

**METHODOLOGY BOOK FOR:**

- **MSCI ACWI SELECT GLOBAL  
NORMS AND CRITERIA INDEX**
- **MSCI WORLD SMALL CAP  
SELECT GLOBAL NORMS AND  
CRITERIA INDEX**

September 2017

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## **1 INTRODUCTION**

The MSCI ACWI Select Global Norms and Criteria Index and the MSCI World Small Cap Select Global Norms and Criteria Index are designed to represent the performance of companies from their respective Parent Index, which do not violate international norms of responsible corporate behavior and are also not involved in specified controversial business activities. The Indexes are free float-adjusted market capitalization weighted.

## 2 CONSTRUCTING THE MSCI SELECT GLOBAL NORMS AND CRITERIA INDEXES

The MSCI ACWI Select Global Norms and Criteria Index and the MSCI World Small Cap Select Global Norms and Criteria Index include all constituents of their respective Parent Index, with the exception of those securities that are identified by applying the MSCI ESG Research’s ESG screens detailed in Appendix 1.

Index	Parent Index
MSCI ACWI Select Global Norms and Criteria Index	MSCI ACWI Index
MSCI World Small Cap Select Global Norms and Criteria Index	MSCI World Small Cap Index

### 3 MAINTAINING THE MSCI SELECT GLOBAL NORMS AND CRITERIA INDEXES

In general, changes to the MSCI Parent Index as described in the MSCI Global Investable Market Indexes methodology (<https://www.msci.com/index-methodology>), including changes related to Semi-Annual Index Reviews, Quarterly Index Reviews and Corporate Events, are applied to the Indexes. The pro forma Indexes are announced five business days before the effective date.

The below sections describe the maintenance rules specific to the Indexes.

#### 3.1 QUARTERLY INDEX REVIEWS

The Indexes are reviewed on a quarterly basis and the changes resulting from these reviews are made coinciding with the Semi-Annual and Quarterly Index Reviews of the MSCI Global Investable Market Indexes, usually as of the close of the last business day of February, May, August and November.

All securities of the MSCI Parent Index at the effective date of the Index Review that are not excluded as per the applicable exclusion criteria are included in the pro forma Index.

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 Select Global Norms and Criteria 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 Select Global Norms and Criteria Indexes.

##### 3.1.1 MAINTAINING THE MSCI ACWI SELECT GLOBAL NORMS AND CRITERIA INDEX

Additions to the MSCI ACWI that are migrations from the MSCI ACWI Small-cap Index will be assessed for inclusion in the MSCI ACWI Select Global Norms and Criteria Index using the ESG Screening criteria in Appendix I.

Additions to the MSCI ACWI that are not migrations from the MSCI ACWI Small-cap Index will not be added to the index if no ESG data exists defining involvement with the ESG Screening criteria in Appendix I and will be assessed for inclusion in the Index at the following index review.

**3.1.2 MAINTAINING THE MSCI WORLD SMALL CAP SELECT GLOBAL NORMS AND CRITERIA INDEX**

Additions to the MSCI World Small Cap Index at the Index Review, except migrations from the MSCI World Index, will be evaluated for inclusion in the MSCI World Small Cap Select Global Norms and Criteria Index once they have been part of the Index for at least two quarters.

**3.2 ONGOING EVENT-RELATED MAINTENANCE**

Companies deleted from the MSCI Parent Index between index reviews are simultaneously deleted from the Index.

Companies added to the MSCI Parent Index between index reviews are not added to the Index and are reviewed for inclusion at the following Index Review based on the updated exclusion list, as described in section 3.1.

The details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book available at: <https://www.msci.com/index-methodology>

## APPENDIX I: ESG SCREENING CRITERIA

Companies whose activities meet the following value based criteria, as evaluated based on MSCI ESG Research data, are excluded from the MSCI ACWI Select Global Norms and Criteria Index and the MSCI World Small Cap Select Global Norms and Criteria Index:

### Violations of International Norms

#### Human Rights

Companies that are assessed as being involved in “very severe” controversies (those with a score = 0 or 1) in MSCI’s ESG Controversies concerning the following key performance issues are excluded:

- Human Rights Abuses
- Support for Controversial Regimes
- Freedom of Expression & Censorship
- Impact on Local Communities

#### Work Conditions

Companies that are assessed as being involved in “very severe” and “structural” controversies (those with a score = 0) in MSCI’s ESG Controversies concerning the following key performance issues are excluded:

- Collective Bargaining & Unions
- Labor-Management Relations
- Employee Health & Safety
- Discrimination & Workforce Diversity
- Supply Chain Labor Standards and Others
- Labor Rights – Child Labor

For the MSCI World Small Cap Select Global Norms and Criteria Index, companies that are assessed as being involved in “very severe” controversies (those with a score = 0 or 1) are excluded.

#### Environment

Companies that are assessed as being involved in “very severe” and “structural” controversies (those with a score = 0) in MSCI’s ESG Controversies concerning the following key performance issues are excluded:

- Toxic Spills & Releases
- Land Use & Biodiversity
- Energy & Climate Change
- Water Management

- Operational Non-Hazardous Waste
- Impact of Product & Services
- Supply Chain Management

For the MSCI World Small Cap Select Global Norms and Criteria Index, companies that are assessed as being involved in “very severe” controversies (those with a score = 0 or 1) are excluded.

### Governance

Companies that are assessed as being involved in “very severe” and “structural” governance-related controversies (those with a score = 0) in MSCI’s ESG Controversies concerning the following key performance issues are excluded:

- Bribery & Fraud
- Controversial Investments
- Governance structure and others

### Controversial Business Involvement

#### Alcohol

- Companies earning greater than 5% of revenues from the manufacture, supply, distribution, or sale of alcoholic beverages are excluded from the Index.
- Companies that own 20 to 49.99% of a company with involvement in manufacture, supply, distribution, or sale of alcoholic beverages are excluded from the Index.

#### Gambling

- Companies earning greater than 5% of revenues from owning and/or operation of gambling establishments; and/or the manufacture or sale of products necessary for the gambling industry are excluded from the Index.
- Companies that own 20 to 49.99% of a company with involvement in gambling establishments or the manufacture or sale of products necessary for the gambling industry are excluded from the Index.

#### Tobacco

- Companies earning greater than 5% of revenues from the retail, distribution, or supply of tobacco products are excluded from the Index.
- Companies involved in tobacco production are excluded from the Index.
- Companies that own 20 to 49.99% of a company with involvement in production, retail, distribution, or supply of tobacco products are also excluded from the Index.



### Adult Entertainment

- Companies earning greater than 5% of revenues from the distribution and retail of adult entertainment products and/or services are excluded from the Index.
- Companies involved in the production of adult entertainment products and/or services are excluded from the Index.
- Companies that own 20 to 49.99% of a company with involvement in production, distribution and retail of adult entertainment products and/or services are also excluded from the Index.

### Military Weapons

- Companies earning greater than 0.25% of revenues from conventional weapons are excluded from the index.
- Companies involved in nuclear or support systems and services are excluded from the Index.

### Controversial Weapons

Companies involved in the manufacture of controversial weapons are excluded from the Index. Controversial weapons include the following:

- anti-personnel mines
- cluster munitions
- depleted uranium
- biological or chemical weapons

### Fossil Fuels

Companies involved in fossil fuels are excluded from the Index including:

- Companies with evidence of owning fossil fuel reserves
- Companies involved in the manufacturing of equipment and the provision of supplies and services to the energy producers
- Companies involved in the exploration and production of oil and gas as well as in the refining and marketing of oil and gas products
- Companies earning more than 0% of revenue from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction.
- Companies earning more than 50% of revenue (either reported or estimated) from equipment and services for the exploration and production of oil and natural gas.
- Companies earning more than 5% of cumulative revenue from below six activities are excluded:

1. Distribution and retailing of oil and gas and related products
2. Extraction and production of oil and gas and related products
3. Refining oil and gas
4. Oil and gas pipelines and transportation
5. Fossil fuel (thermal coal, liquid fuel and natural gas) based power generation
6. Mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties

Information about MSCI ESG Research methodologies and data is available at <https://www.msci.com/esg-integration>.

## **APPENDIX 2: INITIAL CONSTRUCTION PARAMETERS FOR THE MSCI WORLD SMALL CAP SELECT GLOBAL NORMS AND CRITERIA INDEX**

At the initial construction of the MSCI World Small Cap Global Norms and Criteria Index at the August 2017 Index Review, the index construction rules as detailed in Section 2 were applied, with the exception of the following rules.

1. Companies classified in the following GICS Sub-Industries will not be added to the MSCI World Small Cap Select Global Norms and Criteria Index.
  - Electric Utilities (55101010)
  - Gas Utilities (55102010)
  - Multi – Utilities (55103010)
  - Independent Power Producers & Energy Traders (55105010)
  
2. Companies earning more than 0%<sup>1</sup> of revenue from any of the below six activities are excluded.
  - Distribution and retailing of oil and gas and related products
  - Extraction and production of oil and gas and related products
  - Refining oil and gas
  - Oil and gas pipelines and transportation
  - Fossil fuel (thermal coal, liquid fuel and natural gas) based power generation
  - Mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties

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<sup>1</sup> Rather than the 5% hurdle used in Appendix 1

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE FEBRUARY 2014**

## Appendix I – ESG Screening Criteria

- Updates to Screening Criteria

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE FEBRUARY 2016**

## Appendix I – ESG Screening Criteria

- Updates to Screening Criteria following enhancements to MSCI ESG Controversies (earlier known as MSCI ESG Impact Monitor) methodology

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE MAY 2016**

## Section 3 – Maintaining the MSCI ACWI Select Global Norms and Criteria Index

- Update to pro forma announcement date for the Index
- Clarification to the process for “Quarterly Updates to the Exclusion List”

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE FEBRUARY 2017:**

## Section 3: Maintaining the MSCI ACWI Select Global Norms and Criteria Index

- Clarification on use of ESG data for securities whose data would be available after the end of the month preceding Index Review

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE MAY 2017:**

## Appendix I – ESG Screening Criteria

- Updates to Screening Criteria

**THE FOLLOWING SECTIONS HAVE BEEN MODIFIED SINCE AUGUST 2017:**

## Section 2: Constructing the MSCI Select Global Norms and Criteria Indexes

- Update to the construction section for the MSCI World Small Cap Select Global Norms and Criteria Index

### Section 3: Maintaining the MSCI Select Global Norms and Criteria Indexes

- Update to the maintenance section for the MSCI World Small Cap Select Global Norms and Criteria Index

Addition of Appendix 2 for the Index construction parameters used for the MSCI World Small Cap Select Global Norms and Criteria Index

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