

# **Methodology Document for -MSCI Global Diversified ESG 100 Index - MSCI Global Diversified ESG 100 Decrement 5% Index**

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## 1 Introduction

The MSCI Global Diversified ESG 100 Index aims to represent the performance of a quarterly rebalanced portfolio of 100 stocks which belong to USA, Asia Pacific, Europe and China Universe and have higher than average ESG scores.

The MSCI Global Diversified ESG 100 Decrement 5% Index aims to represent the net performance of the MSCI Global Diversified ESG 100 Index while applying a constant markdown ('synthetic dividend') of 5% on an annual basis, expressed as a percentage of performance.

## 2 MSCI ESG Research

The MSCI Global Diversified ESG 100 Index uses company ratings and research provided by MSCI ESG Research LLC. In particular, the Index uses the following two MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies.

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

### 2.1 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>

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

### 3 Index Construction

The MSCI Global Diversified ESG 100 Index is constructed from the MSCI ACWIIMI Index (the “Parent Index”).

From the Parent index, the securities that belong to MSCI World Index and MSCI China A Index are subsequently selected and divided into two sub-groups:

No	Sub-Group
1	World
2	China A

#### 3.1 WORLD SUB-GROUP ELIGIBILITY CRITERIA

##### 3.1.1 ESG CONTROVERSIES SCORE ELIGIBILITY

Companies in the World sub-group are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for selection.

##### 3.1.2 ESG SCORE ELIGIBILITY

The remaining securities from above are subsequently ranked based on their ESG Scores and the top 50% of securities that exhibit highest Industry-Adjusted ESG Scores are subsequently selected. In case two securities have same Industry-Adjusted ESG Score, the security with higher free float market capitalization is selected.

##### 3.1.3 LIQUIDITY SCREEN

The remaining securities from above are subsequently screened for 3-month ADTV to be greater than USD 10 Million.

ADTV is defined as Average Daily Traded Value and is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^1}{252}$$

<sup>1</sup> MSCI Index Calculation Methodology at

<https://www.msci.com/index-methodology>

MSCI Global Investable Market Indexes Methodology at

<https://www.msci.com/index-methodology>

Where  $ATV_{3M}$  is annualized 3-month Average Traded Value of the security.

### **3.1.4 SINGLE SECURITY SELECTION**

The securities from the eligible universe are subsequently filtered to include a single security per issuer. For issuers having multiple securities which are part of the eligible universe, the security with the highest 3-month ADTV is selected.

## **3.2 CHINA A SUB-GROUP ELIGIBILITY CRITERIA**

### **3.2.1 ESG CONTROVERSIES SCORE ELIGIBILITY**

Companies in the China A sub-group are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for selection.

### **3.2.2 ESG SCORE ELIGIBILITY**

The remaining securities from above are subsequently ranked based on their ESG Scores and the top 50% securities that exhibit highest Industry-Adjusted ESG Scores are subsequently selected. In case two securities have same Industry-Adjusted ESG Score, the security with higher free float market capitalization is selected.

### **3.2.3 LIQUIDITY SCREEN**

The remaining securities from above are subsequently screened for 3-month ADTV to be greater than USD 10 Million.

ADTV is defined as Average Daily Traded Value and is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^2}{252}$$

Where  $ATV_{3M}$  is annualized 3-month Average Traded Value of the security.

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<sup>2</sup> MSCI Index Calculation Methodology at

<https://www.msci.com/index-methodology>

MSCI Global Investable Market Indexes Methodology at

<https://www.msci.com/index-methodology>

### 3.2.4 SINGLE SECURITY SELECTION

The securities from the eligible universe are subsequently filtered to include a single security per issuer. For issuers having multiple securities which are part of the eligible universe, the security with the highest 3-month ADTV is selected.

### 3.3 SECURITY SELECTION

From the above sub-groups, the following securities from each region within a sub-group are subsequently selected at each rebalance based on their free float market capitalization.

Sub Group	Region	Description	No of Securities
World	USA	Securities that belong to MSCI USA Index	70
World	Europe	Securities that belong to MSCI Europe Index	15
World	Pacific	Securities that belong to MSCI Pacific Index	5
China A	China A	Securities that belong to MSCI China A Index	10

### 3.4 WEIGHTING SCHEME

The selected securities are equal weighted.

### 3.5 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY

The MSCI Decrement Indexes Methodology<sup>3</sup> is applied on the MSCI Global Diversified ESG 100 Index to construct the MSCI Global Diversified ESG 100 Decrement 5% Index. The parameters for the application of the decrement methodology in the above index are noted in Appendix 1.

<sup>3</sup>Please refer to the MSCI Decrement Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

## **4 Maintenance of the Index**

### **4.1 QUARTERLY INDEX REVIEWS**

The MSCI Global Diversified ESG 100 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.

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

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

The following section briefly describes the treatment of common corporate events within the 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 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-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: Parameters used for the MSCI Global Diversified ESG 100 Decrement 5% Index

The following parameters are used for the calculation of MSCI Global Diversified ESG 100 Decrement 5% Index

	MSCI Decrement Indexes Methodology Parameters	Parameters
1	Currency of Calculation	EUR
2	Return Variant of the Parent Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	5%
6	Day-count Convention	Actual / 360
7	Index Floor	0
8	Decrement Frequency	Daily

## Contact us

clientservice@msci.com

### AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

### EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

### ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

\* = toll free

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at:

**[Index regulation - MSCI](#)**

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