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MSCI

Index Methodology

MSCI Global Environment Indices Methodology

May 2011

1. Introduction

The MSCI Global Environment Indices are free float-adjusted market capitalization weighted indices designed to provide exposure to environmental themes by identifying pure play companies that focus on offering products or services that contribute to a more environmentally sustainable economy by directly reducing the consumption of or improving the productive use of limited global natural resources.

The MSCI Global Environment Indices include the following five MSCI Environmental Thematic Indices:

- MSCI Global Alternative Energy Index;
- MSCI Global Clean Technology Index;
- MSCI Global Sustainable Water Index;
- MSCI Global Green Building Index; and
- MSCI Global Pollution Prevention Index.

This methodology book is based on the methodology used by KLD Research & Analytics, Inc. for the construction and maintenance of the FTSE KLD Global Environment Index, which has been updated to incorporate the methodology changes resulting from the transition to the MSCI ESG Indices family that occurred on September 1st, 2010. MSCI intends to review and update the methodology in the upcoming months.

2. Constructing the MSCI Global Environment Index

2.1 Underlying Universe

The selection universe for the MSCI Global Environment Indices is the MSCI All Country World Investable Market Index (IMI).

2.2 Eligibility Criteria

Companies from the underlying universe are evaluated for the level of involvement in and strategic commitment to five environmental themes:

- **Alternative Energy** – Products and services that promote the generation of power using renewable or cleaner sources (i.e., cleaner than fossil fuels) or the development of alternative energy technology.
- **Clean Technology** – Products and services that deliver equal or superior performance while reducing energy use and natural resource consumption, when compared to conventional offerings.
- **Sustainable Water** – Products and services focused on water and wastewater treatment; water infrastructure; or water resource management and efficiency.

- Green Building – Building material suppliers; home builders; or property managers that directly support and have a confirmed commitment to achieving sustainable building standards (i.e., LEED, Energy Star Homes, or other recognized standards of sustainable building) for all new construction.
- Pollution Prevention – Products and services focused on pollution prevention; waste minimization or recycling, including source reduction, in-process recycling, reuse/reclamation, resource recovery, and treatment/abatement.

Please refer to Appendix 1 for a detailed description of these categories

2.3 Index Construction

Any company that has a pure play involvement in one of the environmental themes mentioned above (i.e., derives 50% or more of its revenue from products and services from one of these themes) is eligible for inclusion in the MSCI Global Environment Indices.

An eligible company is included in the MSCI Environmental Thematic Index, which corresponds to the environmental theme that that company is involved in. The five MSCI Environmental Thematic Indices are:

- MSCI Global Alternative Energy Index;
- MSCI Global Clean Technology Index;
- MSCI Global Sustainable Water Index;
- MSCI Global Green Building Index; and
- MSCI Global Pollution Prevention Index.

These five MSCI Environmental Thematic Indices are then aggregated together to form the MSCI All Country World (ACWI) Environment Index.

3. Maintaining the MSCI Global Environment Index

3.1 Semi-Annual Index Reviews

The Semi-Annual Index Reviews of the MSCI Global Environment Indices are conducted in May and November to coincide with the May and November Semi-Annual Index Reviews of the MSCI Global Investable Market Indices. The changes are implemented at the end of May and November.

At Semi-Annual Index Reviews, all companies in the underlying universe are reviewed and eligible companies are added to the MSCI Global Environment Indices. Existing constituents may be deleted from the MSCI Global Environment Indices due to declining company involvement in a specific theme. Any constituent that is deleted from the underlying index as a result of the Semi-Annual Index Review is also deleted from the MSCI Global Environment Indices.

3.2 Quarterly Index Reviews

The Quarterly Index Reviews of the MSCI Global Environment Indices are conducted in February and August to coincide with the February and August Quarterly Index Reviews of the MSCI Global Investable Market Indices. The changes are implemented at the end of February and March.

At Quarterly Index Reviews, only additions to the underlying index are evaluated for their eligibility for inclusion in the MSCI Global Environment Indices. Any constituent that is deleted from the underlying index as a result of the Index Review is also deleted from the MSCI Global Environment Indices.

3.3 Ongoing Event-Related Maintenance

The MSCI Corporate Events Methodology is applied for the maintenance of the MSCI Global Environment Indices between Index Reviews. There are no additions to the MSCI Global Environment Indices outside the regular index reviews. New additions to the underlying index due to corporate events are not added simultaneously to the MSCI Global Environment Indices, but may be considered for inclusion at the following Index Review. However, companies deleted from the underlying index between Index Reviews are also deleted at the same time from the MSCI Global Environment Indices.

The technical details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available at:

<http://www.msci.com/products/indices/size/standard/methodology.html>

Appendix 1: Environment Themes

The MSCI Global Environment Indices includes companies based on their involvement in and strategic commitment to the following five environmental themes:

- Alternative Energy
- Clean Technology
- Sustainable Water
- Green Building
- Pollution Prevention

A brief description of these themes is included below.

Alternative Energy

This theme includes renewable energy sources, such as wind, solar, geothermal, and tidal, as well as alternatives to fossil fuels, such as biofuels, biomass, landfill methane, hydrogen and natural gas based fuels, and fuel cells. This theme is comprised of companies that:

- Generate and distribute power from renewable energy sources;
- Produce alternative fuels with little or no negative externalities to the environment or human health (or from renewable or cleaner sources);
- Supply technologies, equipment, and components for renewable or alternative energy; or
- Promote renewable or alternative energy projects (i.e., financing, design, construction, management).

This category also includes companies that supply materials, specific-use parts and services to original equipment manufacturers and generators of electricity or fuel from renewable and alternative resources.

Clean Technology

This theme category includes companies whose products or services reduce energy resource consumption through:

- Products that make current technologies highly energy-efficient;
- Technologies for producers or consumers that make more efficient use of power or fuel; or
- Products or services that reduce the demand for energy or fuel consumption

Examples of Clean Technology products and services include electric and hybrid (gas-electric) vehicles, energy-efficient machinery and equipment and large-scale energy storage equipment. They also include demand management services (utilities) and “smart metering” and industrial automation controls. Companies considered for the Clean Technology theme do not fit into the Alternative Energy, Sustainable Water, Pollution Prevention, or Green Building themes.

Sustainable Water

Companies included in this theme have product and service offerings that focus on:

- Minimizing and monitoring current water use and demand increases;

- Improving the quality of water supply; or
- Improving the availability and reliability of water.

The Sustainable Water theme includes companies that provide products and services in water and wastewater treatment (i.e., water treatment plants, equipment and technologies used for treatment/purification of water, wastewater and sewage); water infrastructure (i.e., companies that build or maintain water and sanitation pipelines); or water resource management/water efficiency (i.e., technologies that reduce use of, reuse, or recycle water such as smart metering devices and controls, low-flow equipment and rainwater harvesting systems).

Green Building

This theme category includes companies whose product and service offerings:

- Conserve natural resources;
- Are made with salvaged or recycled waste content;
- Avoid toxic or other emissions;
- Save energy or water; or
- Contribute to a safe, healthy built environment.

The Green Building theme addresses the products and services across the entire sustainable building value chain. Products may address raw materials; energy efficiency; manufacturing processes; toxicity of a product during installation and use; and resource recovery. Services may include consulting; design; engineering; construction; project management; real estate investment trusts (REITs); financing; and third-party certification.

Pollution Prevention

Companies included in this theme have product and service offerings that focus on:

- Cutting or eliminating pollution, toxic wastes, and emissions during the entire lifecycle of a product (from manufacture and use to disposal);
- Reducing the use of materials in the production process;
- Facilitating in-process recycling;
- Utilizing inputs in the production process made from reclaimed/recycled/post-consumer materials;
- Promoting reuse of a product or a good;
- Minimizing the impact of the production process by treating waste prior to it being released for disposal or discharge; or
- Remediation.

The Pollution Prevention theme identifies companies whose products and services support pollution prevention, waste minimization, or recycling as a means of alleviating the burden of unsustainable levels of waste generation on the environment.

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