

## **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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<b>Contents</b>	1	Introduction	3
	2	MSCI ESG Research	3
	2.1	MSCI ESG Ratings	3
	2.2	MSCI ESG Business Involvement Screening Research	3
	3	Constructing the Index	4
	3.1	Determining the Eligible Universe	4
	3.2	Selected Universe	6
	3.3	Weighting scheme	6
	4	Maintaining the Index	6
	4.1	Quarterly Index Review	6
		Appendix 1: Controversial Business Exclusion Criteria	7

## 1 Introduction

The MSCI ACWI IMI Thematic Select ESG Screened Indexes aim to represent the performance of a set of companies with high exposure to business activities relevant to the theme described in section 3, while excluding those involved in certain controversial businesses or with relatively low ESG Ratings.

## 2 MSCI ESG Research

The Index uses company ratings and research provided by MSCI ESG Research. In particular, this index uses the following two MSCI ESG Research products: MSCI ESG Ratings and MSCI ESG Business Involvement Screening Research. 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 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)

### 3 Constructing the Index

The rules laid out in this document apply to MSCI ACWI IMI Thematic Select ESG Screened Indexes described in Table 3.

**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 by selecting stocks from the MSCI ACWI Investable Market Index (IMI) (the ‘Parent Index’) based on rules explained in the following sections.

#### 3.1 Determining the Eligible Universe<sup>1</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 <sup>2</sup>
1	MSCI ACWI IMI Innovation Select ESG Screened 200 Index	MSCI ACWI IMI Innovation Index
2	MSCI ACWI IMI Next Generation Internet Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Next Generation Internet Innovation Index
3	MSCI ACWI IMI Genomic Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Genomic Innovation Index
4	MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index	MSCI ACWI IMI Fintech Innovation Index

Further filtering is applied as detailed below.

<sup>1</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>2</sup> For more details, please refer to the standard methodology document (Available on <https://www.msci.com/index-methodology>)

### 3.1.1 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
- Oil Sands
- UN Global Compact Violators

Please refer to Appendix 1 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.

### 3.1.2 Country filter

Securities listed on local exchanges in any of the below select countries<sup>3</sup> are excluded from the final index:

- India
- Russia
- Saudi Arabia
- Kuwait
- Pakistan
- Egypt

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<sup>3</sup> If securities listed in Kazakhstan, Kenya Ukraine or Vietnam are added to ACWI IMI, they will continue to be excluded from these indexes

### 3.2 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
4	MSCI ACWI IMI Fintech Innovation Select ESG Screened 100 Index	100

### 3.3 Weighting scheme

Stocks in the selected universe are weighted as per the corresponding Standard Thematic Index methodology<sup>4</sup>. 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%.

## 4 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.

### 4.1 Quarterly Index Review

Issuer capping (as described in Section 3.3) is applied at each quarterly index review.

<sup>4</sup> For more details, please refer to the standard methodology document (Available on <https://www.msci.com/index-methodology>)

## Appendix 1: 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>.
- **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 the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
- 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.

Climate Change- based Exclusions Criteria:

- Thermal Coal
  - All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.
  - All companies deriving 5% or more revenue (either reported or estimated) from the thermal coal based power generation.
- Oil Sands
  - All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded.
- Global Norms – United Nations Global Compact Compliance
  - All companies that fail to comply with the United Nations Global Compact principles.



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