

METHODOLOGY BOOK FOR:

- **MSCI EURO AND USA SELECT TOP 50 ESG INDEX**
- **MSCI EURO AND USA SELECT TOP 50 ESG 5% DECREMENT INDEX**

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1 Introduction

The MSCI Euro and USA Select Top 50 ESG Index aims to represent the performance of a selection of 50 securities from the MSCI Euro Index and the MSCI USA Index that have a large free-float adjusted market capitalization and a robust ESG profile. A maximum of one security per issuer is eligible for inclusion in the Index. The Index constituents are equal weighted according to the MSCI Equal Weighted Indexes Methodology¹.

The MSCI Euro and USA Select Top 50 ESG 5% Decrement Index aims to represent the performance of the MSCI Euro and USA Select Top 50 ESG Index while applying a constant markdown ('synthetic dividend') expressed in percentage terms.

¹ Please refer to the MSCI Equal Weighted Indexes methodology at www.msci.com/index-methodology

2 ESG Research Framework

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. It consists of an integrated suite of tools and products to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

The Index uses research provided by MSCI ESG Research. In particular, this index uses the following three MSCI ESG Research products: MSCI ESG Controversies Score, MSCI ESG Business Involvement Screening Research and MSCI ESG CarbonMetrics Data.

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

2.1 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (earlier 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 Score, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf85e957245b86b>

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

2.3 MSCI ESG CARBONMETRICS DATA

MSCI ESG Research collects annual company-specific direct (Scope 1) and indirect (Scope 2) greenhouse gas (GHG) emissions data from company public documents and/or the Carbon Disclosure Project. If a company does not report GHG emissions, then MSCI ESG Research estimates Scope 1 and Scope 2 GHG emissions. Further, to normalize for size, MSCI ESG Research divides the sum of Scope 1 and Scope 2 GHG emissions by the issuer market capitalization to calculate emission intensity.

For companies which do not report emission data and where MSCI ESG Research has not estimated the greenhouse gas emissions yet, the methodology uses the average emissions per dollar of issuer market capitalization for the companies in the same industry group, multiplied by the market capitalization of the company as the estimated emission for the company.

MSCI ESG Research collects fossil fuel reserves data where relevant for companies which have reserves, typically in the Oil & Gas, Coal Mining and Electric Utilities industries (details in MSCI ESG CarbonMetrics methodology). The data is updated on an annual basis and based on information disclosed by companies. Sources include company publications, other public records and third-party data providers. For newly added companies where data is not available yet, the methodology uses zero fossil fuel reserves.

3 Constructing the Index

The MSCI Euro and USA Select Top 50 ESG Index is constructed by applying the following steps.

- Applicable Universe
- Eligible Universe
- Security Selection
- Weighting Scheme

In addition to the above steps, the following step is applied to construct the MSCI Euro and USA Select Top 50 ESG 5% Decrement Index.

- Applying the MSCI Decrement Indexes Methodology

3.1 APPLICABLE UNIVERSE

The Applicable Universe consists of all constituents of the MSCI Euro Index with listing currency of EUR and all constituents of the MSCI USA Index.

3.2 ELIGIBLE UNIVERSE

To avoid multiple securities of the same company in the Index, only the security with highest float adjusted market capitalization for each issuer is eligible for inclusion in the Index.

3.3 SECURITY SELECTION

Initially, 60 securities with the highest free-float adjusted market capitalization from the Eligible Universe, which are part of the MSCI Euro Index, are selected. Similarly, 20 securities with the highest free-float adjusted market capitalization from the Eligible Universe, which are part of the MSCI USA Index, are selected.

From these 80 securities, the top 50 securities with highest Combined ESG Score, calculated as per Section 3.3 of the MSCI ESG Universal Indexes Methodology², are included in the final index. In case two or more securities have same Combined ESG Score, then security with higher free-float adjusted market capitalization will be given higher priority for inclusion in the Index.

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

3.4 WEIGHTING SCHEME

The resultant set of securities is equal weighted as per the MSCI Equal Weighted Indexes Methodology.

The securities selected and their corresponding weights in the index after the application of the above methodology form the “MSCI Euro and USA Select Top 50 ESG Index”.

3.5 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

The MSCI Decrement Indexes Methodology³ is applied on MSCI Euro and USA Select Top 50 ESG Index using the parameters mentioned in Appendix 1, to construct the “MSCI Euro and USA Select Top 50 ESG 5% Decrement Index”.

³ Please refer to the MSCI Decrement Indexes methodology at www.msci.com/index-methodology

4 Maintaining the Index

4.1 QUARTERLY INDEX REVIEWS

The MSCI Euro and USA Select Top 50 ESG 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 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 Index is typically announced nine business days before the effective date.

4.2 ONGOING EVENT-RELATED CHANGES

The general treatment of corporate events in the MSCI Euro and USA Select Top 50 ESG 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 MSCI Euro and USA Select Top 50 ESG Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Euro and USA Select Top 50 ESG Index.

The following section briefly describes the treatment of common corporate events within the MSCI Euro and USA Select Top 50 ESG Index.

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 the MSCI Decrement Indexes Methodology

The following parameters are used in the calculation of the Decrement Index.

	MSCI Decrement Indexes Methodology Parameters	MSCI Euro and USA Select Top 50 ESG 5% Decrement Index
1	Currency of Calculation	EUR
2	Return Variant of the Parent Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage Decrement
4	Decrement Application	Geometric Application
5	Decrement Value	5%
6	Day-count Convention	Act/365
7	Index Floor	0
8	Decrement Frequency	Daily

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* = toll free

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