

**METHODOLOGY BOOK FOR:**

- MSCI CHINA A ESG SCORE  
SELECT 80 INDEX**
- MSCI CHINA A ESG SCORE  
SELECT 80 DECREMENT 3%  
INDEX**

**May 2020**

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## 1 Introduction

The MSCI China A ESG Score Select 80 Index aims to represent the performance of a set of 80 securities from the MSCI China A Index (the “Parent Index”), that have higher industry-adjusted Environmental, Social and Governance (ESG) scores relative to their peers. The index excludes securities that trade on the ChiNext board of the Shenzhen Stock Exchange – Hong Kong Stock Connect.

The MSCI China A ESG Score Select 80 Decrement 3% Index aims to represent the performance of the MSCI China A ESG Score Select 80 Index, while applying a constant markdown (‘synthetic dividend’) of 3% on an annual basis, expressed as a percentage of performance<sup>1</sup>.

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<sup>1</sup> Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology>

## 2 MSCI ESG Research

The MSCI China A ESG Score Select 80 Index uses company ratings and research provided by MSCI ESG Research LLC. In particular, the MSCI China A ESG Score Select 80 Index uses the MSCI ESG Ratings product.

For details on MSCI ESG Research's full suite of ESG products, please refer to:

<https://www.msci.com/esg-investing>

### 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>

### 3 Index Construction Methodology

The MSCI China A ESG Score Select 80 Index and the MSCI China A ESG Score Select 80 Decrement 3% Index are constructed from the Parent Index.

The following steps are applied at initial construction as well as at the subsequent Quarterly and Semi-Annual Index Reviews of the MSCI China A ESG Score Select 80 Index:

- Eligible Universe Screening
- Security Selection
- Weighting Scheme

In addition to the above steps, a daily decrement is applied to the MSCI China A ESG Score Select 80 Index to construct the MSCI China A ESG Score Select 80 Decrement 3% Index.

#### 3.1 ELIGIBLE UNIVERSE SCREENING

##### 3.1.1 EXCHANGE TRADING ELIGIBILITY

Securities trading on the ChiNext board of the Shenzhen Stock Exchange – Hong Kong Stock Connect, are ineligible for inclusion in the MSCI China A ESG Score Select 80 Index.

##### 3.1.2 ESG RATINGS ELIGIBILITY

The MSCI China A ESG Score Select 80 Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies are required to have an MSCI ESG Rating of “BB” or above to be eligible for inclusion in the MSCI China A ESG Score Select 80 Index.

#### 3.2 SECURITY SELECTION

From the eligible universe, the top 80 securities, ranked in descending order based on their ESG scores are selected for inclusion in the Index. Should there be two securities with the same industry-adjusted ESG scores, the one with the higher free float-adjusted market capitalization applicable to foreign investors is selected.

#### 3.3 WEIGHTING SCHEME

Each selected security is weighted in proportion to its free float market capitalization available for foreign investors.

### 3.4 APPLYING THE DECREMENT

The MSCI Decrement Indexes methodology is applied on the MSCI China A ESG Score Select 80 Index in order to construct the MSCI China A ESG Score Select 80 Decrement 3% Index using the following parameters:

Sr. No.	Methodology Parameter	Parameter Value
1	Currency of Calculation	USD
2	Return Variant of the Parent Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	3%
6	Day-count Convention	Actual / 360
7	Index Floor	0
8	Decrement Frequency	Daily

## 4 Maintaining the Indexes

### 4.1 QUARTERLY INDEX REVIEWS

The MSCI China A ESG Score Select 80 Index is reviewed on a quarterly basis as described in Section 2, 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.

In general, MSCI uses MSCI ESG Ratings data as of 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, for the rebalancing of the MSCI China A ESG Score Select 80 Index.

### 4.2 ONGOING EVENT-RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the MSCI China A ESG Score Select 80 Index.

No new securities will be added (except where noted below) to the Indexes between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the Parent Index.

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 not be added to the index at the time of event implementation. Reevaluation for inclusion in the Index will occur at the subsequent Index Review.

**Merger/Acquisition**

For Mergers and Acquisitions, the acquirer's post even 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 be removed from the Index if there are changes in characteristics (country, sector, size segment, etc.). Reevaluation for 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.

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





**The following sections have been updated as of May 2020:**

**Section 3.1: Eligible Universe Screening**

- Sub-sections have been added to reflect the new ESG Ratings Eligibility criteria and differentiate it from the existing Exchange Trading Eligibility criteria.

**Section 4: Maintaining the Indexes**

- Updated to provide more information on the recency of ESG Ratings data used during the Quarterly Index Reviews.

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