

# **MSCI ESG Universal Select Business Screens Indexes Methodology**

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# 1 Introduction

The MSCI ESG Universal Select Business Screens Indexes<sup>1</sup> (the “Indexes”<sup>2</sup>) aim to represent the performance of a strategy that excludes companies:

- that are associated with controversial weapons, nuclear weapons, recreational cannabis or oil sands
- that derive revenues from conventional weapons, civilian firearms, thermal coal or tobacco
- that are involved in very ESG controversies that are classified as Red Flags<sup>3</sup> (MSCI ESG Controversy Score of 0).
- that are identified by Invesco as Investment Trusts

At the same time, the strategy also aims to increase exposure to companies demonstrating both a robust ESG profile as well as a positive trend in improving that profile, by re-weighting free float adjusted market capitalization weights based on certain ESG metrics.

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<sup>1</sup> The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

The Methodology Set includes a document ‘ESG Factors in Methodology’ that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).

<sup>2</sup> This methodology book covers the following indexes:

- MSCI World ESG Universal Select Business Screens Index,
- MSCI USA ESG Universal Select Business Screens Index,
- MSCI Europe ESG Universal Select Business Screens Index,
- MSCI EM ESG Universal Select Business Screens Index,
- MSCI Pacific ex Japan ESG Universal Select Business Screens Index,
- MSCI Europe ex UK ESG Universal Select Business Screens Index,
- MSCI EMU ESG Universal Select Business Screens Index, and
- MSCI Japan ESG Universal Select Business Screens Index

<sup>3</sup> A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations

## 2 Constructing the Indexes

The MSCI ESG Universal Select Business Screens Indexes are constructed using the following steps:

- Defining the Eligible Universe
- Applying ESG Exclusions
- Applying the MSCI ESG Universal Indexes methodology<sup>4</sup>

These steps are defined in greater detail in the subsequent sections:

### 2.1 Defining The Eligible Universe

The eligible universe for MSCI ESG Universal Select Business Screens Indexes includes all the constituents of their corresponding market cap weighted indexes index (the “Parent Index”), as shown in the table below:

Index Name	Parent Index
MSCI World ESG Universal Select Business Screens Index	MSCI World Index
MSCI USA ESG Universal Select Business Screens Index	MSCI USA Index
MSCI Europe ESG Universal Select Business Screens Index	MSCI Europe Index
MSCI EM ESG Universal Select Business Screens Index	MSCI EM Index
MSCI Pacific ex Japan ESG Universal Select Business Screens Index	MSCI Pacific ex Japan Index
MSCI Europe ex UK ESG Universal Select Business Screens Index	MSCI Europe ex UK Index
MSCI EMU ESG Universal Select Business Screens Index	MSCI EMU Index
MSCI Japan Universal Select Business Screens Index	MSCI Japan Index

#### 2.1.1 Specific Stock Exclusions

The Indexes exclude all securities identified as Investment Trusts by Invesco. The exclusion list is determined and signed off by Invesco in accordance with the

<sup>4</sup> Please refer to the methodology book for the MSCI ESG Universal Indexes, available at [www.msci.com/index-methodology](http://www.msci.com/index-methodology) for more information

referenced methodology document<sup>5</sup>. The exclusion list<sup>5</sup> is sent by Invesco to MSCI via e-mail at least 14 business days prior to the effective date of the index review and is also publicly available. The exclusions are reviewed and updated semi-annually and made effective to coincide with the MSCI Semi-Annual Index Reviews as of the close of the last business day of May and November.

## 2.2 Applying ESG Exclusions

### 2.2.1 Exclusions Based on Business Involvement Screens

The 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 Universal Select Business Screens Indexes.

- Controversial Weapons
- Conventional Weapons
- Nuclear Weapons
- Oil Sands
- Thermal Coal
- Tobacco
- Civilian Firearms
- Recreational Cannabis

Please refer to Appendix 1 for details on these criteria.

### 2.2.2 Exclusion Of Unrated Companies

Companies are excluded from the Indexes if they have:

- Missing Controversy Score – Companies not assessed by MSCI ESG Research on MSCI ESG Controversies.
- Missing ESG Rating – Companies not rated by MSCI ESG Research for an ESG assessment

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<sup>5</sup> For more details, please refer to [https://etf.invesco.com/sites/default/files/documents/IVZ\\_MSCI\\_Investment\\_Trust\\_Exclusion\\_Methodology\\_05.05.23\\_0.pdf](https://etf.invesco.com/sites/default/files/documents/IVZ_MSCI_Investment_Trust_Exclusion_Methodology_05.05.23_0.pdf)

**2.2.3 ESG Ratings Eligibility**

The MSCI ESG Universal Select Business Screens Indexes use 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 'B' or above to be eligible for inclusion in the MSCI ESG Universal Select Business Screens Indexes.

**2.2.4 Exclusion Of Companies Having Faced Very Severe ESG Controversies**

Companies having faced very severe controversies pertaining to ESG issues in the last three years – defined as companies with an ESG Controversy Score of 0 – are excluded from MSCI ESG Universal Select Business Screens Indexes.

**2.3 Applying The MSCI Universal Indexes Methodology**

The index constituents and their weights are determined by applying the MSCI ESG Universal Indexes Methodology on the securities which remain in the eligible universe after applying the ESG exclusions detailed in Section 3.2.

### **3 Maintaining the MSCI ESG Universal Select Business Screens Indexes**

#### **3.1 Semi-Annual Index Reviews**

The Indexes are reviewed on a semi-annual basis to coincide with the regular Semi-Annual Index Reviews of the MSCI Global Investable Market Indexes. The changes are implemented as of the close of the last business day of May and November.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics) 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.

#### **3.2 Quarterly Index Reviews**

The Indexes are reviewed on a quarterly basis to coincide with the regular Quarterly Index Reviews of the MSCI Global Investable Market Indexes, as of the close of the last business day of February and August. At quarterly reviews, the indexes are not re-constituted, but existing constituents will be deleted from the Indexes if they are involved in controversial businesses detailed in Section 3.2. MSCI ESG Research data as of the end of January and July are used for the February and August Quarterly Index Reviews, respectively.

#### **3.3 Ongoing Event Related Changes**

The general treatment of corporate events in the 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 MSCI ESG Universal Select Business Screens 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 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 Indexes.

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 Indexes.

**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 Indexes 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>

## 4. MSCI ESG Research

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI ESG Research products: MSCI Climate Change Metrics, MSCI Climate Value-at-Risk, MSCI Impact Solutions, MSCI ESG Controversies and MSCI ESG Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited.

### 3.4 MSCI ESG RATINGS

MSCI ESG Ratings aim to measure entities' management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from 'AAA' to 'CCC', indicating how an entity manages relevant key issues relative to industry peers.

The MSCI ESG Ratings methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

### 2.1 MSCI ESG Controversies

MSCI ESG Controversies provide assessments of controversies concerning the potential 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.

The MSCI ESG Controversies methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

### 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)

## 2.3 MSCI Climate Change Metrics

MSCI Climate Change Metrics provides climate data & tools to support investors integrating climate risk & opportunities into their investment strategy and processes. It supports investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, align with temperature pathways and factoring climate change research into their risk management processes, in particular through climate scenario analysis for both transition and physical risks.

The dataset spans across the four dimensions of a climate strategy: transition risks, green opportunities, physical risks and 1.5° alignment.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-solutions>

## 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 Universal Select Business Screens Indexes (except Thermal Coal) 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 Global 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. Includes assembly and integration of warhead and missile body as well as companies with contracts to operate/manage government-owned facilities that manufacture nuclear warheads and missiles.
  - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles). Includes companies with contracts to operate/manage government-owned facilities that manufacture components for nuclear warheads and missiles, such as fissile materials, non-nuclear components, explosives, triggers and detonators, etc.
  - 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, such as repairing and maintaining nuclear weapons, providing overhaul and upgrade services (including engineering), stockpiling and stewardship, R&D work, testing and simulations, etc. Includes companies with contracts to operate/manage government-owned facilities that conduct R&D, testing, simulations, and other essential sciences on nuclear weapons.
  - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons

(warheads and missiles). i.e. these components can be used in both nuclear and conventional weapons.

- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons. i.e. these platforms are capable of delivering conventional weapons.
  - All companies that manufacture components for nuclear-exclusive delivery platforms.
  - All companies that manufacture nuclear weapons, including nuclear warheads, intercontinental ballistic missiles, and ballistic missile submarines, which are capable of the delivery of nuclear warheads.
  - All companies that manufacture key nuclear weapons components.
  - All companies that are 50 percent or more owned by a company with nuclear weapons involvement.
  - Companies that own 20 to 49.99 percent of a company with involvement. When a company owns 50 percent or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary
- **Oil Sands**
    - All companies with an industry tie to oil sands, in particular, reserve ownership and production activities.
  - **Recreational Cannabis**
    - All companies that produce and/or retail cannabis for recreational use.

**Activities classified under “Minimal Tolerance”**

- **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
- **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.

**Activities classified under “Low Tolerance”**

- **Conventional Weapons**

- All companies deriving 5% or more revenue (either reported or estimated) from the production of conventional weapons and components
- All companies deriving 15% or more (either reported or estimated) aggregate revenue from weapons systems, components, and support systems and services

**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

## Appendix 2: History of Changes

**The following sections have been modified since April 2019:**

### Section 1: Introduction

- The methodology book was updated to include the index construction parameters for the below indexes:
  - MSCI EM ESG Universal Select Business Screens Index,
  - MSCI Pacific ex Japan ESG Universal Select Business Screens Index,
  - MSCI Europe ex UK ESG Universal Select Business Screens Index,
  - MSCI EMU ESG Universal Select Business Screens Index, and
  - MSCI Japan ESG Universal Select Business Screens Index

### Section 2: Index Construction:

- The methodology book was updated to include additional construction parameters.

**The following sections have been modified effective June 01, 2022:**

### Section 1: Introduction

### Section 2: Constructing the Indexes

- Updated to add Section 3.1.1 Specific Stock Exclusions

**The following sections have been modified effective December 01, 2022:**

### Section 2: Constructing the Indexes

- The link referring to the Investment Trust exclusions was updated in the footnote of Section 3.1.1.

### Section 4: MSCI ESG Research

- Updated the ESG product descriptions

**The following sections have been modified effective June 01, 2023:**

**Section 2: Constructing the Indexes**

- The link referring to the Investment Trust exclusions was updated in the footnote of Section 3.1.1.

**Section 4: MSCI ESG Research**

- The ESG product descriptions were moved from section 2 to section 4 and were updated with the latest product descriptions.

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