Methodology Book for:

- MSCI Japan IMI Select Society 5.0 ESG Index

March 2021
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1 Introduction

The MSCI Japan IMI Select Society 5.0 ESG Index ("Index") reflects a strategy to identify listed companies from among 32 selected GICS®1 sub-industries that derive above average percentage of revenue from products and services that aim to contribute to the aspirational concept of Society 5.0, as well as contribute to the United Nations Sustainable Development Goals (UN SDGs). Endorsed by the Japanese Government, Society 5.0 is defined as "a human-centered society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space."2

The Index is a free float-adjusted market capitalization weighted index that additionally selects companies based on their Environmental, Social and Governance (ESG) ratings and involvement in Controversies.

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1 GICS, the global industry classification standard, jointly developed by MSCI Inc. and S&P Global.
2 Source: Government of Japan's Cabinet Office: [https://www8.cao.go.jp/cstp/english/society5_0/index.html](https://www8.cao.go.jp/cstp/english/society5_0/index.html)
2 MSCI ESG Research

The MSCI Japan IMI Select Society 5.0 ESG 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 Sustainable Impact Metrics, MSCI ESG Ratings, and 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 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 Taxonomy**

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Themes</th>
<th>Categories</th>
</tr>
</thead>
</table>
| Environmental Impact | Climate Change | 1. Alternative energy  
2. Energy efficiency  
3. Green building |
| Natural capital | 4. Sustainable water  
5. Pollution prevention  
6. Sustainable agriculture |
| Social Impact | Basic needs | 7. Nutrition  
8. Major Disease Treatment  
9. Sanitation  
10. Affordable Real Estate |
| Empowerment | 11. SME Finance  
12. Education  
13. Connectivity – Digital divide |

Under each of the actionable environmental and social 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
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](https://www.msci.com/esg-ratings)

2.3 **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](https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b)
3 Constructing the MSCI Japan IMI Select Society 5.0 ESG Index

3.1 ELIGIBLE UNIVERSE

The eligible universe for MSCI Japan IMI Select Society 5.0 ESG Index includes all companies that belong to 32 selected GICS sub-industries. The identified set of GICS sub-industries may be modified on a periodic basis.

Please refer to Appendix 1 for the list of GICS sub-industries.

3.2 ELIGIBILITY CRITERIA

The MSCI Japan IMI Select Society 5.0 ESG Index uses company ratings and research provided by MSCI ESG Research to determine eligibility for index inclusion.

3.2.1 ESG RATINGS ELIGIBILITY

The MSCI Japan IMI Select Society 5.0 ESG Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities.

Companies are required to have an MSCI ESG Rating of ‘BB’ or above to be eligible for inclusion in the Index.

3.2.2 ESG CONTROVERSIES ELIGIBILITY

The MSCI Japan IMI Select Society 5.0 ESG Index uses MSCI ESG Controversies Scores to identify companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services.

For inclusion in the Index, companies are required to have an MSCI ESG Controversies Score of 3 or above to be eligible for inclusion.

3.3 INDEX CONSTRUCTION

The MSCI Japan IMI Select Society 5.0 ESG Index applies the following selection rules on the remaining companies that pass the eligibility criteria in Section 3.2.

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3 If a GICS sub-industry code ceases to exist, securities belonging to that GICS code will be excluded from the eligible universe in the next index review.
3.3.1 SUSTAINABLE IMPACT REVENUE PERCENTAGE

Companies must generate at least the average percentage of revenue from one of more of the Sustainable Impact categories:

- Alternative energy
- Energy efficiency
- Green building
- Sustainable water
- Pollution prevention
- Sustainable agriculture
- Nutrition
- Major disease treatment
- Sanitation
- Affordable real estate
- SME finance
- Education
- Connectivity – Digital divide

The average percentage of revenue is calculated based on the simple average for companies that generate any (i.e., non-zero) revenue from Sustainable Impact categories. The calculation is applied on all companies that belong to the selected GICS sub-industries prior to the screening in Section 3.2.

3.3.2 MINIMUM NUMBER OF ISSUERS

The Index is constructed with a target number of at least 50 constituents. The following guidelines are used to achieve the target number:

- All securities that have a Sustainable Impact revenue percentage that is greater than or equal to the average are included in the Index.
- If the number of securities selected is less than 50, the remaining eligible securities are ranked from highest Sustainable Impact Revenue Percentage to lowest.
- Selection starts from the top of the ranking until the target number is met.
• If multiple eligible issuers have the same Sustainable Impact Revenue Percentage, the security with higher market capitalization in the Parent Index is given a higher rank.

3.4 SECURITY WEIGHTING

The MSCI Japan IMI Select Society 5.0 ESG Index is constructed by weighting the eligible constituents in proportion of their free-float adjusted market capitalization.

3.4.1 ISSUER CAPPING

The maximum weight of any issuer in the MSCI Japan IMI Select Society 5.0 ESG Index is capped at 5% in accordance with the MSCI Capped Indexes methodology. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index.

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4 Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)
4 Maintaining the MSCI Japan IMI Select Society 5.0 ESG Index

4.1 SEMI-ANNUAL INDEX REVIEWS

The MSCI Japan IMI Select Society 5.0 ESG Index is rebalanced on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Global Investable Market Indexes.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Sustainable Impact Metrics, MSCI ESG Ratings, and MSCI ESG Controversies) 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 Indexes are in general announced nine business days before the effective date.

4.2 CAPPING FREQUENCY

The indexes are capped at each Semi-Annual Index Review.

4.3 ONGOING EVENT RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the MSCI Japan IMI Select Society 5.0 ESG Index.

No new securities will be added (except where noted below) to the Indexes 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.

There are no deletions from the MSCI Japan IMI Select Society 5.0 ESG Index between Index Reviews because of a security becoming ineligible because of MSCI ESG Rating downgrade and/or decrease in MSCI ESG Controversies Score and/or change in business involvement.

<table>
<thead>
<tr>
<th>EVENT TYPE</th>
<th>EVENT DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>New additions to the Parent Index</td>
<td>A new security added to the Parent Index (such as IPOs, other early inclusions, and migrations from a</td>
</tr>
</tbody>
</table>
different size-segment) will not be added to MSCI Japan IMI Select Society 5.0 ESG Index.

Spin-Offs

All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for inclusion in the Indexes 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.

The MSCI Corporate Events methodology book is available at: https://www.msci.com/index-methodology
Appendix 1: Selected GICS® Sub-Industries

Companies that belong to the below list of GICS® sub-industries form the eligible universe of the MSCI Japan IMI Select Society 5.0 ESG Index. The list may be modified periodically.

List as of January 2021

<table>
<thead>
<tr>
<th>GICS® CODE</th>
<th>GICS® SUB-INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>15101050</td>
<td>Specialty Chemicals</td>
</tr>
<tr>
<td>20101010</td>
<td>Aerospace &amp; Defense</td>
</tr>
<tr>
<td>20104010</td>
<td>Electrical Components &amp; Equipment</td>
</tr>
<tr>
<td>20106010</td>
<td>Construction Machinery &amp; Heavy Trucks</td>
</tr>
<tr>
<td>20106020</td>
<td>Industrial Machinery</td>
</tr>
<tr>
<td>20202020</td>
<td>Research &amp; Consulting Services</td>
</tr>
<tr>
<td>25101010</td>
<td>Auto Parts &amp; Equipment</td>
</tr>
<tr>
<td>25102010</td>
<td>Automobile Manufacturers</td>
</tr>
<tr>
<td>25502020</td>
<td>Internet &amp; Direct Marketing Retail</td>
</tr>
<tr>
<td>35101010</td>
<td>Health Care Equipment</td>
</tr>
<tr>
<td>35101020</td>
<td>Health Care Supplies</td>
</tr>
<tr>
<td>35102015</td>
<td>Health Care Services</td>
</tr>
<tr>
<td>35102020</td>
<td>Health Care Facilities</td>
</tr>
<tr>
<td>35103010</td>
<td>Health Care Technology</td>
</tr>
<tr>
<td>35201010</td>
<td>Biotechnology</td>
</tr>
<tr>
<td>35202010</td>
<td>Pharmaceuticals</td>
</tr>
<tr>
<td>35203010</td>
<td>Life Sciences Tools &amp; Services</td>
</tr>
<tr>
<td>45102010</td>
<td>IT Consulting &amp; Other Services</td>
</tr>
<tr>
<td>45102020</td>
<td>Data Processing &amp; Outsourced Services</td>
</tr>
<tr>
<td>45102030</td>
<td>Internet Services &amp; Infrastructure</td>
</tr>
<tr>
<td>45103010</td>
<td>Application Software</td>
</tr>
<tr>
<td>45103020</td>
<td>Systems Software</td>
</tr>
</tbody>
</table>

5 For more information, please refer to [https://www.msci.com/gics](https://www.msci.com/gics)
<table>
<thead>
<tr>
<th>GICS® CODE</th>
<th>GICS® SUB-INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>45201020</td>
<td>Communications Equipment</td>
</tr>
<tr>
<td>45202030</td>
<td>Technology Hardware, Storage &amp; Peripherals</td>
</tr>
<tr>
<td>45203010</td>
<td>Electronic Equipment &amp; Instruments</td>
</tr>
<tr>
<td>45203015</td>
<td>Electronic Components</td>
</tr>
<tr>
<td>45301010</td>
<td>Semiconductor Equipment</td>
</tr>
<tr>
<td>45301020</td>
<td>Semiconductors</td>
</tr>
<tr>
<td>50202020</td>
<td>Interactive Home Entertainment</td>
</tr>
<tr>
<td>50203010</td>
<td>Interactive Media &amp; Services</td>
</tr>
<tr>
<td>60101050</td>
<td>Health Care REITs</td>
</tr>
<tr>
<td>60101080</td>
<td>Specialized REITs</td>
</tr>
</tbody>
</table>
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