

MSCI ESG Screened Choice Indexes Methodology

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1 Introduction

The MSCI ESG Screened Choice Indexes (“the Indexes”)¹ 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, civilian, and nuclear weapons as well as tobacco or
- Companies that derive revenues from thermal coal power and extraction of select 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.

¹ The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix 2 for more details.

2 Constructing the MSCI ESG Screened Choice Indexes

The Indexes use company ratings and research provided by MSCI ESG Research² for the Index construction.

2.1 Eligible Universe

The eligible universe for MSCI ESG Screened Choice Indexes include all the constituents of their respective MSCI Parent Index (“Parent Index”), as shown in the table below.

Index Name	Parent Index
MSCI World ESG Screened Choice Index	MSCI World Index
MSCI EM (Emerging Markets) ESG Screened Choice Index	MSCI EM Index
MSCI USA ESG Screened Choice Index	MSCI USA Index
MSCI Europe ESG Screened Choice Index	MSCI Europe Index
MSCI EMU ESG Screened Choice Index	MSCI EMU Index
MSCI Japan ESG Screened Choice Index	MSCI Japan Index
MSCI Pacific ex Japan ESG Screened Choice Index	MSCI Pacific ex Japan Index
MSCI UK ESG Screened Choice Index	MSCI United Kingdom Index
MSCI Switzerland ESG Screened Choice Index	MSCI Switzerland Index

2.2 Controversial Business Involvement Criteria

The MSCI ESG Screened Choice 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 MSCI ESG Screened Choice Indexes. Please refer to Appendix 1 for details on these criteria.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Fossil Fuel Extraction
- Thermal Coal Power

² Please refer to Section 4 for further information regarding the ESG and climate data used in the Index / Indexes that MSCI Limited sources 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. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

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.
- Missing ESG Controversies Score – Companies not assessed by MSCI ESG Research on MSCI ESG Controversies
- Failure to comply with the United Nations Global Compact Principles (UN Global Compact Alignment value of “Fail”).

2.3 Weighting Scheme

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

2.4 Treatment of Unrated Companies

Companies not assessed by MSCI ESG Research on data for the following MSCI ESG Research product are not eligible for inclusion in the Indexes.

- MSCI ESG Controversies

2.5 Applying MSCI Hedged Indexes Methodology

Following hedged index variants are created from the MSCI ESG Screened Choice Indexes by applying MSCI Hedged Indexes Methodology on the respective Parent Index:

Index Name	Parent Index
MSCI USA ESG Screened Choice 100% Hedged to EUR Index	MSCI USA ESG Screened Choice Index
MSCI Europe ESG Screened Choice 100% Hedged to HKD Index	MSCI Europe ESG Screened Choice Index
MSCI World ESG Screened Choice 100% Hedged to USD Index	MSCI World ESG Screened Choice Index
MSCI World ESG Screened Choice 100% Hedged to EUR Index	MSCI World ESG Screened Choice Index
MSCI World ESG Screened Choice 100% Hedged to SEK Index	MSCI World ESG Screened Choice Index
MSCI World ESG Screened Choice 100% Hedged to CHF Index	MSCI World ESG Screened Choice Index
MSCI World ESG Screened Choice 100% Hedged to GBP Index	MSCI World ESG Screened Choice Index

3 Maintaining the MSCI ESG Screened Choice Indexes

3.1 Quarterly Index Reviews

The MSCI ESG Screened Choice 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 implemented as of the close of the last business day of February, May, August and November.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) 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 Ongoing Event-Related Maintenance

The general treatment of corporate events in the MSCI ESG Screened Choice Indexes aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor's participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved.

The following section briefly describes the treatment of common corporate events within the MSCI ESG Screened Choice 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.

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 ESG Screened Choice 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/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 Controversies and 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.

The MSCI ESG 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.

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

Appendix 1: Controversial Business Involvement 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 ESG Screened Choice 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

- Nuclear Weapons
 - All companies that manufacture nuclear warheads and/or whole nuclear missiles.
 - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).
 - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
 - All companies that provide auxiliary services related to nuclear weapons.
 - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles).
 - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons.
 - All companies that manufacture components for nuclear-exclusive delivery platforms.
- 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

- 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.
- Global Norms – United Nations Global Compact Compliance
 - All companies that fail to comply with the United Nations Global Compact principles.

Appendix 2: 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>
- 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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