

## **Methodology Book for:**

- **MSCI ACWI IMI Innovation Select ESG Screened 200 Index**
- **MSCI ACWI IMI Next Generation Internet Innovation Select ESG Screened 100 Index**
- **MSCI ACWI IMI Genomic Innovation Select ESG Screened 100 Index**
- **MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index**

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## Introduction

The MSCI ACWI IMI Thematic Select ESG Screened Indexes<sup>1</sup> aim to represent the performance of a set of companies associated with business activities relevant to the theme described in section 2, while excluding those involved in certain controversial businesses, with relatively low ESG Ratings, or involved in severe controversies<sup>2</sup>.

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<sup>1</sup> The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI's webpage <https://www.msci.com/index-methodology> in the section 'Search Methodology by Index Name or Index Code'. The methodology set includes a document 'ESG Factors in Methodology' that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).

<sup>2</sup> Applied starting from the November 2022 Index Review



## Constructing the Index

The rules laid out in this document apply to MSCI ACWI IMI Thematic Select ESG Screened Indexes described in Table 1.

**Table 1**

No.	Index Name
1	MSCI ACWI IMI Innovation Select ESG Screened 200 Index
2	MSCI ACWI IMI Next Generation Internet Innovation Select ESG Screened 100 Index
3	MSCI ACWI IMI Genomic Innovation Select ESG Screened 100 Index
4	MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index

Each index is constructed based on rules explained in the following sections.

## Determining the Eligible Universe<sup>3</sup>

The Eligible Universe of each Index is constructed by selecting all securities which are constituents of the Standard Thematic Index as per table 2.

**Table 2**

No.	Index Name	Standard Thematic Index
1	MSCI ACWI IMI Innovation Select ESG Screened 200 Index	MSCI ACWI IMI Innovation Index <sup>3</sup>
2	MSCI ACWI IMI Next Generation Internet Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Next Generation Internet Innovation Index <sup>4</sup>
3	MSCI ACWI IMI Genomic Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Genomic Innovation Index <sup>5</sup>
4	MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Fintech Innovation Index <sup>6</sup>

Further filtering is applied as detailed below.

<sup>3</sup> The constituents as of 03-Jun-2013 will be used to determine the Eligible Universe for all semi-annual rebalances prior to this date. The weights are normalized to sum to 100%

<sup>3</sup> The MSCI ACWI IMI Innovation Index Methodology is available at [www.msci.com/index/methodology/latest/ACWIIMIInv](http://www.msci.com/index/methodology/latest/ACWIIMIInv)

<sup>4</sup> The MSCI ACWI IMI Next Generation Internet Innovation Index Methodology is available at [www.msci.com/index/methodology/latest/ACWIIMINxtGenIntInv](http://www.msci.com/index/methodology/latest/ACWIIMINxtGenIntInv)

<sup>5</sup> The MSCI ACWI IMI Genomic Innovation Index Methodology is available at [www.msci.com/index/methodology/latest/ACWIGenomicInnovation](http://www.msci.com/index/methodology/latest/ACWIGenomicInnovation)

<sup>6</sup> The MSCI ACWI IMI Fintech Innovation Index Methodology is available at [www.msci.com/index/methodology/latest/ACWIFintechInno](http://www.msci.com/index/methodology/latest/ACWIFintechInno)



## ESG exclusion criteria

### Controversial business exclusion criteria

Securities of companies involved in following businesses are excluded from the eligible universe:

- Controversial Weapons
- Conventional Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Fossil Fuel Extraction
- Thermal Coal Power

In addition to the above, companies that have an MSCI ESG Controversies Score of zero<sup>7</sup>, fail to comply with the United Nations Global Compact (UNGC) Principles, and/or do not have a UNGC Compliance flag are also excluded from the MSCI ESG Screened Indexes.

Please refer to the Appendix for more details of these criteria.

### ESG Rating

- ESG Rating = 'CCC' – Companies having an MSCI ESG Rating of 'CCC' are excluded from the selected universe.
- Missing ESG Rating – Companies which are not rated by MSCI ESG Research for an MSCI ESG Rating are excluded from the eligible universe.

### Country filter

Securities listed on local exchanges in any of the below select countries<sup>8</sup> are excluded from the final index:

- India
- Saudi Arabia
- Kuwait
- Egypt

## Selected Universe

The top 'N' securities, as described in Table 3 ranked by their full market capitalization are selected for inclusion in the final indexes. If the number of securities in the eligible universe (as described in Section 3.1) is less than 'N', all the securities in the eligible universe are selected for inclusion in the final indexes.

**Table 3**

No.	Index Name	'N'
1	MSCI ACWI IMI Innovation Select ESG Screened 200 Index	200
2	MSCI ACWI IMI Next Generation Internet Innovation Select ESG Screened 100 Index	100
3	MSCI ACWI IMI Genomic Innovation Select ESG Screened 100 Index	100

<sup>7</sup> The MSCI ESG Controversies Score screen started to apply from the November 2022 Index Review.

<sup>8</sup> If securities listed in Kazakhstan, Kenya, Ukraine or Vietnam are added to ACWI IMI, they will continue to be excluded from these indexes



4	MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index	100
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## Weighting scheme

Stocks in the selected universe are weighted as per the corresponding Standard Thematic Index methodology. The weights are then normalized to sum to 100%.

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 4.5%.



## Maintaining the Index

Each thematic index described in Table 1, follows the index maintenance rules described in Section 3 of the corresponding Standard Thematic Index methodology.

## Quarterly Index Review

Issuer capping (as described in Section 2.3) is applied at each quarterly index review.



## MSCI ESG Research

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research, and MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited.

## MSCI ESG Ratings

MSCI ESG Ratings aim to measure entities' management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from 'AAA' to 'CCC', indicating how an entity manages relevant key issues relative to industry peers.

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

## MSCI ESG Controversies

MSCI ESG 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 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.

The MSCI ESG Controversies methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

## MSCI ESG Business Involvement Screening Research

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

For more details on MSCI ESG Business Involvement Screening Research, please refer to: [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_BISR.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf)

## MSCI Climate Change Metrics

MSCI Climate Change Metrics provide climate data & tools to support institutional investors seeking to integrate climate risk & opportunities into their investment strategy and processes. This includes investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, alignment with temperature





pathways and factoring climate change research into their risk management processes, in particular through climate scenario analysis for both transition and physical risks.

The dataset spans across the four dimensions of a climate strategy: transition risks, green opportunities, physical risks and 1.5° alignment.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-solutions>



## Appendix I: Controversial Business Exclusion Criteria

Companies whose activities meet the following values and climate change-based criteria, as evaluated by MSCI ESG Research, are excluded from the Index.

### Values-based Exclusions Criteria:

- **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 Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>.

- **Nuclear Weapons**

- All companies that manufacture nuclear warheads and/or whole nuclear missiles.
- All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).
- All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
- All companies that provide auxiliary services related to nuclear weapons.
- All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles).
- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons.
- All companies that manufacture components for nuclear-exclusive delivery platforms.

- **Civilian Firearms**

- All companies classified as “Producer” of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets.
- All companies deriving 5% or more revenue from manufacture and retail of civilian firearms and ammunition.

- **Tobacco**

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

- **Conventional Weapons**

- All companies deriving 5% or more revenue from the production of conventional weapons and components



- All companies deriving 10% or more aggregate revenue from weapons systems, components, and support systems and services.

- **Global Norms – United Nations Global Compact Compliance**

- All companies that fail to comply with the United Nations Global Compact (UNGC) principles.
- All companies that do not have a UNGC Compliance flag.

Climate Change- based Exclusions Criteria:

- **Fossil Fuel Extraction**

- All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining and unconventional oil and gas extraction.
  - Thermal Coal Mining: Revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intracompany sales of mined thermal coal; and revenue from coal trading.
  - Unconventional Oil & Gas Extraction: Revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It does not cover all types of conventional oil and gas production including Arctic onshore/offshore, deep water, shallow water and other onshore/offshore.

- **Thermal Coal Power**

- All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

MSCI ESG Controversies Exclusion Criteria:

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



## Appendix II: Changes to this Document

The following sections have been modified since January 2022:

- Introduction

The following sections have been modified since April 2022:

- Constructing the Index

The following sections have been modified since June 2022:

Section 1: Introduction

Section 3.1.1: ESG Exclusion Criteria

- Added 'Fossil Fuel Extraction' and 'Thermal Coal Power'
- Removed 'Thermal Coal' and 'Oil Sands'

Section 3.1.2: Country Filter

Appendix: Controversial Business Exclusion Criteria

- Added screens for 'Global Norms – United Nations Global Compact Compliance', 'Fossil Fuel Extraction' and 'Thermal Coal Power'
- Removed screens for 'Thermal Coal' and 'Oil Sands'

The following sections have been modified since June 2023:

- Updated the descriptions of MSCI ESG Research products and moved section to after Section 3.
- Appendix I: Updated to clarify the exclusion criteria for companies involved in ESG Controversies and Civilian Firearms



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