

# **MSCI ACWI IMI EFFICIENT ENERGY MATERIALS ESG SELECT INDEX**

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## 1 Introduction

The MSCI ACWI IMI Efficient Energy Materials ESG Select Index (the 'Index') aims to represent the performance of a select set of companies associated with the following themes:

- Efficient Energy and clean technology
- Smart Cities
- Future Mobility

## 2 MSCI ESG Research

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. It consists of an integrated suite of tools and products to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

The Index uses company ratings and research provided by MSCI ESG Research. In particular, this index uses the following three MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies Score and MSCI Sustainable Impact Metrics. For details on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

### 2.1 MSCI ESG Ratings

MSCI ESG Ratings provides research, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities.

MSCI ESG Ratings provides an overall company ESG rating - a seven-point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers.

For more details on MSCI ESG Ratings, please refer to: <https://www.msci.com/esg-ratings>.

### 2.2 MSCI ESG Controversies Score

MSCI ESG Controversies (formerly known as MSCI Impact Monitor) provides assessments of controversies concerning the negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI ESG 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 ESG Controversies Score falls on a 0-10 scale, with “0” being the most severe controversy.

For more details on MSCI ESG Controversies Score, please refer to: <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

## 2.3 MSCI Sustainable Impact Metrics

### MSCI Sustainable Impact Metrics Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	<ol style="list-style-type: none"> <li>1. Alternative energy</li> <li>2. Energy efficiency</li> <li>3. Green building</li> </ol>
	Natural Capital	<ol style="list-style-type: none"> <li>4. Sustainable water</li> <li>5. Pollution prevention and control</li> <li>6. Sustainable agriculture</li> </ol>
Social Impact	Basic needs	<ol style="list-style-type: none"> <li>7. Nutrition</li> <li>8. Major disease treatments</li> <li>9. Sanitation</li> <li>10. Affordable real estate</li> </ol>
	Empowerment	<ol style="list-style-type: none"> <li>11. SME finance</li> <li>12. Education</li> <li>13. Connectivity - Digital divide</li> </ol>

Under each of the actionable social and environmental impact themes, MSCI ESG Research has identified specific categories of products and services that it has determined companies can offer as potential solutions to environmental and social challenges.

More detailed taxonomy for each category can be found in Section 2.4 of the MSCI ACWI Sustainable Impact Index Methodology available at <https://www.msci.com/index-methodology>

### **3 Constructing the Index**

The Index is constructed by selecting stocks from the MSCI ACWI Investable Market Index (IMI) ('Parent Index'), based on rules explained in the following sections.

#### **3.1 Determining the components of the Index**

The Index uses the relevance scores of the constituents of three MSCI Thematic Indexes<sup>1</sup> ('Component Indexes'):

- MSCI ACWI IMI Future Mobility Index
- MSCI ACWI IMI Smart Cities Index
- MSCI ACWI IMI Efficient Energy Index

#### **3.2 Determining the Eligible Universe of the Index**

An eligible universe for the Index is constructed by applying the following filters to the Parent Index:

##### **3.2.1 ESG Controversy Score**

ESG Controversy Score = 0 ('Red Flag' companies) – Companies involved in very severe business controversies as defined by the MSCI ESG Controversies Methodology are excluded.

Missing ESG Controversy Score – Companies not assessed by MSCI ESG Research's MSCI ESG Controversy Scores are excluded.

##### **3.2.2 ESG Rating**

ESG Rating = 'CCC' – Companies having an MSCI ESG Rating of 'CCC' are excluded.

Missing ESG Rating – Companies which are not rated by MSCI ESG Research for an MSCI ESG Rating are not excluded.

#### **3.3 Determining the Selected Universe of the Index**

The selected universe for the Index is constructed by combining all stocks from the selected universe of each component described in section 3.1.

The selected universe for each component described in section 3.1 is constructed using the following steps.

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<sup>1</sup> Please refer to <https://www.msci.com/index-methodology> for the methodology of the Component Indexes and for details of the calculation of relevance score.

### 3.3.1 Selected Universe for Future Mobility Component

The following additional steps are followed to construct the selected universe:

1. Securities from the eligible universe which are present in the top three-quarters of the MSCI ACWI IMI Future Mobility Index, by relevance score, are included in the selected universe.
2. Securities in the selected universe are weighted by the product of their relevance score and their float adjusted market capitalization. The weights of selected securities are then normalized to sum to 100%.
3. Additionally, the weights of selected securities are capped at the issuer level to mitigate concentration risk. The issuer weight in this component is capped at 5%.

### 3.3.2 Selected Universe for Smart Cities Component

The following additional steps are followed to construct the selected universe:

1. Securities from the eligible universe which are present in the top three-quarters of the MSCI ACWI IMI Smart Cities Index, by relevance score are included in the selected universe.
2. Securities in the selected universe are weighted by the product of their relevance score and their float adjusted market capitalization. The weights of selected securities are then normalized to sum to 100%.
3. Additionally, the weights of selected securities are capped at the issuer level to mitigate concentration risk. The issuer weight in this component is capped at 5%.

### 3.3.3 Selected Universe For Efficient Energy Component

The following additional steps are followed to construct the selected universe:

1. For each security in the eligible universe, a combined relevance score is calculated as:  $\text{Maximum}(\text{Relevance Score in the MSCI ACWI IMI Efficient Energy Index}, \text{Clean Tech Alternative Energy Revenue}^2/100, \text{Clean Tech Energy Efficiency Revenue}^3/100)$ .
2. Securities with a combined relevance score greater than or equal to 25% are sorted in descending order. Of these, securities which are present in the top

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<sup>2,3</sup> Please refer to <https://www.msci.com/index-methodology> for the MSCI Global Environment Indexes methodology for details of the calculation of the clean tech alternative energy revenue and the clean tech energy efficiency revenue.

three-quarters by combined relevance score are included in the selected universe.

3. Securities in the selected universe are weighted by the product of their combined relevance score and their float adjusted market capitalization. The weights of selected securities are then normalized to sum to 100%.
4. Additionally, the weights of selected securities are capped at the issuer level to mitigate concentration risk. The issuer weight in this component is capped at 5%.

### 3.4 Determining the weights of the constituents of the Index

The weight of each stock in the Index is calculated as follows:

$$w_i^{Mix} = \sum_{C(j)} s_i^{C(j)} \times w_i^{C(j)}$$

where:

- $w_i^{Mix}$  is the weight of stock  $i$  in the Index
- $w_i^{C(j)}$  is the weight of stock  $i$  in the Component  $C(j)$ <sup>4</sup>
- $s_i^{C(j)}$  is the scaling factor applied to the weight of all stocks in the Component  $C(j)$
- $s_i^{Future\ Mobility\ Component} = 30\%$
- $s_i^{Smart\ Cities\ Component} = 20\%$
- $s_i^{Efficient\ Energy\ Component} = 50\%$

Additionally, constituent weights are capped at the issuer level to mitigate concentration risk in the Index. The issuer weight in the Index is capped at 5%.

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<sup>4</sup>  $C(j)$  refers to each of the components described in sections 3.3.1 to 3.3.3 in this document.



## **4 Maintaining the Index**

### **4.1 Semi-Annual Index Review**

The Index is reviewed on a Semi-Annual basis in May and November to coincide with the May and November Semi-Annual Index Reviews of the Component Indexes, and the changes are implemented at the end of May and November. In general, the pro forma index is announced nine business days before the effective date.

During the Semi-Annual Index Review, the eligible universe and selected universe are updated.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI Climate Change Metrics, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews. For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available. This approach aims to capture timely updates to ESG Ratings of the constituents and coincides with the rebalancing of the relevant MSCI Parent Indexes.

### **4.2 Ongoing event-related maintenance**

The general treatment of corporate events in the index 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 index.

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

**EVENT TYPE**

**EVENT DETAILS**

**New additions to the Parent Index**

A new security added to the Parent Index (such as IPO and other early inclusions) 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. 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.) Reevaluation 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.

The MSCI Corporate Events methodology book is available at: <https://www.msci.com/index-methodology>.

**The following sections have been modified since January 2022:**

- Introduction

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