MSCI GLOBAL FOSSIL FUELS EXCLUSION INDEXES METHODOLOGY

December 2017
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1 INTRODUCTION

The MSCI Global Fossil Fuels Exclusion Indexes have been developed for use as benchmarks for institutional investors, including pension funds, who aim to eliminate or reduce some or all fossil fuel reserves exposure from their investments. The MSCI Global Fossil Fuels Indexes are currently available in the following two variants:

- MSCI Global ex Coal Indexes
- MSCI Global ex Fossil Fuels Indexes

Currently MSCI constructs the MSCI Global Fossil Fuels Exclusion Indexes for the Standard size-segment in all MSCI Developed and Emerging Markets. These indexes are free float-adjusted market capitalization weighted.
2 SCREENING CRITERIA

MSCI ESG Research collects fossil fuel reserves data for companies that have reserves, typically in the Oil, Gas & Consumable Fuels and Electric Utilities industries of the Global Industry Classification Standard (GICS®). Fossil fuel reserves can be used for several purposes including energy or industrial uses (e.g. coking coal used for steel production). The data is updated on an annual basis using information disclosed by companies. Sources include company publications, other public records and third party data providers. For newly added companies to the index where data is not available yet, MSCI uses zero fossil fuel reserves\(^1\).

\(^1\) For more information on MSCI ESG CarbonMetrics, please refer to [https://www.msci.com/index-carbon-footprint-metrics](https://www.msci.com/index-carbon-footprint-metrics)
3 CONSTRUCTING THE MSCI GLOBAL FOSSIL FUELS EXCLUSION INDEXES

3.1 UNDERLYING UNIVERSE

The selection universe for the MSCI Global Fossil Fuels Exclusion Indexes is the MSCI ACWI Index.

3.2 EXCLUSION CRITERIA

Companies that have proved & probable coal reserves used for energy purposes are excluded from the MSCI Global ex Coal Indexes. Companies that have proved & probable coal reserves and/or oil and natural gas reserves used for energy purposes are excluded from the MSCI Global ex Fossil Fuels Indexes.

Reserves are considered to be used for energy purposes in the case of companies with the following GICS classification:

- Oil, Gas and Consumable Fuels Industry
- Energy Equipment & Services Industry
- Utilities Sector
- Diversified Metals and Mining Sub-Industry

Companies with reserves used for other application such as industrial application (e.g., companies classified in the Steel, Diversified Chemicals or Commodity Chemicals sub-industries) are not excluded from the MSCI Global Fossil Fuels Exclusion Indexes.

3.3 INDEX CONSTRUCTION

After the exclusion of constituents from the Parent Index as per the criteria mentioned in section 3.2, the rest of the constituents of the Parent Index are weighted according to their free float-adjusted market capitalization in the MSCI Global ex Coal Indexes and MSCI Global ex Fossil Fuels Indexes.
4 MAINTAINING THE MSCI GLOBAL FOSSIL FUELS EXCLUSION INDEXES

4.1 INDEX REVIEWS

The MSCI Global Fossil Fuels Exclusion 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 MSCI Global Fossil Fuels Exclusion Indexes are generally announced nine business days before the effective date.

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 the rebalancing of MSCI Global Fossil Fuels Exclusion Indexes. 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 MSCI Global Fossil Fuels Exclusion Indexes.

At index reviews, all companies in the underlying universe are reviewed for inclusion in the MSCI Global Fossil Fuels Exclusion Indexes. For the MSCI Global ex Coal Indexes, any constituent identified as having proved & probable coal reserves, that are used for energy purposes is excluded. For the MSCI Global ex Fossil Fuels Indexes, any constituent identified as having fossil fuel reserves (proved & probable coal reserves and/or oil & natural gas reserves), that are used for energy purposes is excluded. Any constituent that is deleted from the Parent index as a result of an index review is also deleted from the MSCI Global Fossil Fuels Exclusion Indexes.

4.2 ONGOING EVENT-RELATED MAINTENANCE

The MSCI Corporate Events Methodology is applied for the maintenance of the MSCI Global Fossil Fuels Exclusion Indexes between index reviews. In general, there will be no additions to the indexes between two index reviews. Intra quarter deletions from the Parent Index because of a corporate event are reflected simultaneously in the MSCI Global Fossil Fuels Exclusion Indexes. The details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available at:

The following sections have been modified since August 2016:

Section 4: Maintaining the MSCI Global Fossil Fuels Exclusion Indexes

- Clarification on use of ESG data for securities whose data were published later than at the end of the month preceding Index Review.

The following sections have been modified since May 2017:

Section 2: Screening Criteria

- Updated link to the MSCI ESG CarbonMetrics

Section 4.1: Index Reviews

- Updated to include the announcement date of the pro forma indexes.

The following sections have been modified since December 2017:

Section 2: Screening Criteria

- Removed the last paragraph

Section 3.2: Exclusion Criteria

- Clarified the exclusion criteria for companies with fossil fuel reserves
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* = toll free

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