

Sustainability and Climate Indexes

May Index Review

MSCI conducts regular index reviews to ensure its Sustainability and Climate indexes remain aligned with their underlying objectives, regulatory requirements, and sustainability and climate data innovations.



Each quarterly review follows a structured, multi-phase process:



Data quality checks: as soon as the month-end data becomes available, robust quality controls are applied to identify and review any significant shifts in security level data.



Internal simulations and analysis: using the latest available data, MSCI conducts daily internal “mock” reviews to evaluate index level impacts, verify compliance with methodology rules, and assess index quality.



Global market cap indexes announcement: market capitalization indexes are the starting point for all derived indexes, so changes to their composition will directly impact those indexes.



Derived indexes pro forma results publication: once the market cap results are published, MSCI conducts again new “mock” reviews of the derived indexes and then starts publishing the pro forma results daily.



Index review implementation: on the effective date, updated indexes go live for both market cap indexes and derived indexes, such as Sustainability and Climate indexes.

In some quarters, the review also includes methodology updates, either initiated by MSCI or requested by clients. These updates may address areas such as screening enhancements or alignment with regulatory frameworks.

Index review: Key dates for Sustainability and Climate Indexes¹

- **Prior month-end:** Sustainability & Climate inputs snapshot.
- **T-15:** Global Market Cap indexes announcement.
Proforma results for market cap indexes start to be published daily.
- **T-9:** Proforma results for derived indexes start to be published daily.
- **T:** index review effective date.

¹ Approximate timelines, may vary

May 2025 Index Review: Methodology Enhancements

This review saw several flagship index families implementing changes.

MSCI SRI Indexes

- Addition of new fossil fuel-based activity screens and nature-related screens.
- Changes to ranking and selection rules to address turnover concerns.
- Introduction of the Concentration Control Mechanism to help with concentration.

MSCI Selection Indexes

- Changes to ranking and selection rules to address turnover concerns.
- Changes to exclusion criteria (tobacco screens, firearm screens).
- Addition of new screens to address biodiversity/nature-related considerations.

PAB Overlay/Climate Paris Aligned Indexes (multiple methodologies)

- Implemented the thermal coal distribution screen to fully align with the recently updated MSCI EU CTB/PAB Index Framework.

Why Turnover Matters

Index turnover usually refers to the percentage of index constituents that are added or deleted during an index review, typically expressed as a percentage of the index weight.

Turnover is directly related to transaction costs for portfolios tracking a given index: the higher the turnover, the higher the transaction costs. That said, these regular changes from index reviews are needed to ensure that indexes remain aligned with their underlying objectives.

May 2025 Index Review: Impact

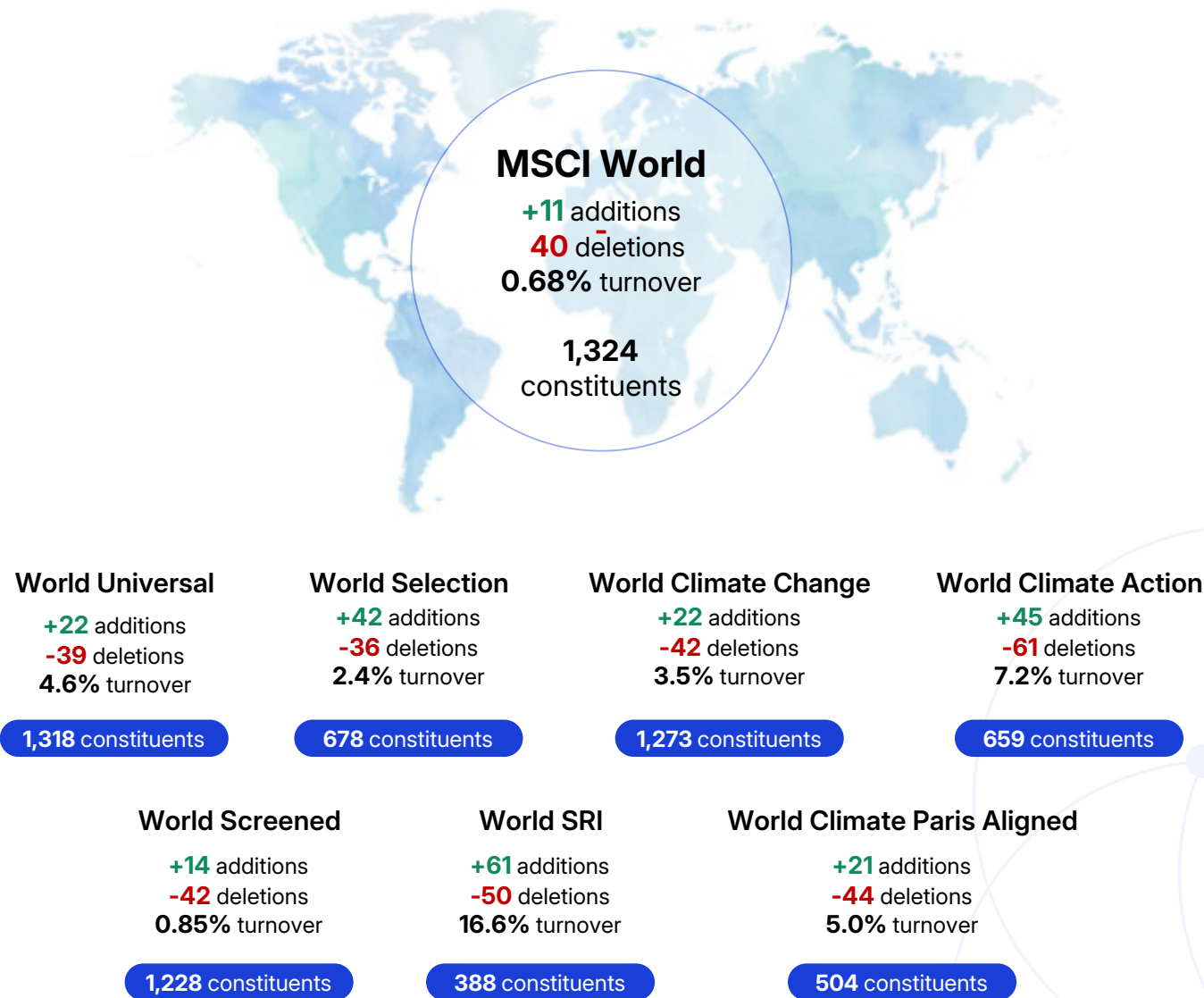
In the context of MSCI's Sustainability and Climate Indexes, turnover will reflect both changes to the parent indexes (market cap indexes) and changes required to keep indexes aligned with their objectives.

In addition, methodology changes may have an impact on turnover, as the index needs to course correct to reflect those changes. Even methodology changes that are designed to reduce turnover over the longer term may lead to a temporary increase in turnover when they are first implemented.

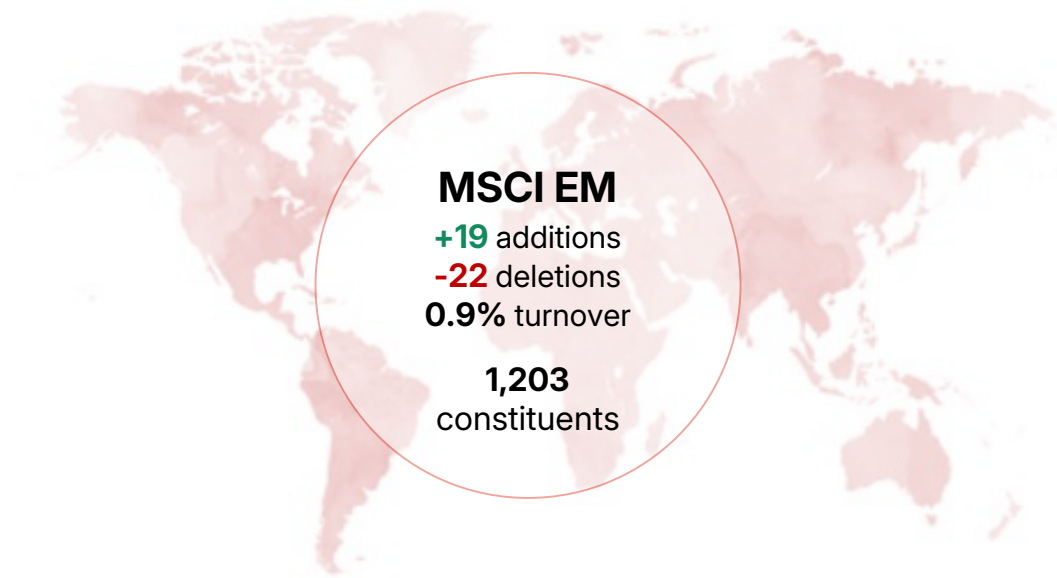
One final point to consider is that not all index reviews are the same. Most Sustainability indexes like MSCI SRI Indexes and MSCI Selection Indexes undergo a comprehensive annual review each May, which is supplemented by quarterly maintenance reviews primarily to remove constituents that no longer meet eligibility criteria.



From Market Cap to Sustainability & Climate Indexes: World



From Market Cap to Sustainability & Climate Indexes: EM



EM Universal

+31 additions
-22 deletions
7.7% turnover

1,175 constituents

EM Selection

+27 additions
-33 deletions
5.1% turnover

440 constituents

EM Climate Change

+22 additions
-24 deletions
5.9% turnover

1,118 constituents

EM Climate Action

+48 additions
-44 deletions
6.2% turnover

596 constituents

EM Screened

+23 additions
-21 deletions
0.95% turnover

1,111 constituents

EM SRI

+43 additions
-25 deletions
26.5% turnover

237 constituents

EM Climate Paris Aligned

+8 additions
-26 deletions
6.0% turnover

345 constituents

What May Trigger Additions or Deletions to a Sustainability and Climate Index? A few examples.

- **Parent Index Eligibility:** If a company exits the parent index (e.g., MSCI World or EM), it is automatically removed from most derived indexes.
- **Sustainability & Climate Data Updates:** Significant shifts in emissions data, ESG ratings, green revenue share, or fossil fuel exposure may change eligibility.
- **Methodology Changes:** Enhancements to index construction rules, such as new thresholds or concentration caps, can alter which companies qualify.
- **Screen Failures:** Companies newly flagged for involvement in controversial business activities or non-alignment with climate goals are removed.

Source: MSCI, Proforma data May 2025 review

Additions and deletions to Sustainability and Climate Indexes may be driven by changes in the underlying market cap index or by the respective methodology (including data changes)

Conclusion

The May 2025 Index Review demonstrates MSCI's ongoing commitment to ensure our Sustainability and Climate indexes remain methodologically robust as well as responsive to the evolving sustainability and regulatory landscape. During this review, over 300 standard and custom indexes had either significant methodology changes or refinements.

As the climate transition accelerates and disclosure standards evolve, MSCI will continue engaging with clients, enhancing index methodologies, and providing transparency around review outcomes.

Sustainability and Climate Indexes Upcoming Methodology Changes

- MSCI Equity CTB/PAB Indexes will implement a default approach to adjust the decarbonization trajectories for the effects of past changes to the calculation methodology of GHG intensity. Implementation date to be confirmed.
- MSCI Low Carbon Target Indexes will introduce a guaranteed minimum reduction of 30% in Carbon Exposure (both Carbon Emissions Intensity and Potential Emissions Intensity). Implementation: November 2025 Index Review.

Sustainability and Climate Indexes Open Consultations

- No open consultation at this time.

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