

# **MSCI UK IMI Low Carbon SRI Selection Capped Index Methodology**

November 2024

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## 1. Introduction

The MSCI UK IMI Low Carbon SRI Selection Capped Index (the “Index”)<sup>1</sup> is designed to represent the performance of companies that have lower carbon exposure than that of the broad market and have high Environmental, Social and Governance (ESG) performance. The Index aims to represent the larger liquid segment of securities in the eligible equity universe above the defined size thresholds. Further, the Index also aims to avoid concentration by capping issuers within the Index to a maximum weight of 18% in accordance with the MSCI Capped Indexes methodology<sup>2</sup>.

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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 III for more details.

<sup>2</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology)

## 2. Constructing the Index

The Index uses company ratings and research provided by MSCI ESG Research<sup>3</sup> for the Index construction.

### 2.1 Defining The Parent Index

The Parent Index for the MSCI UK IMI Low Carbon SRI Selection Capped Index is the MSCI UK IMI (the "Parent Index").

### 2.2 Company Selection

The two rules described below are applied independently, and securities selected by both rules are eligible for inclusion in the index.

#### 2.2.1 Lowest Carbon Exposure Selection Rules

##### 2.2.1.1 Carbon Emissions Selection Rules

To select companies with low exposure to carbon emissions, the Parent Index constituents are ranked by the carbon emissions per dollar of the market capitalization of the company. Securities are excluded until the cumulative carbon emissions of the excluded securities reaches 50% of the sum of the carbon emission of the constituents of the Parent Index. The cumulative weight of securities excluded from any sector is less than 30% of the weight of the sector in the Parent Index. In case this limit is reached for any sector, no further securities from that sector are excluded.

##### 2.2.1.2 Potential Carbon Emission Selection Rules

To select companies with low exposure to fossil fuel reserves, the Parent Index constituents are ranked by the potential carbon emissions per dollar of the market capitalization of the company. Securities are excluded until the cumulative potential carbon emission of the excluded securities reaches 50% of the sum of the potential carbon emission of the constituents of the Parent Index.

The two screens mentioned above are applied independently.

#### 2.2.2 Highest ESG Performance Selection Rules

The MSCI ESG Leaders Indexes Methodology<sup>4</sup> is applied on the eligible universe to select the securities with the highest ESG Performance, with below two exceptions:

- Companies are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for inclusion in the Index.

<sup>3</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

<sup>4</sup> Please refer to the MSCI ESG Leaders Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology).

- The Controversial Business Involvement Criteria, as defined in section 2.2.1 (Controversial Business Involvement Criteria) of the MSCI SRI Indexes Methodology<sup>5</sup>, instead of the Controversial Business Involvement Criteria used in the MSCI ESG Leaders Indexes Methodology.

In addition to the Controversial Business Involvement Criteria defined in section 2.2.1 of the MSCI SRI Indexes Methodology, the Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities as detailed in Appendix I.

## 2.3 Size Selection

All the securities with a free float adjusted market capitalization of less than GBP 500 million are excluded from the Index.

## 2.4 Weighting Scheme

The constituents of the Index are weighted as per their free float adjusted market capitalization and then capped in accordance with the MSCI Capped Indexes Methodology where the maximum weight of any issuer in the Index is capped at 18%. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the Index. The issuer capping is only applied at the Semi-Annual and Quarterly Index Reviews (see section 3.1) and intra-quarter weights will fluctuate according to market movements.

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<sup>5</sup> Please refer to the MSCI SRI Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

### 3. Maintaining the Index

#### 3.1 Quarterly Index Reviews

The Index is 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 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

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 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 products: MSCI Climate Change Metrics, MSCI ESG Controversies and MSCI ESG Business Involvement Screening Research and MSCI ESG Ratings. 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 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>

### 4.3 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 & 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-change-solutions>.

## Appendix I: Controversial Business Involvement Criteria

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities detailed below:

- **Weapons**
  - All companies deriving 10% or more revenue from weapons systems, components, and support systems and services
- **Conventional Oil & Gas Extraction**
  - All companies deriving any revenue (either reported or estimated) from conventional oil and gas production. It includes revenue from the production of deepwater, 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
- **Oil & Gas-based Power Generation**
  - All companies generating more than 30% of their total electricity from liquid fuel and natural gas in a given year
  - All companies that have more than 30% of installed capacity attributed to liquid fuel and natural gas in a given year
  - All companies deriving more than 30% revenue (either reported or estimated) from liquid fuel- and natural gas-based power generation
- **Oil & Gas**
  - All companies deriving 10% or more revenue from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, pipelines and transportation and refining but excluding biofuel production and sales and trading activities.
- **Thermal Coal Power Generation**
  - All companies deriving 50% or more revenue from thermal coal based power generation, liquid fuel based power generation and natural gas based power generation<sup>6</sup>
- **United Nations Global Compact Principles:**
  - All companies which are unrated on United Nations Global Compact Principles compliance.

<sup>6</sup> As per [https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc\\_wg3\\_ar5\\_chapter7.pdf](https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter7.pdf), thermal coal based power generation, liquid fuel based power generation and natural gas based power generation have median lifecycle emissions exceeding 100gCO<sub>2</sub>/kWh

## 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>
- MSCI ESG Leaders Indexes Methodology – <https://www.msci.com/index/methodology/latest/ESG>
- MSCI SRI Indexes Methodology – <https://www.msci.com/index/methodology/latest/SRI>
- 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 III: Changes to this document

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

- Updated the index name in multiple sections from the MSCI UK IMI Low Carbon and ESG Leaders Size Select Index to the MSCI UK IMI Low Carbon SRI Leaders Select Index.

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

- Updated Section 2.4 to add more details about the weighting scheme.

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

Section 2.2.2

- Updated to reflect additional Controversial Business Involvement Criteria

Appendix 1

- Updated to reflect detailed description of the additional Controversial Business Involvement Criteria

**The following sections have been modified as of May 2022:**

Appendix 1

- Updated to add screen on companies that are unrated on UNGC compliance

**The following sections have been modified as of November 2024:**

- The index name was changed to the MSCI UK IMI Low Carbon SRI Selection Capped Index.

Section 4: MSCI ESG Research

- Added new Section with description for ESG Research Products

Appendix I: Controversial Business Involvement Criteria

- Updated to add screens for Oil & Gas and Thermal Coal Power Generation.

Appendix II: Methodology Set

- Added details on the Methodology Set for the Index

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.

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