

# **MSCI Screened Select ex Thermal Coal Indexes Methodology**

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## 1. Introduction

The MSCI Screened Select ex Thermal Coal Indexes<sup>1</sup> (“the Indexes”) are free float-adjusted market capitalization-weighted indexes that exclude companies from underlying MSCI indexes (“Parent Indexes”) based on Environmental, Social and Governance (ESG) criteria. The following companies are excluded:

- Companies that are associated with controversial weapons, civilian firearms as well as tobacco, palm oil and arctic oil & gas or
- Companies that derive revenues from thermal coal power, thermal coal reserves and the extraction of certain fossil fuels or
- Companies that are not in compliance with the United Nations Global Compact principles or
- Companies that are involved in Red Flag ESG controversies, Orange Flag Land Use and Biodiversity controversies or Orange Flag Supply Chain Management controversies.

In addition, the Indexes target a minimum 30% reduction in carbon emission intensity relative to the underlying Parent Indexes<sup>2</sup>.

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<sup>1</sup> Please refer to Section 2 for the list of indexes to which this methodology applies.

<sup>2</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 III for more details.

## 2. Constructing the Indexes

The Indexes use company ratings and research provided by MSCI ESG Research<sup>3</sup> for Index construction<sup>4</sup>.

Constructing the Indexes involves the following steps

- Defining the Eligible Universe
- Applying the Greenhouse Gas (GHG) Intensity Reduction
- Capping the weight of securities with a MSCI Country of Classification of India.<sup>5</sup>

The Indexes and their respective Parent Indexes are listed in the table below.

Index Name	Parent Index
MSCI World Screened Select ex Thermal Coal Index	MSCI World Index
MSCI USA Screened Select ex Thermal Coal Index	MSCI USA Index
MSCI Europe Screened Select ex Thermal Coal Index	MSCI Europe Index
MSCI EM Asia Screened Select ex Thermal Coal 14 % India Capped Index <sup>6</sup>	MSCI EM Asia Index
MSCI China Screened Select ex Thermal Coal Index	MSCI China Index

### 2.1 Eligible Universe

The Eligible Universe for the Indexes is defined by applying the following exclusions from the Parent Index:

- Controversial Weapons
- Civilian Firearms
- Tobacco

<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> The Indexes incorporate all methodology changes and transitions of the MSCI Screened Indexes Methodology except for the ones mentioned below, which are applied for the full history:

- The Indexes do not apply the screen to exclude companies involved in nuclear weapons.
- The Indexes apply the Thermal Coal Reserve and Fossil Fuel Power screens. The Fossil Fuel Power screen is applied at a revenue threshold of 50%.

<sup>5</sup> The capping is only applied to the MSCI EM Asia Screened Select ex Thermal Coal 14% India Capped Index. For more details on capping, please refer to Section 2.4.

<sup>6</sup> The MSCI EM Asia Screened Select ex Thermal Coal Index will transition from the MSCI EM Asia ESG Leaders Select 5% Issuer Custom Capped Index at the May 2025 Index Review, effective June 2, 2025.

- Palm Oil
- Arctic Oil & Gas
- Fossil Fuel Extraction
- Thermal Coal Power Generation
- Thermal Coal Reserves

In addition to the above, companies are also excluded from the Indexes if they exhibit any of the following characteristics:

- Companies assessed as having involvement in ESG controversies that are classified as Red Flags (MSCI ESG Controversy Score of 0). A Red Flag indicates an ongoing Very Severe ESG controversy implicating a company directly through its actions, products, or operations.
- Companies assessed as having involvement in Land Use and Biodiversity controversies that are classified as Orange Flags (MSCI ESG Controversies: Environment – Land Use and Biodiversity Score of 1). An Orange Flag indicates an ongoing Severe ESG controversy implicating a company directly, or a Very Severe ESG controversy that is either partially resolved or indirectly attributed to the company’s actions, products, or operations.
- Companies assessed as having involvement in Supply Chain Management controversies that are classified as Orange Flags (MSCI ESG Controversies: Environment – Supply Chain Management Score of 1). An Orange Flag indicates an ongoing Severe ESG controversy implicating a company directly, or a Very Severe ESG controversy that is either partially resolved or indirectly attributed to the company’s actions, products, or operations.
- Failure to comply with the United Nations Global Compact Principles (UN Global Compact Alignment value of “Fail”). Please refer to Appendix I for details on these criteria.

## 2.2 GHG Intensity Reduction

After excluding companies as per section 2.1, the GHG intensity relative to the Parent Index is assessed. If the GHG intensity<sup>7</sup> is not at least 30% lower than the Parent Index, additional securities are excluded from the Eligible Universe to achieve a reduction of 30% GHG intensity relative to the Parent Index. The following iterative process is applied:

1. Securities are ranked in descending order of GHG intensity.
2. The security with the highest GHG intensity is excluded and the resulting Index is compared to the Parent Index, to determine if a 30% reduction in GHG intensity has been achieved.
3. If the reduction has been achieved, no further securities are excluded. If the reduction has not been achieved, further securities are excluded as per steps 1 and 2 until the 30% reduction is achieved.

<sup>7</sup> Please refer to Appendix II for details of the calculation of GHG Intensity.

## 2.3 Weighting Scheme

The remaining securities, after the exclusions based on sections 2.1 and 2.2, are weighted in proportion of their free float-adjusted market capitalization.

## 2.4 Country Capping

The MSCI EM Asia Screened Select ex Thermal Coal Index applies a maximum weight for securities with a MSCI Country of Classification of India at 18% at Quarterly Index Reviews. If the aggregate weight of securities in India goes above 18% then it will be reduced to 14%<sup>8</sup>.

A daily check on securities in India will also be applied, such that if the weight of securities in India exceeds 18%, the Index will be reweighted, and the weight of securities will be reduced to 14%. The excess weight will be distributed among securities across all eligible countries except India in proportion of their existing weight in the Index.

The daily check is only applied for the country level capping for securities with a MSCI Country of Classification of India.

## 2.5 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<sup>9</sup> in the Indexes.

- MSCI Controversy Score
- MSCI Climate Change Metrics
- MSCI Business Involvement Screening Research (BISR)

For the treatment of unrated companies in the calculation of GHG Intensity, please refer to Appendix II.

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<sup>8</sup> Since capping is applied after the GHG intensity reduction step, there is a possibility that the MSCI EM ASIA Screened Select ex Thermal Coal Index ends up achieving less than 30% reduction in GHG intensity.

<sup>9</sup> The treatment of Unrated Companies for the three MSCI Research Products is applied from September 02, 2024 onwards.

### 3. Maintaining the Indexes

#### 3.1 Index Reviews

The MSCI Screened Indexes are reviewed on a quarterly basis to coincide with the regular Index Reviews 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>10</sup> (including 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 Index. 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 Index.

The pro forma Indexes are in general announced nine business days before the effective date.

#### 3.2 Monthly Review of Controversies

Index constituents are reviewed on a monthly basis for the involvement in ESG controversies and for compliance with the United Nations Global Compact Principles. Existing constituents will be deleted if they face controversies as defined as defined by MSCI ESG Controversy Score of 0 ('Red flag' companies), or if they fail to comply with the UN Global Compact Principles. Existing Index constituents with missing MSCI ESG Controversy Scores are not deleted during Monthly Review of Controversies.

MSCI uses MSCI ESG Controversies data as of the end of the month preceding the review (e.g., end of June data for the end of July monthly review). For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Index.

The pro forma Indexes are generally announced nine business days before the first business day of the month.

#### 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 Indexes 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.

<sup>10</sup> See section 4 for details of data sourced from MSCI ESG Research used in the Indexes.

There are no deletions from the MSCI Screened Indexes between Index Reviews on account of a security becoming ineligible because of a change in business involvement and/or failure to comply with the UN Global Compact Principles and/or decrease in MSCI ESG Controversies Score.

**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 MSCI Screened 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 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 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.

The MSCI Business Involvement Screening Research methodology can be found at:

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

### 4.3 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.

#### 4.3.1 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).

### 4.3.2 Greenhouse Gas (GHG) Emissions

MSCI ESG Research collects reported emissions and uses proprietary estimation methodologies that follows the GHG Protocol in including carbon dioxide (CO<sub>2</sub>) and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). Emissions of these other gases are accounted for in terms of the quantity of CO<sub>2</sub> that has an equivalent global warming potential.

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

## Appendix I: ESG Exclusions 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 and Least Restrictive.

Each controversial activity screened by the MSCI Screened Indexes (except Fossil Fuel Extraction, Thermal Coal Power and Global Norms) 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**

- Civilian Firearms
  - All companies classified as “Producer” 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 5% 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 classified as a “Producer”.
  - All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products.

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

- Palm Oil
  - All companies deriving 5% or more aggregate revenue from the production of Palm Oil.
- Global Norms – United Nations Global Compact Compliance
  - All companies that fail to comply with the United Nations Global Compact principles
- 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.
  - All companies deriving 50% or more of revenue from power from thermal coal.
- Thermal Coal Reserves
  - All companies providing evidence of owning thermal coal including those that own less than 50% of a reserves field. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves
- Arctic Oil & Gas
  - All companies deriving 5% or more revenue from arctic oil and arctic gas production. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude. This includes offshore or onshore oil and gas production.

## Appendix II: Calculation of GHG Intensity

The security level and Index level GHG intensity are calculated as per below formula:

$$\text{Security Level GHG Intensity} = \frac{\text{Carbon Emissions Scope 1 + 2 + 3}}{\text{Enterprise Value + Cash (in M\$)}}$$

$$\text{Index Level GHG Intensity} = \frac{\text{sum of (Constituent weight * Security Level GHG Intensity)}}{\text{sum of constituent weight with Carbon emissions and EVIC data available}}$$

Securities with missing Carbon Emissions and/or Enterprise Value + Cash are not considered for potential exclusion under section 2.2.

## Appendix III: 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 – <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.

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