Consultation on MSCI Climate Paris Aligned PAB Indexes Methodology

February 2026

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 result of the consultation

Summary

MSCI proposes to enhance the MSCI Climate Paris Aligned PAB Indexes methodology to streamline climate objectives and ensure long-term viability.

Climate Objectives

Simplify climate objectives
by **removing overlaps**, and focusing on:

→ Alignment with the **Paris Agreement**, and

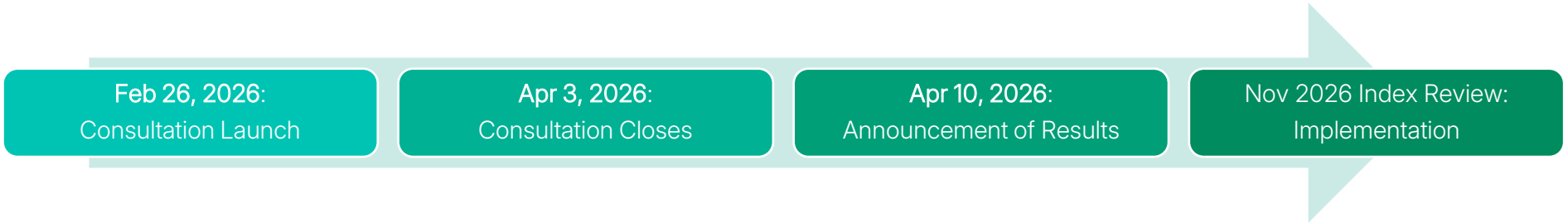
→ Higher allocation to **Climate Solutions enablers**.

Long-Term Viability

→ Mitigate the increase in concentration and tracking error by **relaxing** certain climate objectives; and

→ Introduce technical enhancements to improve index maintenance.

MSCI invites feedback from market participants on or before April 3, 2026, and will announce the consultation results and implementation timeline on or before April 10, 2026.



Overlapping climate metrics currently address common objectives..

The MSCI Climate Paris Aligned PAB Indexes were launched to holistically address transition risks and opportunities, while aligning with the Paris Agreement.

→ Over time, however – the availability of newer metrics, and the evolution of the underlying data – has highlighted overlaps across climate objectives.

→ Additionally, the multi-objective approach has limited index diversification[1].

The consultation proposals aim to streamline the index methodology by removing these overlaps – shifting focus back to alignment with the Paris Agreement and climate opportunities.

← CLIMATE OBJECTIVES →

Climate Metrics / Constraints	Alignment with Paris Agreement	Transition Risk Reduction	Investment in Climate Solutions/ Opportunities	Physical Risk Reduction
EU PAB Requirements[2]	X	X		
Implied Temperature Rise (ITR)	X			
Companies Setting Targets	X			
Green Revenue			X	
Green-to-Fossil-Fuels Ratio		X	X	
Low Carbon Transition Score		X	X	
Potential Emissions		X		
Aggregate Climate VaR		X	X	X
Physical Risk Climate VaR				X

Green/ *Grey* indicate constraints that are maintained/ *removed* in the proposals to be discussed later

1. As simulated in history, removal of certain constraints would have improved index concentration by varying degrees.

2. Requirements for EU Paris Aligned Benchmarks include specific exclusions, relative carbon reduction, self-decarbonization, and high climate impact sector exposure.

Concentration has increased over the last 3 years..

The increasing concentration in the MSCI Climate Paris Aligned PAB Indexes raises concerns on the index methodology's long-term viability.

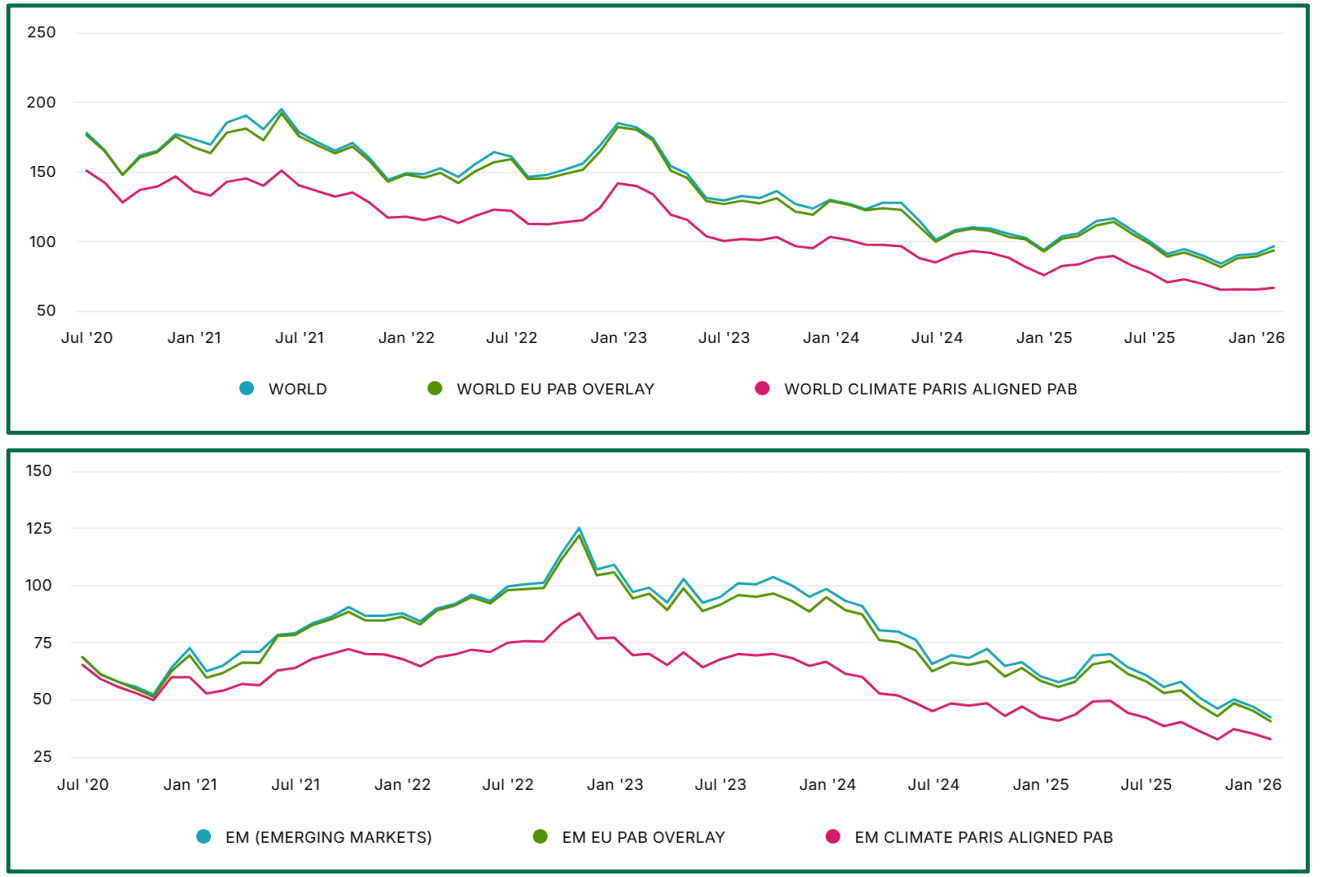
→ The trend in concentration may be attributed to:

- Misalignment of index targets vs real-world decarbonization
- The breadth of competing climate objectives in the index design
- Increasing concentration in broad markets

→ Currently, the Effective Number of Constituents[1] in the MSCI Climate Paris Aligned PAB Indexes is much lower than that of the MSCI EU PAB Overlay Indexes[2]

The consultation proposals aim to mitigate concentration by removing overlaps and relaxing certain climate rules.

Historical Effective Number of Constituents[1]



1. The Effective Number of Constituents reflects the constituent count of an equivalent equal-weighted index with the same level of concentration. Additional details on concentration metrics are in the Appendix.

2. The MSCI EU PAB Overlay Indexes only implement the minimum index construction criteria for EU Paris Aligned Benchmarks, as required by EU regulation.

Index Methodology Principles vs the Proposed Changes

The MSCI Climate Paris Aligned PAB Indexes would continue to *exceed* the minimum requirements for EU PABs, under the proposed changes.

Exceeds EU PAB Requirements

Meets EU PAB Requirements

- GHG Intensity Reduction ≥ 50% vs Parent Index
- Self-decarbonization ≥ 7% annually (currently 10%)
- High Climate Impact Sector Exposure similar to Parent Index

1.5° Alignment

- Implied Temperature Rise ≤ 2.0 °C
- Cumulative Projected Emissions aligned with 1.5 °C ITR
- Higher self-decarbonization (≥ 10% annually)
- Companies Setting Targets aggregate increase >= 20%

Green Opportunities

- Green Revenue ≥ 50% vs Parent Index (currently ≥ 100%)
- Green/Fossil fuels-based Revenue ≥ 4x of Parent Index

Transition Risk

- Low Carbon Transition Score increase ≥ 10%
- Potential Emissions Reduction ≥ 50% vs Parent Index

Physical Risk

- Aggregate Climate Value-at-Risk ≥ Max(-5%, Parent)
- Physical Risk Climate Value-at-Risk Reduction ≥ 50% vs Parent Index

Green / Blue / Red indicate climate objectives that are maintained/ modified / removed in the proposed methodology

Section 1

Proposed Enhancements- Overview

Recap

Overview of the Current Index Methodology

Steps	Methodology Details	
Starting Universe	MSCI Market Cap Index ("Parent Index")	
Exclusions	• ESG Controversies • Environmental Controversies • Tobacco Producers • Controversial Weapons • Thermal Coal (Mining & Distribution[2])	• Oil & Gas Activity • Fossil Fuel Power Generation • Tobacco Revenues • Nuclear Weapons[2] • Civilian Firearms[2]
Optimization Objective	Exclusions are applied to the universe before optimization, at which point Climate objectives are applied as index-level constraints. The **optimization objective** is to **minimize** the **ex-ante tracking error** relative to the respective Parent Indexes while meeting all objectives	
PAB Objectives *(applied at Index Level)*	• GHG Intensity Reduction ≥ 50% vs Parent Index • Self-decarbonization ≥ 10% annually vs Base Date[3] • High climate impact sector exposure ≥ Parent Index	
Additional Climate Objectives *(applied at Index Level)*	• Implied Temperature Rise ≤ 2.0 °C • Cumulative projected Emissions aligned with 1.5 °C ITR • Potential Emissions Reduction ≥ 50% vs Parent Index • Green/Fossil fuels-based Revenue ≥ 4x of Parent Index • Green Revenue ≥ 2.0x of Parent Index	• Aggregate Climate Value-at-Risk ≥ Max(-5%, Parent) • Physical Risk CVaR Reduction ≥ 50% vs Parent Index • Low Carbon Transition Score Increase ≥ 10% • **Companies Setting Targets Increase >= 20%**
Diversification Constraints	• One Way Turnover ≤ 5% • Active Sector Weights ≤ +/- 5% • Active Country Weights ≤ +/ - 5%	• X-2% ≤ Security Weights ≤ min (X+2%, 20*X) • Security Weight ≥ 1 bp, if selected
Index Review Frequency	Index Reviews generally take place twice a year: • May Index Review – effective at the beginning of June • November Index Review – effective at the beginning of December	

1. The Thermal Coal Distribution screen was added during the May 2025 Index Review.
2. The Nuclear Weapons and Civilian Firearms screens were added during the November 2023 Index Review.
3. The Base Date is defined in Section 4 of the MSCI EU CTB/PAB Index Framework.

Maintain objectives | Remove objectives | Relax Objectives

Proposed Enhancements

→ Proposals 1-3 aim to streamline the multiple Climate objectives in the current methodology.

- The proposed methodology would retain **(a) Decarbonization in line with the Paris Agreement**, **(b) Implied Temperature Rise (ITR) alignment**, and **(c) Green Revenue % exposure** as the key climate metrics.

Proposals	Rationale	Simulated Impact
Proposal 1: Remove the Climate Value-at-Risk objectives (both Aggregate CVaR, and Physical Risk CVaR)	• **Complexity and Data Volatility**: CVaR models incorporate complex assumptions, and ongoing model evolution introduces volatility in the index construction. • **Reduce Overlap on Transition Risk**: The decarbonization constraints capture transition risk, and the technology opportunities component is captured by Green Revenue %.	• **Lower tracking error**, and **higher effective number of constituents** for World and EM Climate Paris Aligned PAB (closer to the MSCI World & MSCI EM Indexes)
Proposal 2: Remove the Low Carbon Transition Score improvement target	• **Remove Overlap on both Climate Opportunities and Transition:** LCT Score overlaps with Green Revenue % in increasing exposure to climate solutions enablers, while decarbonization constraints capture current and projected emissions performance.	
Proposal 3: Remove the increase in Companies Setting Targets	• **Remove Overlap on Carbon Reduction Targets:** ITR already incorporates the impact of corporate commitments on their cumulative projected emissions.	• **Minimal impact**

Proposed Enhancements

→ Proposals 4-6 aim to safeguard the current and future feasibility of the MSCI Climate Paris Aligned PAB Indexes.

Proposals	Rationale	Simulated Impact
Proposal 4: Lower the annual Self-Decarbonization Target to 7% (from 10%) on a going-forward basis	• **Future-proofing the indexes**: As carbon emissions intensity continues to increase in global markets, index tracking error and concentration can significantly increase in the next 5-10 years under the current 10% self-decarbonization target. • **Reduce overlap on Temperature Alignment:** ITR explicitly models a target global warming scenario, instead of relying on a higher self-decarbonization target.	• **Improved tracking error, concentration,** and **feasibility** when projected into the future
Proposal 5: Relax the increase in Weighted Average Green Revenue to 50% (from 100%)	• **An increase in target Green Revenue exposure limits index diversification:** Currently, Green Revenue exposure is disproportionately distributed across the MSCI World Index, which has increased index concentration and tracking error in recent Index Reviews.	• **Higher effective number of constituents** for World and EM (closer to the broad market)
Proposal 6: Introduce a Relaxation Mechanism on the Linear Asset Bounds, in cases of optimization infeasibilities	• **Balancing tracking error and feasibility across indexes:** By keeping the current "+/-2%" limits but allowing for relaxations up to "+/-10%" as required, tracking error continues to be limited for broader indexes while ensuring feasibility in narrower indexes.	• Mitigate the **risk** of **infeasibilities** in future Index Reviews

Technical Enhancements

→ In addition to Proposals 1-6, MSCI intends to implement the following technical changes to the index construction and maintenance.

Technical Enhancement	Rationale
i. Quarterly exclusion of companies that fail the mandatory EU PAB screens (instead of on a Semi-Annual basis)	• **Timeliness:** The additional partial rebalancing in February and August will ensure that any security that breaches the mandatory EU PAB screens does not remain an index constituent for more than 3 months.
ii. Introduction of calculation buffers for EU PAB objectives	• MSCI intends to implement buffers around the thresholds for: - Self-decarbonization - Relative GHG Intensity Reduction vs the Parent Index - Active weight on the High Climate Impact Sector • This will limit the potential need for special treatment to ensure compliance with regulatory requirements (for example, in cases of corporate actions around the Index Review Implementation dates).
iii. Review of Index Diversification and Optimization parameters to support long term index viability	• MSCI may further review the diversification mechanics in the construction of various MSCI Climate Indexes (including, but not limited to, the risk aversion parameters within the optimization setup)

Section 2

Details- Proposals 1-6

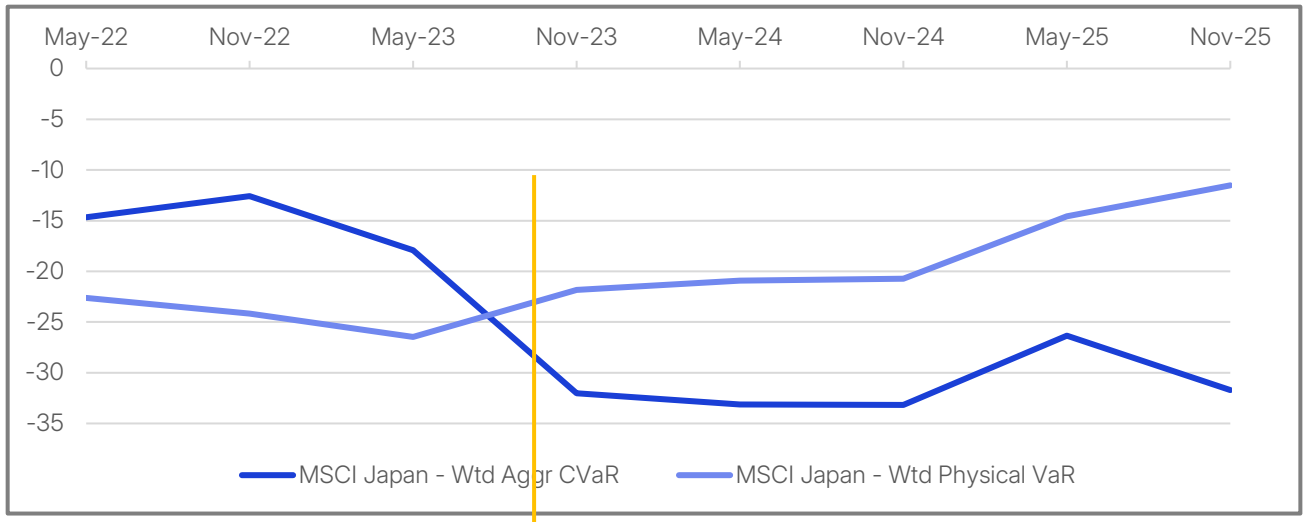
Proposal 1: Remove Climate Value-at-Risk Objectives

Main Proposal: Remove both Aggregate Climate Value-at-Risk[1] (CVaR) & Physical CVaR[2] Reduction

Alternate Proposal: Remove Aggregate CVaR & Relax Physical Risk CVaR Reduction from 50% to 30%

- × **Highly-modelled:** Climate Value-at-Risk has resulted in index instability and historical infeasibilities.
- × **Overlaps:** The decarbonization and ITR constraints already capture transition risk, while Green Revenue % captures the technology opportunities component.

Volatility in Climate VaR: MSCI Japan Index Example



Nov 2023 onwards: *Optimization infeasibilities requiring exceptional relaxation of CVaR constraint*

Multiple CVaR model changes in 2025 alone[3]

1. The Aggregate Climate Value-at-Risk in the current methodology targets a value of Max (-5%, CVaR of Parent Index).
2. The Physical Risk CVaR objective in the current methodology targets a reduction of 50% compared to the Parent Index.
3. In July 2025, CVaR models were updated with new climate scenario inputs (NGFS Phase 5). Later in October 2025, the physical risk exposure components were calibrated.

Proposal 1 (Main): Remove both Climate Value-at-Risk Constraints

- Physical Risk CVaR removal would result in higher impact in the World Climate Paris Aligned PAB Index, whereas EM Climate Paris Aligned PAB Index is more constrained by Aggregate CVaR.
- Removing both constraints results in lower Physical Risk CVaR reduction vs the World EU PAB Overlay Index. The EM Index would still see a 30% reduction in Physical Risk CVaR, but Aggregate CVaR increases significantly.

Main Proposal - MSCI World Index – Nov 2025 Index Review

(cumulative impact since June 2020[1])

	World	World Climate Paris Aligned PAB	Remove Agg CVaR Only	Remove Physical CVaR Only	Removing both CVaR constraints	World EU PAB Overlay
NOC	1321	**461**	446	493	502	**830**
Effective NOC	87.8	**63.8**	65.4	68.5	68.5	**85.7**
HHI[2]	113.9	156.8	152.8	146.0	146.1	116.7
Top 10 Total Weight	27.6%	31.2%	31.2%	30.5%	30.5%	27.9%
Ex-Ante Tracking Error		1.50%	1.46%	1.30%	1.28%	0.81%
Aggr CVaR	-16.7	-2.6	-2.6	-3.8	-4.3	-6.5
Physical Risk CVaR	-4.9	-2.4	-2.5	-3.6	-3.9	-3.8
Physical Risk CVaR reduction		**50.5%**	50.0%	26.4%	20.5%	**22.4%**

Main Proposal - MSCI EM Index – Nov 2025 Index Review

(cumulative impact since June 2020[1])

	EM	EM Climate Paris Aligned PAB	Remove Agg CVaR Only	Remove Physical CVaR Only[3]	Removing both CVaR constraints	EM EU PAB Overlay
NOC	1196	**340**	441	347	531	**744**
Effective NOC	48.9	**36.2**	43.7	36.6	47.1	**47.3**
HHI[2]	204.5	276.3	228.9	273.2	212.4	211.4
Top 10 Total Weight	30.8%	33.6%	31.7%	33.2%	30.8%	31.2%
Ex-Ante Tracking Error		2.41%	1.31%	2.51%	1.05%	0.70%
Aggr CVaR	-30.5	-5.0	-10.2	-5.0	-15.1	-17.1
Physical Risk CVaR	-14.3	-4.5	-7.2	-4.5	-10.9	-10.9
Physical Risk CVaR reduction		68.3%	50%	68.3%	23.6%	23.5%

1. The November 2025 results are taken from a *continuous* simulation throughout the 5+ year index history.
2. HHI = Herfindahl–Hirschman Index = sum of the squared weights of each constituent. Its reciprocal is the Effective Number of Constituents (the equivalent NOC of an equal-weighted index with same level of concentration)
3. In the presence of the Aggr. CVaR constraint, the Physical Risk CVaR constraint is effectively non-binding in the EM Index. The variation in tracking error and other metrics is mainly due to the simulation setup (specifically – the simulation reflected a constant methodology throughout its history, and the resulting number of optimization-related relaxations may differ vs the live index history).

Proposal 1 (Alternate): Remove Aggregate CVaR & Relax Physical Risk CVaR

- Keeping Physical Risk CVaR at a reduced target of 30% would result in slightly higher tracking error (compared to the main proposal of removing it entirely) but would still improve concentration.

Alternative Proposal - MSCI World Index – Nov 2025 Index Review
(*cumulative impact since June 2020*[1])

	World	World Climate Paris Aligned PAB	Remove Agg CVaR Only	Physical CVaR 30% Only	Remove Agg. CVAR & Relax Physical CVaR	World EU PAB Overlay
NOC	1321	**461**	446	494	492	**830**
Effective NOC	87.8	**63.8**	65.4	68.7	68.9	**85.7**
HHI[2]	113.9	156.8	152.8	145.6	145.1	116.7
Top 10 Total Weight	27.6%	31.2%	31.2%	30.5%	30.4%	27.9%
Ex-Ante Tracking Error		1.50%	1.46%	1.32%	1.31%	0.81%
Aggr CVaR	-16.7	-2.6	-2.6	-3.7	-3.8	-6.5
Physical CVaR	-4.9	-2.4	-2.5	-3.4	-3.4	-3.8
Physical CVaR reduction		**50.5%**	50.0%	30.3%	30.6%	**22.4%**

Alternative Proposal - MSCI EM Index – Nov 2025 Index Review
(*cumulative impact since June 2020*[1])

	EM	EM Climate Paris Aligned PAB	Remove Agg CVaR Only	Physical CVaR 30% Only[3]	Remove Agg. CVAR & Relax Physical CVaR	EM EU PAB Overlay
NOC	1196	**340**	441	337	545	**744**
Effective NOC	48.9	**36.2**	43.7	36.8	47.7	**47.3**
HHI[2]	204.5	276.3	228.9	272.0	209.6	211.4
Top 10 Total Weight	30.8%	33.6%	31.7%	32.9%	30.5%	31.2%
Ex-Ante Tracking Error		2.41%	1.31%	2.56%	0.99%	0.70%
Aggr CVaR	-30.5	-5.0	-10.2	-5.0	-14.0	-17.1
Physical CVaR	-14.3	-4.5	-7.2	-4.6	-10.0	-10.9
Physical CVaR reduction		68.3%	50%	67.5%	30%	23.5%

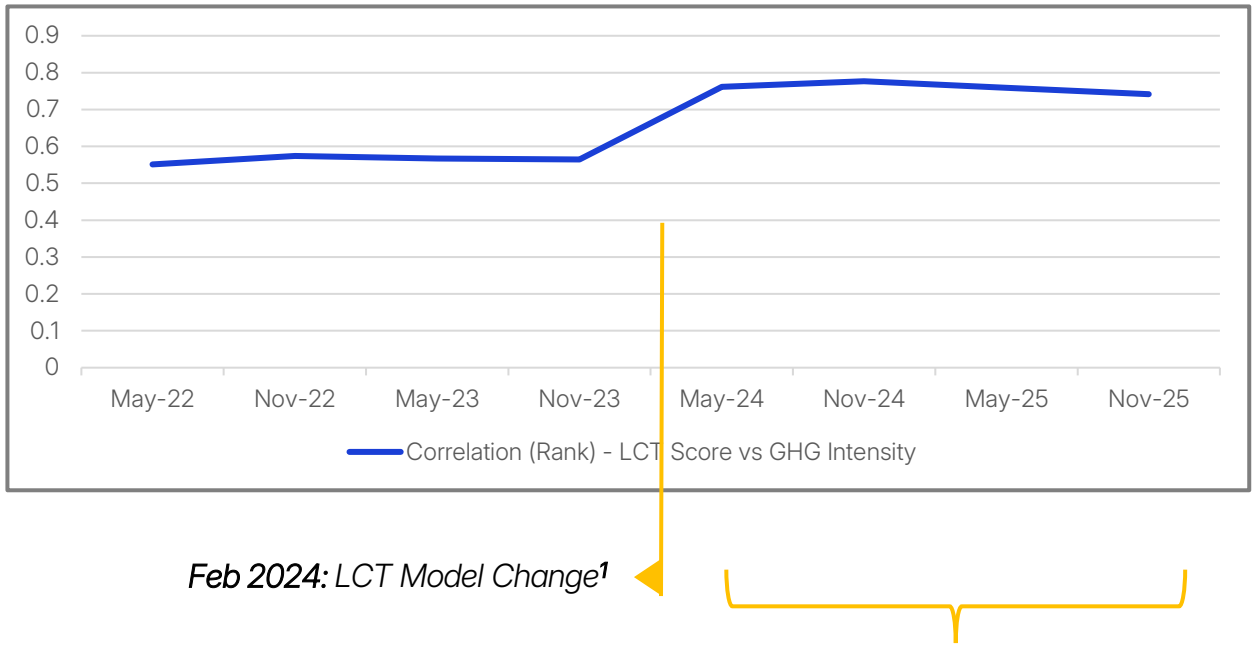
1. The November 2025 results are taken from a *continuous* simulation throughout the 5+ year index history.
2. HHI = Herfindahl–Hirschman Index = sum of the squared weights of each constituent. Its reciprocal is the Effective Number of Constituents (the equivalent NOC of an equal-weighted index with same level of concentration)
3. In the presence of the Aggr. CVaR constraint, the Physical Risk CVaR constraint is effectively non-binding in the EM Index. The variation in tracking error and other metrics is mainly due to the simulation setup (specifically – the simulation reflected a constant methodology throughout its history, and the resulting number of optimization-related relaxations may differ vs the live index history).

Proposal 2: Remove Low Carbon Transition Score Objective

Low Carbon Transition Score (LCT) increase ≥ 10%

- × **Overlaps**: Green Revenue % already increases exposure to climate solutions enablers, while decarbonization constraints captures current and forward-looking emissions performance. Additionally, corporate targets is incorporated within ITR.
- × **High Feasibility Cost, Low Uplift Benefit**: The LCT uplift increases concentration, while targeting only a modest uplift (10% globally, but only 5% for USA and Japan).

LCT Score vs GHG Intensity – MSCI USA Index Example



1. The model was updated to include Scope 3 emissions in its input, among other changes.

Proposal 2: Remove Low Carbon Transition Score Objective

- The removal of LCT Score objective would increase the effective Number of Constituents (note that the impact was higher in earlier periods, when its correlation with GHG Intensity was lower).

MSCI World Index – Nov 2025 Index Review
(cumulative impact since June 2020[1])

	World	World Climate Paris Aligned PAB	Removing LCT Increase Only	World EU PAB Overlay
NOC	1321	461	485	830
Effective NOC	87.8	63.8	67.4	85.7
HHI[2]	113.9	156.8	148.3	116.7
Top 10 Total Weight	27.6%	31.2%	30.8%	27.9%
Ex-Ante Tracking Error		1.50%	1.42%	0.81%
LCT Score Increase		11.4%	10.9%	5.9%

MSCI EM Index – Nov 2025 Index Review
(cumulative impact since June 2020[1])

	EM	EM Climate Paris Aligned PAB	Removing LCT Increase Only	EM EU PAB Overlay
NOC	1196	340	367	744
Effective NOC	48.9	36.2	36.5	47.3
HHI[2]	204.5	276.3	274.0	211.4
Top 10 Total Weight	30.8%	33.6%	33.8%	31.2%
Ex-Ante Tracking Error		2.41%	2.42%	0.70%
LCT Score Increase		10.0%	**10.0%**	6.6%

1. The November 2025 results are taken from a *continuous* simulation throughout the 5+ year index history.
2. HHI = Herfindahl–Hirschman Index = sum of the squared weights of each constituent. Its reciprocal is the Effective Number of Constituents (the equivalent NOC of an equal-weighted index with same level of concentration)

Proposal 3: Remove Companies Setting Targets Objective

Companies Setting Targets Increase ≥ 20%

× **Overlaps:** ITR already captures corporate reduction targets and integrates them with the company's projected emissions.

The removal of the Companies Setting Targets[1] constraint results only in minimal impact on the World Index.

MSCI World Index – Nov 2025 Index Review
(cumulative impact since June 2020[2])

	World	World Climate Paris Aligned PAB	Removing CST Increase only	World EU PAB Overlay
NOC	1321	461	459	830
Effective NOC	87.8	63.8	65.6	85.7
HHI[3]	113.9	156.8	152.4	116.7
Top 10 Total Weight	27.6%	31.2%	31.1%	27.9%
Ex-Ante Tracking Error		1.50%	1.46%	0.81%
CST upweight		20.0%	16.9%	8.6%

MSCI EM Index – Nov 2025 Index Review
(cumulative impact since June 2020[2])

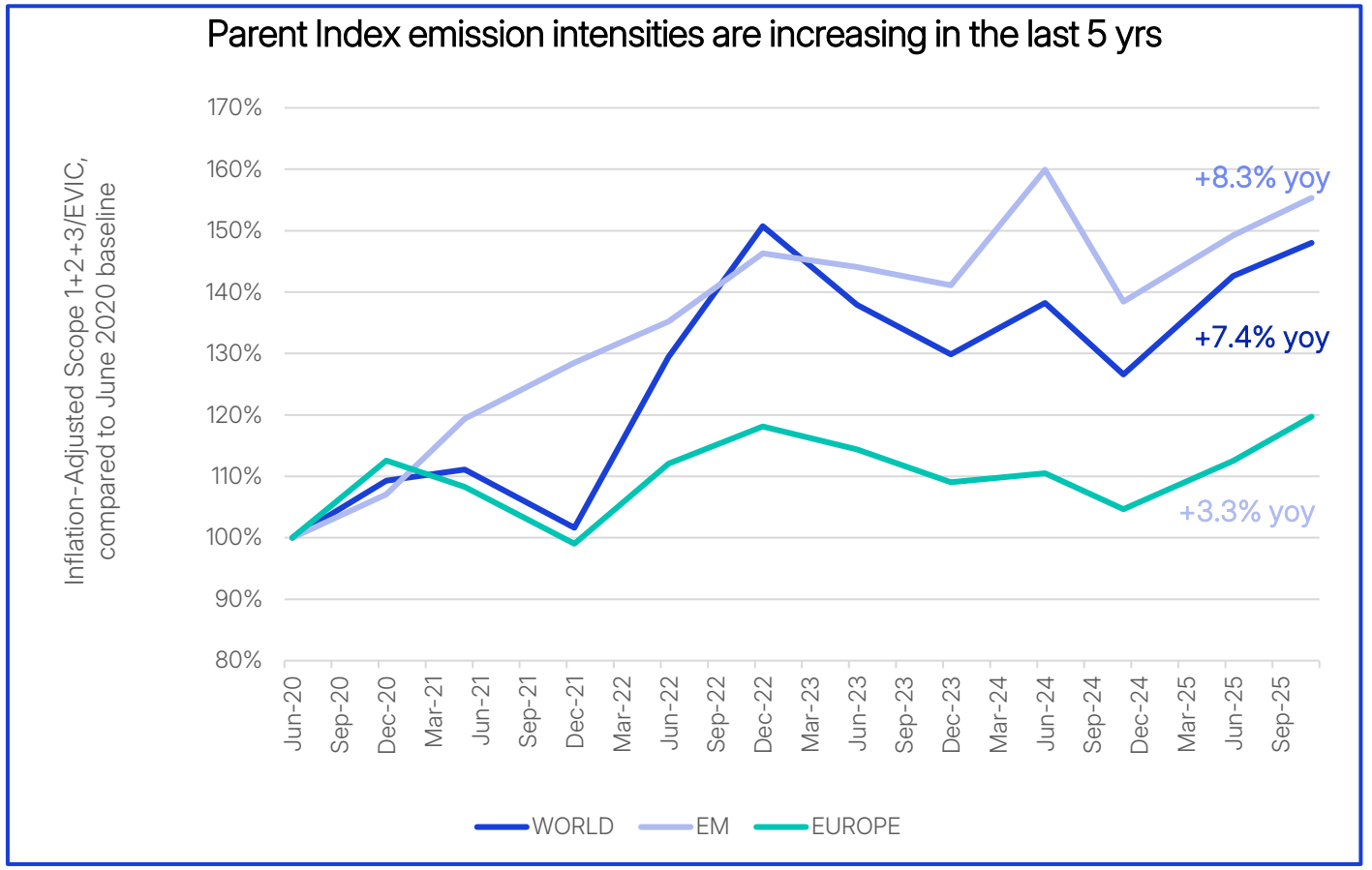
	EM	EM Climate Paris Aligned PAB	Removing CST Increase only	EM EU PAB Overlay
NOC	1196	340	355	744
Effective NOC	48.9	36.2	38.0	47.3
HHI[3]	204.5	276.3	263.4	211.4
Top 10 Total Weight	30.8%	33.6%	32.8%	31.2%
Ex-Ante Tracking Error		2.41%	2.48%	0.70%
CST upweight		20.0%	-0.8%	-7.0%

1. The definition of a "Company Setting Target" in the index construction currently incudes SBTI –approved targets, as well as a three-point measure on disclosure, corporate commitments, and a 3-year decarbonization.
2. The November 2025 results are taken from a *continuous* simulation throughout the 5+ year index history.
3. HHI = Herfindahl–Hirschman Index = sum of the squared weights of each constituent. Its reciprocal is the Effective Number of Constituents (the equivalent NOC of an equal-weighted index with same level of concentration)

Proposal 4: Reduce the annualized decarbonization target from 10% to 7%

Self-decarbonization >= 7%

- **Global Markets are not decarbonizing**: While the index construction currently imposes a stringent 10% self-decarbonization target, carbon intensity has been increasing in global markets (+7.4% YoY in MSCI World, for example).
- Due to the increase in GHG Intensity across global markets, more securities are dropped from the MSCI Climate Paris Aligned PAB Indexes, resulting in higher concentration.

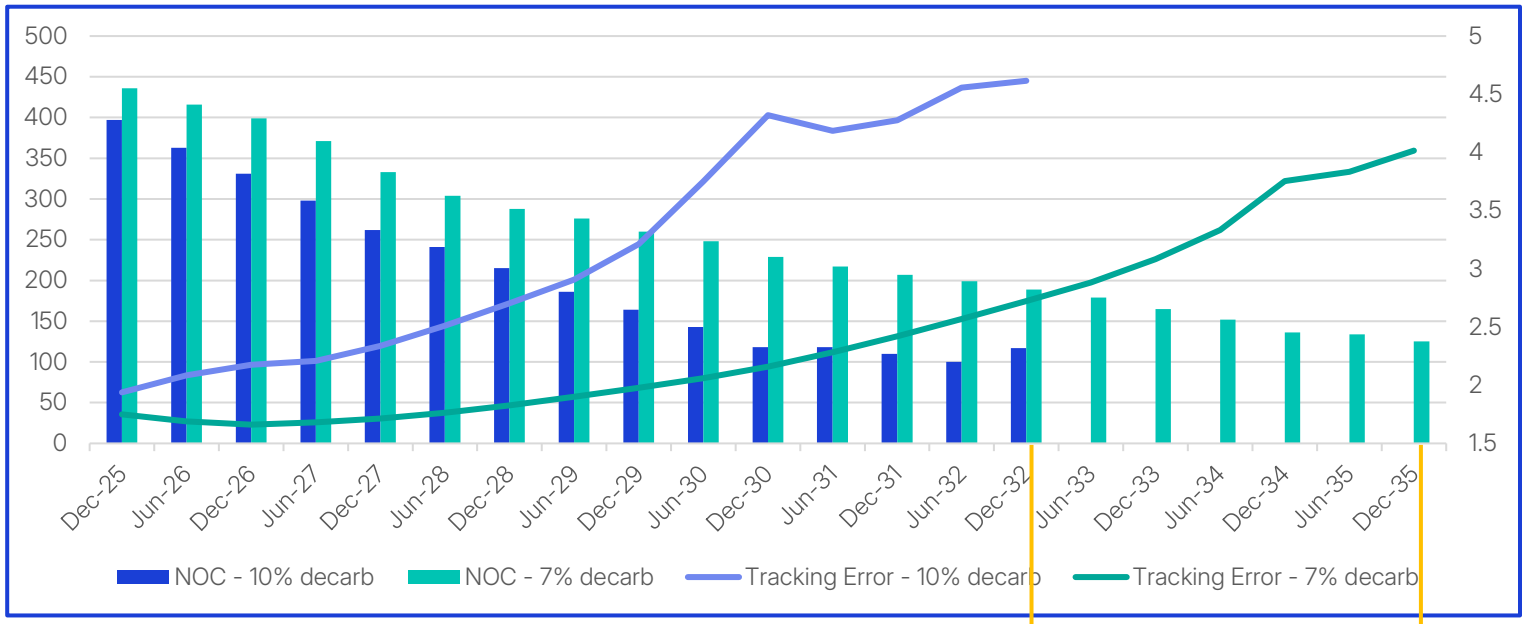


Proposal 4: Reduce the annualized decarbonization target from 10% to 7%

To illustrate how a lower decarbonization target could improve index viability, the MSCI World Climate Paris Aligned Index has been simulated up until 2035, with a strict assumption that GHG Intensity of the parent index remains constant*

- ✓ Keeping **the 10% target could result in a spike in tracking error to 4.2% in 5 years' time**, eventually **resulting in infeasibility post 2032.**
- ✓ A **reduced 7% target would reach a similar tracking error only after 5 more years** and could **keep the index feasible beyond 2035.**

Projecting the MSCI World Climate Paris Aligned PAB Index forward (all else equal)



The current 10% trajectory could become infeasible ***by Dec 2032***
(assuming the GHG intensity of MSCI World remains constant)

A 7% trajectory could be viable ***beyond 10 years***
(under the same assumptions)

* This is simulated by holding the November 2025 GHG Intensity level constant, and running continuous Index Reviews 10 years into the future.

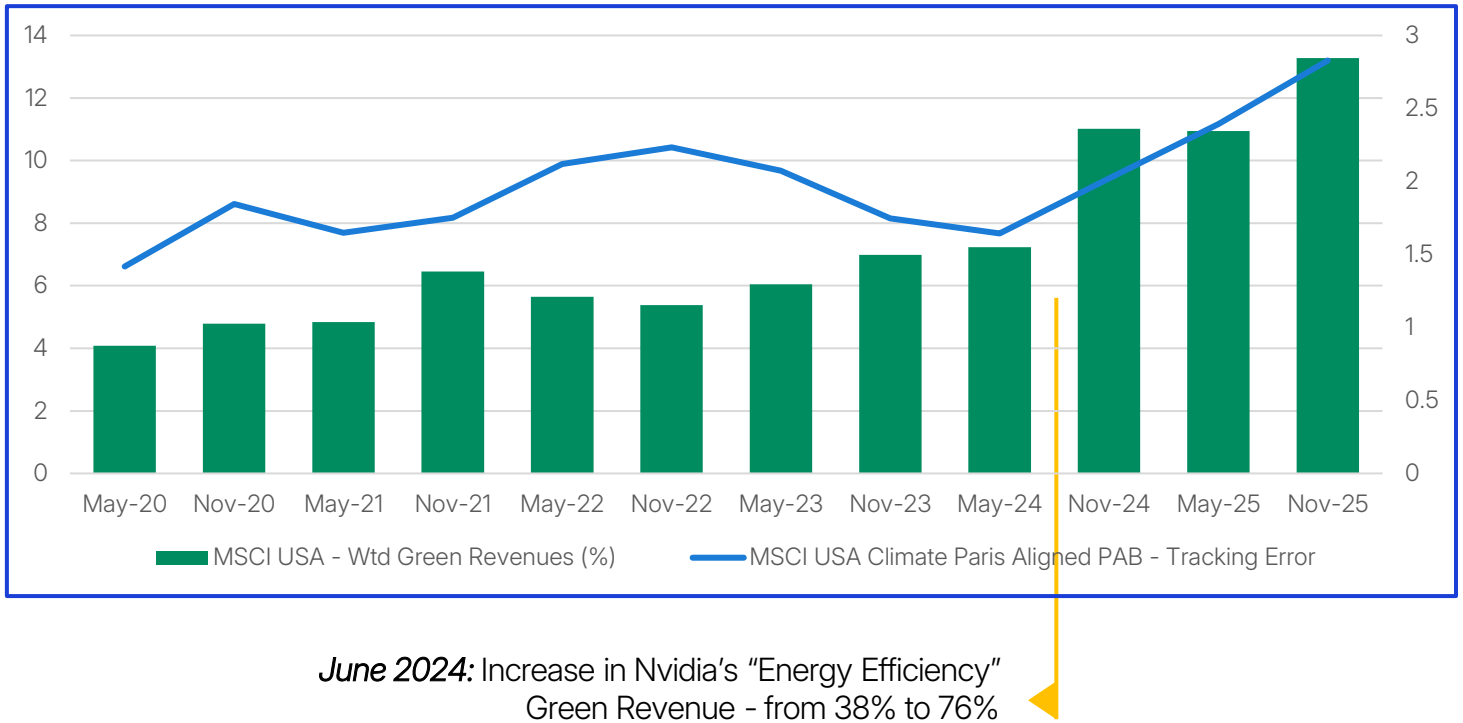
Proposal 5: Reduce the increase in Green Revenue target to 50%

Green Revenue Increase >= 50%

× **Disproportionate Green Revenue exposure limits diversification:** The higher baseline contribution by top names in the MSCI World Index requires an even higher uplift during index optimization. This has resulted in index concentration and higher tracking error in recent Index Reviews.

Note that MSCI Solutions has recently launched a public consultation[1] that could potentially narrow down the green revenue definition, resulting in lower Green Revenue % for certain companies (including large ones).

Green Revenue and Tracking Error Impact: MSCI USA Index Example



June 2024: Increase in Nvidia's "Energy Efficiency" Green Revenue - from 38% to 76%

1. For more details, please refer to the consultation launched by MSCI Solutions: MSCI Sustainable Impact Metrics - Green Taxonomy Consultation - MSCI

Proposal 5: Reduce the increase in Green Revenue target to 50%

- Reducing Green Revenue (from +100% to +50%) would increase the effective number of companies to 74 for the World Index (midway level between the Climate Paris Aligned PAB and EU PAB Overlay Indexes). Tracking error would also be reduced by 27 bps.

MSCI World Index – Nov 2025 Index Review

(cumulative impact since June 2020[1])

	World	World Climate Paris Aligned PAB	Reducing Green Revenue increase to 1.5x only	World EU PAB Overlay
NOC	1321	461	540	830
Effective NOC	87.8	63.8	73.8	85.7
HHI[2]	113.9	156.8	135.4	116.7
Top 10 Total Weight	27.6%	31.2%	29.9%	27.9%
Ex-Ante Tracking Error		1.50%	1.23%	0.81%
Green Revenues Increase (Multiple)		2.00	1.50	1.12

MSCI EM Index – Nov 2025 Index Review

(cumulative impact since June 2020[1])

	EM	EM Climate Paris Aligned PAB	Reducing Green Revenue increase to 1.5x only[3]	EM EU PAB Overlay
NOC	1196	340	343	744
Effective NOC	48.9	36.2	36.2	47.3
HHI[2]	204.5	276.3	276.4	211.4
Top 10 Total Weight	30.8%	33.6%	34.5%	31.2%
Ex-Ante Tracking Error		2.41%	2.47%	0.70%
Green Revenue Increase (Multiple)		2.0	1.71	6.6%

1. The November 2025 results are taken from a *continuous* simulation throughout the 5+ year index history.
2. HHI = Herfindahl–Hirschman Index = sum of the squared weights of each constituent. Its reciprocal is the Effective Number of Constituents (the equivalent NOC of an equal-weighted index with same level of concentration).
3. The Green Revenue constraint is currently not binding for the EM Index. The slight variation in tracking error and other metrics is mainly due to the simulation setup (specifically – the simulation reflected a constant methodology throughout its history, and the resulting number of optimization-related relaxations may differ vs the live index history).

Proposal 6: Introduce a Relaxation Mechanism on the Linear Asset Bounds

Linear Active Security Weights at +/-2%,
but may be relaxed in steps of 1% up to 10% in cases of infeasibility

- ✓ **Market concentration significantly impacts narrower indexes** (such as single-market universes): Security-specific contributions are more pronounced, and higher active weights vs the current +/-2% limits may be required to ensure index feasibility.
  - A permanent relaxation of the limit, however, may increase tracking error in broader indexes.
  - **A relaxation mechanism aims to strike the right balance**: keeping the current tight constraints as a starting point, with room for relaxation only if required for feasibility.

Historical exceptions to the +/-2% Linear Asset Bounds (to ensure rebalancing feasibility)

Section 3

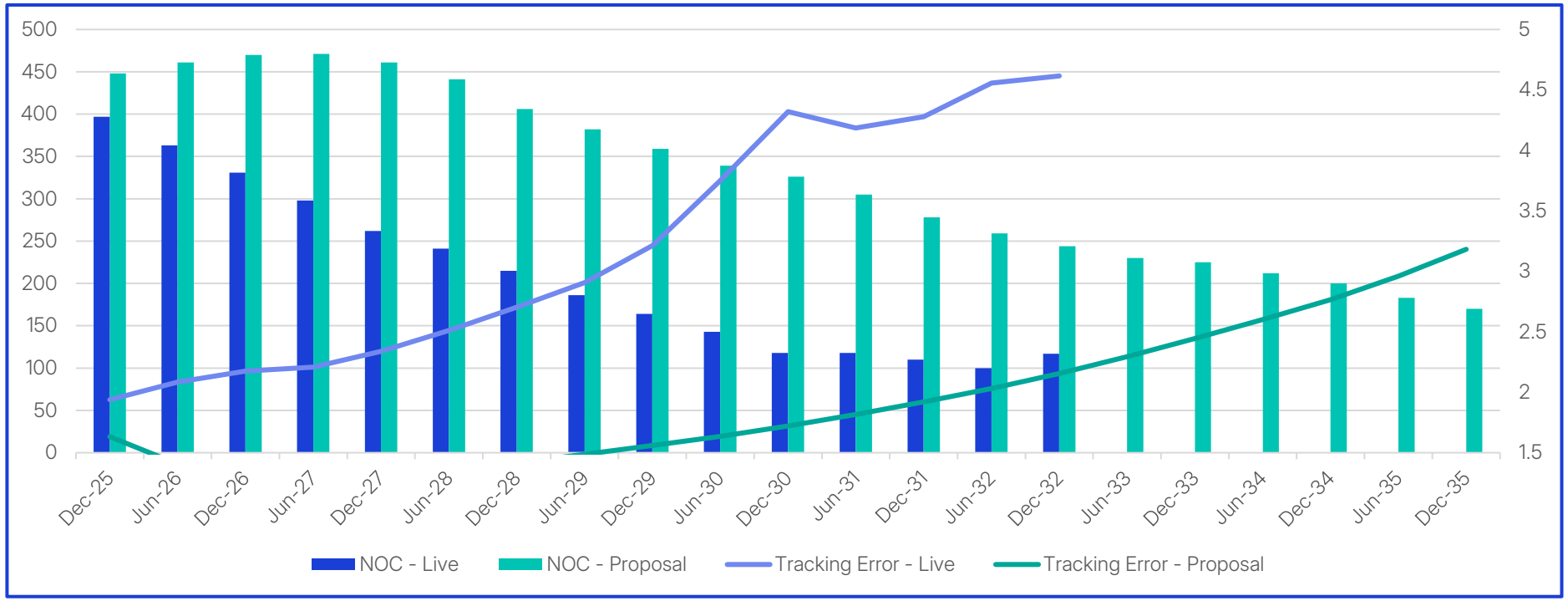
Combined Impact – Proposals 1-6

World Index – 10-year Forward Projections

→ The combined proposals[1] highlight that the index could remain viable until at least 2035 when simulated with stringent assumptions[2]

- In contrast, the live MSCI World Climate Paris Aligned PAB Index would already reach a 3% tracking error in 4 years time, and could be infeasible by 2032.

Projecting the proposed changes forward (all else equal) – World Index



1. The Simulated Index labelled as "Proposal" applies Proposals 1,2,3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%). Proposal 4 (change in self-decarbonization from 10% to 7%) is also reflected in these forward projections, but not in the historical combined simulations that follow.
2. Assuming that the current GHG Intensity remains constant into the future. Note that the simulations continues to apply a 5% turnover limit at each rebalancing.

World - Key Metrics

	MSCI World Index	World Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternate[2]	World EU PAB Overlay Index
Number of Constituents***	1491	630	990	961	1092
Effective No. of Consituents	140	110	136	134	137
HHI	113.9	156.8	123.7	124.3	116.7
Top 10 Weight (%)	20.2	22.3	20.6	20.6	20.4
Turnover** (%)	1.4	10.6	10.0	10.0	10.1
Tracking Error (%)	0.0	2.0	1.1	1.2	1.0
Total Return* (%)	16.1	15.1	15.4	15.3	15.7
Active Return (%)	0.0	-1.1	-0.7	-0.9	-0.5
Total Risk (%)	15.2	15.9	15.4	15.5	15.7
Return / Risk	1.07	0.95	1.00	0.98	1.01
Sharpe Ratio	0.87	0.76	0.80	0.79	0.82

Period: May 29, 2020 to Nov 28, 2025. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Performance (%)

	MSCI World Index	World Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternate[2]	World EU PAB Overlay Index
YTD	20.6	18.1	20.0	19.5	20.4
1 Yr	18.1	15.6	17.4	16.8	17.9
3 Yr	20.4	19.8	20.0	19.8	20.3
5 Yr	13.3	12.1	12.3	12.2	12.5

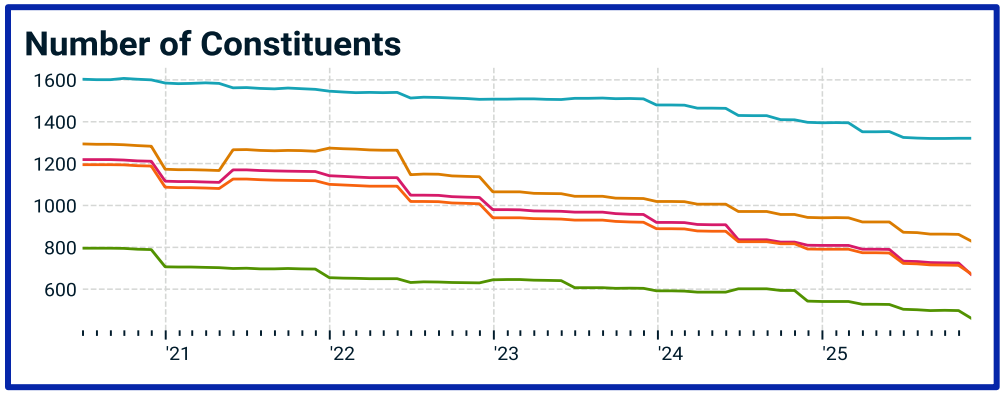
Gross returns for the period ending Nov 28, 2025. Returns are annualized for periods longer than a year

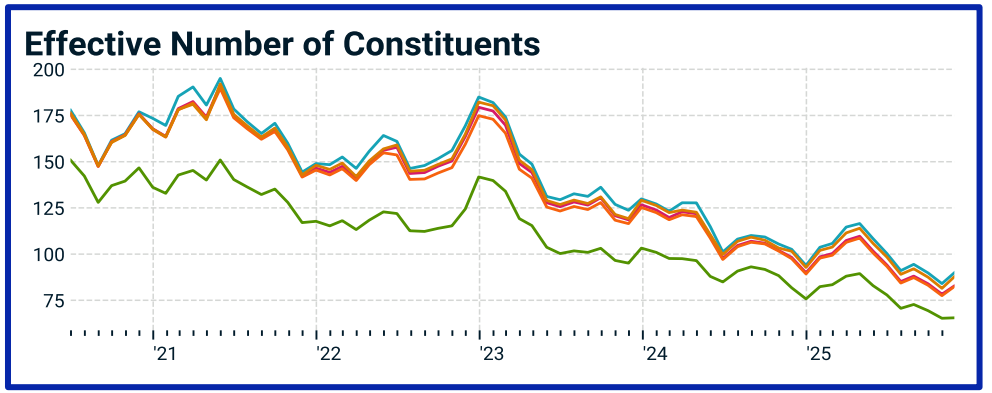
1. "Combined Proposal – Main" applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenues from 100% to 50%).
2. "Combined Proposal – Alternative" applies Proposals 1-Alternative, 2,3, and 5 (Removing Aggr. CVaR/ LCT/ CST constraints, reducing Physical Risk CVaR from 50% to 30%, reducing Green Revenue from 100% to 50%). Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

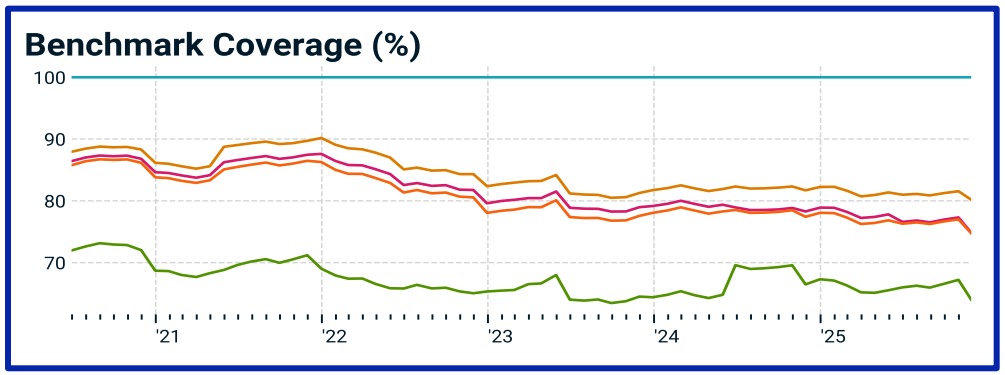
Combined Proposals

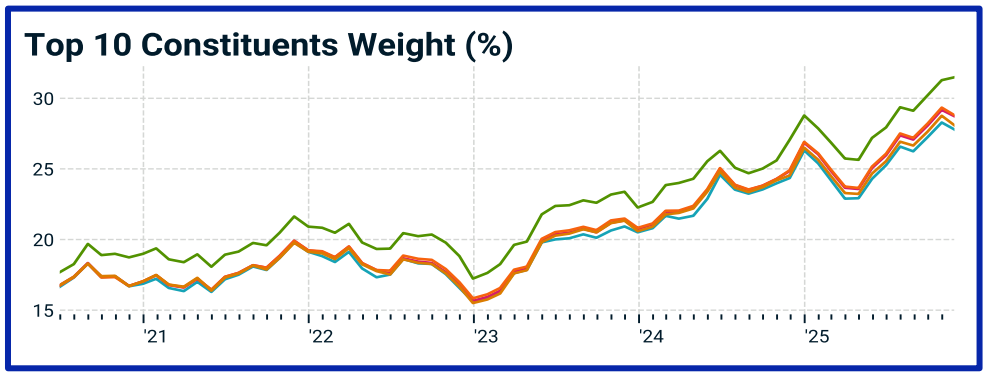
World – Concentration Impact

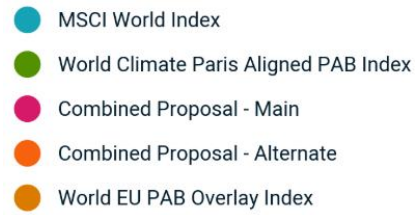
- The combined impact of the proposals[1] would bring the level of concentration in the MSCI World Climate Paris Aligned PAB Index closer to that of the MSCI World EU PAB Overlay Index.
- Total NOC would increase by about 279 stocks, while Effective NOC increase from 64 to 83 (closer to 85 in the World EU PAB Overlay Index).







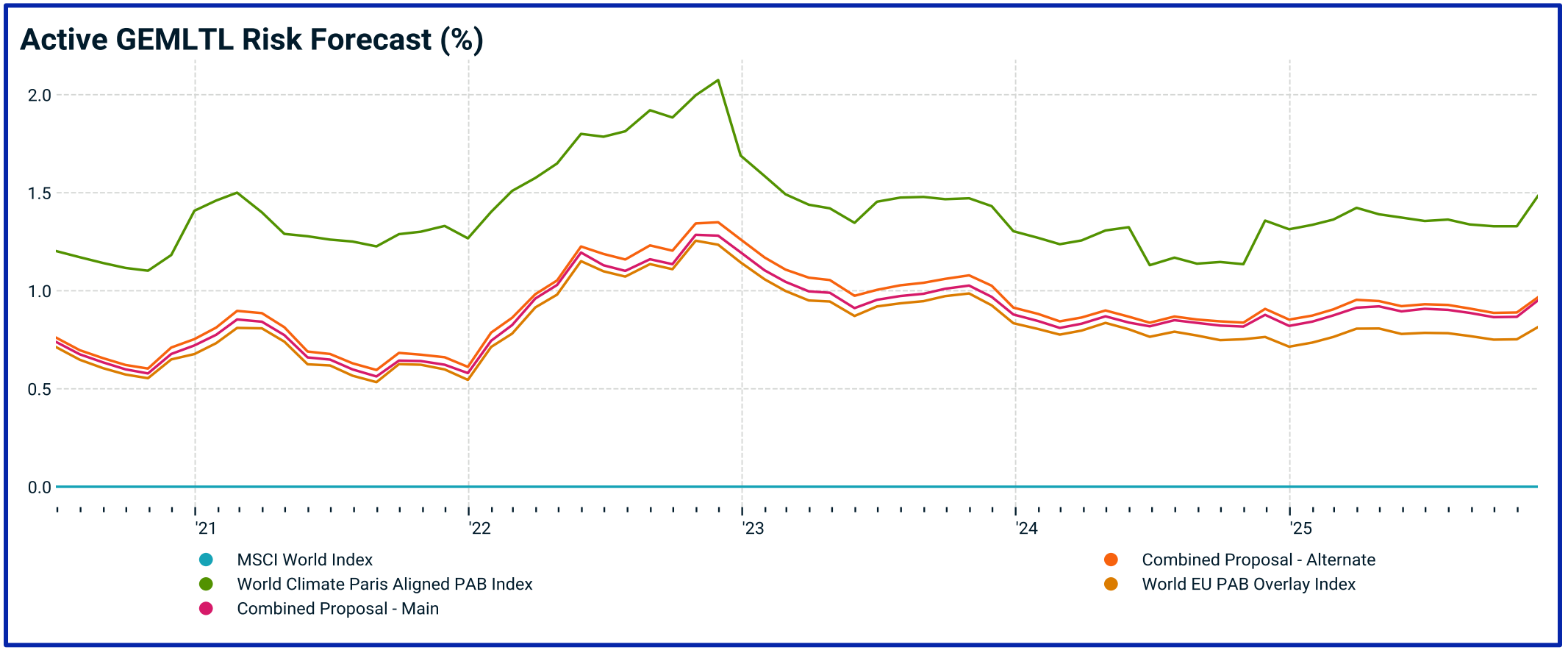




1. The "Combined Proposal " applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenues from 100% to 50%). Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis,and is not reflected in the historical simulation.

World – Impact on Ex-Ante Tracking Error

- Ex-Ante Tracking Error would be reduced by approximately **60 bps**, moving closer to that of the MSCI World EU PAB Overlay Index.



The "Combined Proposal " applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%).
Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

Combined Proposals

World – Impact on Climate Metrics

- The combined proposals (main or alternate) would still achieve a 7-8% improvement in LCT Score but would not improve the aggregate increase on companies with SBTi-approved targets.

	MSCI World Index	World Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternative[2]	World EU PAB Overlay Index
Carbon Intensity to EVIC - Scope 1 + 2 + 3*	298	54	56	56	67
Fossil Fuel Exposure					
Potential Carbon Emissions	708	0	0	0	0
Low Carbon Transition Risk Assessment					
Low Carbon Transition Score	6.2	**6.9**	**6.6**	**6.6**	**6.5**
Solutions (%)	14.0	27.9	19.4	19.3	15.3
Product & Operational Transition (%)	17.4	2.4	3.8	4.0	6.2
Asset Stranding (%)	2.3	0.0	0.0	0.0	0.0
Transition Opportunities & Plans					
Green Revenues (wtd. Avg %)	10.3	**20.9**	**15.6**	**15.6**	**11.6**
Green/fossil Fuel-Based Net Revenue Ratio	3.5	533	101	119	108
Companies with SBTi-Approved Targets (%)	56.6	**62.5**	**56.8**	**57.1**	**56.5**
Climate Scenario Analysis (1.5°C)					
Aggregate Climate VaR (%)	-16.7	**-2.5**	**-5.2**	**-4.7**	**-6.5**
Physical Risk Climate VaR (%)	-4.9	**-2.5**	**-3.9**	**-3.4**	**-3.9**
Implied Temperature Rise (°C)	2.6	1.9	2.0	2.0	2.0

Data as of November 2025

1. "Combined Proposal – Main" applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%).
2. "Combined Proposal – Alternative" applies Proposals 1-Alternative, 2,3, and 5 (Removing Aggr. CVaR/ LCT/ CST constraints, reducing Physical Risk CVaR from 50% to 30%, reducing Green Revenues from 100% to 50%).

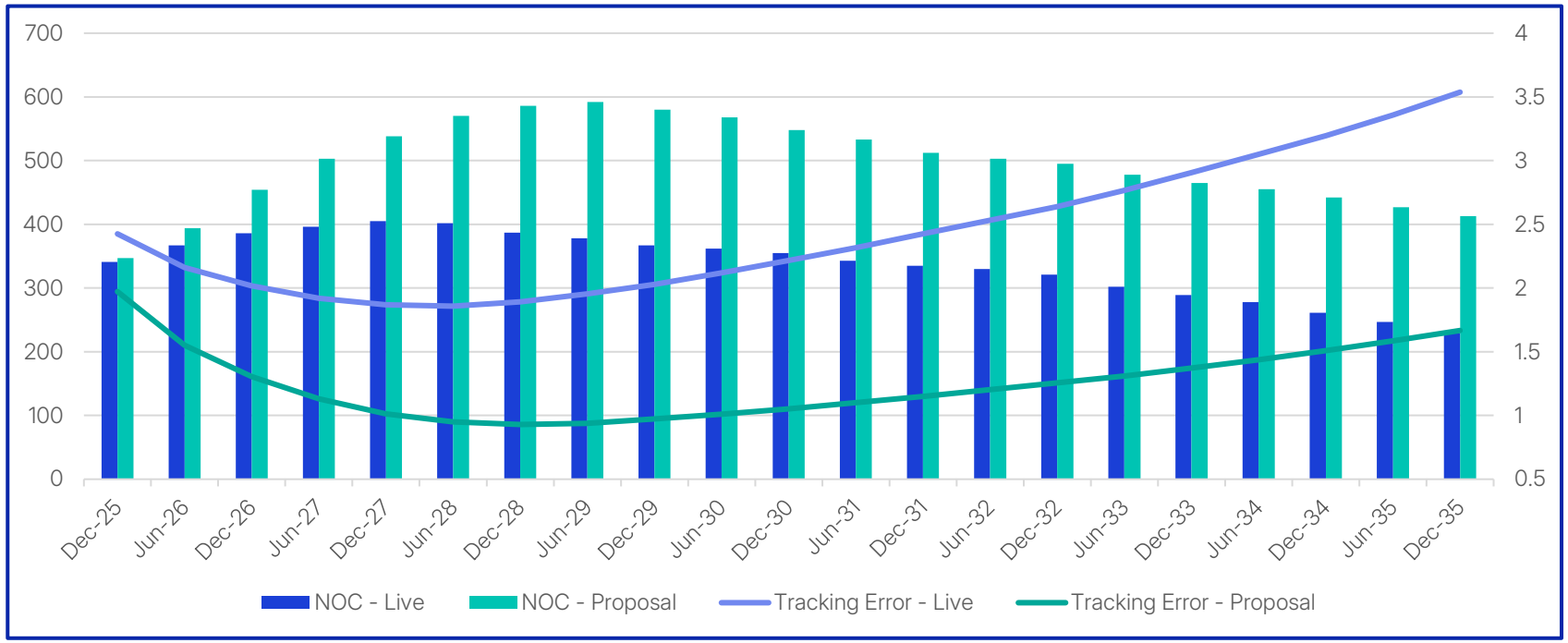
Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

EM Index – 10-year Forward Projections

→ The combined proposals[1] highlight that the index could remain viable until at least 2035 when simulated under stringent assumptions[2]

- The Live Index may reach a tracking error of 3.5% by 2035, whereas the proposals would lower this to only about 1.7%[3]

Projecting the proposed changes forward (all else equal) – EM Index



1. The Simulated Index labelled as "Proposal" applies Proposals 1,2,3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%). Proposal 4 (change in self-decarbonization from 10% to 7%) is also reflected in these forward projections, but not in the historical combined simulations that follow.
2. Assuming that the current GHG Intensity remains constant into the future. Note that the simulations continues to apply a 5% turnover limit at each rebalancing.
3. Note that the base date for the decarbonization trajectory was reset for the live MSCI EM Climate Paris Aligned PAB Index at the November 2025 Index Review, in accordance with the MSCI EU CTB/ PAB Index Framework. This helps ensure index viability of the live index until at least 2035.

Emerging Markets - Key Metrics

	MSCI EM (Emerging Markets) Index	EM Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternative[2]	EM EU PAB Overlay Index
Number of Constituents***	1357	467	796	777	943
Effective No. of Constituents	80	60	77	76	78
HHI	204.5	276.3	212.7	213.6	211.4
Top 10 Weight (%)	25.8	29.6	25.9	26.1	26.1
Turnover** (%)	3.9	12.9	10.2	10	10.1
Tracking Error (%)	0.0	2.5	1.1	1.0	0.9
Total Return* (%)	10.4	10.0	10.7	10.7	10.7
Active Return (%)	0.0	-0.3	0.3	0.3	0.3
Total Risk (%)	16.1	16.2	15.9	16	16
Return / Risk	0.64	0.62	0.67	0.67	0.67
Sharpe Ratio	0.62	0.6	0.65	0.65	0.65

Period: May 29, 2020 to Nov 28, 2025. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Performance (%)

(

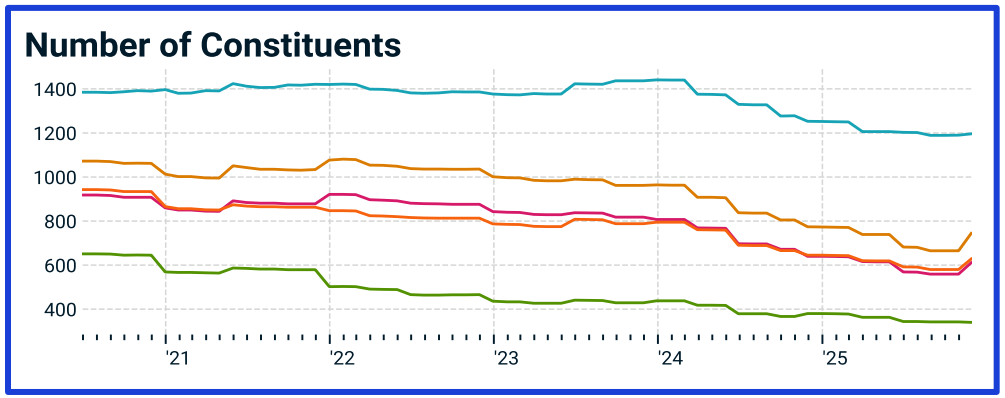
	MSCI EM (Emerging Markets) Index	EM Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternate[2]	EM EU PAB Overlay Index
YTD	30.4	29.8	31. 6	31.6	31.0
1 Yr	30.2	28.9	31.6	31.7	31.1
3 Yr	17.0	15.2	17.3	17.3	17.1
5 Yr	5.1	4.4	5.3	5.2	5.2

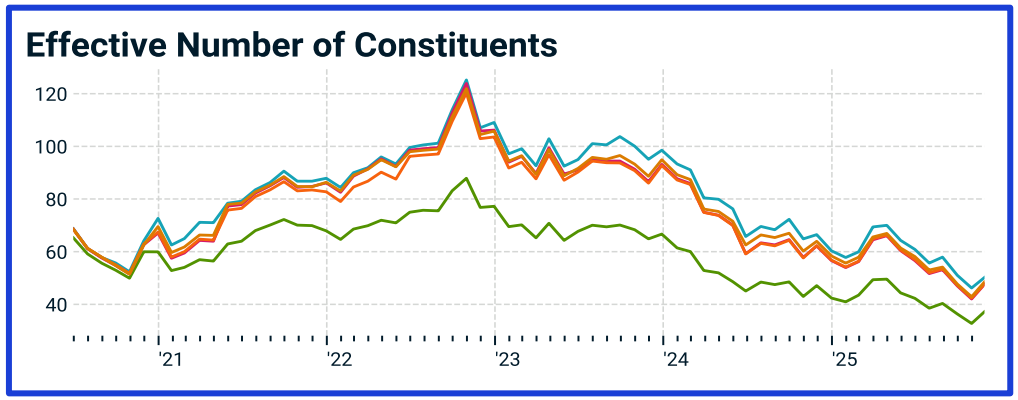
Gross returns for the period ending Nov 28, 2025. Returns are annualized for periods longer than a year

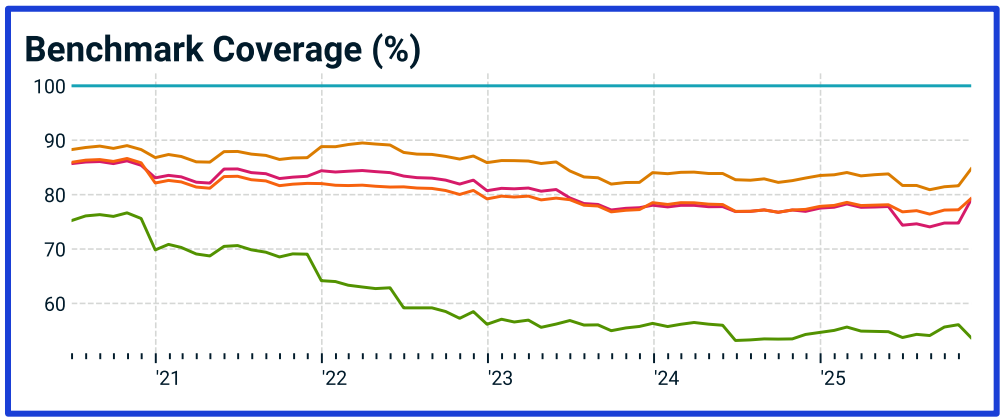
1. "Combined Proposal – Main" applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenues from 100% to 50%).
2. "Combined Proposal – Alternative" applies Proposals 1-Alternative, 2,3, and 5 (Removing Aggr. CVaR/ LCT/ CST constraints, reducing Physical Risk CVaR from 50% to 30%, reducing Green Revenue from 100% to 50%). Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

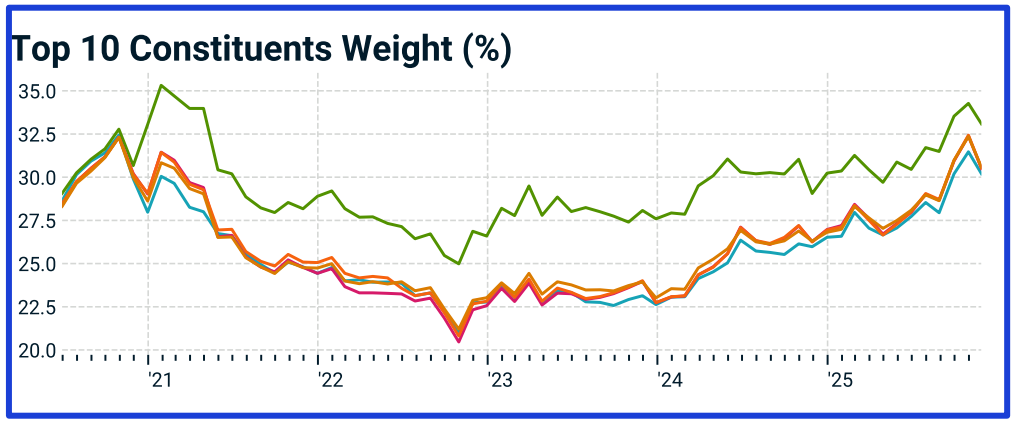
Emerging Markets – Concentration Impact

- The combined impact of the both the Main and Alternate proposals[1] would bring the level of concentration in the MSCI EM Climate Paris Aligned PAB Index closer to that of the MSCI EM EU PAB Overlay Index.
- Total NOC would increase by 325 securities, while Effective NOC increases from 59 to 76 (closer to 77 in the Emerging Markets EU PAB Overlay)





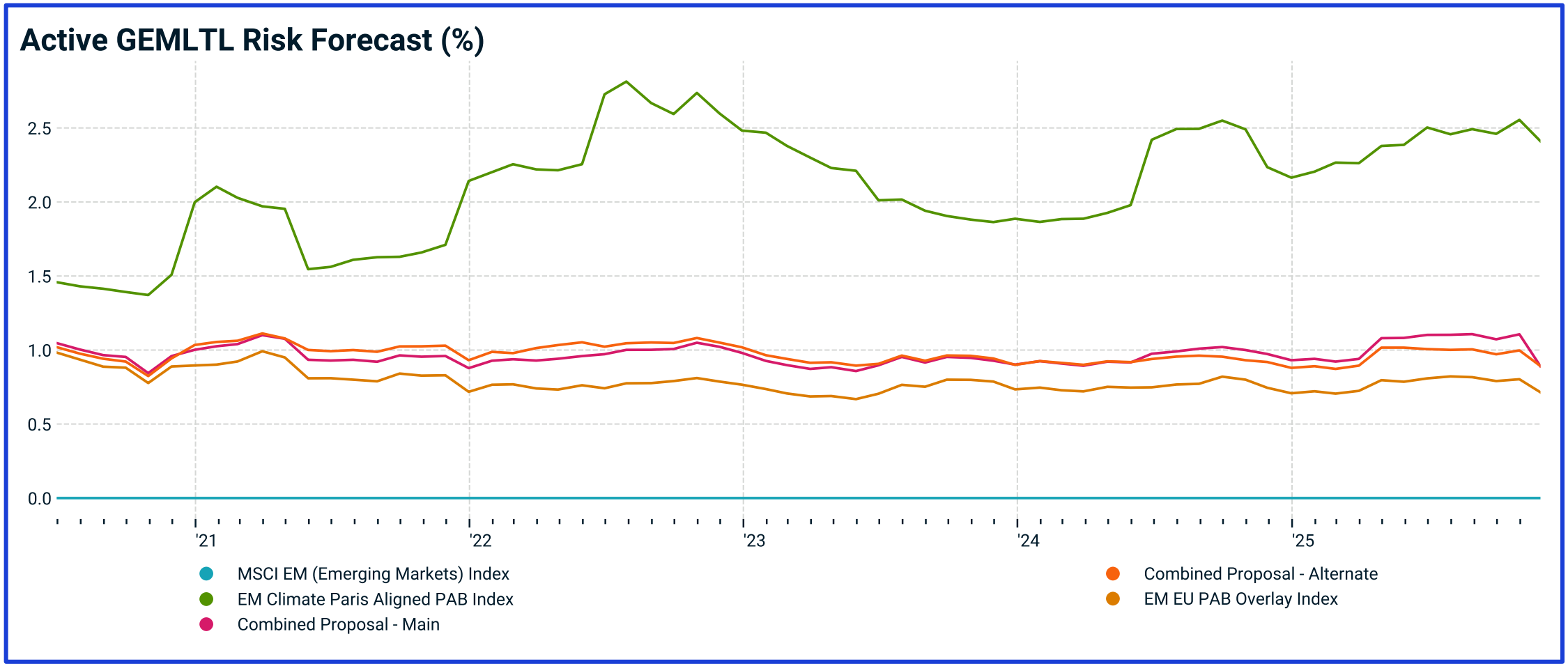




1. The "Combined Proposal " applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenues from 100% to 50%). Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis,and is not reflected in the historical simulation.

Emerging Markets – Impact on Ex-Ante Tracking Error

- Tracking Error would significantly improve by approximately 100+ bps, moving closer to the level of the MSCI EM EU PAB Overlay Index.



The "Combined Proposal " applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%).
Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

Emerging Markets – Impact on Climate Metrics

- The combined proposals (main or alternate) would still achieve a 8-9% improvement in LCT Score but would not improve the aggregate increase on companies with SBTi-approved targets

	MSCI EM (Emerging Markets) Index	EM Climate Paris Aligned PAB Index	Combined Proposal – Main[1]	Combined Proposal – Alternate[2]	EM EU PAB Overlay Index
Carbon Intensity to EVIC - Scope 1 + 2 + 3*	567	100	131	131	155
Fossil Fuel Exposure					
Potential Carbon Emissions	3412	0	0	0	3
Low Carbon Transition Risk Assessment					
Low Carbon Transition Score	5.7	6.3	6.2	6.2	6.1
Solutions (%)	2.2	5.2	4.5	4.6	3.0
Product & Operational Transition (%)	21.4	7.6	9.7	10.1	13.3
Asset Stranding (%)	2.7	0.0	0.0	0.0	0.0
Transition Opportunities & Plans					
Green Revenues (wtd. Avg %)	4.2	8.4	6.2	6.3	4.6
Green/fossil Fuel-Based Net Revenue Ratio	1.5	198749.1	1344.6	1224.3	52.3
Companies with GHG Reduction Targets (%)	79.1	73.7	74.5	74.4	75.7
Companies with SBTi-Approved Targets (%)	21.4	25.0	22.1	21.8	21.5
Climate Scenario Analysis (1.5°C)					
Aggregate Climate VaR (%)	-30.2	-4.3	-15.0	-14.2	-16.9
Physical Risk Climate VaR (%)	-14.2	-4.5	-10.6	-9.9	-11.0
Implied Temperature Rise (°C)	3.2	2.0	2.0	2.0	2.2

Data as of November 2025

1. "Combined Proposal – Main" applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenue from 100% to 50%).
2. "Combined Proposal – Alternative" applies Proposals 1-Alternative, 2,3, and 5 (Removing Aggr. CVaR/ LCT/ CST constraints, reducing Physical Risk CVaR from 50% to 30%, reducing Green Revenues from 100% to 50%). Note that the reduction in self-decarbonization (from 10% to 7%) is proposed on a going-forward basis, and is not reflected in the historical simulation.

Section 4

Consultation Questions and Discussion

Client Feedback

Consultation Questions – 1 of 2

Proposal 1: Remove the Climate Value-at-Risk objectives (both Aggregate Climate VaR, and Physical Climate VaR)

→ Do you agree to remove the maximum -5% Aggregate Climate Value-at-Risk (VaR) objective from the methodology?

→ Do you agree to remove the 50% Physical Risk CVaR reduction objective from the methodology?

→ Alternatively, should the Physical Risk CVaR reduction objective be relaxed to 30% instead of 50%?

Proposal 2: Remove the Low Carbon Transition Score improvement target of 10%

→ Do you agree with removing the Low Carbon Transition Score improvement target from the methodology?

Proposal 3: Remove the increase in Companies Setting Targets of 20%

→ Do you agree with the removal of the Companies Setting Targets requirement from the methodology?

Proposal 4: Lower the annual Self-Decarbonization Target to 7% (from 10%) on a going forward basis

→ Do you agree that, going forward, the annual decarbonization target should be relaxed to exactly match the 7% requirement of EU Paris Aligned Benchmarks given the current GHG intensity trend in global markets?

Consultation Questions – 2 of 2

Proposal 5: Reduce the increase in Weighted Average Green Revenue target to 50% (from 100%)

- Do you agree that the methodology should apply a lower increase to Green Revenue companies to mitigate long-term index viability risks?
- If yes, do you agree with the proposed 50% target?
- Should the target be maintained at 100% in case the green revenue definition is narrowed[1], which could limit the impact of this constraint on index concentration and tracking error?

Proposal 6: Introduce a Relaxation Mechanism on the Linear Asset Lower Bound, in cases of optimization infeasibilities

- Do you agree with the proposed mechanism, which may result in a greater reduction in the weight of large securities when this is necessary to meet the decarbonization targets?
- Do you agree to set the maximum relaxation to +/- 10% active security weight?

Implementation Timeline:

- Do you agree to implement changes from this consultation (if any) as part of the November 2026 Index Review?

1. For more details, please refer to the consultation launched by MSCI Solutions: MSCI Sustainable Impact Metrics - Green Taxonomy Consultation - MSCI

Discussion Points

Screening Criteria

→Do you have a preference to update the screening criteria for Controversial Weapons or Oil & Gas to exactly align with the requirements of the EU Paris Aligned Benchmark (PAB) instead of exceeding these requirements?

- **Controversial Weapons:** companies that are flagged for involvement in cluster munitions, anti-personnel landmines, biological or chemical weapons.
- **Oil Activity:** Companies that derive 10% or more aggregate revenue from oil extraction, distribution, exploration, or refining.
- **Gas Activity:** Companies that derive 50% or more revenue from gas extraction, distribution, exploration, or refining.

Technical Criteria

→Do you have specific views on the technical changes that will be implemented to enhance the index construction and maintenance?

Client Feedback

→ MSCI invites market participants to participate in the consultation. To participate, please provide your feedback through the online survey available at: https://forms.office.com/r/HF3Gifj8WZ

Appendix

Primer – Index Concentration Metrics

→ There are a few metrics that measure index concentration. The following metrics were assessed as part of this consultation, with a focus on the Effective Number of Constituents to assess the viability of the proposals.

Metric	Technical Definition	Additional Details	How to Interpret
Number of Constituents	Total count of securities in the index – generally measured at each Index Review	Baseline measure but needs to be reviewed with weights. An Index with 1,000 securities can still be concentrated if most of the weight is in a few holdings.	More Stocks = less concentrated index
Top N Weight	Combined weight of the largest 5, 10 or 20 holdings.	This metrics highlights whether a small number of large positions dominate the index. If top 10 = 40%, the index is heavily concentrated in those positions.	Higher percentage = more concentrated at the top
Herfindahl-Hirschman Index (HHI)	Sum of squared weights across all constituents in the index ($\Sigma weight^2$)	A single number that summarizes how evenly spread the index is. It is scaled from 0 to 1.	Lower (closer to 0) = diversified. Higher (closer to 1) = concentrated.
Effective Number of Constituents	Reciprocal of the Herfindahl-Hirschman Index (1/HHI). Calculated as 1 divided by the sum of squared weights.	The Effective Number of Constituents reflects the constituent count of an equivalent equal-weighted index with the same level of concentration. For example: an index with 800 actual number of stocks but 120 effective number of constituents has concentration equivalent to 120 equal-weighted stocks.	Lower Number = more concentrated.

Transition Impact – Simulated at the November 2025 Index Review

→ The transition to the proposed methodology can be implemented in different ways:

a. **An on-going Index Review at the point of transition**: The simulated results under this approach are shown below. The combined proposals[1] could slightly increase the total number of constituents, but the improvement in concentration would be more evident over time.

b. **Unconstrained turnover at the point of transition**: Alternatively, the turnover limit may be relaxed or removed (currently at 5%), to allow for more immediate impact. Under this approach, current concentration may be corrected straightaway, but at the cost of a higher one-off turnover.

Initial Impact at Transition, with 5% Turnover – World Index

Metric	Combined Proposal (Main)[1] – Nov 2025 (Simulated)	World Climate Paris Aligned PAB Index – Nov 2025 (Actual)	World Climate Paris Aligned PAB Index – May 2025 (Actual)
Turnover	5%	5%	5%
Tracking Error	1.19%	1.49%	1.40%
Current NOC	498	498	527
Pro Forma NOC	529	461	504
Additions	50	14	21
Deletions	19	51	44

Initial Impact at Transition, with 5% Turnover– EM Index

Metric	Combined Proposal (Main)[1] – Nov 2025 (Simulated)	EM Climate Paris Aligned PAB Index – Nov 2025 (Actual)	EM Climate Paris Aligned PAB Index – May 2025 (Actual)
Turnover	5%	6%	6%
Tracking Error	2.52%	2.41%	2.57%
Current NOC	342	342	363
Pro Forma NOC	352	340	345
Additions	24	28	8
Deletions	14	30	26

1. "Combined Proposal" applies Proposals 1-Main, 2, 3, and 5 (Removing CVaR/ LCT/ CST constraints and reducing Green Revenues from 100% to 50%)..

Contact

The process for submitting a formal index complaint can be found on the index page of MSCI's website at: https://www.msci.com/index-regulation.

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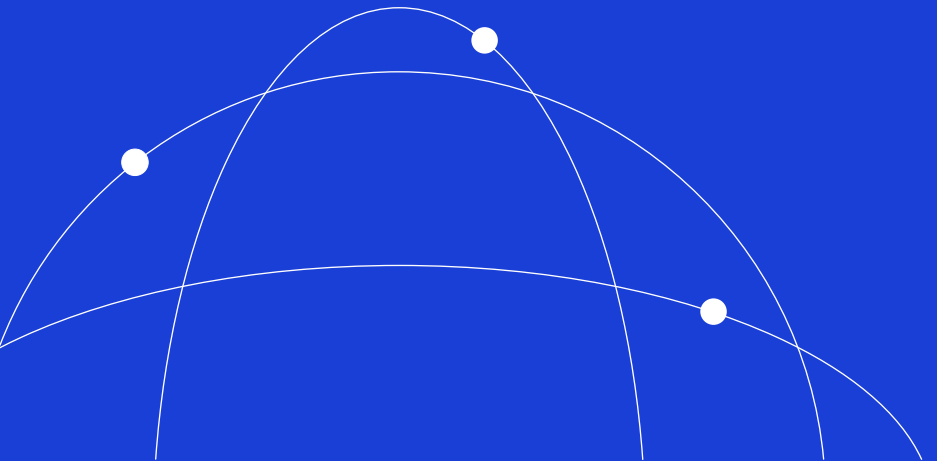

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