

# **MSCI ESG Screened Indexes Methodology**

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## 1 Introduction

The MSCI ESG Screened Indexes aim to represent the performance of a free float adjusted market capitalization weighted investment strategy that excludes companies:

- that are associated with controversial, civilian and nuclear weapons and tobacco
- that derive revenues from thermal coal and oil sands extraction or
- that are not in compliance with the United Nations Global Compact principles

## **2 MSCI ESG Research**

The MSCI ESG Screened Indexes use company research provided by MSCI ESG Research. In particular, these indexes use the following MSCI ESG Research products: MSCI ESG Controversies and MSCI Business Involvement Screening Research.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: [http://www.msci.com/products/esg/about\\_msci\\_esg\\_research.html](http://www.msci.com/products/esg/about_msci_esg_research.html)

### **2.1 MSCI ESG CONTROVERSIES**

MSCI ESG Controversies 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 Score, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>.

### **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 MSCI ESG Screened Indexes**

#### **3.1 ELIGIBLE UNIVERSE**

The eligible universe for MSCI ESG Screened Indexes could be any existing MSCI Index (parent index), for e.g., MSCI Regional and Country Indexes.

#### **3.2 ESG EXCLUSIONS**

The MSCI ESG Screened Indexes use MSCI ESG Business Involvement Screening Research to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the MSCI ESG Screened Indexes.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Oil Sands

In addition to the above, companies that fail to comply with the United Nations Global Compact Principles are also excluded from the MSCI ESG Screened Indexes.

Please refer to Appendix 1 for details on these criteria.

#### **3.3 WEIGHTING SCHEME**

The remaining securities, after the exclusions based on section 3.2, are weighted in proportion of their free float-adjusted market capitalization.

## **4 Maintaining the MSCI ESG Screened Indexes**

### **4.1 QUARTERLY INDEX REVIEWS**

The MSCI ESG Screened Indexes are reviewed on a quarterly basis to coincide with the regular Semi-Annual and Quarterly Index Reviews of the MSCI Global Investable Market Indexes. The changes are implemented as of the close of the last business day of February, May, August and November.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) as of the end of the month preceding the Index Reviews for the rebalancing of the Index. For some securities, such data may not be published by MSCI ESG Research by 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 Index.

The pro forma Indexes are in general announced nine business days before the effective date.

### **4.2 ONGOING EVENT RELATED CHANGES**

The general treatment of corporate events in the MSCI ESG Screened Indexes 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.

The following section briefly describes the treatment of common corporate events within the MSCI ESG Screened Indexes.

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.

**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.

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

## **Appendix 1 – ESG Exclusions Criteria**

MSCI ESG Research has developed a framework designed to define significant involvement in controversial activities. According to this framework, there are three tolerance levels: Zero Tolerance, Minimal Tolerance and Low Tolerance.

Each controversial activity screened by the MSCI ESG Screened Indexes (except Thermal Coal, Oil Sands and Global Norms) is assigned to one of these tolerance levels:

### **Activities classified under “Zero Tolerance”**

- **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>.

### **Activities classified under “Minimal Tolerance”**

- **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, supply and licensing of tobacco-related products.

**Activities not classified under any specific tolerance level**

- **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.

**The following sections have been updated since January 2019:**

Appendix 1: ESG Exclusions Criteria

- Clarified the screening criteria for companies involved in 'Tobacco'

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