Top ESG Select Index	MSCI World Health Care
MSCI World Health Care Top ESG Select 4.5% Decrement Index	

### 2.2 Eligibility Criteria

The Indexes use company ratings and research provided by MSCI ESG Research<sup>1</sup> to determine eligibility for Index inclusion.

- Liquidity Criteria**

Securities with 3-month ADTV greater than or equal to USD 10 Million are eligible for inclusion in the MSCI Top ESG Select Indexes. ADTV is defined as Average Daily Traded Volume and is calculated as:

$$ADTV_{3m} = \frac{ATV_{3M}}{252}$$

<sup>1</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.

Where  $ATV_{3M}$  is the annualized 3-month Average Traded Volume<sup>2</sup> of the security.

To avoid multiple securities of the same company in the final index, only the most liquid security for each issuer per its 3-month ADTV is eligible for inclusion in the Index. For any issuer, if two securities have the same 3-month ADTV, the one with the higher free float-adjusted market capitalization is included.

## • 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 4 or above to be eligible for inclusion in the Indexes.

## • 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 I for details on these criteria.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Conventional Weapons
- Tobacco
- Gambling
- Nuclear Power
- Thermal Coal Mining
- Unconventional Oil & Gas
- Conventional Oil & Gas Extraction

In addition to the above screens,

- Companies that fail to comply with the United Nations Global Compact principles (UN Global Compact Alignment value of “fail”) are excluded.

<sup>2</sup> The MSCI Index Calculation Methodology and the MSCI Global Investable Market Indexes Methodology are available at <http://www.msci.com/index-methodology>.

- **ESG Score Eligibility**

The remaining securities from above are subsequently ranked based on their ESG Scores and the top 50% securities that exhibit the highest Industry-Adjusted ESG Scores are selected. In case two securities have the same Industry-Adjusted ESG Score, the security with higher free float market capitalization is selected.

## 2.3 Weighting Scheme

The remaining securities from the above are assigned weights in proportion to their free float adjusted market capitalization.

Additionally, security weights are capped at 5%. At each rebalance, if the weight of any security in the Index is greater than 5%, its weight will be capped at 5%.

## 2.4 Applying the Decrement

The MSCI Decrement Indexes Methodology<sup>3</sup> is applied on the Indexes to construct the MSCI Top ESG Select Decrement Indexes.

Please refer to Appendix II for details on the parameters used to construct each Decrement Index.

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<sup>3</sup> Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>

### 3. Maintaining the Indexes

#### 3.1 Quarterly Index Reviews

The Indexes are reviewed on a quarterly basis to coincide with the regular Semi-Annual and Quarterly Index Reviews of the MSCI Global Investable Market Indexes. The changes are generally implemented as of the close of the last business day of February, May, August and November. The pro forma Index is 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, April, 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.

#### 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. 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

##### 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 not be added to the Index at the time of event implementation.

##### 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 book.

The MSCI Corporate Events methodology book is available at:

<https://www.msci.com/index/methodology/latest/CE>



## 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 provides climate data and 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.

- **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: Controversial Business Involvement Criteria

The Indexes are constructed with an aim to reflect the performance of companies that are consistent with specific values- and climate change-based criteria

### Compliance with the UN Global Impact Principles

- All companies that fail to comply with the United Nations Global Compact principles are excluded. In this filter, activities are not classified under any specific tolerance level

### Value-based Exclusions Criteria

- **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) according to MSCI Ex-Controversial Weapons Indexes are excluded.

- **Nuclear Weapons**

- All companies involved in the production of nuclear weapons, exclusive and dual-use delivery platform capable to delivery such products, intended and dual-use components of such products, services provided for such products, or involved indirectly through ownership ties to companies involved in such products or services. The value is “True” if one or more of the underlying involvement factors is “True.”

- **Civilian Firearms**

- All companies involved in the production or retail of civilian firearms intended for civilian use, ammunition for such products, or involved indirectly through ownership ties to companies involved in such products or services.

- **Conventional Weapons**

- All companies deriving more than 10% revenue (or, where not disclosed, maximum estimated revenue) from conventional weapons or components for such products.

- **Tobacco**

- All companies deriving any revenue from the production, distribution or retail of tobacco products, as a licensor of brand names for tobacco products, or as a supplier for tobacco products. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.

- **Gambling**

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

- **Nuclear power**

- All companies deriving any revenue, or maximum estimated revenue, from nuclear power and related activities.

**Climate Change-based Exclusions Criteria**

- **Thermal Coal Mining**

- All companies deriving any revenue from the mining of thermal coal are excluded.

- **Unconventional Oil & Gas**

- All companies deriving any revenue (either reported or estimated) from unconventional oil and gas production. It includes revenue from the production of oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane, as well as revenue from onshore or offshore oil and gas production in the Arctic region. It excludes revenue from conventional oil and gas production including deepwater, shallow water, and other onshore/offshore oil and gas.

- **Conventional Oil & Gas Extraction**

- All companies deriving any revenue (either reported or estimated) from conventional oil and gas production.
- The Conventional Oil & Gas Extraction revenue includes revenue from the production of deep water, shallow water, and other onshore/offshore oil and gas. It excludes revenue from unconventional oil and gas production (oil sands, shale oil, shale gas) and onshore/offshore oil and gas production in the Arctic region.

## Appendix II: Parameters used for the MSCI Decrement Indexes Methodology

	MSCI Decrement Indexes Methodology Parameters	MSCI World Top ESG Select 4.5% Decrement Index	MSCI Europe Top ESG Select 4.5% Decrement Index	MSCI EM Top ESG Select 5% Decrement Index	MSCI Asia Pacific Top ESG Select 5% Decrement Index	MSCI North America Top ESG Select 4.5% Decrement Index	MSCI World Health Care Top ESG Select 4.5% Decrement Index
<b>Parameters</b>							
1	Currency of Calculation	EUR	EUR	EUR	EUR	EUR	EUR
2	Return Variant of the MSCI Top ESG Select Index	Daily Net Total Return	Daily Net Total Return	Daily Net Total Return	Daily Net Total Return	Daily Net Total Return	Daily Net Total Return
3	Decrement Type	Fixed Percentage	Fixed Percentage	Fixed Percentage	Fixed Percentage	Fixed Percentage	Fixed Percentage
4	Decrement Application	Geometric	Geometric	Geometric	Geometric	Geometric	Geometric
5	Decrement Value	4.5%	4.5%	5%	5%	4.5%	4.5%
6	Day-count Convention	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
7	Index Floor	0	0	0	0	0	0
8	Decrement Frequency	Daily	Daily	Daily	Daily	Daily	Daily

## Appendix III: 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>
- MSCI Capped Indexes Methodology – <https://www.msci.com/index/methodology/latest/Capped>
- 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 IV: Changes to this Document

Methodology Book Tracked Changes

First Version reviewed and published in July 2021.

### The following modifications have been modified as of September 2021:

- Section 3.4: MSCI Asia Pacific Top ESG Select Index
  - Addition of section
- Section 3.5: MSCI North America Top ESG Select Index
  - Addition of section
- Appendix 5: Parameters used for the MSCI Asia Pacific Top ESG Select 5% Decrement Index
  - Addition of section
- Appendix 6: Parameters used for the MSCI North America Top ESG Select 4.5% Decrement Index
  - Addition of section

### The following modifications have been modified as of January 2025:

- Section 1: Introduction:
  - Rewritten to describe all the regions in a unified manner
- Section 2: Constructing the Indexes now comes before Section 4: ESG Research Framework
- Section 2: Constructing the Indexes
  - Rewritten to describe all the regions in a unified manner
- Sections 2.2.1: Liquidity Criteria
  - Moved footnote 2 from the formula to the text for clarity
- Appendix I: Controversial Business Involvement Criteria
  - Updated the screens and descriptions and removed the redundant oil sands screen
- Appendix II: Parameters used for the MSCI Decrement Indexes
  - Addition of section
- Appendix III: Methodology Set
  - Addition of section

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