

Consultation on Potential Enhancements to the MSCI SRI Indexes Methodology

NOVEMBER 2024

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Summary

- MSCI proposes to enhance the MSCI SRI Indexes methodology to address the following:
 1. Regulatory considerations, specifically the ESMA Fund Naming Rules, as reflected through screening,
 2. Latest thinking on the exclusions criteria,
 3. High observed turnover driven by the underlying MSCI ESG Ratings data, and
 4. High level of concentration driven by large single stocks in certain regions/countries.

On the back of these considerations, MSCI is putting forward three proposals:

- Proposal 1: Revisit and update the exclusions criteria
 - Proposal 2: Remove ESG Ratings Trend from ranking and AA prioritization from selection
 - Proposal 3: Integrate a concentration control mechanism
- MSCI additionally seeks feedback from market participants on 1) the relevance of the region building blocks of the MSCI Emerging Markets (EM) SRI Index, and 2) the approach to reducing the carbon footprint of the MSCI SRI Indexes.
 - MSCI invites feedback from market participants on or before **December 13, 2024** and will announce the results of the consultation as well as the implementation timeline by the end of **January 2025**.

Summary of Proposed Enhancements to the MSCI SRI Indexes Methodology

No.	Proposed Enhancements	What the Proposal Aims to Achieve
1	Revisit and Update the Exclusions Criteria related to certain business activities	Reflect investors' regulatory considerations, such as ESMA Fund Naming Rules, as well as ensure that the exclusions criteria are up-to-date and relevant
2	Remove ESG Ratings Trend from the ranking logic and AA from the Top 25% selection prioritization	<ul style="list-style-type: none"> • Reduce unnecessary turnover and reverse turnover resulting from ESG Ratings Trend • Limit the impact of the upward trend of MSCI ESG Ratings
3	Integrate a concentration control mechanism	<ul style="list-style-type: none"> • Reduce concentration by adjusting the weight of large securities and allowing for the addition of more eligible securities • Maintain 25% coverage target by sectors • Maintain regional building blocks

Proposal 1: Revisit and Update the Exclusions Criteria

OVERVIEW OF PROPOSAL AND SIMULATIONS

Proposal 1

Summary of Proposed Enhancements to the Exclusions Criteria

No.	Proposed Enhancements & Discussion Points	What the Proposals / Discussion Points Aims to Achieve
1a	Proposal: Introduce new exclusions screens	<ul style="list-style-type: none"> - Add the fossil fuel-based activity screens as per the EU LCBR* Article 12(1) a-g to address the ESMA Fund Naming considerations: <ul style="list-style-type: none"> • Select Oil and Gas Activities (Distribution/Retail, Equipment & Services, Extraction & Production, Pipelines & Transportation) • Fossil Fuel-based Power Generation - Add screens that are in line with biodiversity- and/or nature-related considerations: <ul style="list-style-type: none"> • Arctic Oil & Gas Extraction • Palm Oil Production
1b	Discussion Point: Review the existing business involvement screens	<ul style="list-style-type: none"> - Adjust the aggregate Weapons threshold from 15% to 10% to address German BVI minimum exclusions standards on weapons - Include screen on Thermal Coal Reserves to reinforce the Fossil Fuel Reserves Ownership criterion
1c	Discussion Point: Introduce new human rights specific screens	<p>Add the following screens that are in line with human rights-related considerations:</p> <ul style="list-style-type: none"> - Predatory Lending - For Profit Prisons - Human Rights Concerns-related Controversy - Labor Rights Supply Chain-related Controversy

Proposal 1a

Introduce New Exclusions Screens

Proposals	Details	Simulated Additional Exclusions from MSCI ACWI SRI (data as of Sep 2024)
Proposed: Add PAB-based activity exclusions	<p>Add exclusions as per the EU PAB Overlay Indexes Methodology*</p> <ul style="list-style-type: none"> - Oil & Gas Distribution / Retail + Equipment & Services + Extraction & Production + Pipelines & Transportation + Refining $\geq 10\%$ - Fossil Fuel-based Power Generation $\geq 50\%$ 	<p>Aggregate Count & Weight: 39 stocks with 3.88% total weight (no impact for the Power Generation criterion):</p> <ul style="list-style-type: none"> Canadian National Railway (Canada: 0.38%) Phillips 66 (USA: 0.33%) National Grid (UK: 0.29%) Valero Energy Corp (USA: 0.28%)
Optional: Use granular Oil & Gas activity exclusions subject to index input data due diligence	<p>Add the PAB-based activity exclusions but with distinct screens for Oil vs. Gas:</p> <ul style="list-style-type: none"> - Oil Distribution + Exploration + Extraction & Production + Pipelines & Transportation + Refining $\geq 10\%$ - Gas Distribution + Exploration + Extraction & Production + Pipelines & Transportation + Refining $\geq 50\%$ 	tbc**
Proposed: Nature-related considerations	<p>Add biodiversity- and/or nature-related considerations:</p> <ul style="list-style-type: none"> - Arctic Oil & Gas Extraction $> 0\%$ Threshold set at 0% to align with existing Fossil Fuel extraction screen (Thermal Coal + Unconventional Oil & Gas) - Palm Oil Production $\geq 5\%$ 	<p>Aggregate Weight: 0.01%</p> <ul style="list-style-type: none"> Kuala Lumpur Kepong (Malaysia)

Discussion Point 1b

Review the Existing Business Involvement Screens

Discussion Points	Details	Simulated Additional Exclusions from MSCI ACWI SRI (data as of Sep 2024)
Discussion: Adjust the Aggregate Weapons threshold	<p>Adjust the threshold from 15% aggregate weapons to 10%, in line with minimum standards for weapons referenced by local fund industry regulations in the EU, such as German regulation from BVI*.</p> <p>Previous: 5% Conventional Weapons & Components OR 15% Aggregate Weapons (Conventional, Nuclear, Bio/Chem)</p> <p>New: 5% Conventional Weapons & Components OR 10% Aggregate Weapons</p>	No impact
Discussion: Include Thermal Coal Reserves to the Reserves Ownership screen	<p>Add Thermal Coal Reserves Evidence to the existing screen applied on Fossil Fuel Reserves for Energy Application, to strengthen the Reserves Ownership screen, in case of companies not flagged for energy application.</p> <ul style="list-style-type: none"> - Thermal Coal Reserves = True 	No impact

Discussion Point 1c

Introduction of Human Rights-specific Screens

Discussion Points	Details	Simulated Additional Exclusions from MSCI ACWI SRI (data as of Sep 2024)
<p>Discussion: Add human rights-specific exclusions screens</p>	<p>Predatory Lending $\geq 5\%$</p>	<p>No impact</p>
	<p>Highly Restrictive: For Profit Prisons Operations & Services = True OR For Profit Prisons Aggregate $\geq 5\%$</p>	<p>Aggregate Weight: 0.07% Secom Co (Japan)</p>
	<p>Human Rights Concerns Score ≤ 1 (Red or Orange) - Topics: detainment of ethnic minorities, human rights violations or abuses, forced displacement, poor living conditions or abuse in detainment centers, etc.</p>	<p>No impact</p>
	<p>Labor Rights Supply Chain Labor Standards ≤ 1 (Red or Orange) - Topics: forced labor by suppliers employing ethnic minorities, gender-based violence and harassment of female supply chain workers, failure to provide wages to garment supply factory workers, etc.</p>	<p>No impact</p>

Proposal 1: Update of Exclusions Criteria > Transitioning the Indexes

Assuming transition of the indexes in May 2024 to coincide with the May Annual Index Review when the SRI indexes are fully rebalanced, almost all the simulated regional indexes would have had higher turnover due to the addition of the PAB-based activity screens compared to their corresponding live indexes.

Note: The simulations apply the proposed PAB-based Activities, Arctic Oil & Gas Extraction, and Palm Oil Production screens (see Slide 6)

	ACWI		World		EM		USA		Canada	
	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition
Turnover	25.2	28.7	27.3	31.1	9.2	9.4	33.0	36.7	9.8	25.7
No. of stocks added	114	118	69	75	44	43	31	30	5	8
No. of stocks deleted	103	138	76	98	27	40	21	33	3	7

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition	Current	Proposal 1 Transition
Turnover	17.2	19.5	17.5	17.6	9.2	9.2	9.5	16.8	8.9	11.8
No. of stocks added	17	21	16	16	36	35	4	4	4	4
No. of stocks deleted	29	33	23	25	21	28	4	7	2	5

Proposal 2: Remove ESG Trend from Ranking and AA from Selection

OVERVIEW OF PROPOSAL AND SIMULATIONS

Recap: Current SRI Indexes Ranking and Selection

RANKING CRITERIA PER SECTOR BASED ON SECTION 3.1.2 OF THE INDEX METHODOLOGY*



SELECTION RULES PER SECTOR AS PER SECTION 3.1.3



Proposal 2: Removal of ESG Ratings Trend in Ranking + AA Prioritization in Selection

RANKING

Proposal 2a



SELECTION RULES PER SECTOR AS PER SECTION 3.1.3

Proposal 2b



Proposal 2:

Removal of ESG Ratings Trend in Ranking and AA in Top 25% Bucket

General Observation: A notable **upward trend in issuer ESG Ratings**¹ was observed, as well as **greater uptick in ESG Rating changes**²

ESG Ratings Trend in Ranking

- Similar to what was observed for the MSCI ESG Leaders Indexes, we have also seen **high index turnover due to ESG Ratings Trend** in the ranking logic for MSCI SRI indexes in recent rebalances.
- Moreover, we note that the higher priority for ESG Ratings Trend may result in the non-selection of longstanding ESG Leaders (AAA-AA) companies.
- The proposed removal would result in reduced turnover while maintaining the overall ESG characteristics.

+ AA Prioritization in Selection

- Including AA in the Top 25% selection bucket limits the turnover mitigation effect of the 3rd selection bucket (current constituents in Top 32.5%) considering that the 25% coverage is often already filled with only AAA- and AA-rated companies.
- AA-rated companies will continue to be eligible for selection in the first and third buckets based on the ranked universe
- When combined with the removal of ESG Ratings Trend in ranking, the removal of AA prioritization in Selection would result in further reduction in turnover.

Proposal 2: Combined Removal of ESG Ratings Trend and AA in Top 25% Bucket

Key Metrics

	MSCI ACWI Index	Simulated* ACWI SRI	Simulated* ACWI SRI Ex Trend	Simulated* ACWI SRI Ex AA and Ex Trend
Total Return* (%)	10.2	11.5	13.9	14.5
Total Risk (%)	17.2	17.5	17.5	17.5
Return / Risk	0.59	0.66	0.79	0.83
Sharpe Ratio	0.46	0.53	0.66	0.70
Active Return (%)	0.0	1.2	3.7	4.3
Tracking Error (%)	0.0	3.1	3.2	3.1
Information Ratio		0.41	1.15	1.39
Historical Beta	1.00	1.00	1.00	1.01
Number of Constituents***	2913	571	479	454
Turnover** (%)	2.9	18.3	14.4	12.5

Period: May 31, 2018 to Jun 28, 2024. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Integration, Values and Norms

	MSCI ACWI Index	Simulated* ACWI SRI	Simulated* ACWI SRI Ex Trend	Simulated* ACWI SRI Ex AA and Ex Trend
Integration				
ESG Score	6.8	8.6	8.6	8.6
ESG Leaders (AAA-AA) (%)	45.2	84.6	92.4	89.5
ESG Laggards (B-CCC) (%)	3.3	0.0	0.0	0.0
ESG Trend Positive (%)	12.1	8.9	3.8	4.0
ESG Trend Negative (%)	13.0	2.7	2.3	2.3
Environmental Pillar Score	6.0	6.5	6.7	6.8
Social Pillar Score	5.1	6.2	6.2	6.0
Governance Pillar Score	5.7	6.5	6.4	6.3

As of June 28, 2024.

Proposal 2:

Removal of ESG Ratings Trend and AA Prioritization > Live Index* Simulations

	ACWI		World		EM		USA		Canada	
	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2
Active Return (%)	1.9	2.1	1.5	1.7	4.4	4.5	2.7	3.0	-8.1	-7.5
Tracking Error (%)	3.4	3.6	3.7	3.8	5.6	5.6	4.9	5.0	6.2	6.8
Turnover (%)	21.1	16.6	21.4	16.8	18.9	15.7	23.0	19.9	29.0	24.8
ESG Score	8.6	8.7	8.7	8.7	8.2	8.2	8.5	8.6	8.3	8.4
ESG Leaders (AAA-AA) (%)	84.0	85.0	86.0	87.0	68.0	69.6	80.0	81.3	94.7	96.3
Index ESG Rating	AAA	AAA	AAA	AAA	AA	AA	AA	AA	AA	AA

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2	Current	Proposal 2
Active Return (%)	2.8	2.8	-1.3	-1.2	6.5	6.8	-1.5	-1.3	-1.4	-2.2
Tracking Error (%)	3.8	3.9	3.2	3.9	7.1	7.1	7.6	7.6	10.7	10.6
Turnover (%)	16.2	11.3	26.6	13.2	17.6	14.4	22.0	19.0	28.9	25.0
ESG Score	9.2	9.2	8.7	8.8	8.3	8.4	7.2	7.2	7.6	7.5
ESG Leaders (AAA-AA) (%)	100.0	100.0	99.3	100.0	71.9	72.8	44.7	49.1	53.6	57.5
Index ESG Rating	AAA	AAA	AAA	AAA	AA	AA	AA	AA	AA	AA

* Indexes are simulated using the current methodology effective from May 2018

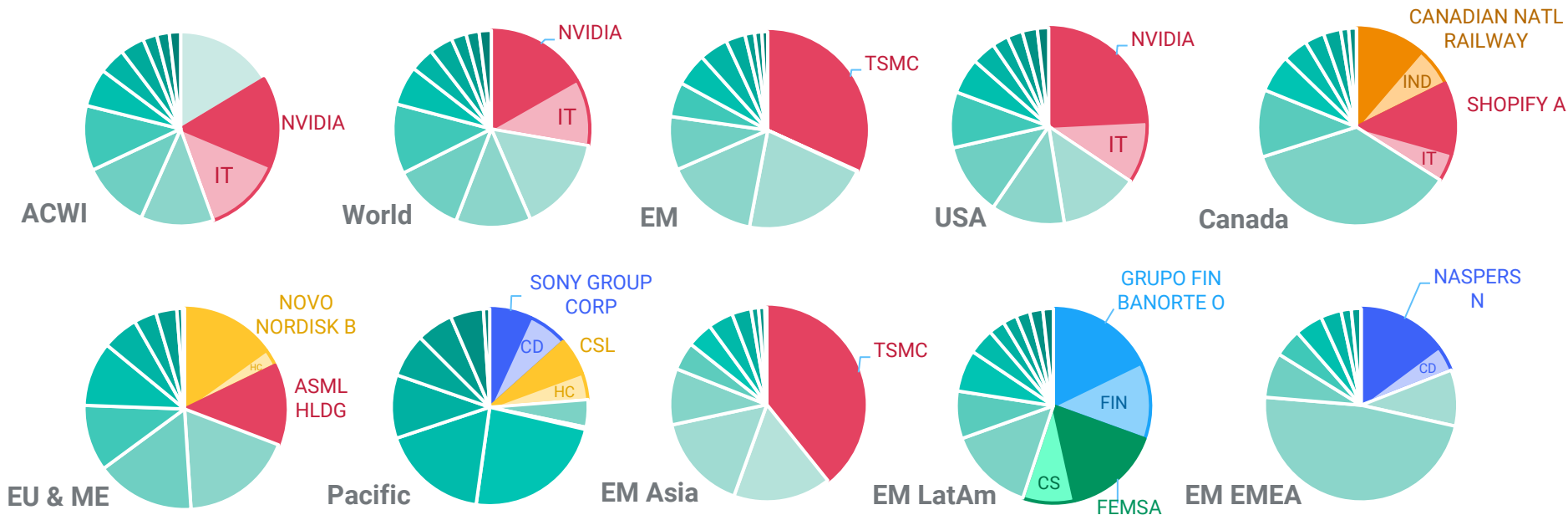
1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 31, 2018 to Jun 28, 2024; 2. ESG Metrics (ESG Score, ESG Leaders, and Index ESG Rating) are as of June 28, 2024

Proposal 3: Integrate a Concentration Control Mechanism

OVERVIEW OF PROPOSAL AND SIMULATIONS

Concentration of MSCI SRI Indexes

Given the simple market cap weighting scheme and the 25% target coverage of the MSCI SRI Indexes Methodology, some regional or country indexes exhibit high concentration, with single stocks dominating the sector allocation.



Proposal 3

Integrate a Concentration Control Mechanism

The proposed concentration control mechanism aims to reduce concentration, better controlling turnover when a large stock is deleted from the SRI index, without interfering with the sector representation objective of the SRI methodology. The mechanism targets (rather than guarantees) a maximum weight for large securities based on their weight in the parent index.

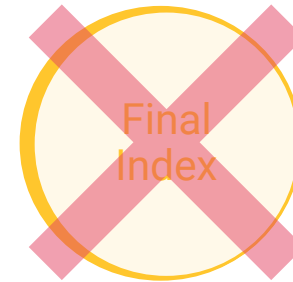
THE 3 KEY SRI INDEX CONSTRUCTION STEPS WHERE THE MECHANISM COULD BE APPLIED



*Applied Pre-selection:
applied to large securities even
if these are not selected, which
can create unnecessary
redistribution effect*



*Proposal –
Integrated into the
selection process: applied
only to large securities
that are selected*



*Applied Post-selection:
may distort sector weights (if
redistributed to all securities) or
result in large active security
weights (if redistributed only to
securities in same sector)*

Proposal 3

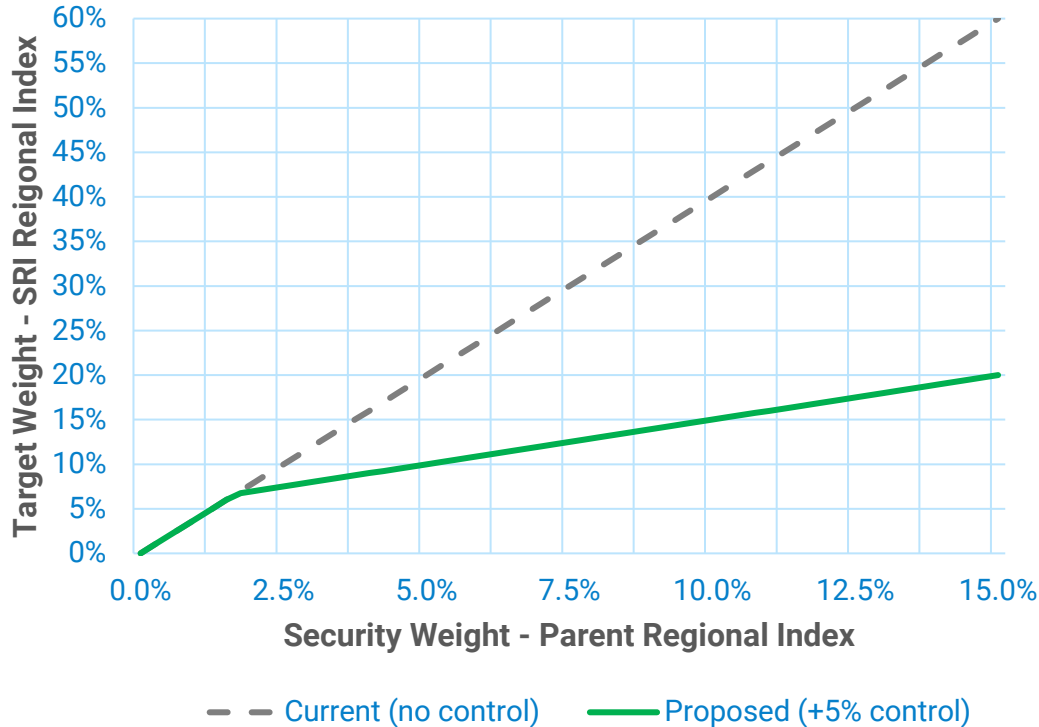
Integrate a Concentration Control Mechanism > Overview

Proposal	
Objectives	<ul style="list-style-type: none"> Effectively control for high concentration in SRI indexes. Maintain the objective of 25% coverage of each sector in each region*. Favor the inclusion of additional eligible securities vs. increasing the weight of existing securities. Retain opportunity for all selected securities to be significantly upweighted vs. the parent index.
Proposed Mechanism	<ul style="list-style-type: none"> Limit the weight of large securities as part of the sector-level selection process in each region*. Allow additional eligible securities to be selected to reach the 25% sector coverage target. Maintain the same relative weight between securities when aggregating regional indexes to build global indexes (e.g., World SRI, EM SRI, ACWI SRI). Apply the mechanism during the May annual index reviews of SRI indexes, as well as the quarterly index reviews in February, August and November.
Target Weight	<ul style="list-style-type: none"> Target a security weight of not more than +5% versus weight in the parent regional index.

* DM regions: USA, Canada, Pacific, Europe & Middle East; EM regions: EM Asia, EM EMEA, EM Latin America

Proposal 3

Integrate a Concentration Control Mechanism > Graphical Representation



- The **current methodology** targets security weights of 4 times their weight in the parent index (due to the 25% coverage target).
- The **proposed methodology** targets security weights of 4 times their weight in the parent index OR the parent index weight + 5%, whichever is smaller. The 2nd condition is only relevant for large securities (weight greater than ~1.7% in the parent regional index).

Proposal 3

Integrate a Concentration Control Mechanism > Illustration > USA

Within the **IT sector of the USA building block**, the mechanism results in a controlled weight for NVIDIA, allowing for the addition of MICROSOFT (MSFT) to reach the 25% coverage target (the weight of MSFT is also controlled).

Security	Parent Weight	ESG Rating	Combined Proposal 1-2			Combined Proposal 1-2-3		
			Sector Coverage	Cumulative Coverage	SRI Weight	Sector Coverage	Cumulative Coverage	SRI Weight
ADOBE	0.46%	AAA	1.53%	1.53%	1.99%	1.53%	1.53%	1.97%
TEXAS INSTRUMENTS	0.39%	AAA	1.28%	2.81%	1.67%	1.28%	2.81%	1.65%
AUTODESK	0.10%	AAA	0.33%	3.14%	0.43%	0.33%	3.14%	0.43%
LAM RESEARCH CORP	0.27%	AAA	0.89%	4.03%	1.17%	0.89%	4.03%	1.15%
INTUIT	0.40%	AAA	1.32%	5.35%	1.73%	1.32%	5.35%	1.70%
WORKDAY A	0.12%	AAA	0.39%	5.74%	0.50%	0.39%	5.74%	0.50%
NXP SEMICONDUCTORS (US)	0.15%	AAA	0.50%	6.24%	0.65%	0.50%	6.24%	0.64%
APPLIED MATERIALS	0.39%	AAA	1.29%	7.53%	1.68%	1.29%	7.53%	1.66%
INTEL CORP	0.29%	AAA	0.96%	8.48%	1.25%	0.96%	8.48%	1.23%
KEYSIGHT TECHNOLOGIES	0.05%	AAA	0.18%	8.66%	0.24%	0.18%	8.66%	0.23%
NVIDIA	5.12%	AAA	16.86%	25.52%	22.00%	8.33%	16.99%	10.74%
MICROSOFT CORP	6.50%	AA	-	-	-	9.47%	26.46%	12.21%

Proposal 3

Integrate a Concentration Control Mechanism > Illustration > EM Asia

Within the **IT sector of the EM Asia building block**, the mechanism results in a controlled weight for TAIWAN SEMICONDUCTOR MFG (TSMC), allowing for the addition of 11 securities to reach the 25% coverage target.

Security	Parent Weight	ESG Rating	Combined Proposal 1-2			Combined Proposal 1-2-3		
			Sector Coverage	Cumulative Coverage	SRI Weight	Sector Coverage	Cumulative Coverage	SRI Weight
TAIWAN SEMICONDUCTOR MFG	10.64%	AAA	37.29%	37.29%	40.13%	13.70%	13.70%	16.71%
ACER	0.07%	AAA	-	-	-	0.25%	13.96%	0.31%
INFOSYS	0.95%	AA	-	-	-	3.32%	17.28%	4.05%
HCL TECHNOLOGIES	0.25%	AA	-	-	-	0.89%	18.17%	1.08%
DELTA ELECTRONICS THAI	0.11%	AA	-	-	-	0.37%	18.54%	0.45%
SUNNY OPTICAL TECH	0.07%	AA	-	-	-	0.23%	18.77%	0.28%
UNITED MICROELECTRONICS	0.31%	AA	-	-	-	1.09%	19.87%	1.33%
DELTA ELECTRONICS	0.32%	AA	-	-	-	1.12%	20.98%	1.36%
LITE-ON TECHNOLOGY CORP	0.10%	AA	-	-	-	0.37%	21.35%	0.45%
KINGDEE INTL SOFTWARE	0.05%	AA	-	-	-	0.19%	21.54%	0.23%
SAMSUNG ELECTRO-MECH. CO	0.11%	A	-	-	-	0.38%	21.91%	0.46%
SK HYNIX	1.28%	A	-	-	-	4.47%	26.38%	5.45%

Combined Simulations



Summary of Proposals

1. Introduction of new Exclusions Criteria
 - a) Add PAB-based activity exclusions
 - b) Add biodiversity/nature-related considerations, including Arctic Oil & Gas Extraction and Palm Oil Production
2. Removal of the following elements in the Ranking and Selection
 - a) ESG Ratings Trend in ranking, and
 - b) AA prioritization in Top 25% selection
3. Integration of a concentration control mechanism into the Selection step, with a target maximum active security weight of +5% vs. weight in parent index

Combined Proposals > Live Index* Simulations (1/3)

	ACWI			World			EM		
	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3
Active Return (%)	1.9	2.6	2.1	1.5	2.3	1.9	4.4	5.0	3.0
Tracking Error (%)	3.4	3.9	3.4	3.7	4.1	3.8	5.6	5.7	5.1
Turnover (%)	21.1	16.6	16.4	21.4	16.9	16.0	18.9	15.5	20.0
Number of Constituents (Avg)	570	517	543	393	352	360	177	165	183
Top 10 Constituents Weight (%)	28.5	30.1	24.9	30.1	31.9	27.9	47.3	48.2	35.5
Max. Constituent Weight	9.7	10.2	5.8	10.9	11.5	6.6	25.4	25.8	12.2
Max. Active Sector Weight (%)	12.5	12.5	12.4	12.7	12.6	12.9	16.0	16.8	17.5
Sector with largest overweight	IT	IT	IT	IT	IT	IT	IT	IT	Financials
Min. Active Sector Weight (%)	-6.8	-6.8	-6.8	-7.1	-7.0	-7.1	-8.4	-8.7	-8.7
Sector with largest underweight	Comm Serv	Energy	Energy	Comm Serv	Comm Serv	Comm Serv	Comm Serv	Energy	Energy
ESG Score	8.6	8.7	8.4	8.7	8.8	8.5	8.2	8.2	7.7
Index ESG Rating	AAA	AAA	AA	AAA	AAA	AA	AA	AA	AA
ESG Leaders (AAA-AA) (%)	84.0	86.4	86.0	86.0	88.5	88.5	68.0	69.9	63.8
Carbon Intensity to EVIC - Scope 1 + 2 + 3	191	149	152	184	142	142	240	197	237
Carbon Intensity Reduction	46%	58%	57%	43%	56%	56%	61%	68%	61%

* Indexes are simulated using the current methodology effective from May 2018

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 31, 2018 to Jun 28, 2024; 2. ESG Metrics (ESG Score, ESG Leaders, and Index ESG Rating) are as of June 28, 2024

Combined Proposals > Live Index* Simulations (2/3)

	USA			Canada			Europe & Middle East			Pacific		
	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3
Active Return (%)	2.7	3.4	2.1	-8.1	-5.3	-1.8	2.8	3.5	3.1	-1.3	-1.1	-1.0
Tracking Error (%)	4.9	5.3	4.7	6.2	8.7	6.2	3.8	4.1	3.8	3.2	3.9	3.8
Turnover (%)	23.0	20.4	16.9	29.0	22.0	20.7	16.2	11.0	12.2	26.6	12.8	13.5
Number of Constituents (Avg)	143	124	130	24	20	22	123	112	113	103	96	96
Top 10 Constituents Weight (%)	46.1	48.7	41.7	77.3	80.5	74.1	39.1	41.4	39.8	38.8	39.8	38.7
Max. Constituent Weight	16.8	17.7	9.8	19.1	21.3	12.2	8.7	9.0	7.3	7.7	7.7	6.7
Max. Active Sector Weight (%)	18.4	19.8	19.8	16.9	19.8	13.1	7.2	7.0	6.9	7.2	5.2	5.0
Sector with largest overweight	IT	IT	IT	IT	IT	Materials	IT	IT	IT	Financials	Financials	Health Care
Min. Active Sector Weight (%)	-10.7	-10.7	-10.7	-15.9	-20.9	-20.6	-6.0	-8.6	-8.6	-3.6	-3.2	-2.9
Sector with largest underweight	Comm Serv	Comm Serv	Comm Serv	Energy	Energy	Energy	Energy	Energy	Energy	Industrials	Industrials	Industrials
ESG Score	8.5	8.6	8.4	8.3	8.2	8.1	9.2	9.2	9.2	8.7	8.8	8.8
ESG Leaders (AAA-AA) (%)	80.0	84.0	84.8	96.1	89.9	90.2	100.0	98.8	98.7	100.0	100.0	100.0
Index ESG Rating	AA	AAA	AA	AA	AA	AA	AAA	AAA	AAA	AAA	AAA	AAA
Carbon Intensity to EVIC - Scope 1 + 2 + 3	165	98	98	231	282	272	158	143	154	357	424	439
Carbon Intensity Reduction	30%	59%	59%	61%	52%	54%	68%	71%	69%	38%	26%	24%

* Indexes are simulated using the current methodology effective from May 2018

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 31, 2018 to Jun 28, 2024; 2. ESG Metrics (ESG Score, ESG Leaders, and Index ESG Rating) are as of June 28, 2024

Combined Proposals > Live Index* Simulations (3/3)

	EM Asia			EM Latin America			EM EMEA		
	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3	Current	Combined Proposal 1-2	Combined Proposal 1-2-3
Active Return (%)	6.5	7.2	4.0	-1.5	-0.6	-1.7	-1.4	-2.4	-1.2
Tracking Error (%)	7.1	7.2	6.3	7.6	7.8	7.2	10.7	11.2	11.5
Turnover (%)	17.6	14.1	17.8	22.0	19.4	21.5	28.9	25.8	24.5
Number of Constituents (Avg)	121	116	131	23	20	23	32	29	30
Top 10 Constituents Weight (%)	58.3	58.8	45.3	73.9	79.6	72.5	67.8	71.4	65.3
Max. Constituent Weight	32.9	33.0	15.8	17.5	19.2	12.6	21.0	21.6	13.5
Max. Active Sector Weight (%)	21.3	21.5	16.2	21.6	27.9	24.3	33.2	33.9	26.7
Sector with largest overweight	IT	IT	Financials	Financials	Financials	Financials	Cons Disc	Cons Disc	Financials
Min. Active Sector Weight (%)	-9.2	-9.2	-8.3	-25.4	-25.4	-25.4	-16.2	-19.6	-19.6
Sector with largest underweight	Comm Serv	Comm Serv	Comm Serv	Materials	Materials	Materials	Energy	Energy	Energy
ESG Score	8.3	8.4	7.8	7.2	7.2	7.1	7.6	7.5	7.6
ESG Leaders (AAA-AA) (%)	71.9	72.9	66.0	44.7	50.4	41.5	53.6	57.1	61.9
Index ESG Rating	AA	AA	AA	AA	AA	AA	AA	AA	AA
Carbon Intensity to EVIC - Scope 1 + 2 + 3	216	191	238	383	146	145	329	260	277
Carbon Intensity Reduction	63%	67%	59%	60%	85%	85%	43%	55%	43%

* Indexes are simulated using the current methodology effective from May 2018

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 31, 2018 to Jun 28, 2024; 2. ESG Metrics (ESG Score, ESG Leaders, and Index ESG Rating) are as of June 28, 2024

Transitioning the Indexes > Combined Proposals

Assuming transition of the indexes in May 2024 to coincide with the May Annual Index Review when the SRI indexes are fully rebalanced, almost all regions will see reduced additions, while most broad regions (except USA) will also see reduced deletions. The net impact on deletions is a function of the combined impact of Proposal 1 (more deletions) and Proposal 2 (fewer deletions).

	ACWI		World		EM		USA		Canada	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Turnover	25.2	20.2	27.3	19.6	9.2	25.0	33.0	20.5	9.8	30.0
No. of stocks added	114	88	69	52	44	36	31	19	5	6
No. of stocks deleted	103	88	76	60	27	28	21	23	3	6
Total no. of stocks	622	611	387	386	234	225	174	160	26	24

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Turnover	17.2	19.2	17.5	7.4	9.2	27.4	9.5	25.0	8.9	10.0
No. of stocks added	17	17	16	10	36	31	4	4	4	1
No. of stocks deleted	29	19	23	12	21	19	4	6	2	3
Total no. of stocks	101	111	86	91	169	166	27	25	38	34

Other Considerations



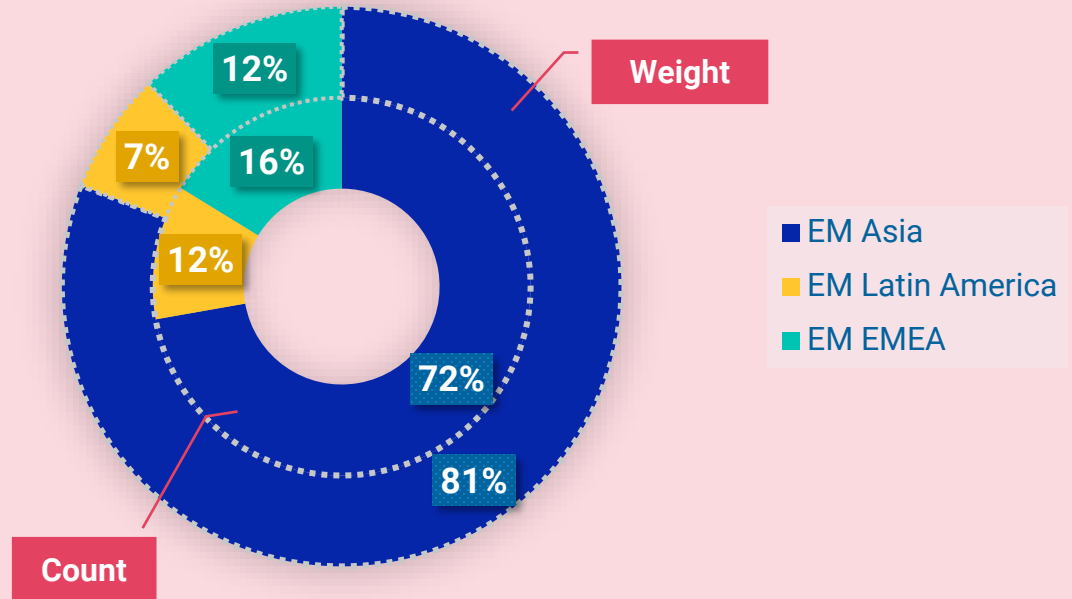
Are Region Building Blocks Essential for MSCI EM SRI Index?

The stringent exclusions criteria and the sector-by-sector selection expose some SRI indexes to large deviations from the 25% coverage target in sectors of narrow regions with few eligible stocks, or with single stocks dominating the given sector coverage. This is the case in EM where the building block approach may not be effective to achieve better regional representation.

Question:

Should we consider **removing the region building blocks** for Emerging Markets, treating EM as a single region?

MSCI EM SRI Constituents by Region



Are Region Building Blocks Essential for MSCI EM SRI Index?

Simulation for MSCI EM SRI Index

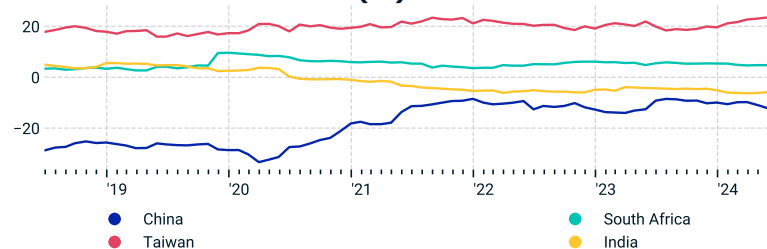
Key Metrics	MSCI EM (Emerging Markets) Index	EM SRI Current Sim	EM (single region) Current Sim
Total Return* (%)	2.4	6.8	6.7
Total Risk (%)	18.3	20.7	20.4
Return / Risk	0.13	0.33	0.33
Sharpe Ratio	0.01	0.22	0.22
Active Return (%)	0.0	4.4	4.3
Tracking Error (%)	0.0	5.6	5.4
Information Ratio		0.79	0.79
Historical Beta	1.00	1.09	1.08
Number of Constituents***	1343	177	177
Turnover** (%)	7.0	18.9	17.7

Period: May 31, 2018 to Jun 28, 2024. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

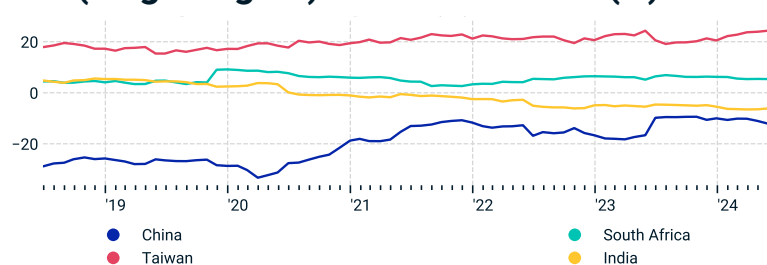
Integration	MSCI EM (Emerging Markets) Index	EM SRI Current Sim	EM (single region) Current Sim
ESG Score	5.8	8.2	8.2
ESG Leaders (AAA-AA) (%)	28.7	68.0	70.5
Index ESG Rating	A	AA	AA

As of June 28, 2024.

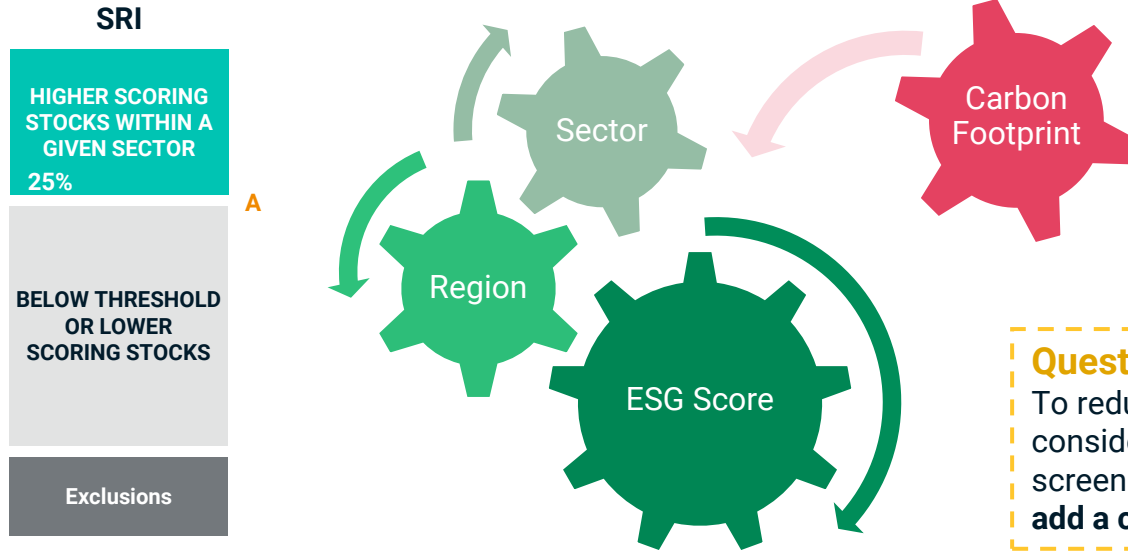
EM SRI Current Sim (%)



EM (single region) SRI Current Sim (%)



Do the MSCI SRI Indexes Require Further Carbon Reduction?



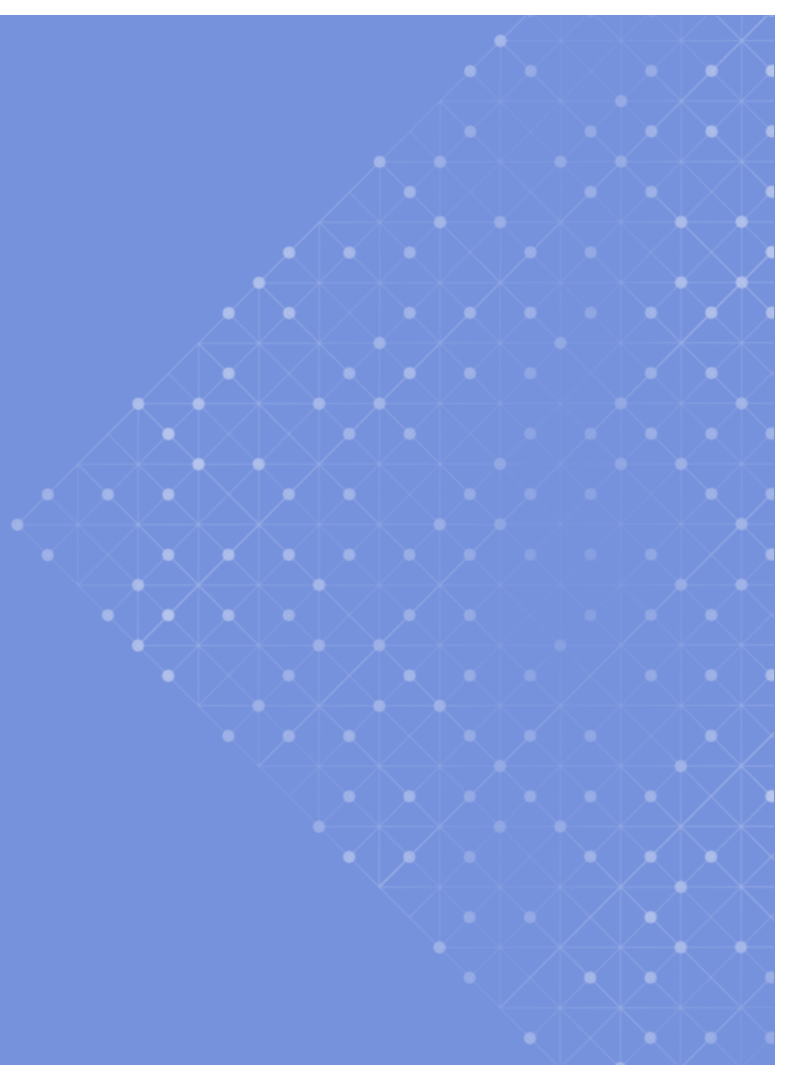
Considering the addition of the PAB-based activity screens, the carbon footprint of the MSCI SRI Indexes have seen significant carbon footprint reduction, except for a few regions.

Question:

To reduce unnecessary complexity, and considering the substantial reduction from the new screens, do you agree that it is **not necessary to add a carbon reduction mechanism**?

Carbon Reduction	ACWI	World	EM	USA	Canada	Europe & ME	Pacific	EM Asia	EM Latin America	EM EMEA
Current SRI	46%	43%	61%	30%	61%	68%	38%	63%	60%	43%
Proposed	57%	56%	61%	59%	54%	69%	24%	59%	85%	43%

Consultation Questions



Consultation Questions (1/2)

- 1. Proposal 1:** Revisit and Update the Exclusions criteria related to certain business activities
 - Do you agree with the incorporation of the **PAB screens** to address ESMA fund naming considerations?
 - Do you have preference on the use of the **granular oil and gas screens***?
 - Do you agree with adding new screens that are geared towards biodiversity-/nature-related considerations, namely **Palm Oil production and Arctic O&G extraction**?
 - Do you think it makes sense to reduce the **aggregate weapons threshold** in line with the German BVI requirements?
 - Do you have preference to incorporate an additional screen on **thermal coal reserves** to ensure coal reserves ownership is excluded regardless of application?
 - Do you think SRI should include more **human rights-specific screens**?
 - If yes, which screen/s should be considered? A) Predatory Lending, B) For Profit Prisons, C) ESG Controversy – Human Rights Concerns, and/or D) ESG Controversy – Labor Rights Supply Chain Labor Standards
- 2. Proposal 2:** Remove ESG Ratings Trend from the ranking logic and AA from the Top 25% selection prioritization
 - Do you agree with the removal of ESG Ratings Trend from the ranking logic, considering the reduced significance, impact on long-standing ESG Leaders companies and the associated turnover?
 - Considering the observed upward ESG Ratings trend, do you agree with the removal of AA in the Top 25% selection prioritization, but keeping AAA?

* These data points are currently not used in MSCI indexes, and, prior to use, will be subject to appropriate data due diligence that MSCI applies to all new data or data providers.

Consultation Questions (2/2)

3. **Proposal 3:** Integrate a concentration control mechanism into the top 25% selection step

- Is it warranted to introduce a concentration control mechanism in SRI indexes, considering that this may lead to a reduction in ESG Score for certain indexes?
- Is it appropriate to integrate the mechanism into the selection step of the index construction?
- Do you agree that the mechanism should allow for the addition of new eligible securities, rather than increasing the weight of existing constituents?
- Do you agree with the proposal to maintain the key diversification features of the SRI methodology (sector target coverage and region building blocks)?
- Do you agree with the relative approach used (weight difference vs. parent index) and the target value (+5%)?

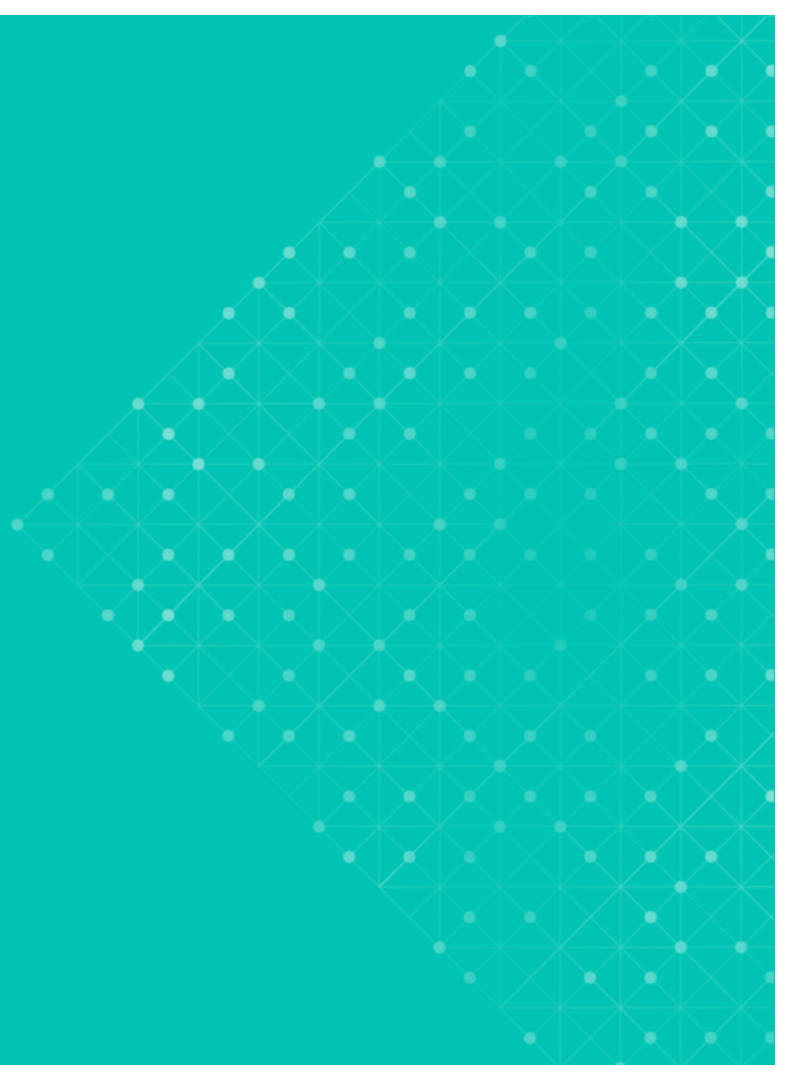
4. **Additional questions**

- MSCI EM SRI building block: do you agree that it is unnecessary to create EM SRI using a building block approach considering that it is primarily defined by EM Asia?
- Carbon reduction mechanism: do you agree that a carbon reduction mechanism is not needed, especially if the proposed additional PAB-based activity screens are implemented?

5. **Timeline of Implementation**

- If changes are made following the consultation, do you agree with an implementation timeline of May 2025 for all changes, to coincide with the next annual index review of the SRI indexes?

Appendix

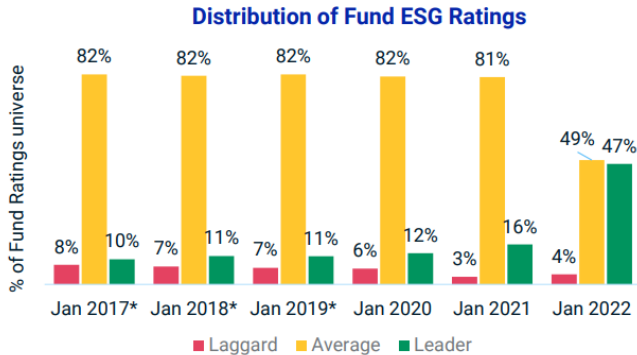


Rationale for Proposal 2

Reported Observations on MSCI ESG Ratings in Recent Years

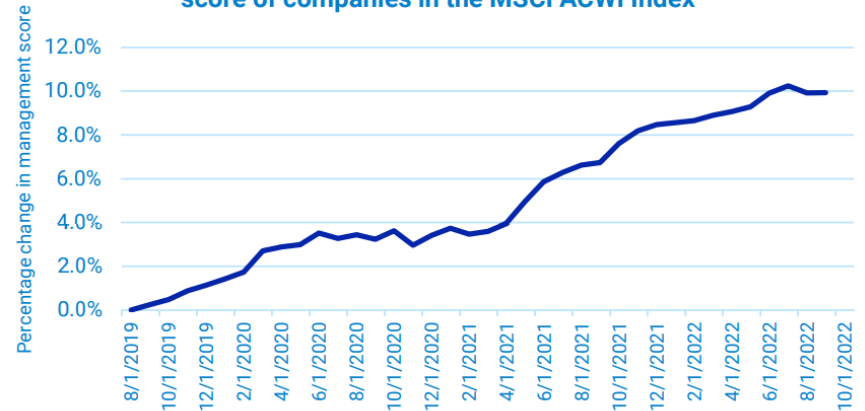
- A notable **upward trend in issuer ESG Ratings** was observed, driven by improved ESG transparency and practices.¹ In the specific fund metric use case that utilized ESG Ratings Trend, ESG Ratings Trend “amplified the trend in issuer ESG Ratings” and was **determined to have become less meaningful as a differentiator**. This led to the succeeding revision of the fund metric.

The current distribution of MSCI ESG Fund Ratings presents challenges in identifying funds with top ESG characteristics.



- In November 2023, MSCI ESG Research launched a model consultation² to introduce ESG Rating buffers considering the **greater uptick in ESG Rating changes** in recent years, resulting in a 10% increase in the weighted average management scores.

Weighted average Environment and Social management score of companies in the MSCI ACWI Index



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