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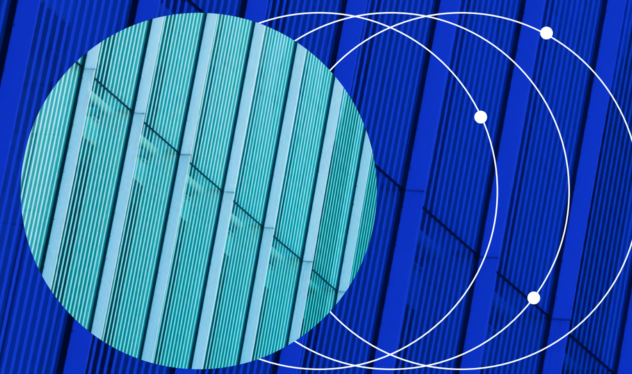
Upcoming Changes to MSCI Selection Indexes Methodology

In the **May 2025 index review**, MSCI will implement a **series of changes to its Selection indexes** methodology following its consultation with market participants in Q2 2024 and announcement of the results in July 2024.

The goal of these changes is to address turnover concerns, enhance existing exclusions criteria and address regulatory considerations, like the ESMA fund naming rules.



Recap – May 2025 index review changes

The upcoming changes can be summarized as follows:

1. Changes to the ranking and selection rules.

To address turnover concerns, MSCI will:

- Remove ESG Ratings Trend from the ranking logic,
- Remove AA prioritization from the selection logic.

Our simulations showed that combining both these changes would reduce the one-way annualized turnover[1] for MSCI ACWI Selection Index from 10.3% to 6.8%. A similar reduction was observed for other regional and country Selection indexes.

2. Changes to exclusion criteria - adjustments to existing screens

To reflect latest thinking and regulatory considerations for the MSCI Selection Indexes methodology, both the tobacco and civilian firearms screens will be adjusted and defined as follows:

Tobacco screen:

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

Civilian firearms screen:

a. all companies classified as “Producer” of firearms and small arms ammunitions for civilian markets, and
b. all companies deriving 5% or more aggregate revenue from the production and distribution of firearms or small arms ammunition intended for civilian use.

In our simulations, the adjustment to the tobacco screen led to an additional five companies (total index weight: 0.34%)[2] being excluded from the MSCI ACWI Selection Index. The adjustment to the Civilian Firearms screen did not lead to any additional exclusions.

3. Changes to exclusion criteria – introduction of new screens

In order to add biodiversity/nature-related considerations to the index construction of the MSCI Selection Indexes, the following new screens will be added:

a. all companies deriving more than 5% revenue from Arctic Oil & Gas production
b. all companies deriving more than 5% revenue from Palm Oil production.

In our simulations, the addition of Arctic Oil & Gas production screen led to an additional four companies (total index weight: 0.02%)[3] being excluded from the MSCI ACWI Selection Index. The addition of the new Palm Oil production screen did not lead to any additional exclusions.

Our simulations showed that the combination of all these three changes would have reduced turnover for MSCI ACWI Selection Index (from 10.3% to 6.9%)[4]. Similar turnover reductions were achieved for other regional and country Selection indexes, with the greatest impact observed in the Europe & Middle East (from 15.9% to 10.9%) and Pacific (from 12.2% to 6.3%) regions.

Also, the simulated indexes retained the same overall ESG Rating and high exposure to ESG Leaders companies (AAA-AA).

Conclusion

As always, our goal for methodology reviews is to ensure our indexes reflect best practices in data standards and index construction, while being aligned with changes in the regulatory environment and investors’ views.

For more information, please refer to the consultation deck.

[1] Backtest annualized one-way index turnover. Period: May 29, 2020 – December 29, 2023.
[2] As of November 2023 rebalance
[3] As of November 2023 rebalance
[4] As of April 2024.

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