

**METHODOLOGY BOOK FOR:  
- MSCI GLOBAL SELECT ESG  
MEGATRENDS INDEX  
- MSCI GLOBAL SELECT ESG  
MEGATRENDS 5% DECREMENT  
INDEX**

**July 2022**

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## 1 Introduction

The MSCI Global Select ESG Megatrends Index ('the Index') aims to represent the performance of a set of securities associated with one of the following trends, while excluding those involved in certain controversial businesses or with relatively low ESG controversies and Rating Scores:

- development of new products and services focused on batteries, smart grids, future fuels and technology, alternative energy and energy efficiency
- potentially stand to benefit from increased investment in systems, products and services which provide protection against cyber-attacks
- participate in opportunities associated with climate transition based on MSCI Low Carbon Transition score (LCT)<sup>1</sup>
- have higher female representation in board and leadership positions

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

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<sup>1</sup> Please refer to <https://www.msci.com/climate-change-solutions> for further details regarding the MSCI Low Carbon Transition score

## **2 ESG Research Framework**

The Index uses research provided by MSCI ESG Research. The index uses the following MSCI ESG Research product: MSCI ESG Controversies, MSCI ESG Ratings, MSCI Climate Change Metrics and MSCI ESG Business Involvement Screening Research.

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 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 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>.

### **2.3 MSCI CLIMATE CHANGE METRICS**

MSCI Climate Change Metrics is designed to support investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, and factoring climate change research into their risk management processes. It provides Carbon Emissions, Fossil Fuel exposure, environmental impact (i.e., clean technology) data

and screens, as well as climate-related risk exposure and management assessment on companies such as Low Carbon Transition scores and categories.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-change-solutions>.

## **2.4 MSCI ESG BUSINESS INVOLVEMENT SCREENING RESEARCH**

MSCI ESG Business Involvement Screening Research 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](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf).

### **3 Index Construction**

The Index is constructed from MSCI World (the “Parent Index”). The following steps are applied at initial construction and at each Index Review (as described in Section 4) of the Index:

- Eligible Universe Screening
- Constructing Sub-indexes
- Combining Sub-indexes
- Security Weighting

In addition to the above steps, a daily decrement is applied to the Index to construct the MSCI Global Select ESG Megatrends Decrement 5% Index<sup>2</sup>.

#### **3.1 ELIGIBLE UNIVERSE SCREENING**

##### **3.1.1 ESG CONTROVERSIES SCORE ELIGIBILITY**

The Index uses MSCI ESG Controversies Scores to identify those 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 higher to be eligible for inclusion in the Index<sup>3</sup>.

##### **3.1.2 ESG RATINGS ELIGIBILITY**

The Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies having MSCI ESG Rating of ‘AAA’, ‘AA’, ‘A’, ‘BBB’ or ‘BB’ are eligible for inclusion in the MSCI Global Select ESG Megatrends Index.

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<sup>2</sup> Please refer to the MSCI Decrement Indexes Methodology at <http://www.msci.com/index-methodology> for details as well as intended use of such indexes

<sup>3</sup> Unrated companies (Companies not assessed by MSCI ESG Research on MSCI ESG Controversies Score) are excluded from the eligible universe. For more details refer to the MSCI ESG Universal Index: [https://www.msci.com/eqb/methodology/meth\\_docs/ESG\\_Universal\\_Index\\_Methodology.pdf](https://www.msci.com/eqb/methodology/meth_docs/ESG_Universal_Index_Methodology.pdf)

### 3.1.3 VALUE BASED EXCLUSIONS

The Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the following business activities. Companies that meet the below business involvement criteria are excluded from the Index.

Please refer to Appendix 1 for details on these criteria.

- Adult Entertainment
- Gambling
- Weapons
- UNGC non-compliance

### 3.1.4 GICS SUB-INDUSTRY SCREEN

The Index excludes stocks that belong to following GICS® Sub-Industries.

GICS® Sub-Industry	GICS® Sub-Industry Code
Aerospace & Defense	20101010

### 3.1.5 LIQUIDITY CRITERIA

Securities with 3-month ADTV (Average Daily Traded Value) greater than or equal to USD 5 Million are eligible for inclusion in the Index.

ADTV is calculated as:

$$ADTV_{3M} = \frac{ATV_{3M}^4}{252}$$

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

To avoid multiple securities of the same company in the final index, only the most liquid security for each issuer per its 3-month ADTV, is eligible for inclusion in the Index. For any issuer, should two securities have the same 3-month ADTV, the one with the higher free float-adjusted market capitalization is included.

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<sup>4</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 CONSTRUCTING SUB-INDEXES

From the securities remaining in the Eligible Universe the following sub-indexes are created:

- Sub-index 1

The securities from the Eligible Universe that are also part of the MSCI ACWI IMI Clean Energy Infrastructure Index<sup>5</sup> are ranked in the descending order of their free float market capitalization. The top 25 securities are selected for inclusion in the index.

- Sub-index 2

The securities from the Eligible Universe are ranked in the descending order based on their Low Carbon Transition Score. The top 25 securities are selected for inclusion in the index.

- Sub-index 3

The companies from the Eligible Universe that satisfy the below listed criteria are selected:

- Labor Rights Discrimination and Workforce Diversity Score of 5 or higher<sup>6</sup>
- Programs to increase workforce diversity: Company provides employee benefits to facilitate diversity and inclusion, and sets quantitative diversity targets in recruitment process
- The percentage of women on board is greater than 30%
- The percentage of women in executive management is greater than 30%

The above selected stocks are ranked in the descending order based on their product of percentage of women in workforce and percentage of women on board. The top 25 securities are selected for inclusion in the index.

- Sub-index 4

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<sup>5</sup> Please refer to <https://www.msci.com/index-methodology> for the methodology of the MSCI ACWI IMI Clean Energy Infrastructure Index

<sup>6</sup> The Labor Rights – Discrimination and Workforce Diversity Controversy is assessed as part of the MSCI ESG Controversies research. For more details on MSCI ESG Controversies, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

The securities from the Eligible Universe that are also part of the MSCI Cybersecurity Index<sup>7</sup> are ranked in the descending order of their free float market capitalization. The top 25 securities are selected for inclusion in the index.

### **3.3 COMBINING SUB-INDEXES**

At each Quarterly Index Review and at initial construction, the four Sub-indexes defined in section 3.2 are combined to create the Index.

### **3.4 SECURITY WEIGHTING**

At each Index Review and at initial construction, the securities selected for inclusion in the Index are assigned weights in proportion to their free float adjusted market capitalization. Additionally, constituent weights are capped to mitigate concentration risk in the Index. The individual security weights in the Index are capped at 5%. For more details on MSCI Capped Index Methodology, please refer to <https://www.msci.com/index-methodology>.

### **3.5 APPLYING THE MSCI DECREMENT INDEXES METHODOLOGY**

The MSCI Decrement Indexes Methodology is applied on the Index to construct the MSCI Global Select ESG Megatrends 5% Decrement Index. The parameters for the application of the decrement methodology in the above index is noted in Appendix 2.

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<sup>7</sup> Please refer to <https://www.msci.com/index-methodology> for the methodology of the MSCI Cybersecurity Index.

## **4 Maintenance of the MSCI Global Select ESG Megatrends Index**

### **4.1 QUARTERLY INDEX REVIEWS**

The Index is reviewed on a quarterly basis as per the steps described in Section 3, 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, MSCI Climate Change Metrics and MSCI ESG 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 in general announced nine business days before the effective date.

### **4.2 DAILY DECREMENT CALCULATION**

The performance of the MSCI Global Select ESG Megatrends 5% Decrement Index is computed by reducing the net performance of the MSCI Global Select ESG Megatrends Index, by a fixed percentage, on a daily basis using parameters detailed in Appendix 2.

### **4.3 ONGOING EVENT-RELATED CHANGES**

The following section briefly describes the treatment of common corporate events within the Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

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 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 not 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: Values and Climate-Based Exclusion Criteria

Companies, whose activities meet the following values- and climate-based criteria, as evaluated by MSCI ESG Research LLC, are excluded from the MSCI Global Select ESG Megatrends:

### Compliance with all the UN Global Compact Principles

- All companies that fail to comply with the United Nations Global Compact principles are excluded.

### Values Based Exclusion Criteria

#### **Adult Entertainment**

- All Companies with an industry tie to adult entertainment, including producer, distributor, retailer, and ownership categories.

#### **Gambling**

- All Companies that have an industry tie to gambling through the operation, support, licensing or ownership categories.

#### **Controversial Weapons**

- All Companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.
- All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, nondetectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at [Index methodology - MSCI](#).

#### **Nuclear Weapons**

- All companies that have an industry tie to nuclear weapons.
- All companies that manufacture nuclear warheads and/or whole nuclear missiles.
- All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).



- All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
- All companies that provide auxiliary services related to nuclear weapons.
- All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles).

## Appendix 2: Parameters used for the MSCI Global Select ESG Megatrends 5% Decrement Index

The following parameters are used for the calculation of MSCI Global Select ESG Megatrends 5% Decrement 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

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