

MSCI QSE 20 ESG Index Methodology

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1 Introduction

The MSCI QSE 20 ESG Index (the 'Index') aims to represent the performance of an investment strategy that by re-weighting free-float market cap weights based upon certain ESG metrics seeks to increase exposure to those companies demonstrating both a robust ESG profile as well as a positive trend in improving that profile, subject to a cap on the weight of individual constituents.

In summary, the MSCI QSE 20 ESG Index is constructed by applying the following steps. First, the companies that are involved in very severe ESG controversies or involved with manufacture of controversial weapons¹ from the MSCI Qatar IMI STW Index² (the 'Parent Index') are excluded. The Parent index is based on the MSCI Qatar Investable Market Index (IMI) that represents the performance of large, mid and small-cap stocks of the Qatar equity from the point of view of an investor following a trading calendar of Sunday through Thursday week (STW). Second, ESG re-weighting factor is defined such that it reflects an assessment of both the current ESG profile (based on the current MSCI ESG Rating – see section 3.3.1) as well as the trend in that profile (based on the MSCI ESG Rating Trend – see section 3.3.2). Third, the securities are re-weighted from the free-float market cap weights of the Parent Index using this combined ESG score. Finally, top 20 securities are selected based on the weights derived in the previous step, and security weight is capped at maximum security weight in the Parent Index.

¹ Please refer to Appendix I for details.

² The Index and the Parent Index follow the point of view of an investor following a Sunday through Thursday trading calendar. Any change to the Index, including but not limited to corporate events, will be implemented based on a Sunday through Thursday trading calendar.

For details on the Index Calculation, please refer to appendix 'Sunday-Thursday Index Calculation Methodology' of the MSCI Index Calculation methodology book, available at <https://www.msci.com/index/methodology/latest/IndexCalc>

For details on the Corporate Events, please refer to appendix 'Corporate Events Implementation in Sunday - Thursday Index Calculation methodology' of the MSCI Corporate Events Methodology, available at <https://www.msci.com/index/methodology/latest/CE>

For details on the Investable Market Index, please refer to the MSCI Global Investable Market Indexes (GIMI) Methodology, available at <https://www.msci.com/index/methodology/latest/GIMI>

Definitions of standard terms used in GIMI index methodology are available at <https://www.msci.com/index/methodology/latest/IndexGlossary>

2 ESG Research Framework

The MSCI QSE 20 ESG Index uses company ratings and research provided by MSCI ESG Research. The index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies 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 Ratings

MSCI ESG Ratings provides research, 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.

For more details on MSCI ESG Ratings, please refer to: <https://www.msci.com/esg-ratings>

2.2 MSCI ESG Controversies

MSCI ESG Controversies (formerly known as MSCI ESG 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 Score, please refer to: <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

2.3 MSCI ESG Business Involvement Screening Research

MSCI ESG Business Involvement Screening Research (BISR) 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

3 Index Construction Methodology

3.1 Applicable Universe

The applicable universe includes all the existing constituents of the Parent Index.

3.2 Eligible Universe

The eligible universe is constructed by excluding securities based on the following criteria:

3.2.1 Companies Having Faced Very Severe ESG Controversies

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 having an MSCI ESG Controversies Score of 0 are excluded.

Companies not assessed by MSCI ESG Research on MSCI ESG Controversies and companies not rated by MSCI ESG Research for an ESG assessment are not excluded.

3.2.2 Companies Involved in Controversial Weapons Businesses

Companies involved in Controversial Weapons (i.e. cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes. For more details on the controversial weapons exclusion, please refer to Appendix I.

3.3 Determination of Combined ESG Score

Each company in the eligible universe is assigned a Combined ESG score, which is calculated by taking into account a company's MSCI ESG Rating and its MSCI ESG Rating Trend.

3.3.1 ESG Rating Score

Using the MSCI ESG Rating, companies are grouped so as to assign an ESG Rating score to each company in the eligible universe as illustrated in the table below:

Rating Group	ESG Rating	ESG Category	ESG Rating Score
1	AAA	Leaders	2
2	AA		2
3	A	Neutral	1
4	BBB		1
5	BB		1
6	B	Laggards	0.5
7	CCC		0.5
8	Not Rated	-	0.25

3.3.2 ESG Rating Trend Score

MSCI ESG Rating Trend shows the ESG rating change from prior to current: it is expressed as the number of levels between the current rating and the previous rating. The rating trend is positive for a ratings upgrade (for example, the company’s ESG rating changed from BBB to AAA), negative for ratings downgrade (for example company’s ESG rating changed from AA to A) and zero for no change in the rating.

An ‘ESG Rating Trend Score’ is assigned to each company based on its ESG Rating Trend as per the following table:

Trend group	ESG Rating Trend	ESG Rating Trend Score
1	Upgrade	1.25
2	Neutral	1
3	Downgrade	0.75

ESG Rating Trend

- Upgrade – Company’s latest ESG Rating has increased by at least one level compared to previous assessment.
- Neutral – Company’s latest ESG Rating has stayed the same as its ESG Rating from previous assessment or MSCI ESG Research has initiated coverage on the company or company is not rated by MSCI ESG Research.

- Downgrade – Company’s latest ESG Rating has decreased by at least one level compared to its previous assessment.

3.3.3 Combined ESG Score

The Combined ESG Score is calculated for each company as follows:

Combined ESG Score = ESG Rating Score * ESG Trend Score.

3.3.3.1 Combined ESG Score Capping

In order to minimize reverse turnover in the index, the Combined ESG Score of a security is capped at an upper bound of the ESG Rating Scores corresponding to MSCI ESG Rating of ‘AAA’ (best rating) and at a lower bound of the ESG Rating Scores corresponding to MSCI ESG Rating of ‘CCC’ (worst rating) for security rated by MSCI ESG Research and at a lower bound of 0.25 for security not rated by MSCI ESG Research.

For example – If in year 1 a company is upgraded to AAA from BBB, then the weight of the company in the index will increase in year 1. However, if the company maintains its rating at AAA in year 2 then since the rating cannot improve beyond AAA, the index would otherwise need to decrease the weight of that company (as the company’s un-capped Combined ESG Score in year 2 will be less than the Combined ESG Score in year 1).

Similarly, in year 2, the index would otherwise need to increase the weight of a company in year 2 which was downgraded to CCC rating (the worst possible rating) in year 1 and then maintained its rating at CCC in year 2.

3.4 Weighting Scheme

At each rebalancing, all the securities from the eligible universe are weighted by the product of their market capitalization weight in the Parent Index and the Combined ESG Score.

Security Weight = Combined ESG Score * Market Capitalization Weight in the Parent Index

Top 20 securities are selected based on the above weights. The weights are then normalized to 100%.

Additionally, the weight of each constituent security is capped at maximum security weight in the Parent Index.

4 Maintaining the MSCI QSE 20 ESG Index

The MSCI QSE 20 ESG Index follows the point of view of an investor following a Sunday through Thursday trading calendar. For details on the Sunday through Thursday calendar, please refer to appendix ‘Sunday-Thursday Index Calculation Methodology’ of the MSCI Index Calculation methodology book, available at <https://www.msci.com/index/methodology/latest/IndexCalc>

4.1 Quarterly Index Reviews

The Index is rebalanced on a quarterly basis, usually as of the close of the last business day of February, May, August and November, coinciding with the February, May, August and November Index Review of the MSCI Global Investable Market Indexes. 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 MSCI QSE 20 ESG 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.

4.2 Ongoing Event Related Changes

The general treatment of corporate events in the MSCI QSE 20 ESG 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 MSCI QSE 20 ESG Index.

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously in the Index. For cases where additions are noted below, securities will be added to the Index only if added to the Parent Index.

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 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 of the corresponding underlying Index.

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/latest/CE>

Appendix I: Companies Involved in Controversial Weapons Business

Companies which meet the following Controversial Weapons criteria are excluded from the Index

- Cluster Bombs

MSCI ESG Research’s cluster bomb research identifies public companies that are involved in the production of cluster bombs and munitions, or the essential components of these products.
- Landmines

MSCI ESG Research’s landmines research identifies public companies that are involved in the production of anti - personnel landmines, anti - vehicle landmines, or the essential components of these products.
- Depleted Uranium Weapons

MSCI ESG Research’s depleted uranium weapons research identifies public companies involved in the production of depleted uranium weapons and armor.
- Chemical and Biological Weapons

MSCI ESG Research’s chemical and biological weapons research identifies public companies that are involved in the production of chemical and biological weapons, or the essential components of these products.
- Blinding Laser Weapons

MSCI ESG Research’s blinding laser weapons research identifies public companies that are involved in the production of weapons utilizing laser technology to cause permanent blindness.
- Non-Detectable Fragments

MSCI ESG Research’s non-detectable fragments research identifies public companies that are involved in the production of weapons that use non-detectable fragments to inflict injury.
- Incendiary Weapons (White Phosphorus)

MSCI ESG Research’s incendiary weapons research identifies companies that are involved in the production of weapons using white phosphorus.

Involvement criteria:

- Producers of the weapons
- Producers of key components of the weapons (only applies to cluster bombs, landmines, depleted uranium weapons as well as chemical and biological weapons)
- Ownership of 20% or more of a weapons or components producer
The minimum limit is raised to 50% for financial companies having an ownership in a company that manufactures controversial weapons or key components of controversial weapons
- Owned 50% or more by a company involved in weapons or components production

Revenue limits:

Any identifiable revenues, i.e., zero tolerance.

For details please refer to MSCI Global ex Controversial Weapons Indexes Methodology at <https://www.msci.com/index/methodology/latest/XCW>.

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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>.

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