

**METHODOLOGY BOOK FOR:  
- MSCI ASIA ESG SELECT 50 INDEX  
- MSCI ASIA ESG SELECT 50 5%  
DECREMENT INDEX**

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## 1 Introduction

The MSCI Asia ESG Select 50 Index aims to represent the performance of an equal weighted portfolio of 50 stocks that have a robust ESG profile. The stock selection follows a 'target market' approach to achieve country diversification.

The MSCI Asia ESG Select 50 5% Decrement Index aims to represent the net performance of the MSCI Asia ESG Select 50 Index, while applying a constant markdown ('synthetic dividend') of 5% on an annual basis, expressed as a percentage of performance.

## **2 ESG Research Framework**

The MSCI Asia ESG Select 50 Index uses company ratings and research provided by MSCI ESG Research LLC. The index uses the following MSCI ESG Research products: MSCI ESG Controversies.

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 CONTROVERSIES**

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, please refer to

<https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>.

### 3 Constructing the Index

The MSCI Asia ESG Select 50 Index is constructed by combining the following two regional indexes (herein, the “Parent Index”).

- MSCI AC Asia Index
- MSCI China A Index

The following steps are applied to construct MSCI Asia ESG Select 50 Index:

- Eligible Universe Screening
- ESG Eligibility Criteria
- Security Selection
- Security Weighting

After the above steps, the following additional step is applied to construct the MSCI Asia ESG Select 50 5% Decrement Index

- Applying the MSCI Decrement Indexes Methodology

#### 3.1 ELIGIBLE UNIVERSE SCREENING

##### 3.1.1 LIQUIDITY CRITERIA

Securities with 3-month ADTV greater than or equal to USD 5 Million are eligible for inclusion in the MSCI Asia ESG Select 50 Index.

ADTV is defined as Average Daily Traded Value and is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^1}{252}$$

Where  $ATV_{3M}$  is annualized 3-month Average Traded Value of the security.

To avoid multiple securities of the same company in the final index, only the most liquid security for each issuer per its 3-month ADTV is eligible for inclusion in the Index. For any issuer, should two securities have the same 3-month ADTV, the one with the higher free float-adjusted market capitalization is included.

<sup>1</sup> MSCI Index Calculation Methodology at <https://www.msci.com/index-methodology>

MSCI Global Investable Market Indexes Methodology at <https://www.msci.com/index-methodology>

### 3.1.2 ESG CONTROVERSIES SCORE ELIGIBILITY

The MSCI Asia ESG Select 50 Index uses MSCI ESG Controversies Scores to identify those companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Companies are required to have an MSCI ESG Controversies Score of 1 or higher to be eligible for inclusion in the MSCI Asia ESG Select 50 Index.

### 3.1.3 ESG SCORE SCREENING

After applying all the above screens, the Index select top 50% of the securities from the remaining universe, as ranked based on their industry-adjusted ESG Score. In case of two or more securities having the same industry-adjusted ESG Score the security with the higher weight in the Parent Index is given a higher rank.

## 3.2 SECURITY SELECTION

The securities remaining after the application of the above exclusions are divided into six country sub-groups defined as follows:

Sub Group	Country	Description
China A Screened Universe	China	Securities remaining after the application of the above exclusions that belong to MSCI China A Index
Hong Kong Screened Universe	Hong Kong	Securities remaining after the application of the above exclusions that belong to MSCI Hong Kong Index
Japan Screened Universe	Japan	Securities remaining after the application of the above exclusions that belong to MSCI Japan Index
Korea Screened Universe	South Korea	Securities remaining after the application of the above exclusions that belong to MSCI Korea Index
Taiwan Screened Universe	Taiwan	Securities remaining after the application of the above exclusions that belong to MSCI Taiwan Index
Singapore Screened Universe	Singapore	Securities remaining after the application of the above exclusions that belong to MSCI Singapore Index

The following step is subsequently applied to the China A Screened Universe, the Hong Kong Screened Universe, the Japan Screened Universe, the Korea Screened Universe, the Taiwan Screened Universe and the Singapore Screened Universe to arrive at the China A Top 20 Universe, the Hong Kong Top 5 Universe, the Japan Top 10 Universe, the Korea Top 5 Universe, the Taiwan Top 5 Universe and the Singapore Top 5 Universe respectively:

Sub Group	Country	Description
China A Top 20 Universe	China	Select Top 20 securities from the China A Screened Universe, as ranked based on their free-float adjusted market capitalization
Hong Kong Top 5 Universe	Hong Kong	Top 5 securities from the Hong Kong Screened Universe, as ranked based on their free-float adjusted market capitalization
Japan Top 10 Universe	Japan	Select Top 10 securities from the Japan Screened Universe, as ranked based on their free-float adjusted market capitalization
Korea Top 5 Universe	South Korea	Top 5 securities from the Korea Screened Universe, as ranked based on their free-float adjusted market capitalization
Taiwan Top 5 Universe	Taiwan	Top 5 securities from the Taiwan Screened Universe, as ranked based on their free-float adjusted market capitalization
Singapore Top 5 Universe	Singapore	Top 5 securities from the Singapore Screened Universe, as ranked based on their free-float adjusted market capitalization

The above defined China A Top 20 Universe, Hong Kong Top 5 Universe, Japan Top 10 Universe, Korea Top 5 Universe, Taiwan Top 5 Universe and Singapore Top 5 Universe are combined to arrive at the final 50 securities for inclusion in the MSCI Asia ESG Select 50 Index.

If the number of securities remaining post above selection is less than 50, then all the available securities are selected for the index.

### **3.3 SECURITY WEIGHTING**

The securities selected for inclusion in the Index are assigned equal weights.

### **3.4 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY**

The MSCI Decrement Indexes Methodology<sup>2</sup> is applied on the MSCI Asia ESG Select 50 Index to construct the MSCI Asia ESG Select 50 5% decrement Index.

The parameters for the application of the decrement methodology in the above indexes are noted in Appendix 1.

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<sup>2</sup>Please refer to the MSCI Decrement Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)



## 4 Maintenance of the MSCI Asia ESG Select 50 Index

### 4.1 QUARTERLY INDEX REVIEWS

The MSCI Asia ESG Select 50 Index is reviewed on a quarterly basis, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index.

The pro forma Index is typically announced nine business days before the effective date.

### 4.2 DAILY DECREMENT CALCULATION

The performance of the MSCI Asia ESG Select 50 5% decrement Index is computed by reducing the performance of the MSCI Asia ESG Select 50 Index, by a fixed percentage, on a daily basis using parameters detailed in Appendix 1.

### 4.3 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Asia ESG Select 50 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.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the Index.

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

## Appendix 1: Parameters used for MSCI Asia ESG Select 50 5% decrement Index

- The following parameters are used for the calculation of MSCI Asia ESG Select 50 5% decrement Index

	MSCI Decrement Indexes Methodology Parameters	Parameters
1	Currency of Calculation	EUR
2	Return Variant of the MSCI Asia ESG Select 50 Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	5%
6	Day-count Convention	Actual / 360
7	Index Floor	0
8	Decrement Frequency	Daily

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\* = toll free

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at:

[www.msci.com/index-regulation](http://www.msci.com/index-regulation)

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