

MSCI Global Environment Index Methodology

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1 Introduction

The MSCI Global Environment Index is a free float-adjusted market capitalization weighted index designed to maximize its exposure to environmental impact themes. The Index is comprised of companies that focus on offering products or services that contribute to a more environmentally sustainable economy by making a more efficient use of limited global natural resources.

The MSCI Global Environment Index aims to include companies with exposure to one or more of the following categories of the MSCI Sustainable Impact Metrics:

- Alternative Energy
- Energy Efficiency
- Green Building
- Sustainable Water
- Pollution Prevention and Control
- Sustainable Agriculture

MSCI also constructs the following indexes designed to include companies with exposure to individual themes:

- MSCI Alternative Energy Index
- MSCI Energy Efficiency Index
- MSCI Sustainable Water Index
- MSCI Green Building Index
- MSCI Pollution Prevention Index

2 MSCI ESG Research

The Index uses company ratings and research provided by MSCI ESG Research LLC. In particular, the Index uses the following three MSCI ESG Research products: MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research and MSCI Sustainable Impact Metrics.

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 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>

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 SUSTAINABLE IMPACT METRICS

MSCI Sustainable Impact Metrics is designed to identify companies that derive revenue from products or services with positive impact on society and the environment. The Sustainable Impact Metrics are comprised of six Environmental Impact categories and seven Social Impact categories arranged by theme.

MSCI Sustainable Impact Metrics Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	1. Alternative energy 2. Energy efficiency 3. Green building
	Natural Capital	4. Sustainable water 5. Pollution prevention and control 6. Sustainable agriculture
Social Impact	Basic needs	7. Nutrition 8. Major disease treatments 9. Sanitation 10. Affordable real estate
	Empowerment	11. SME finance 12. Education 13. Connectivity - Digital divide

Under each of the actionable social and environmental impact themes, MSCI ESG Research has identified specific categories of products and services that it has determined companies can offer as potential solutions to environmental and social challenges.

More detailed taxonomy for each category can be found in Section 2.4 of the MSCI ACWI Sustainable Impact Index Methodology available at <https://www.msci.com/index-methodology>

3 Constructing the MSCI Global Environment Index

The MSCI Global Environment Index (“Index”) is constructed using the following steps:

- Defining the Parent Index
- Defining the Eligible Universe
- Security Selection

3.1 DEFINING THE PARENT INDEX

The parent index serves as the selection universe of securities for the Index. The parent index for the MSCI Global Environment Index is the MSCI ACWI IMI Investable Market Index (IMI).

3.2 ELIGIBLE UNIVERSE

The eligible universe is constructed by starting from the parent index then excluding securities based on the following criteria:

3.2.1 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 the Index.

3.2.2 COMPANIES INVOLVED IN CONTROVERSIAL WEAPONS BUSINESSES

Companies involved in Controversial Weapons, as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes, are excluded from the Index. For more details on the controversial weapons exclusion, please refer to the MSCI Global ex Controversial Weapons Indexes Methodology at:

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

3.3 SECURITY SELECTION

Companies remaining in the eligible universe which derives 50% or more of their revenue cumulatively from the six Environmental Impact themes are eligible to be included in the index. Companies are then evaluated for the level of involvement in and strategic commitment to six Environmental Impact themes which are as follows:

- Alternative Energy
- Energy Efficiency
- Green Building

- Sustainable Water
- Pollution Prevention and Control
- Sustainable Agriculture

Please refer to Appendix I for a detailed description of these categories.

The individual thematic indexes are constructed by selecting securities based on their revenue exposure to the relevant Environmental Impact theme. For example, the MSCI Alternative Energy Index is constructed by selecting securities from the eligible universe, as defined in section 3.2, which derive 50% or more of their revenue from the Alternative Energy theme.

Since the MSCI Global Environment Index is constructed by selecting securities which derive 50% or more of their revenue from the Environmental Impact themes on a *cumulative basis*, and the individual thematic indexes are constructed by selecting securities which have 50% or more revenue from a specific theme, the MSCI Global Environment Index is not an aggregated version of all the individual thematic indexes.

4 Maintaining the MSCI Global Environment Index

4.1 QUARTERLY INDEX REVIEWS

The MSCI Global Environment Index and the individual thematic 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.

The pro forma indexes are announced nine business days before the effective date.

At the Quarterly Index Reviews, all companies in the underlying universe are reviewed and eligible companies are added to the MSCI Global Environment Index and the individual thematic indexes. Existing constituents may be deleted from the MSCI Global Environment Index and the individual thematic indexes due to declining exposure to the Environmental Impact themes, subject to buffer rules as described below. Any constituent that is deleted from the underlying parent index as a result of the Quarterly Index Review is also deleted from the MSCI Global Environment Index and the individual thematic indexes.

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 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.

4.2 BUFFER RULES

To reduce index turnover and enhance index stability, buffer rules are applied for securities which have a relevant exposure to the Environmental Impact themes between 40% and 50%. Existing constituents of the MSCI Global Environment Index are retained in the index as long as they meet eligibility criteria mentioned in section 3.2 and their cumulative exposure to the Environmental Impact themes does not fall below 40%. For individual thematic indexes, the existing constituents are retained in the index as long as they meet the eligibility criteria and their exposure to the relevant Environmental Impact theme does not fall below 40%.

However, if an existing constituent remains in the buffer zone for two consecutive years, the security would be deleted at the subsequent Index Review.

4.3 ONGOING EVENT-RELATED MAINTENANCE

The following section briefly describes the treatment of common corporate events within the MSCI Global Environment Index and the individual thematic indexes.

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	New securities added to the Parent Index (such as IPOs, other early inclusions and migrations from a different size-segment) will not be added to the Index at the time of event implementation. Such securities will be considered for addition in the Index at the subsequent Index Review.
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. Reevaluation for addition in the Index will occur at the subsequent Index Review.
Merger/Acquisition	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 I: Methodology Transition

Prior to the May 2017 Semi-Annual Index Review, the MSCI Global Environment Index (GEI) was based on the methodology described below:

https://www.msci.com/eqb/methodology/meth_docs/MSCI_Global_Environment_Indices_November2013.pdf

The MSCI Global Environment Index transitioned to the current methodology from the May 2017 Semi-Annual Index Review (SAIR) over two index reviews (May 2017 SAIR and the August 2017 Quarterly Index Review (QIR)).

Appendix II: Regional/Country MSCI Environment Indexes

MSCI also constructs regional/country MSCI Environment Indexes by applying the index construction and maintenance rules on any regional/country subset of ACWI IMI. For example, the MSCI China IMI Environment Index is constructed by applying these rules on the MSCI China IMI.

The following sections have been modified as of May 2017:

Methodology transitioned to the current enhanced methodology from the May 2017 Semi-Annual Index Review onwards

The following sections have been modified as of July 2017:

Addition of Appendix II to include details on regional/country MSCI Environment Indexes

The following sections have been modified as of May 2018:

Update to the definition of the Controversial Weapons

The following sections have been modified as of February 2020:

Addition of 'Sustainable Agriculture' as a new Environmental Impact category

The following sections have been modified as of May 2020:

Update in Section 1

The following sections have been modified as of February 2021:

Removed Appendix I: "Environmental Impact Themes"

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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