

## **Methodology Book for:**

- **MSCI World Select ESG Screened Index**
- **MSCI USA Select ESG Screened Index**
- **MSCI Japan Select ESG Screened Index**
- **MSCI EM Select ESG Screened Index**
- **MSCI Europe Select ESG Screened Index**
- **MSCI EMU Select ESG Screened Index**
- **MSCI ACWI Select ESG Screened Index**

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# 1 Introduction

The MSCI World Select ESG Screened, MSCI USA Select ESG Screened, MSCI Japan Select ESG Screened, MSCI EM Select ESG Screened, MSCI Europe Select ESG Screened, MSCI EMU Select ESG Screened, and MSCI ACWI Select ESG Screened Indexes (herein, “MSCI Select ESG Screened Indexes”) aim to represent the performance of a free float adjusted market capitalization weighted investment strategy that excludes companies:

- that are associated with conventional, controversial, civilian, and nuclear weapons and tobacco
- that are assigned an MSCI ESG Rating of ‘CCC’
- that derive revenues from thermal coal and oil sands extraction or
- that are not in compliance with the United Nations Global Compact principles

## 2 MSCI ESG Research

The MSCI Select ESG Screened Indexes use company ratings and research provided by MSCI ESG Research. In particular, these Indexes use the following three MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies and MSCI 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 provide 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>

### 2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies 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](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf).

## 3 Constructing the MSCI Select ESG Screened Indexes

### 3.1 ELIGIBLE UNIVERSE

The eligible universe for MSCI Select ESG Screened Indexes includes all the constituents of their respective MSCI parent index (the “Parent Index”), as shown in Appendix 2.

### 3.2 ELIGIBILITY CRITERIA

The MSCI Select ESG Screened Indexes use company ratings and research provided by MSCI ESG Research to determine eligibility for index inclusion.

### 3.3 ESG RATINGS ELIGIBILITY

The MSCI Select ESG Screened Indexes use MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies with an MSCI ESG Rating of ‘CCC’ are excluded from the MSCI Select ESG Screened Indexes.

### 3.4 ESG EXCLUSIONS

The MSCI Select ESG Screened Indexes use MSCI ESG Business Involvement Screening Research to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the MSCI Select ESG Screened Indexes.

- Conventional Weapons
- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Oil Sands

In addition to the above, companies that fail to comply with the United Nations Global Compact Principles are also excluded from the MSCI Select ESG Screened Indexes.

Please refer to Appendix 1 for details on these criteria.

### 3.5 WEIGHTING SCHEME

The remaining securities, after the exclusions based on section 3.4, are weighted in proportion of their free float-adjusted market capitalization.

Additionally, security weights are adjusted to specific requirements of neutrality and active exposure relative to sector/country/region categories as detailed in Appendix 3.

## 4 Maintaining the MSCI Select ESG Screened Indexes

### 4.1 QUARTERLY INDEX REVIEWS

The MSCI Select ESG Screened 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.

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 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 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI Select ESG Screened 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 Select ESG Screened Indexes.

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.

#### 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.

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.) Re-evaluation 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 – ESG Exclusions Criteria

MSCI ESG Research has developed a framework designed to define significant involvement in controversial activities. According to this framework, there are three tolerance levels: Zero Tolerance, Minimal Tolerance and Low Tolerance.

Each controversial activity screened by the MSCI Select ESG Screened Indexes (except Thermal Coal, Oil Sands and Global Norms) is assigned to one of these tolerance levels:

### Activities classified under “Zero Tolerance”

- **Controversial Weapons**
  - All companies with any tie to Controversial Weapons (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 available at <https://www.msci.com/index-methodology>.

### Activities classified under “Minimal Tolerance”

- **Nuclear Weapons**
  - All companies that manufacture nuclear warheads and/or whole nuclear missiles.
  - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles).
  - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons.
  - All companies that provide auxiliary services related to nuclear weapons.
  - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles).

- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons.
- All companies that manufacture components for nuclear-exclusive delivery platforms.
- **Civilian Firearms**
  - All companies classified as “Producer” of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets.
  - All companies deriving 5% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use.
- **Conventional Weapons**
  - All companies deriving 5% or more revenue from the production of conventional weapons and components
  - All companies deriving 10% or more aggregate revenue from weapons systems, components, and support systems and services
- **Tobacco**
  - All companies classified as a “Producer”.
  - All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products.

#### **Activities not classified under any specific tolerance level**

- **Thermal Coal**
  - All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading.

- All companies deriving 5% or more revenue (either reported or estimated) from the thermal coal based power generation.

- **Oil Sands**

- All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded.

- **Global Norms – United Nations Global Compact Compliance**

All companies that fail to comply with the United Nations Global Compact principles.

## Appendix 2 – Eligible Universe

The eligible universe for MSCI Select ESG Screened Indexes includes all the constituents of their respective MSCI Parent Index, as shown below.

Index Name	Parent Index
MSCI World Select ESG Screened Index	MSCI World
MSCI USA Select ESG Screened Index	MSCI USA
MSCI Japan Select ESG Screened Index	MSCI Japan
MSCI EM Select ESG Screened Index	MSCI EM
MSCI Europe Select ESG Screened Index	MSCI Europe
MSCI EMU Select ESG Screened Index	MSCI EMU
MSCI ACWI Select ESG Screened Index	MSCI ACWI

## Appendix 3 – Additional Weighting Scheme

After the exclusions based on section 3.4 and the weighting scheme applied based on section 3.5, the weights for each MSCI Select ESG Screened Index are updated as specified below.

**Region Neutrality<sup>1</sup>:** The weight of each region in the MSCI Select ESG Screened Indexes is equated with the weight of that region in the corresponding Parent Index. This is done by normalizing the weights of the constituents within each region to reflect the effective Parent Index region weight.

**Sector Active Exposure:** The MSCI Select ESG Screened Indexes weights are updated to control the sector weights from deviating at most a fixed percentage relative to the sector weights of the corresponding Parent Index.

**Country Active Exposure:** The MSCI Select ESG Screened Indexes weights are updated to control the country weights from deviating at most a fixed percentage relative to the country weights of the corresponding Parent Index.

Index Name	Region Neutrality	Sector Active Exposure Absolute Limit	Country Active Exposure Absolute Limit
MSCI World Select ESG Screened Index	Yes	1%	NA
MSCI USA Select ESG Screened Index	No	5%	NA
MSCI Japan Select ESG Screened Index	No	1%	NA
MSCI EM Select ESG Screened Index	No	NA	5%

<sup>1</sup> Regions currently identified are Americas, Europe & Middle East and Pacific. In addition, the Emerging Markets (EM) region is used in the MSCI ACWI Select ESG Screened Index,

Index Name	Region Neutrality	Sector Active Exposure Absolute Limit	Country Active Exposure Absolute Limit
MSCI Europe Select ESG Screened Index	No	1%	NA
MSCI EMU Select ESG Screened Index	No	1%	NA
MSCI ACWI Select ESG Screened Index	Yes	<p>Within Developed Markets (DM):</p> <p>In North America: 5%</p> <p>In rest of countries: 1%</p> <p>No sector limit is applied to Emerging Markets (EM)</p>	<p>Within Emerging Markets (EM): 1%</p> <p>No country limit is applied to Developed Markets (DM)</p>

## **Methodology Book Tracked Changes**

### **The following sections have been modified since April 2021:**

#### Section 1: Introduction

- Modified text to reflect updated indexes list

#### Appendix 2 – Eligible Universe

- Updated Eligible Universe table

#### Appendix 3 – Additional Weighting Scheme

- Updated Weighting Scheme table

### **The following sections have been modified since May 2021:**

#### Appendix 1 – ESG Exclusion Criteria

- Updated criteria for Conventional Weapons

## 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
Sao 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

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