

# Consultation on Potential Enhancements to MSCI ESG Screened Indexes

SEPTEMBER 2021

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.

# Proposed Enhancements

MSCI proposes methodology changes aiming to strengthen the climate and controversies screens used in MSCI ESG Screened Indexes.

## Proposed Enhancements

	<b>[Base Proposal]</b> Align with MSCI ESG Leaders Indexes:	<b>[Advanced Proposal]</b> Align with MSCI SRI Indexes:
<b>1. Enhance Climate Profile</b>	<ul style="list-style-type: none"><li>Exclude companies involved in unconventional oil and gas businesses (vs. only oil sands currently)</li><li>Exclude companies involved in thermal coal (unchanged vs. currently)</li></ul>	<ul style="list-style-type: none"><li>Exclude companies involved in unconventional oil and gas businesses (vs. only oil sands currently)</li><li>Exclude companies involved in thermal coal (stricter vs. currently)</li><li>Exclude companies with fossil fuel reserves (new)</li></ul>
<b>2. Exclude Very Severe Controversies</b>	<b>Align with other broad MSCI ESG indexes (ESG Leaders, SRI, ESG Universal, ESG Focus...):</b> <ul style="list-style-type: none"><li>Exclude companies involved in very severe controversies (new)</li><li>Exclude companies that violate UN Global Compact (unchanged)</li></ul>	

- MSCI invites feedback from market participants on or before **October 22, 2021** and will announce the results of the consultation as well as the implementation timeline on or before **October 29, 2021**.

# Enhancing Climate Profile of ESG Screened Indexes

## Strengthening the index climate profile:

- Further incorporation of Climate Risk may support investors in their ESG integration strategies.
- Some institutional ESG investors are seeking greater climate awareness to support their use of ESG Indexes.
- Regulatory scrutiny on climate risk considerations are increasing and may impose a significant short-term risk for some investors.

Enhancement Proposals	Rationale for Proposal
<ul style="list-style-type: none"><li>• Exclude companies involved in thermal coal and unconventional oil and gas businesses</li></ul>	<ul style="list-style-type: none"><li>• Exclude companies involved in various unconventional oil and gas businesses based on the definition from MSCI ESG Research*, rather than focusing only on oil sands</li><li>• Align with other ESG indexes (e.g., ESG Leaders, SRI, ESG Focus)</li></ul>
<ul style="list-style-type: none"><li>• Exclude companies with fossil fuel reserves</li></ul>	<ul style="list-style-type: none"><li>• Apply a fossil fuel divestment strategy to mitigate stranded asset risk**</li><li>• Reflect a values-based approach aligned with SRI indexes, in line with other business involvement screens (Controversial Weapons, Nuclear Weapons, Tobacco, Civilian Firearms)</li></ul>

\* Definition available in Appendix.

\*\* Stranded assets are now generally accepted to be those assets that at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return (i.e. meet the company's internal rate of return), as a result of changes associated with the transition to a low-carbon economy (lower than anticipated demand / prices).

# Excluding Very Severe Controversies

## Incorporating global norms screening in ESG investing:

- Using MSCI ESG Controversies can assist investors in reducing their exposure to companies that violate international norms.
- “Red flag” companies are those involved in very severe ESG controversies (i.e., violation of global norms) over the past 3 years.
- Along with companies involved in Controversial Weapons (already excluded from MSCI ESG Screened Indexes), red flag companies are commonly perceived by investors as minimum exclusions when considering ESG in their investment processes.

Enhancement Proposal	Rationale for Proposal
<ul style="list-style-type: none"><li>• Exclude companies involved in very severe controversies (ESG Controversies Score = 0)</li></ul>	<ul style="list-style-type: none"><li>• Expand the existing screen beyond companies that violate UN Global Compact, to capture companies in breach of other global norms such as the OECD Guidelines for Multinational Enterprises</li><li>• Align with other MSCI broad ESG indexes, such as MSCI ESG Leaders, MSCI SRI, MSCI ESG Universal, MSCI ESG Focus indexes</li><li>• Potentially align with recent regulatory developments such as EU Sustainable Finance Disclosure Regulation (SFDR)*</li></ul>

\* As per MSCI's mapping framework (based on client feedback), the exclusion of companies involved in very severe controversies takes into consideration the «Good Governance» distinction of EU SFDR Article 8.

The framework is available at: <https://support.msci.com/msci-indexes/sfdr-articles-6/8/9-framework>

# Details of Proposals

Current and proposed climate / controversies screens used in MSCI ESG Screened Indexes:

	Current	Base Proposal	Advanced Proposal
<b>Thermal Coal Mining and Sale</b>	>=5% revenue	>=5% revenue	>0% revenue
<b>Oil Sands Extraction</b>	>=5% revenue	>=5% revenue	>0% revenue
<b>Other Unconventional Oil &amp; Gas Extraction</b>	-	>=5% revenue	>0% revenue
<b>Fossil Fuel Reserves (Energy Application)</b>	-	-	Yes
<b>Thermal Coal Power Generation</b>	>=5% revenue	>=5% revenue	>=5% revenue
<b>UN Global Compact Violations</b>	Yes	Yes	Yes
<b>Very Severe Controversies ("Red Flags")</b>	-	Yes	Yes

Changes vs. current index methodology are highlighted in green.

# Simulated Impact – ACWI ESG Screened (Exclusions/Turnover)



	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
# Exclusions – ESG screens	144	149	159	239
# Exclusions – Missing ESG data*	-	8	8	8
<b># Exclusions – Total</b>	<b>144</b>	<b>157</b>	<b>167</b>	<b>247</b>
Weight Exclusions – ESG screens	4.81%	5.13%	6.11%	8.55%
Weight Exclusions – Missing ESG data*	-	0.10%	0.10%	0.10%
<b>Weight Exclusions – Total</b>	<b>4.81%</b>	<b>5.23%</b>	<b>6.21%</b>	<b>8.65%</b>
<b>Transition Turnover**</b>	<b>0.68%</b>	<b>0.73%</b>	<b>1.56%</b>	<b>4.09%</b>

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

\* Companies not covered for ESG Controversies would be excluded. More details are available in Appendix.

\*\* One-way index turnover assuming implementation of the changes at the August 2021 Quarterly Index Review.

Data as of the August 2021 Quarterly Index Review (as of August 19, 2021) reflecting the index review changes effective September 1, 2021.

# Simulated Impact – ACWI ESG Screened (Index Metrics)



	ACWI	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
Total return* (%)	14.7	15.1	15.2	15.5	15.8
Total risk (%)	14.3	14.4	14.4	14.2	14.2
Tracking error (%)	0.0	0.5	0.5	0.7	1.0
Turnover** (%)	3.0	3.8	3.9	4.0	3.9
<b>ESG / Climate Metrics</b>					
ESG score	6	6.1	6.1	6.1	6.1
Red flag controversies	1.9	0.3	0	0	0
Carbon emissions (t CO2e/\$M invested)	90	62	62	59	46
Carbon intensity (t CO2e/\$M sales)	205	147	147	140	119
Wtd avg carbon intensity (t CO2e/\$M sales)	152	108	108	104	95
Fossil fuel reserves (%)	4.9	3.6	3.6	2.6	0
Thermal coal mining (%)	1.1	0.5	0.4	0.4	0
Thermal coal-based power generation (%)	2.6	1.6	1.7	1.7	0.7
Unconventional oil & gas extraction (%)	2.2	1.9	1.9	0.8	0

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.

# Simulated Impact – World ESG Screened (Index Metrics)



	World	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
Total return* (%)	15.1	15.5	15.6	16.0	16.3
Total risk (%)	14.5	14.6	14.5	14.4	14.4
Tracking error (%)	0.0	0.5	0.6	0.7	1.0
Turnover** (%)	2.5	3.4	3.5	3.5	3.4
<b>ESG / Climate Metrics</b>					
ESG score	6.2	6.2	6.2	6.2	6.2
Red flag controversies	1.8	0.4	0	0	0
Carbon emissions (t CO2e/\$M invested)	71	49	49	45	37
Carbon intensity (t CO2e/\$M sales)	168	120	121	112	99
Wtd avg carbon intensity (t CO2e/\$M sales)	132	90	90	85	80
Fossil fuel reserves (%)	4.5	3.5	3.5	2.3	0
Thermal coal mining (%)	0.9	0.4	0.4	0.4	0
Thermal coal-based power generation (%)	2.8	1.8	1.8	1.8	0.8
Unconventional oil & gas extraction (%)	2.3	1.9	2	0.7	0

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.



# Simulated Impact – EM ESG Screened (Index Metrics)



	Emerging Markets (EM)	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
Total return* (%)	12.3	12.5	12.5	12.5	12.5
Total risk (%)	16.4	16.4	16.4	16.4	16.5
Tracking error (%)	0.0	0.7	0.7	0.7	1.3
Turnover** (%)	7.3	7.9	7.9	8.0	8.1
<b>ESG / Climate Metrics</b>					
ESG score	5	5.1	5.1	5.1	5.2
Red flag controversies	2.5	0.1	0	0	0
Carbon emissions (t CO2e/\$M invested)	228	160	159	159	113
Carbon intensity (t CO2e/\$M sales)	411	292	290	290	228
Wtd avg carbon intensity (t CO2e/\$M sales)	300	240	238	238	205
Fossil fuel reserves (%)	7.7	4.9	4.8	4.8	0
Thermal coal mining (%)	2.5	0.8	0.6	0.6	0
Thermal coal-based power generation (%)	1.5	0.6	0.6	0.6	0.3
Unconventional oil & gas extraction (%)	1.7	1.6	1.6	1.6	0

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.

# Simulated Impact – USA ESG Screened (Index Metrics)



	USA	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
Total return* (%)	18.1	18.6	18.6	19.4	19.7
Total risk (%)	15	15.2	15.2	15	15
Tracking error (%)	0	0.6	0.6	0.8	1
Turnover** (%)	2.7	3.2	3.2	3.4	3.2
<b>ESG / Climate Metrics</b>					
ESG score	5.8	5.8	5.8	5.8	5.8
Red flag controversies	1.5	0.5	0.5	0	0
Carbon emissions (t CO2e/\$M invested)	48	29	29	23	22
Carbon intensity (t CO2e/\$M sales)	162	102	102	84	80
Wtd avg carbon intensity (t CO2e/\$M sales)	127	80	80	73	70
Fossil fuel reserves (%)	3.2	3	3	1.2	0
Thermal coal mining (%)	0.1	0	0	0	0
Thermal coal-based power generation (%)	2.8	1.5	1.5	1.6	0.6
Unconventional oil & gas extraction (%)	1.8	1.9	1.9	0.1	0

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.

# Simulated Impact – Europe ESG Screened (Index Metrics)



	Europe	Current Index	With Red Flags Excluded <sup>1</sup>	Base Proposal	Advanced Proposal
Total return* (%)	10.1	10.1	10.1	10.1	10.3
Total risk (%)	16.1	16.0	16.0	15.9	15.9
Tracking error (%)	0.0	0.9	0.9	1.0	1.7
Turnover** (%)	2.1	4.7	4.7	4.7	4.5
<b>ESG / Climate Metrics</b>					
ESG score	7.5	7.6	7.6	7.6	7.6
Red flag controversies	2.6	0.1	0	0	0
Carbon emissions (t CO2e/\$M invested)	111	98	98	98	70
Carbon intensity (t CO2e/\$M sales)	167	152	152	152	121
Wtd avg carbon intensity (t CO2e/\$M sales)	131	114	115	114	98
Fossil fuel reserves (%)	6.8	4.4	4.4	4.2	0
Thermal coal mining (%)	1.6	0.5	0.5	0.5	0
Thermal coal-based power generation (%)	3.1	2.9	2.9	2.9	1.7
Unconventional oil & gas extraction (%)	3.5	2.3	2.3	2.1	0

<sup>1</sup> Under this simulation, the only change applied is the exclusion of companies involved in very severe controversies.

<sup>2</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.

# Discussion Points

- Should the climate related exclusions in MSCI ESG Screened Indexes be strengthened?
- Do you agree with excluding unconventional oil and gas companies (vs. excluding oil sands companies only)?
- Do you agree with further excluding companies with fossil fuel reserves, in line with MSCI SRI Indexes?
- Do you agree to exclude companies involved in very severe controversies (“red flags”), in addition to the current UN Global Compact violators screen?
- Should MSCI ESG Screened indexes exclude companies with ESG Rating of ‘CCC’ to help achieve a minimum rate of exclusion (see impact in Appendix)?
- Should MSCI ESG Screened indexes apply additional business involvement screens, such as conventional weapons or any other activity?

To participate in the consultation, please provide your feedback through an online survey available on:  
<https://www.msci.com/consultation-ESGScreened>

# Appendix

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# Current vs. Proposed Screens (Climate)

	Current Methodology	Base Proposal	Advanced Proposal
Thermal Coal Power	All companies deriving 5% or more revenue from Thermal Coal Power Generation		
Fossil Fuel Extraction	<ol style="list-style-type: none"> <li>All companies deriving 5% or more revenue (either reported or estimated) from thermal coal mining.</li> <li>All companies deriving 5% or more revenue (either reported or estimated) from oil sands extraction.</li> </ol>	All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining or unconventional oil and gas extraction.	All companies deriving any revenue (either reported or estimated) from thermal coal mining or unconventional oil and gas extraction.
Fossil Fuel Reserves	N/A	N/A	All companies with evidence of owning proven & probable coal reserves and/or proven oil and natural gas reserves used for energy purposes, as defined by the methodology of the MSCI ex Fossil Fuels Indexes.

# Current vs. Proposed Screens (ex Climate)

	Current Methodology	Base Proposal / Advanced Proposal
Controversial Weapons	<p><b>“Most Restrictive” screen:</b> 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.</p>	
Nuclear Weapons	<p><b>“Highly Restrictive” screen:</b> All companies that manufacture nuclear warheads, missiles, missile components, delivery platforms, involved auxiliary services etc. as defined in Appendix I of the MSCI ESG Screened Indexes methodology.</p>	
Civilian Firearms	<p><b>“Highly Restrictive” screen:</b> All companies classified as producer or companies that derive 5% or more aggregate revenue from production and distribution of firearms.</p>	
Tobacco	<p><b>“Highly Restrictive” screen:</b> All companies classified as producer or companies that derive 5% or more aggregate revenue from production, distribution, retail, supply and licensing of tobacco relate products.</p>	
Controversies	<p>All companies that fail to comply with the UN Global Compact principles.</p>	<p>1. All companies that fail to comply with the UN Global Compact principles. 2. All companies that have an MSCI ESG Controversies Score of 0 (Red Flags).</p>

# Simulated Deletions ACWI ESG Screened – Red Flags

Security Name	Country	Sector	ACWI ESG Screened Weight	Exclusion Reason
WELLS FARGO & CO	USA	Financials	0.31%	Red Flag
MSCI	USA	Financials	0.08%	Missing ESG controversies data
ATLANTIA	ITALY	Industrials	0.01%	Red Flag
SK BIOSCIENCE CO	KOREA	Health Care	0.01%	Missing ESG controversies data
SEVERSTAL (RUB)	RUSSIA	Materials	0.01%	Red Flag
KAKAOBANK CORP	KOREA	Financials	0.01%	Missing ESG controversies data
DIDI GLOBAL A ADR	CHINA	Industrials	0.00%	Missing ESG controversies data
TIGER BRANDS	SOUTH AFRICA	Consumer Staples	0.00%	Red Flag
HARMONY GOLD MINING CO	SOUTH AFRICA	Materials	0.00%	Red Flag
BEIJING WANTAI A (HK-C)	CHINA	Health Care	0.00%	Missing ESG controversies data
CHINA BAOAN GRP A (HK-C)	CHINA	Industrials	0.00%	Missing ESG controversies data
ZHONGTAI SEC A(HK-C)	CHINA	Financials	0.00%	Missing ESG controversies data
STARPOWER SEMICO A(HK-C)	CHINA	Information Technology	0.00%	Missing ESG controversies data



# Simulated Deletions ACWI ESG Screened – Climate (Base Proposal)

Security Name	Country	Sector	ACWI ESG Screened Weight	Exclusion Reason
EXXON MOBIL CORP	USA	Energy	0.35%	Fossil Fuel Extraction
CHEVRON CORP	USA	Energy	0.29%	Fossil Fuel Extraction
CONOCOPHILLIPS	USA	Energy	0.11%	Fossil Fuel Extraction
EOG RESOURCES	USA	Energy	0.06%	Fossil Fuel Extraction
PIONEER NATURAL RES	USA	Energy	0.05%	Fossil Fuel Extraction
KINDER MORGAN P	USA	Energy	0.05%	Fossil Fuel Extraction
OCCIDENTAL PETROLEUM	USA	Energy	0.03%	Fossil Fuel Extraction
EQUINOR	NORWAY	Energy	0.03%	Fossil Fuel Extraction
HESS	USA	Energy	0.03%	Fossil Fuel Extraction
DEVON ENERGY CORP	USA	Energy	0.03%	Fossil Fuel Extraction

# Simulated Deletions ACWI ESG Screened – Climate (Advanced Proposal) – Top 30 (1/2)

Security Name	Country	Sector	ACWI ESG Screened Weight	Exclusion Reason
BERKSHIRE HATHAWAY B	USA	Financials	0.60%	Fossil Fuel Reserves
EXXON MOBIL CORP	USA	Energy	0.35%	FF Reserves / FF Extraction
CHEVRON CORP	USA	Energy	0.29%	FF Reserves / FF Extraction
TOTALENERGIES	FRANCE	Energy	0.17%	FF Reserves / FF Extraction
RELIANCE INDUSTRIES	INDIA	Energy	0.13%	FF Reserves / FF Extraction
BP	UK	Energy	0.13%	FF Reserves / FF Extraction
ENEL	ITALY	Utilities	0.12%	Fossil Fuel Reserves
CONOCOPHILLIPS	USA	Energy	0.11%	FF Reserves / FF Extraction
BROOKFIELD ASSET MAN A	CANADA	Financials	0.11%	FF Reserves / FF Extraction
GAZPROM (RUB)	RUSSIA	Energy	0.07%	Fossil Fuel Reserves
GLENCORE	UK	Materials	0.07%	FF Reserves / FF Extraction
EOG RESOURCES	USA	Energy	0.06%	FF Reserves / FF Extraction
SCHLUMBERGER	USA	Energy	0.06%	Fossil Fuel Reserves
MITSUBISHI CORP	JAPAN	Industrials	0.06%	FF Reserves / FF Extraction
ITOCHU CORP	JAPAN	Industrials	0.06%	FF Reserves / FF Extraction

# Simulated Deletions ACWI ESG Screened – Climate (Advanced Proposal) – Top 30 (2/2)

Security Name	Country	Sector	ACWI ESG Screened Weight	Exclusion Reason
LUKOIL HOLDING(RUB)	RUSSIA	Energy	0.06%	Fossil Fuel Reserves
NUCOR CORP	USA	Materials	0.06%	Fossil Fuel Extraction
MITSUI & CO	JAPAN	Industrials	0.05%	FF Reserves / FF Extraction
KKR & CO A	USA	Financials	0.05%	Fossil Fuel Reserves
PIONEER NATURAL RES	USA	Energy	0.05%	FF Reserves / FF Extraction
KINDER MORGAN P	USA	Energy	0.05%	FF Reserves / FF Extraction
ENI	ITALY	Energy	0.05%	FF Reserves / FF Extraction
ENGIE	FRANCE	Utilities	0.04%	Fossil Fuel Reserves
SSE	UK	Utilities	0.04%	Fossil Fuel Reserves
NOVATEK GDR	RUSSIA	Energy	0.03%	Fossil Fuel Reserves
OCCIDENTAL PETROLEUM	USA	Energy	0.03%	FF Reserves / FF Extraction
SAUDI ARAMCO	SAUDI ARABIA	Energy	0.03%	FF Reserves / FF Extraction
CK HUTCHISON HOLDINGS	HONG KONG	Industrials	0.03%	FF Reserves / FF Extraction
EQUINOR	NORWAY	Energy	0.03%	FF Reserves / FF Extraction
HONGKONG CHINA GAS	HONG KONG	Utilities	0.03%	FF Reserves / FF Extraction

# Simulated Historical Impact – Missing ESG Data

- The table below shows securities in the MSCI ACWI Index not covered for ESG Controversies data during the Index Reviews since the May 2020 Index Review:

Index Review	# Securities	ACWI Weight
Aug 2021	8	0.10%
May 2021	58	0.22%
Feb 2021	9	0.10%
Nov 2020	54	0.20%
Aug 2020	4	0.11%
May 2020	61	0.33%

- All such securities started to be covered for ESG Controversies data by the next quarterly index review, hence becoming eligible for index inclusion under the proposal\*
  - Example:** the securities not covered for ESG Controversies data at the May 2021 Index Review would have been eligible for the MSCI ESG Screened Indexes at the August 2021 Index Review\*

# Simulated Impact – ACWI ESG Screened with CCC Screen (Exclusions/Turnover)



	Current Index	Base Proposal + CCC	Advanced Proposal + CCC
# Exclusions – ESG screens	144	319	393
# Exclusions – Missing ESG data*	-	14	14
<b># Exclusions – Total</b>	<b>144</b>	<b>333</b>	<b>407</b>
Weight Exclusions – ESG screens	4.81%	6.77%	9.17%
Weight Exclusions – Missing ESG data*	-	0.14%	0.14%
<b>Weight Exclusions – Total</b>	<b>4.81%</b>	<b>6.91%</b>	<b>9.30%</b>
<b>Transition Turnover**</b>	<b>0.68%</b>	<b>2.18%</b>	<b>4.70%</b>

<sup>1</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

\* Companies not covered for ESG Controversies and/or ESG Rating would be excluded.

\*\* One-way index turnover assuming implementation of the changes at the August 2021 Quarterly Index Review.

Data as of the August 2021 Quarterly Index Review (as of August 19, 2021) reflecting the index review changes effective September 1, 2021.

# Simulated Impact – ACWI ESG Screened with CCC Screen (Index Metrics)



	ACWI	Current Index	Base Proposal + CCC	Advanced Proposal + CCC
Total return* (%)	14.7	15.1	15.7	16.0
Total risk (%)	14.3	14.4	14.2	14.2
Tracking error (%)	0.0	0.5	0.8	1.0
Turnover** (%)	3.0	3.8	4.6	4.6
<b>ESG / Climate Metrics</b>				
ESG score	6	6.1	6.1	6.2
Red flag controversies	1.9	0.3	0.0	0.0
Carbon emissions (t CO2e/\$M invested)	90	62	56	44
Carbon intensity (t CO2e/\$M sales)	205	147	136	115
Wtd avg carbon intensity (t CO2e/\$M sales)	152	108	101	93
Fossil fuel reserves (%)	4.9	3.6	2.5	0.0
Thermal coal mining (%)	1.1	0.5	0.4	0.0
Thermal coal-based power generation (%)	2.6	1.6	1.7	0.7
Unconventional oil & gas extraction (%)	2.2	1.9	0.8	0.0

<sup>1</sup> In addition, compared to the Base Proposal, the Advanced Proposal applies a 0% threshold (vs. 5%) on thermal coal mining and unconventional oil and gas extraction.

Period: May 31, 2016 to July 30, 2021 (ESG / Climate metrics as of July 30, 2021) \* Gross returns annualized in USD \*\* Annualized one-way index turnover over index reviews.

# Definition of Climate Exclusion Screens

- **THERMAL\_COAL\_MAX\_REV\_PCT** - The maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: 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.
- **GENERAT\_MAX\_REV\_THERMAL\_COAL** - The maximum percentage of revenue (either reported or estimated) that a company derives from the thermal coal based power generation.
- **UNCONV\_OIL\_GAS\_MAX\_REV\_PCT** – The maximum percentage of revenue (either reported or estimated) greater than 0% that a company derives from unconventional oil and gas. It includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It excludes all types of conventional oil and gas production including Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore.
- **FF\_RESERVES\_ENERGY\_APPLICATION** – This screen identifies companies, regardless of their industries, with evidence of owning fossil fuel reserves used most likely for energy applications. For high-intensity industries (belonging to Energy and Utilities GICS Sector & Diversified Metals & Mining GICS Sub-Industry), this factor flags companies with evidence of fossil fuel reserves (excluding Metallurgical Coal). For other industries, it flags companies with evidence of fossil fuel reserves (excluding Metallurgical Coal) and deriving revenue from business segments associated with energy application of fossil fuels such as Thermal Coal mining, Oil & Gas exploration & production and downstream activities e.g. refining; distribution & retail; pipeline & transportation; trading and fossil fuel- based power generation.

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