

MSCI FIXED INCOME ESG LEADERS INDEXES METHODOLOGY

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1 Introduction

The MSCI Fixed Income ESG Leaders Indexes are market value-weighted indexes designed to represent the performance of fixed income securities from issuers that have high Environmental, Social and Governance (“ESG”) ratings relative to their sector peers, to ensure the inclusion of the best-in-class companies from an ESG perspective. The MSCI ESG Leaders Indexes aim to target sector weights that reflect the relative sector weights of the underlying MSCI Corporate Bond Indexes to limit the systematic risk introduced by the ESG selection process. Overall the MSCI Fixed Income ESG Leaders Indexes target coverage of 50% of the underlying MSCI parent index (“Parent Index”).

2 MSCI ESG Research

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

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

2.1 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>

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

2.3 MSCI ESG Business Involvement Screening Research

MSCI ESG Business Involvement Screening Research (BISR) aims to enable institutional investors to manage 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

3 Constructing the MSCI Fixed Income ESG Leaders Indexes

3.1 Underlying Universe

The selection universe for the MSCI Fixed Income ESG Leaders Indexes is defined by the constituents of the underlying MSCI Corporate Bond Indexes.

3.2 Eligibility Criteria

The MSCI Fixed Income ESG Leaders Indexes use company ratings and research provided by MSCI ESG Research to determine eligibility for index inclusion.

3.2.1 ESG Ratings Eligibility

The MSCI Fixed Income ESG Leaders 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 'BB' or above to be eligible for inclusion in the MSCI ESG Leaders Indexes.

3.2.2 ESG Controversies Score Eligibility

The MSCI Fixed Income ESG Leaders Indexes use 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 MSCI ESG Leaders Indexes.

3.2.3 Controversial Business Involvement Criteria

The MSCI Fixed Income ESG Leaders 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 Leaders Indexes. Please refer to Appendix 2 for details on these criteria.

- Alcohol
- Gambling
- Tobacco
- Nuclear Power
- Conventional Weapons
- Nuclear Weapons

- Controversial Weapons
- Civilian Firearms

3.3 Index Construction

3.3.1 Updating the Eligible Universe

The eligible universe is derived after excluding companies that do not meet the eligibility criteria described in Section 3.2.

3.3.2 Ranking of Eligible Issuers

For each Global Industry Classification Standard (GICS®)¹ sector, eligible issuers of the Parent Index as described in Section 3.2 are ranked based on the following criteria:

- ESG Rating
- ESG Trend² (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend)
- Current index membership (existing constituents above non-constituents)
- Industry-adjusted ESG scores
- Decreasing market value

3.3.3 Selection of Eligible Issuers

For each sector, eligible issuers of the Parent Index are then selected from the ranked universe in the following order until the target 50% coverage by cumulative market value is reached:

- Issuers in the top 35% cumulative market value coverage of the ranked universe
- 'AAA' and 'AA' rated issuers in the top 50% cumulative market value coverage of the ranked universe
- Current index constituent issuers in the top 65% cumulative market value coverage of the ranked universe
- Remaining eligible issuers in the ranked universe

¹ GICS, the global industry classification standard, jointly developed by MSCI Inc. and S&P Global.

² ESG Trend is defined as the latest change in ESG Rating over the previous 12 months. A issuer without any change in ESG Rating over the previous 12 months will have a neutral ESG Trend.

Please see Appendix 1 for additional details on the ranking and selection rules. MSCI Fixed Income ESG Leaders Indexes include all the fixed income securities in the Parent Index that are issued by companies selected from the eligible universe.

4 Maintaining the MSCI Fixed Income ESG Leaders Indexes

4.1 Monthly Index Review

The MSCI Fixed Income ESG Leaders Indexes are reviewed on a monthly basis to coincide with the Monthly Index Review of the Parent Index. In general, the pro forma indexes are announced three business days before the effective date.

In general, MSCI uses latest available MSCI ESG Research data (including MSCI ESG Ratings, MSCI ESG Controversies Scores and MSCI Business Involvement Screening Research) on the announcement date for the rebalancing of the MSCI Fixed Income ESG Leaders Indexes.

At each Monthly Index Review, the eligible universe is updated, and the composition of the index is reassessed based on methodology described in Section 3.3.

Appendix 1: Guidelines on Achieving the Target Sector Coverage of 50%

The MSCI Fixed Income ESG Leaders Indexes target 50% coverage of the market value of each Global Industry Classification Standard (GICS®)³ sector of the Parent Index. The underlying principle in the construction of the indexes is to achieve cumulative sector coverage closest to 50%, while aiming to maintain index stability.

The following guidelines are used in achieving the target cumulative sector coverage of 50%:

- For each sector, the eligible companies of the Parent Index are first ranked based on the company level ESG Rating.
- If two companies have the same ESG Rating, the company with better ESG Trend is given priority (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend).
- In case of two companies with the same ESG Rating and the same ESG Trend, the existing ESG Leaders index constituent is given priority to maintain index stability. Between two existing constituents with the same ESG Rating and the same ESG Trend, the company with the higher industry-adjusted ESG Score is given priority. For two existing ESG Leaders index constituents with the same industry-adjusted ESG score, the issuer with the largest market value is given priority.
- The cumulative sector coverage at each rank is calculated.
- In each sector, eligible companies are selected as per the rules mentioned in Section 3.3.3 until the cumulative sector coverage crosses 50% or there are no eligible issuers left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 50% as the “marginal company”.
 - If the marginal company is a current ESG Leaders index constituent, then it is always selected.
 - If the marginal company is not a current ESG Leaders index constituent, then it is selected only if the cumulative sector coverage with the marginal company is closer to 50% compared to the cumulative sector coverage without the marginal company.
- The minimum cumulative sector coverage is set to 45%.

³ GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Global.



- The marginal company is always selected if this is required to achieve cumulative sector coverage of 45%.
- Issuers which are ineligible as per Section 3.2 will not be selected even if the cumulative sector coverage after selection of all eligible issuers is below 50%.

Appendix 2: Controversial Business Screening Criteria

Companies that are involved in certain controversial business activities are excluded from the MSCI ESG Leaders Indexes:

- **Alcohol**
 - All companies classified as a “Producer” that earn either 50% or more revenue or more than \$1 billion in revenue from alcohol-related products
- **Gambling**
 - All companies classified as involved in “Operations” and “Support” that earn 50% or more in revenue, or more than \$1 billion in revenue, from gambling-related products
- **Tobacco**
 - All companies classified as a “Producer” that earn either 50% or more revenue or more than \$1 billion in revenue from tobacco-related products
- **Nuclear Power**
 - All companies with 6000 MW or more of installed capacity attributed to nuclear sources or with 50% or more of installed capacity attributed to nuclear sources
 - All companies involved in nuclear fuel enrichment for nuclear power generation
 - All companies involved in uranium mining for nuclear power generation
 - All companies involved in nuclear reactor design or construction for nuclear power generation
- **Conventional Weapons**
 - All companies that manufacture conventional weapons components or conventional weapons and weapons systems and earn 50% or more in revenue, or \$3 billion or more in revenue from these activities
- **Nuclear Weapons**
 - All companies involved in manufacturing of nuclear weapon components or nuclear weapon systems
- **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).

- **Civilian Firearms**

All companies classified as a “Producer” that earn either 50% or more revenue or more than \$100 million in revenue from civilian firearms

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