Index Methodology

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MSCI Energy Transition Indexes Methodology

Contents

1. Introduction

The MSCI Energy Transition Indexes[1] (the "Indexes") are designed to represent the performance of companies whose preparedness for the transition to a low-carbon economy is assessed to be financially material.

The Indexes incorporate the MSCI Energy Transition Framework, which assesses companies based on the level of transition-related pressure they face ("Transition Pressure") and their preparedness to manage that pressure ("Transition Readiness"). Transition Readiness becomes relevant to the Index construction only when a company faces meaningful Transition Pressure, with its influence increasing as Transition Pressure rises.

Each Index is constructed from its Parent Index (the "Parent Index"). Securities are classified into two Selection Universes based on their Transition Pressure Score. Selection Universe 1 comprises securities with low Transition Pressure, these securities retain their market capitalization weights in the Parent Index. Selection Universe 2 comprises securities with moderate to high Transition Pressure, which are re-weighted based on their Transition Readiness Score relative to their peers, with greater emphasis on Transition Readiness as Transition Pressure increases.

[1] The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix III for more details.

2. Constructing the Indexes

The Indexes use company ratings and research provided by MSCI Solutions LLC ("MSCI Solutions")[2] to determine eligibility for index construction.

2.1 Applicable Universe

The Applicable Universe includes all the existing constituents of the Parent Index. This approach aims to provide an opportunity set with sufficient liquidity and investment capacity.

Each security in the Applicable Universe is assigned a Transition Pressure Score and a Transition Readiness Score from the MSCI Energy Transition Framework[3]:

- **Transition Pressure Score:** Measures the level of financially relevant pressure a company faces from the transition to a low-carbon economy. The score ranges from 0 to 10, with higher scores indicating greater transition pressure.
- **Transition Readiness Score:** Measures a company's preparedness to manage transition-related risks and capture transition-related opportunities. The score ranges from 0 to 10, with higher scores indicating greater transition readiness.

2.2 Eligible Universe

The Eligible Universe is constructed from the Applicable Universe by excluding securities of companies based on the exclusion criteria below:

2.2.1 Controversies Score Eligibility

Controversies: All companies assessed as having involvement in controversies that are classified as Red Flags (MSCI Controversies Score of 0). A Red Flag indicates an ongoing, Very Severe controversy implicating a company directly through its actions, products, or operations.

2.2.2 Controversial Business Involvement Eligibility

The Indexes use MSCI Business Involvement Screening Research to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the Indexes. Please refer to Appendix I for details on these criteria.

- Controversial Weapons
- Tobacco

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[2] See Section 4 for further information regarding sustainability and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI Solutions LLC ("MSCI Solutions"), a separate subsidiary of MSCI Inc. MSCI Solutions is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

[3] For details about the MSCI Energy Transition Framework, please refer to: https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures.

2.3 Selection Universe

The Eligible Universe is classified into 2 selection universes based on each security's Transition Pressure Score.

Universe[4]	Transition Pressure Score
Selection Universe 1 (SU1)	≤ 3.0
Selection Universe 2 (SU2)	> 3.0

2.4 Weighting Scheme

2.4.1 Calculating the Tilt Score

The Combined Score is calculated only for Selection Universe 2 as below:

$$\text{Combined Score (C)} = (\text{Transition Readiness Score} - \text{Mean Transition Readiness Score of SU2}) * (\text{Transition Pressure Score})$$

The security level combined score (C) computed above is then standardized by calculating the z-scores to compute the standardized Z-score relative to the securities in Selection Universe 2. Z-score is then winsorized at +/- 3 i.e. the Z-scores above 3 are capped at 3 and Z-scores below -3 are capped at -3.

The Tilt Score is then computed from the Winsorized Z-Score (Z) as follows:

$$\text{Tilt Score (for SU2)} = \begin{cases} (1 + Z) & ,\text{if } Z \geq 0 \\ (1 - Z)^{-1} & ,\text{if } Z < 0 \end{cases}$$

2.4.2 Weighting

Selection Universe	Weighting
Selection Universe 1	Market Capitalization Weight in the Parent Index
Selection Universe 2	(Market Capitalization Weight in the Parent Index) * (Tilt Score)

The weights of the securities in **Selection Universe 2** are normalized to 100%. The resulting normalized weights are then scaled by a factor equal to **(1 – the aggregate weight of the securities in Selection Universe 1)**.

Additionally, capping is applied on constituent weights as described in Appendix II.

[4] At each Index Review, this classification is determined as per the buffer rules described in Section 3.2.

2.5 Treatment of Unrated Companies

Companies not assessed by MSCI Solutions on data of the following MSCI sustainability and climate products are excluded from the Eligible Universe.

- MSCI Controversies
- MSCI Business Involvement Screening Research (BISR)

Companies without Transition Pressure Score or Transition Readiness Score are excluded from the Eligible Universe.

3. Maintaining the Indexes

3.1 Index Reviews

The Indexes are reviewed on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Index Review of the MSCI Global Investable Market Indexes. The pro forma Indexes are in general announced nine business days before the effective date.

In general, MSCI uses MSCI Solutions data (including MSCI Controversies, MSCI Business Involvement Screening Research and Energy Transition Framework) as of the end of the month preceding the Index Reviews for the rebalancing of the Indexes.

3.2 Buffer Rules

To reduce the Index turnover and enhance Index stability, buffer rules are applied around the Transition Pressure Score threshold that separates the two Selection Universes. The buffer is applied as a band of 0.3 score points on either side of the base threshold of 3.

At each Index Review, universe classification is determined as follows:

- A security classified in Selection Universe 1 at the preceding Index Review is reclassified into Selection Universe 2 only if its Transition Pressure Score is greater than 3.3.
- A security classified in Selection Universe 2 at the preceding Index Review is reclassified into Selection Universe 1 only if its Transition Pressure Score is less than or equal to 2.7.
- A security not classified in either Selection Universe at the preceding Index Review is classified using the base threshold of 3 defined in Section 2.3, without application of the buffer.

3.3 Ongoing Event Related Changes

The general treatment of corporate events in the Indexes aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

The following section briefly describes the treatment of common corporate events within the Indexes.

No new securities will be added (except where noted below) to the Indexes between Index Reviews. Parent Index deletions will be reflected simultaneously in the Index.

EVENT TYPE	EVENT DETAILS
New additions to the Parent Index	A new security added to the Parent Index (such as IPO and other early inclusion) will not be added to the Index.

Spin-Offs	All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation if the spin-off security is also added to the Parent Index. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.
Merger/Acquisition	For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index. If an existing Index constituent is acquired by a non Index constituent, the existing constituent will be deleted from the Index and the acquiring non constituent will not be added to the Index.
Changes in Security Characteristics	A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Re-evaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at: https://www.msci.com/index/methodology/latest/CE.

4. MSCI Solutions

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI Solutions LLC ("MSCI Solutions"), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI sustainability and climate products: MSCI Controversies, MSCI Business Involvement Screening Research and MSCI Energy Transition Framework. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI Energy Transition Framework

The MSCI Energy Transition Framework aims to measure the economic risk a company may face from the transition to a low carbon economy over the next five to seven years and how well positioned the company is to manage that risk. The Framework measures these separately through a transition pressure score, reflecting a company's exposure to transition-related risk, and a transition readiness score, reflecting the company's positioning to manage that exposure. Each score is expressed on a 0-10 scale.

The MSCI Energy Transition Framework methodology can be found at: https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures.

4.2 MSCI Controversies

MSCI Controversies provide assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI Controversies Score falls on a 0-10 scale, with "0" being the most severe controversy.

The MSCI Controversies methodology can be found at: https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures.

4.3 MSCI Business Involvement Screening Research

MSCI Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

The MSCI Business Involvement Screening Research methodology can be found at: https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures.

Appendix I: Controversial Business Involvement Eligibility

Companies whose activities meet the following values-based criteria, as evaluated by MSCI Solutions, are excluded from the Index:

- **Controversial Weapons**
  - 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 Global Ex-Controversial Weapons Indexes available at www.msci.com/index/methodology/latest/XCW.

- **Tobacco**
  - All companies classified as a "Producer".

Appendix II: Capping Mechanism

The Indexes apply a capping mechanism to limit concentration relative to the Parent Index.

A. Parameters for Capping

- The maximum weight of an index constituent in Selection Universe 1 will be restricted to the weight of security in the Parent Index.
- The maximum weight of an index constituent in Selection Universe 2 will be restricted to the higher of (the weight of the security in the Parent Index) or 5%.

B. The Capping Mechanism

The capping methodology is iteratively applied with the following steps:

- A deviation ratio is calculated for each security - the ratio of current weight to maximum bound.
- The constraint with the highest deviation ratio is identified as the most binding violation and adjusted to its permitted bound.
- The excess weight released is redistributed proportionally across all remaining constituents.
- This continues until all deviation ratios are at or below 1 (assessed to 5 decimal places), or the maximum number of iteration (5000) is reached, at which point the most recent iteration solution is used.

Appendix III: Methodology Set

The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set – https://www.msci.com/index/methodology/latest/ReadMe
- MSCI Corporate Events Methodology – https://www.msci.com/index/methodology/latest/CE
- MSCI Index Calculation Methodology – https://www.msci.com/index/methodology/latest/IndexCalc
- MSCI Index Glossary of Terms – https://www.msci.com/index/methodology/latest/IndexGlossary
- MSCI Index Policies – https://www.msci.com/index/methodology/latest/IndexPolicy
- MSCI Global Investable Market Indexes Methodology – https://www.msci.com/index/methodology/latest/GIMI
- MSCI Global Industry Classification Standard (GICS) Methodology – https://www.msci.com/index/methodology/latest/GICS
- MSCI Global ex Controversial Weapons Indexes Methodology – www.msci.com/index/methodology/latest/XCW
- ESG Factors in Methodology*

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage https://www.msci.com/index-methodology in the section ‘Search Methodology by Index Name or Index Code’.

* ‘ESG Factors in Methodology’ contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion). It can be accessed in the Methodology Set as described above.

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