

**METHODOLOGY BOOK:
- MSCI EMU CIRCULAR ECONOMY
SUSTAINABLE IMPACT SELECT
INDEX
- MSCI EMU CIRCULAR ECONOMY
SUSTAINABLE IMPACT SELECT 50
POINTS DECREMENT INDEX**

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1 Introduction

The MSCI EMU Circular Economy Sustainable Impact Select Index aims to represent the performance of an equally weighted portfolio of 50 stocks from the European Economic and Monetary Union region which contribute positively to circular economy¹ through their management of related risks and revenue derived from products and services using MSCI Sustainable Impact Metrics' Natural Capita.

The MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Index aim to represent the gross performance of the MSCI EMU Circular Economy Sustainable Impact Select Index, while applying a constant markdown ('synthetic dividend') expressed in points terms as per the MSCI Decrement Indexes Methodology².

¹ Refer to Section 2 for details on Circular Economy

² Please refer to the MSCI Decrement Indexes methodology at www.msci.com/index-methodology

2 CIRCULAR ECONOMY

The MSCI EMU Circular Economy Sustainable Impact Select Index focuses on companies deriving high revenue from Sustainable Water and Pollution Prevention³, which are associated with circular economy⁴.

³ Refer to Section 3.3.1 for definition of Sustainable Water and Pollution Prevention

⁴ For details refer to https://en.wikipedia.org/wiki/Circular_economy

3 MSCI ESG RESEARCH

The MSCI EMU Circular Economy Sustainable Impact Select Index uses research provided by MSCI ESG Research LLC. The MSCI EMU Circular Economy Sustainable Impact Select Index uses the following three MSCI ESG Research products: MSCI ESG Controversies, MSCI ESG Ratings and MSCI Sustainable Impact Metrics.

For detail on MSCI ESG Research’s full suite of ESG products, please refer to: <https://www.msci.com/esg-investing>

3.1 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>

3.2 MSCI ESG RATINGS

MSCI ESG Ratings provides research, data, 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, as well as underlying data and metrics used to compile the scores and ratings.

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

3.3 MSCI ESG SUSTAINABLE IMPACT METRICS

MSCI Sustainable Impact Metrics is designed to identify companies that derive revenue from products or services with positive impact on society and the environment. The Sustainable Impact Metrics are comprised of six Environmental Impact categories and seven Social Impact categories arranged by theme.

MSCI Sustainable Impact Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	1. Alternative energy 2. Energy efficiency 3. Green building
	Natural capital	4. Sustainable water 5. Pollution prevention 6. Sustainable agriculture
Social Impact	Basic needs	7. Nutrition 8. Major Disease Treatment 9. Sanitation 10. Affordable Real Estate
	Empowerment	11. SME Finance 12. Education 13. Connectivity – Digital divide

Under each of the actionable environmental and social 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>

4 Index Construction

The MSCI EMU Circular Economy Sustainable Impact Select Index is constructed from the MSCI EMU Investable Market Index (the “Parent Index”).

The following steps are applied in the construction of the MSCI EMU Circular Economy Sustainable Impact Select Index.

- Applicable Universe
- Eligibility Screens
- Security Selection
- Weighting Scheme

In addition to the above steps, the following steps are applied to the MSCI EMU Circular Economy Sustainable Impact Select Index to construct the MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Indexes.

- Applying the MSCI Decrement Indexes methodology⁵

4.1 APPLICABLE UNIVERSE

The applicable universe for MSCI EMU Circular Economy Sustainable Impact Select Index is constructed by selecting top 80 securities from the Parent Index based on their free float market capitalization. In case two securities have same free float market capitalization, the security with higher 3-month Average Daily Traded Value (ADTV) is selected.

4.2 ELIGIBILITY SCREENS

4.2.1 LIQUIDITY CRITERIA

Securities with 3-month Annualized Traded Value (3-month ATV) greater than or equal to EUR 1.26 Billion are eligible for inclusion in the Index.

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

⁵ Please refer to the MSCI Decrement Indexes methodology at www.msci.com/index-methodology

4.2.2 SIZE ELIGIBILITY

Securities with full market capitalization greater than or equal to EUR 1 Billion are eligible for inclusion in the Index.

4.2.3 ESG CONTROVERSIES SCORE ELIGIBILITY

The MSCI EMU Circular Economy Sustainable Impact Select Index uses MSCI ESG Controversies Scores to identify 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 above to be eligible for inclusion in the Index.

4.3 SECURITY SELECTION

4.3.1 OVERALL REVENUE SCORE

After applying the above screens to the applicable universe, the remaining securities are ranked based on a reference overall⁶ revenue score and top 50 securities based on the score are selected. In case there are less than 50 securities available after applying the eligibility screens, all available securities are selected.

The overall revenue score for each company is a combination of its revenue from Sustainable Water and Pollution Prevention⁷ related products and services and its rating based on how well the company manages key management issues⁸ relative to industry peers.

4.4 WEIGHTING SCHEME

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

4.5 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

The MSCI Decrement Indexes Methodology⁹ is applied on the MSCI EMU Circular Economy Sustainable Impact Select Index to construct MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Index.

The parameters for the application of the decrement methodology in the decrement index are noted in Appendix 2.

⁶ Appendix 1

⁷ Refer to Section 3.3.1 for definition of Sustainable Water and Pollution Prevention

⁸ Refer to Appendix 1 for details of key management issues

⁹Please refer to the MSCI Decrement Indexes methodology at www.msci.com/index-methodology

5 Maintenance of the Index

5.1 QUARTERLY INDEX REVIEWS

The MSCI EMU Circular Economy Sustainable Impact Select 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.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Controversies Scores and MSCI Sustainable Impact metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the Index.

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

5.2 DAILY DECREMENT CALCULATION

The performance of the MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Index is computed by reducing the gross index levels of MSCI EMU Circular Economy Sustainable Impact Select Index respectively, by fixed 50 points on a daily basis using parameters detailed in Appendix 2.

5.3 ONGOING EVENT RELATED CHANGES

The following section briefly describes the treatment of common corporate events within MSCI EMU Circular Economy Sustainable Impact Select Index.

No new securities will be added (except where noted below) to the Index 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 Index

A new security added to the Parent Index (such as IPO and other early inclusions) will not be added to the MSCI World Circular Economy and Natural Capital Select 30 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

Merger/Acquisition

in Index will occur at the subsequent Index Review.

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-MSCI 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: CALCULATING OVERALL REVENUE SCORE

For each security, the relevant Overall Revenue Score is calculated as:

$$\begin{aligned}
 \text{OverallScore}(i) &= (1 + \text{Natural Capital Revenue Score}(i)) \\
 &\quad * \text{Sector Relative Management Score}(i)
 \end{aligned}$$

Calculation of Natural Capital Revenue Score:

$$\begin{aligned}
 \text{Natural Capital Rev Score}(i) &= \text{Sustainable Water Revenue Score}(i) \\
 &\quad + \text{Pollution Prevention Revenue Score}(i)
 \end{aligned}$$

Where Sustainable Water Revenue Score and Pollution Prevention Revenue are retrieved from MSCI Sustainable Impact metrics of MSCI ESG Research.

Calculation of Sector Relative Management Score

$$\begin{aligned}
 \text{Sector Relative Management Score}(i) &= \text{LowestManagementScore}(i) / \text{SectorMax}(i)
 \end{aligned}$$

Lowest Management Score

Each security is assessed on relevant Natural Capital and/or Pollution & Waste issues, where the “lowest” management score is taken from among five key issues:

- Biodiversity & Land Use
- Raw Material Sourcing
- Toxic Emissions & Waste
- Packaging Material & Waste
- Electronic Waste

In the absence of availability score for any of the five identified issues, the management score for Water Stress (also considered a global issue) is taken.

For each security, a global ‘lowest management score’ is calculated as:

$$\text{LowestManagementScore}(i) = \text{Min}(\text{KeyIssue}(k, i))$$

Where

KeyIssue(k, i)= Any of the k Key Issues available for security i

Key Issues = Biodiversity & Land Use, Raw Material Sourcing, Toxic Emissions & Waste, Packaging Material & Waste, Electronic Waste key issue score. In the absence of availability of any score, the relevant Water Stress Management Score for security i is considered.

Sector Max

Each GICS® sector is assessed on primary key issues that are most relevant to it. For example, Energy sector companies are assessed on either or both Biodiversity and Toxic Emissions.

For each security, on the basis of the table below, sector max is calculated as:

$$\text{SectorMax}(i, j) = \text{Max}_j(\text{Primary Key Issue Scores}(k))$$

Where,

i = security i

j = GICS sector relevant to security i

k = relevant k Primary Key Issues for a sector j

GICS_SECTOR	PRIMARY KEY ISSUE(S)
Energy	Biodiversity & Land Use /Toxic Emissions & Waste
Materials	Biodiversity & Land Use /Toxic Emissions & Waste
Utilities	Biodiversity & Land Use /Toxic Emissions & Waste
Health Care	Biodiversity & Land Use /Toxic Emissions & Waste
Industrials	Biodiversity & Land Use /Toxic Emissions & Waste
Consumer Discretionary	Raw Material Sourcing / Electronic Waste
Consumer Staples	Raw Material Sourcing / Packaging Material & Waste / Water Stress
Communication Services	Water Stress
Financials	Water Stress
Information Technology	Water Stress
Real Estate	Water Stress

Appendix 2: Parameters used for the MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Index

The following parameters are used for the calculation of MSCI EMU Circular Economy Sustainable Impact Select 50 Points Decrement Index

	MSCI Decrement Indexes Methodology Parameters	Parameters
1	Currency of Calculation	EUR
2	Return Variant of the Parent Index	Daily Gross Total Return
3	Decrement Type	Fixed Index Points
4	Decrement Application	Geometric
5	Decrement Value	50 points
6	Day-count Convention	Actual / 365
7	Index Floor	0
8	Decrement Frequency	Daily

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