

Social Bond and Social Loan Assessment Methodology- Executive Summary

MSCI ESG Research LLC

March 2022

Contents

Executive Summary	3
Social Bond and Social Loan Assessment Methodology	3
1. Use of Proceeds	4
2. Process for Social Project Selection	5
3. Management of Proceeds	6
4. Ongoing Reporting	6
Appendix	8

Executive Summary

This document is a summary of the MSCI ESG Research Social Bond and Social Loan Assessment Methodology. The methodology outlines MSCI ESG Research’s approach to assessing “social” bonds and “social” loans, i.e., bonds and loans whose proceeds have a clear net-positive social impact and aims to have clear criteria to define their scope of social impact. This methodology is subject to change, based on the evolving areas for use of proceeds, changes in regulatory requirements and standard definitions.

Social Bond and Social Loan Assessment Methodology

Social bonds are fixed-income securities whose proceeds are exclusively and formally applied to projects or activities that aim to address or mitigate a specific social issue and/or seek to achieve a positive social outcome, especially but not exclusively, for a target population.

Social loans (including syndicated loans and revolving credit facilities) are loans whose proceeds are exclusively and formally applied to projects or activities that aim to address or mitigate a specific social issue and/or seek to achieve a positive social outcome, especially but not exclusively, for a target population.

Bonds and loans in MSCI ESG Research’s coverage are independently evaluated along four dimensions to determine whether an instrument is classified as a “social bond” or a “social loan.” For social bonds, these criteria reflect themes articulated in the Social Bond Principles set by the International Capital Markets Association (ICMA)¹. For social loans, the criteria reflect themes articulated in the Social Loan Principles set by the Loan Market Association (LMA). For both social bonds and social loans, MSCI ESG Research requires clarity about a bond’s or loan’s:

1. Stated use of proceeds
2. Process for social project evaluation and selection
3. Process for management of proceeds
4. Commitment to ongoing reporting of the use of proceeds

There are a number of different naming conventions used for the bonds and loans in MSCI ESG Research’s coverage universe. Self-labeled social bonds and self-labeled social loans are evaluated using these criteria to identify both bonds and loans that

¹ Further details are in the Appendix on page 8 of this document

may have a positive social benefit. In addition, social bonds and social loans can be issued under a sustainability bond/loan framework, green bond/loan framework or may be called “positive impact bonds/loans,” “healthcare bonds/loans” or other similar nomenclatures.

1. Use of Proceeds

MSCI ESG Research uses two criteria to determine whether a bond or loan’s use of proceeds qualify for consideration as a social bond or social loan as defined above:

Social need: A minimum of 90% of bond or loan proceeds must address an eligible social need through an eligible type of financing (eligible financing is defined in further detail on page 5) for products, services and activities that address critical social needs. Eligible social needs are detailed below:

- Food security
- Healthcare
- Affordable real estate
- Access to finance
- Education
- Basic infrastructure
- Employment generation
- Other (further defined in appendix)

If a bond does not meet the social-need criteria, it will be considered ineligible for designation as a social bond or social loan.

If a bond or loan meets the social-need criteria, then it also must define a target demography to be considered a social bond or social loan respectively.

Target demography: The bond or loan must define an eligible target demography that its proceeds will benefit.

A summary of projects that are eligible under the eight social need categories and eligible target populations is provided on pages 8-11 of this document.

Eligible financing mechanisms

Note that the bonds or loans must use financing mechanisms that give the issuer control over where proceeds are allocated. Projects also need to demonstrate positive social impact, hence only few types of operating expenditures are eligible. These include:

- Loans to projects
- Loans to pure-play agencies/municipalities
- Loans to pure-play companies (eligible only if the company explicitly commits to remaining a pure play over the term of the loan)
- Acquisition of a project/company (acquisition defined as purchase of over 50% shares of the target)
- Investment in a project
- Capital expenditure
- Maintenance costs toward eligible projects
- Research & development for eligible social-need categories
- Government subsidies

Bonds or loans that utilize financing mechanisms where traceability of the use of the proceeds is not possible (e.g. a bond or equity portfolio) will not qualify as social bonds or social loans regardless of whether they meet the other criteria. Examples include:

- Equity investment (investment in 50% or less share of the target)
- Investment in an equity or debt portfolio
- Purchase of products for internal use (e.g., bond proceeds fund purchase of wheat to manufacture bread)

2. Process for Social Project Selection

The issuer must clearly delineate the specific criteria, responsibility and process for determining projects or investments in the bond- or loan-related documentation, which can include but is not limited to the social bond or loan framework, investor presentation or website.

3. Management of Proceeds

For social loans, a formal process to ring-fence net proceeds raised to be used in the specified social project must be disclosed in the loan documentation. Where a social loan takes the form of one or more tranches of a loan facility, each social tranche(s) must be clearly designated, with proceeds of the social tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.

For social bonds, a formal process to apply net proceeds raised or an amount equal to net proceeds raised to the eligible use of proceeds must be disclosed in the bond prospectus or supporting documentation.

4. Ongoing Reporting

At issuance, the bond issuer or loan borrower must either report on projects or state its commitment to report within one year of issuance with one or more of the following: a list of specific projects/investments, including amount disbursed to each individual project; aggregate project/investment categories, including amount disbursed to each project type; or quantitative or qualitative reporting on the environmental impact of the project pool (e.g., number of jobs created, number of patients treated, number of schools built, etc.).

Note: MSCI ESG Research uses the following process to track annual social bond or social loan reporting for bonds or loans within MSCI ESG Research's standard coverage universe²:

- **Annual Reporting:** At issuance, issuers of social bonds or social loan borrowers must either report on projects financed by the instrument's proceeds or commit to doing so within one year. This reporting obligation continues for the life of the bond or loan or until proceeds have been fully disbursed.
- **Reporting Review Period:** MSCI ESG Research reserves an additional three months beyond the 12-month deadline to review and verify an issuer's social bond or borrower's social loan report.

² This includes all bonds and loans for which MSCI ESG Research is contractually bound to provide a Second Party Opinion on annual social bond or social loan reporting.

- **Reporting Grace Period:** If an issuer or borrower has not published a report within 15 months of issuance or 15 months of the prior use of proceeds report, it will be flagged as “On Watch” in MSCI ESG Research’s system. If the issuer or borrower has not published a report in 18 months from issuance or the last annual report, its bond or loan will not be considered as “social” based on MSCI ESG Research’s assessment due to lack of transparency.
- **Annual Use of Proceeds Review:** If MSCI ESG Research’s review of annual social bond or social loan reporting confirms that the use of proceeds deviates from the use-of-proceeds categories mentioned above, the bond or loan will no longer be considered as “social” per MSCI ESG Research’s assessment.

Appendix

The MSCI Social Bond and Social Loan Assessment Methodology

The MSCI Social Bond and Social Loan Assessment Methodology evaluates a bond’s alignment with four core criteria which are based on the Social Bond Principles administered by ICMA and the Social Loan Principles administered by the Loan Market Association:

- Principle 1: Use of Proceeds
- Principle 2: Process for Project Evaluation and Selection
- Principle 3: Management of Proceeds
- Principle 4: Reporting

The primary difference between the MSCI Social Bond and Social Loan Assessment Methodology and the Social Bond Principles and Social Loan Principles is in “Principle 1: Use of Proceeds.” The MSCI Social Bond and Social Loan Assessment Methodology contains more explicit eligibility and ineligibility criteria than the Social Bond Principles and Social Loan Principles.

Summary of the MSCI Social Bond and Social Loan Assessment Methodology Use-Of-Proceeds Categories

Social Category	Sub-Category
Food security	<ul style="list-style-type: none"> • Products, services or infrastructure projects supporting the delivery of basic food, as defined by Choices International • Assistance provided to improve agricultural efficiency, the agricultural supply chain and prevent food wastage <p>Excludes the delivery of confectionery items: tobacco, alcohol and gourmet food.</p>
Healthcare	<ul style="list-style-type: none"> • Medical infrastructure like clinics, dispensaries and hospitals • Medical equipment • Pharmaceutical products • Training of hospital staff and welfare workers <p>Excludes beauty products and high-end cosmetic procedures and controversial clinical trials (e.g., those breaching the World Medical Association Declaration of Helsinki Ethical Principles for Medical Research Involving Human Subjects).</p>

<p>Affordable real estate</p>	<ul style="list-style-type: none"> • Affordable or social housing units for sale or rent, including apartments, standalone houses or commercial real estate for use by micro, small and medium enterprises (MSMEs) • Funding to social housing associations as designated by government entities <p>Excludes holiday homes, luxury homes and commercial spaces for corporate or luxury use.</p>
<p>Access to finance</p>	<ul style="list-style-type: none"> • Products, services or infrastructure projects supporting the development or delivery of finance to MSME businesses • Funding to social enterprises, as defined by national or regional regulations • Microfinance services for individuals or communities promoting entrepreneurship or education. Microfinance services for small offices/home offices are also eligible <p>Excludes predatory lending practices like payday loans, installment loans, pawn loans, title loans, tax refund anticipation loans and doorstep loans.</p>
<p>Education</p>	<ul style="list-style-type: none"> • Primary school, secondary school, college- and university-related products and services, including residential facilities for such establishments • Technical/vocational training centers and programs • Support for professional certification programs • Financial literacy programs • Training for teachers and related staff <p>Excludes all non-educational content and any product or service that does not contain educational content used in a school or college environment.</p>
<p>Basic infrastructure</p>	<ul style="list-style-type: none"> • Toll-free roads and bridges • Public transport infrastructure like public buses, subways, etc. • Drinking water distribution and sanitation • Electricity distribution infrastructure • Digital infrastructure <p>Excludes freeways, airports, ports for luxury use such as cruises; and home digital infrastructure like modems and cell phones.</p>
<p>Employment generation</p>	<ul style="list-style-type: none"> • Employment generation initiatives by government or not-for-profit sectors. This includes support provided to companies for job creation and employee retention • Support for MSME businesses as vendors or business partners

	<ul style="list-style-type: none"> • Training initiatives to increase employability <p>Excludes corporations that provide employment to serve their business needs, controversial businesses like casinos, for-profit prisons or weapons manufacturing.</p>
Other	<p>Other categories not included above, particularly regarding spending by government entities, include:</p> <ul style="list-style-type: none"> • Payment of Social Security • Replacement income to people who have lost their jobs • Provision of health insurance to the populace <p>Excludes generic categories like “socio-economic advancement.”</p>

Source: MSCI ESG Research LLC, as of February 2022

In cases where a social bond’s or social loan’s project categories do not overlap entirely with MSCI ESG Research definitions, MSCI ESG Research will consider bonds or loans eligible if at least 90% of the projected use of proceeds falls within eligible categories (as listed above).

The bond or loan must also define an eligible target demography that its proceeds will benefit. Eligible target demographics are:

- Underserved persons, owing to a lack of access to essential goods and services.; this includes rural communities that do not have access to basic infrastructure
- Unemployed persons
- People and communities affected by natural disasters
- Low- or middle-income persons, families or households
- Least Developed Countries, as defined by the United Nations
- Low-income states as defined by the World Bank
- Micro, small and medium enterprises (MSMEs)
- The elderly, including retirees
- People with disabilities
- Migrants and/or displaced persons
- Racial, ethnic and other minorities or marginalized genders
- Marginalized farmers, or farmers lacking access to markets

- Other excluded and/or marginalized populations and/or communities
- In cases where government entities are developing infrastructure for healthcare or education that is accessible to the entire population of the region, the target population can be the general public

Summary of the Social Bond Principles 2021 (as administered by ICMA) Use-Of-Proceeds Categories^{3,4}

Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders, or damages the well-being of society or a specific target population.

The definition of a target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public.

Social Project categories include, but are not limited to providing and/or promoting:

- Affordable basic infrastructure (e.g., clean drinking water, sewers, sanitation, transport, energy)
- Access to essential services (e.g., health, education and vocational training, healthcare, financing and financial services)
- Affordable housing
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance
- Food security and sustainable food systems (e.g., physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale food producers)
- Socioeconomic advancement and empowerment (e.g., equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)

Examples of target populations include, but are not limited to, those that are:

1. Living below the poverty line
2. Excluded and/or marginalized populations and/or communities

³This section is taken from the International Capital Markets (ICMA), The Social Bond Principles (GBP) 2021. June, 2021

⁴The Social Loan Principles refer to the Social Bond Principles administered by ICMA, and hence have similar definitions of Principle 1, i.e. eligible Use of Proceeds as the Social Bond Principles

3. People with disabilities
4. Migrants and/or displaced persons
5. Undereducated
6. Underserved, owing to a lack of quality access to essential goods and services
7. Unemployed
8. Women and/or sexual and gender minorities
9. Aging populations and vulnerable youth
10. Other vulnerable groups, including as a result of natural disasters

Contact us

clientservice@msci.com

AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

* = toll free

ABOUT MSCI ESG RESEARCH PRODUCTS AND SERVICES

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

ABOUT MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit www.msci.com.

Standard Notice and disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.
- The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.
- Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.
- The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.
- None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.
- It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.
- Index returns do not represent the results of actual trading of investable assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.
- The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.
- Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.
- Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.
- MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.
- MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.
- Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.
- MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.
- Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.