

## **Methodology book for:**

- **MSCI World Low Carbon SRI Leaders Index**
- **MSCI USA Low Carbon SRI Leaders Index**
- **MSCI Europe Low Carbon SRI Leaders Index**
- **MSCI Japan Low Carbon SRI Leaders Index**
- **MSCI EM Low Carbon SRI Leaders Index**
- **MSCI AC Asia ex Japan Low Carbon SRI Leaders Index**
- **MSCI EMU Low Carbon SRI Leaders Index**
- **MSCI China Low Carbon SRI Leaders Index**
- **MSCI EM EMEA Low Carbon SRI Leaders Index**
- **MSCI EM LATAM Low Carbon SRI Leaders Index**

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# 1 Introduction

The MSCI World Low Carbon SRI Leaders Index, MSCI USA Low Carbon SRI Leaders Index, MSCI Europe Low Carbon SRI Leaders Index, MSCI Japan Low Carbon SRI Leaders Index, MSCI EM Low Carbon SRI Leaders Index, the MSCI AC Asia ex Japan Low Carbon SRI Leaders Index, MSCI EMU Low Carbon SRI Leaders Index, MSCI China Low Carbon SRI Leaders Index, MSCI EM LATAM Low Carbon SRI Leaders Index, and MSCI EM EMEA Low Carbon SRI Leaders Index (herein, “MSCI Low Carbon SRI Leaders Indexes”) are designed to represent the performance of companies that have low carbon exposure than that of the broad market and have high Environmental, Social and Governance (ESG) performance. The Indexes are free float-adjusted market capitalization weighted.

## 2 Constructing the MSCI Low Carbon SRI Leaders Indexes

### 2.1 ELIGIBLE UNIVERSE

The eligible universe for MSCI Low Carbon SRI Leaders Indexes includes all the constituents of their respective MSCI parent index (the “Parent Index”), as shown in the table below.

Index Name	Parent Index
MSCI World Low Carbon SRI Leaders Index	MSCI World Index
MSCI USA Low Carbon SRI Leaders Index	MSCI USA Index
MSCI Europe Low Carbon SRI Leaders Index	MSCI Europe Index
MSCI Japan Low Carbon SRI Leaders Index	MSCI Japan Index
MSCI EM Low Carbon SRI Leaders Index	MSCI EM Index
MSCI AC Asia ex Japan Low Carbon SRI Leaders Index	MSCI AC Asia ex Japan Index
MSCI EMU Low Carbon SRI Leaders Index	MSCI EMU Index
MSCI China Low Carbon SRI Leaders Index	MSCI China Index
MSCI EM LATAM Low Carbon SRI Leaders Index	MSCI EM LATAM Index
MSCI EM EMEA Low Carbon SRI Leaders Index	MSCI EM EMEA Index

### 2.2 SELECTING COMPANIES WITH THE LOWEST CARBON EXPOSURE AND HIGHEST ESG PERFORMANCE

The two rules described below are applied independently, and securities selected by both rules are eligible for inclusion in the index.

## 2.2.1 LOWEST CARBON EXPOSURE SELECTION RULES

From the securities in the eligible universe, companies with low exposure to carbon risk, identified as companies with low carbon emission intensity and low potential emissions per dollar of market capitalization, are selected for inclusion in the index. The selection is completed in accordance with sections 3.3.1 and 3.3.2 of the MSCI Global Low Carbon Leaders Indexes methodology<sup>1</sup>.

## 2.2.2 HIGHEST ESG PERFORMANCE SELECTION RULES

The MSCI ESG Leaders Indexes Methodology<sup>2</sup>, using the Controversial Business Involvement Criteria, as defined in section 3.2.1 (Controversial Business Involvement Criteria) of the MSCI SRI Indexes Methodology<sup>3</sup>, instead of the Controversial Business Involvement Criteria used in the MSCI ESG Leaders Indexes Methodology, is applied on the eligible universe to select the securities with the highest ESG Performance.

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the MSCI Low Carbon SRI Leaders Indexes use MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities as detailed in Appendix 2.

## 2.3 WEIGHTING SCHEME

The MSCI Low Carbon SRI Leaders Indexes are constructed by weighting the eligible constituents in proportion of their free-float adjusted market capitalization.

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<sup>1</sup> Please refer to the MSCI Global Low Carbon Leaders Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

<sup>2</sup> Please refer to the MSCI ESG Leaders Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology).

<sup>3</sup> Please refer to the MSCI SRI Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

## 3 Maintaining the MSCI Low Carbon SRI Leaders Indexes

### 3.1 INDEX REVIEWS

The MSCI Low Carbon SRI Leaders 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 generally implemented as of the close of the last business day of February, May, August, and November. The pro forma Index is in general 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 the MSCI ESG Leaders 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 the MSCI ESG Leaders Indexes.

### 3.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Low Carbon SRI Leaders Indexes 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.

The following section briefly describes the treatment of common corporate events within the MSCI Low Carbon SRI Leaders Indexes.

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.

### **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.

For Mergers and Acquisitions, 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: MSCI Low Carbon SRI Leaders Capped Indexes

The maximum weight of any issuer in the MSCI Low Carbon SRI Leaders Capped Indexes may be capped at a pre-determined level in accordance with the MSCI Capped Indexes methodology<sup>4</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index. Currently, the following MSCI Low Carbon SRI Leaders Capped indexes are calculated by MSCI:

Index Name	Issuer Level Capping
MSCI AC Asia ex Japan Low Carbon SRI Leaders Capped Index	10%
MSCI China Low Carbon SRI Leaders Capped Index	18%
MSCI EM EMEA Low Carbon SRI Leaders Capped Index	18%
MSCI EM LATAM Low Carbon SRI Leaders Capped Index	18%

<sup>4</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology).



## Appendix 2: Controversial Business Involvement Criteria

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the MSCI Low Carbon SRI Leaders Indexes use MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities detailed below:

- **Weapons**
  - All companies deriving 10% or more revenue from weapons systems, components, and support systems and services
- **Conventional Oil & Gas Extraction**
  - All companies deriving any revenue (either reported or estimated) from conventional oil and gas production. It includes revenue from the production of deepwater, shallow water, and other onshore/offshore oil and gas. It excludes revenue from unconventional oil and gas production (oil sands, shale oil, shale gas) and onshore/offshore oil and gas production in the Arctic region
- **Oil & Gas-based Power Generation**
  - All companies generating more than 30% of their total electricity from liquid fuel and natural gas in a given year
  - All companies that have more than 30% of installed capacity attributed to liquid fuel and natural gas in a given year
  - All companies deriving more than 30% revenue (either reported or estimated) from liquid fuel- and natural gas-based power generation

**The following sections have been modified since January 2018:**

Update to include the index construction parameters for the MSCI EM Low Carbon SRI Leaders Index

**The following sections have been modified since March 2018:**

Update to include the index construction parameters for MSCI AC Asia ex Japan Low Carbon SRI Leaders Index and the MSCI AC Asia ex Japan Low Carbon SRI Leaders 10% Capped Index.

**The following sections have been modified since January 2019:**

Update to include:

- The enhanced value business exclusions from the MSCI SRI Indexes methodology
- The updated index names from the MSCI ESG Leaders Low Carbon ex Tobacco Involvement 5% Indexes to the MSCI Low Carbon SRI Indexes

**The following sections have been modified since May 2020:**

Update to include the index construction parameters for the MSCI EMU Low Carbon SRI Leaders Index

**The following sections have been modified since June 2020:**

Update to include the index construction parameters for the MSCI China Low Carbon SRI Leaders Index and the MSCI China Low Carbon SRI Leaders 18% Issuer Capped Index

**The following sections have been modified since August 2020:**

Update to include the index construction parameters for the MSCI EM EMEA Low Carbon SRI Leaders Index, MSCI EM LATAM Low Carbon SRI Leaders Index, MSCI EM EMEA Low Carbon SRI Leaders 18% Issuer Capped Index and MSCI EM LATAM Low Carbon SRI Leaders 18% Issuer Capped Index

**The following sections have been modified since December 2020:**

- Section 2.2.2  
Updated to reflect additional Controversial Business Involvement Criteria  
Appendix 1  
Updated to reflect new branding of the MSCI Low Carbon SRI Leaders Capped Indexes
- Appendix 2  
Updated to reflect detailed description of the additional Controversial Business Involvement Criteria

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