

# **Methodology Book for:**

- **MSCI Japan IMI Select Society 5.0 ESG Index**

**May 2023**

<b>Contents</b>	<b>1</b>	<b>Introduction</b>	<b>3</b>
	<b>2</b>	<b>Constructing the MSCI Japan IMI Select Society 5.0 ESG Index</b>	<b>4</b>
	2.1	Underlying Universe	4
	2.2	Eligible Universe	4
	2.3	Eligibility Criteria	4
	2.3.1	ESG Ratings Eligibility	4
	2.3.2	ESG Controversies Eligibility	4
	2.4	Selection Criteria	5
	2.4.1	Sustainable Impact Revenue Percentage	5
	2.4.2	Minimum Number of Issuers	5
	2.5	Security Weighting	6
	2.5.1	Issuer Capping	6
	<b>3</b>	<b>Maintaining the MSCI Japan IMI Select Society 5.0 ESG Index</b>	<b>7</b>
	3.1	Semi-Annual Index Reviews	7
	3.2	Ongoing Event Related Changes	7
	<b>4</b>	<b>MSCI ESG Research</b>	<b>9</b>
	4.1	MSCI ESG Sustainable Impact Metrics	9
	4.2	MSCI ESG Ratings	10
	4.3	MSCI ESG Controversies	10
		<b>Appendix 1: Selected GICS Sub-Industries</b>	<b>11</b>

## 1 Introduction

The MSCI Japan IMI Select Society 5.0 ESG Index (the “Index”) reflects a strategy to identify listed companies from among 36 selected GICS<sup>®1</sup> 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.”<sup>2</sup>

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 excludes companies based on their involvement in Controversies.<sup>3</sup>

---

<sup>1</sup> GICS, the global industry classification standard, jointly developed by MSCI Inc. and S&P Global.

<sup>2</sup> 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)

<sup>3</sup> The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. The Methodology Set for the Index can be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

The Methodology Set includes a document ‘ESG Factors in Methodology’ that contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion).

## 2 Constructing the MSCI Japan IMI Select Society 5.0 ESG Index

### 2.1 UNDERLYING UNIVERSE

The Underlying Universe for the Index is defined by the constituents of the MSCI Japan IMI Index (“Parent Index”).

### 2.2 ELIGIBLE UNIVERSE

The eligible universe for the Index includes all companies in the Parent Index that belong to 36 selected GICS sub-industries<sup>4</sup>. 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.

### 2.3 ELIGIBILITY CRITERIA

The Index uses company ratings and research provided by MSCI ESG Research<sup>5</sup> to determine eligibility for index inclusion.

#### 2.3.1 ESG RATINGS ELIGIBILITY

The Index uses MSCI ESG Ratings to identify companies that are assessed to have demonstrated better ability to manage their ESG risks and opportunities relative to their peers.

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

#### 2.3.2 ESG CONTROVERSIES ELIGIBILITY

The 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.

---

<sup>4</sup> 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.

<sup>5</sup> See Section 4 for further information regarding the ESG and climate data used in the Index that MSCI Limited sources from MSCI ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research is solely responsible for the creation, determination and management of such data. MSCI Limited is the benchmark administrator for the MSCI indexes.

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

## 2.4 SELECTION CRITERIA

The Index applies the following selection rules on the remaining companies that pass the eligibility criteria in Section 2.3.

### 2.4.1 SUSTAINABLE IMPACT REVENUE PERCENTAGE

Companies must generate greater than or equal to 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 the Eligible Universe prior to the screening in Section 2.3.

### 2.4.2 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 ranking.

## **2.5 SECURITY WEIGHTING**

The Index is constructed by weighting the eligible constituents in proportion of their weight in the Parent Index.

### **2.5.1 ISSUER CAPPING**

The maximum weight of any issuer in the Index is capped at 5% in accordance with the MSCI Capped Indexes methodology<sup>6</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index.

---

<sup>6</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

### **3 Maintaining the MSCI Japan IMI Select Society 5.0 ESG Index**

#### **3.1 SEMI-ANNUAL INDEX REVIEWS**

The 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 Index Reviews of the MSCI Global Investable Market Indexes. The pro forma index is generally announced nine business days before the effective date.

As a rule, 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.

At each Semi-Annual Index Review, the Index is updated based on the eligibility criteria, selection criteria, and security weighting outlined in sections 2.2 to 2.4.

#### **3.2 ONGOING EVENT RELATED CHANGES**

The general treatment of corporate events in the Index aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

The following section briefly describes the treatment of common corporate events within the Index.

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.

There are no deletions from the 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.

**EVENT TYPE**

**EVENT DETAILS**

**New additions to the Parent Index**

A new security added to the Parent Index (such as IPOs, other early inclusions, and migrations from a different size-segment) will not be added to 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>



## 4 MSCI ESG Research

The Index is a product of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Index uses the following MSCI ESG Research products: MSCI Impact Solutions, MSCI ESG Ratings, and MSCI ESG Controversies. MSCI Indexes are administered by MSCI Limited.

### 4.1 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

Pillar	Themes	Categories
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>

## 4.2 MSCI ESG RATINGS

MSCI ESG Ratings aim to measure entities' management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from 'AAA' to 'CCC', indicating how an entity manages relevant key issues relative to industry peers.

The MSCI ESG Ratings methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>.

## 4.3 MSCI ESG CONTROVERSIES

MSCI ESG Controversies provides assessments of controversies concerning the potential 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.

The MSCI ESG Controversies methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

## Appendix 1: Selected GICS<sup>7</sup> Sub-Industries

Companies that belong to the below list of GICS sub-industries form the eligible universe of the Index. The list may be modified periodically.

### List as of May 2023

GICS CODE	GICS SUB-INDUSTRY
15101050	Specialty Chemicals
20101010	Aerospace & Defense
20104010	Electrical Components & Equipment
20106010	Construction Machinery & Heavy Transportation Equipment
20106020	Industrial Machinery & Supplies & Components
20202010	Human Resource & Employment Services
20202020	Research & Consulting Services
20202030	Data Processing & Outsourced Services
25101010	Automotive Parts & Equipment
25102010	Automobile Manufacturers
35101010	Health Care Equipment
35101020	Health Care Supplies
35102015	Health Care Services
35102020	Health Care Facilities
35103010	Health Care Technology
35201010	Biotechnology
35202010	Pharmaceuticals
35203010	Life Sciences Tools & Services
40201060	Transaction & Payment Processing Services
45102010	IT Consulting & Other Services
45102030	Internet Services & Infrastructure
45103010	Application Software
45103020	Systems Software
45201020	Communications Equipment
45202030	Technology Hardware, Storage & Peripherals
45203010	Electronic Equipment & Instruments
45203015	Electronic Components
45301010	Semiconductor Materials & Equipment
45301020	Semiconductors
50202020	Interactive Home Entertainment
50203010	Interactive Media & Services
60105010	Health Care REITs

<sup>7</sup> For more information, please refer to <https://www.msci.com/gics>

<b>GICS CODE</b>	<b>GICS SUB-INDUSTRY</b>
<b>60108010</b>	Other Specialized REITs
<b>60108020</b>	Self-Storage REITs
<b>60108030</b>	Telecom Tower REITs
<b>60108050</b>	Data Center REITs

Discontinued GICS that were present from January 2021 until May 2023

<b>GICS CODE</b>	<b>GICS SUB-INDUSTRY</b>
<b>25502020</b>	Internet & Direct Marketing Retail
<b>45102020</b>	Data Processing & Outsourced Services
<b>60101050</b>	Health Care REITs
<b>60101080</b>	Specialized REITs

**The following sections have been modified as of May 2023:**

The Methodology book was updated to re-organize the sections and clarify key components.

**Section 3.1**

- The Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.
- All references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” of the MSCI GIMI were replaced with “Index Reviews.”

**Section 4**

- Moved the information regarding MSCI ESG Research from Section 2 to Section 4.

**Appendix 1**

- Updated the list of GICS sub-industries that are considered in the Eligible Universe due to GICS structural changes

## 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

## About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit [www.msci.com](http://www.msci.com).

*The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.*

## Notice and disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [msci.com](http://msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK).

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at <https://adviserinfo.sec.gov/firm/summary/169222>.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.