

METHODOLOGY BOOK FOR:

- **MSCI USA SELECT GLOBAL
NORMS AND EX
CONTROVERSIAL BUSINESSES
INDEX**
- **MSCI EUROPE SELECT GLOBAL
NORMS AND EX
CONTROVERSIAL BUSINESSES
INDEX**
- **MSCI EMERGING MARKETS
SELECT GLOBAL NORMS AND EX
CONTROVERSIAL BUSINESSES
INDEX**

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1 INTRODUCTION

The MSCI USA Select Global Norms and Ex Controversial Businesses Index, MSCI Europe Select Global Norms and Ex Controversial Businesses Index and the MSCI Emerging Markets (EM) Select Global Norms and Ex Controversial Businesses Index (herein, “MSCI Select Global Norms and Ex Controversial Businesses Indexes”) are designed to represent the performance of companies from their respective MSCI Parent Index, that 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 EX CONTROVERSIAL BUSINESSES INDEXES

The MSCI Select Global Norms and Ex Controversial Businesses Indexes includes all the constituents of their respective MSCI Parent Index, as shown in the table below, with the exception of those securities that are identified by applying MSCI ESG Research’s ESG screens detailed in Appendix 1.

Index	Parent Index	ESG Screens Applied
MSCI USA Select Global Norms and Ex Controversial Businesses Index	MSCI USA Index	Yes
MSCI Europe Select Global Norms and Ex Controversial Businesses Index	MSCI Europe Index	Yes
MSCI EM Select Global Norms and Ex Controversial Businesses Index	MSCI EM Index	Yes

3 MAINTAINING THE MSCI SELECT GLOBAL NORMS AND EX CONTROVERSIAL BUSINESSES INDEXES

In general, changes to the MSCI Indexes as described in the MSCI Global Investable Market Indexes methodology¹, including changes related to Semi-Annual Index Reviews, Quarterly Index Reviews and Corporate Events, are applied to these Indexes. The pro forma indexes are announced nine business days before the effective date.

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

3.1 INDEX REVIEWS

Exclusions are determined on a quarterly basis and the changes resulting from these exclusions 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.

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

Additions to the MSCI Parent Index 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 review².

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 Ex Controversial Businesses 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 Ex Controversial Businesses Indexes.

Any security of the MSCI Parent Indexes at the effective date of the Index Review that is not excluded as per the applicable exclusion criteria is included in the pro forma Index.

¹ MSCI Global Investable Market Indexes methodology available at <https://www.msci.com/index-methodology>

² The indexes were rebalanced on an ad-hoc basis as of the close of June 19, 2018, effective as of the open of June 22, 2018 to incorporate the enhancement for treatment of securities with no ESG data for additions to the MSCI Parent Indexes as part of the May 2018 Semi Annual Index Review.

3.2 ONGOING EVENT-RELATED MAINTENANCE

Companies deleted from the MSCI Parent Indexes between Index Reviews are simultaneously deleted from the respective Index.

Companies added to the MSCI Parent Indexes between Index Reviews are not added to the respective Index and are reviewed for inclusion at the following Index Review based on the applicable exclusion criteria, 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 Methodology³.

³ MSCI Corporate Events methodology available at <https://www.msci.com/index-methodology>

APPENDIX I: ESG SCREENING CRITERIA

Companies whose activities meet the following values based criteria, as evaluated by MSCI ESG Research, are excluded from the MSCI Select Global Norms and Ex Controversial Businesses Indexes:

VIOLATIONS OF INTERNATIONAL NORMS

- **Human Rights and Community**
 - All Companies that are assessed as being involved in controversies (those with a score = 0) related to a firm’s impact on the communities in which it does business. Factors affecting this evaluation include whether a company is involved in controversies related to support for controversial regimes, freedom of expression and censorship, and other human rights abuses and adverse impact on a community.

- **Labor Rights and Supply Chain**
 - All Companies that are assessed as being involved in controversies (those with a score = 0) related to a firm’s employee relations and supply chain. Factors affecting this evaluation include whether a company is involved in controversies related to labor-management relations, employee health & safety, collective bargaining & unions, discrimination and workforce diversity, and management of supply chain employee relations standards.

- **Environment**
 - All Companies that are assessed as being involved in controversies (those with a score = 0) related to a firm’s impact on the environment. Factors affecting this evaluation include whether a company is involved in controversies related to land use and biodiversity, toxic spills and releases, energy and climate change, water management, operational non-hazardous waste, environmental impact of products and service, and management of supply chain environmental impact.

- **Governance**
 - All Companies that are assessed as being involved in controversies (those with a score = 0) related to a firm’s governance practices. Factors affecting this evaluation include whether a company is involved in controversies related to bribery, fraud and governance structures.

CONTROVERSIAL BUSINESS INVOLVEMENT

- **Landmine**

- All Companies that manufacture landmines whole systems or components.
- All Companies that are owned at least 50% by a company flagged for anti-personnel landmines whole weapons systems manufacturer, intended use components, dual-use components, and/or anti-vehicle landmines whole weapons systems manufacturer with a strong evidence rating.
- All Companies that own 20% to 49.99% of a company flagged for anti-personnel landmines whole weapons systems manufacturer, intended use components, dual-use components, and/or anti-vehicle landmines whole weapons systems manufacturer with a strong evidence rating. When a company owns 50% or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.

- **Cluster Munitions**

- All Companies classified as involved in manufacturing of cluster munitions weapons systems, components or delivery platforms.
- All Companies that are owned at least 50% by a company flagged for whole weapons systems manufacturer, intended use components, dual use components, and/or delivery platforms with a strong evidence rating.
- All Companies that own 20% to 49.99% of a company flagged for whole weapons systems manufacturer, intended use components, dual use component, and/or delivery platforms with a strong evidence rating. When a company owns 50% or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.

- **Depleted Uranium**

- All Companies involved in the production of depleted uranium (DU) weapons, ammunition, and armor, including companies that manufacture armor piercing, fin stabilized, discarding sabot tracing rounds (APFSDS-T); kinetic energy missiles made with DU penetrators; and DU-enhanced armor, including composite tank armor.
- All Companies that are 50% or more owned by a company with depleted uranium weapons involvement.
- All Companies that own 20% to 49.99% of a company with depleted uranium weapons involvement. When a company owns 50% or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.

- **Chemical and Biological Weapons**

- All Companies that manufacture key biological and chemical weapons components.
- All Companies that manufacture biological and chemical weapons, including weapons that use pathogens such as viruses, bacteria, and disease-causing biological agents, toxins, or chemical substances that have toxic properties to kill, injure, or incapacitate.
- All Companies that are 50% or more owned by a company with biological and chemical weapons involvement.
- All Companies that own 20% to 49.99% of a company with chemical and biological weapons involvement. When a company owns 50% or more of a subsidiary with involvement, MSCI treats it as a consolidated subsidiary.

- **Nuclear Weapons**

- All Companies that manufacture key nuclear weapons components.
- All Companies that manufacture nuclear weapons, including nuclear warheads, intercontinental ballistic missiles, and ballistic missile submarines, which are capable of the delivery of nuclear warheads.

- **Fossil Fuel - Coal**

- All companies that earn more than or equal to 5% 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 that earn more than or equal to 30% revenue (either reported or estimated) from the thermal coal based power generation.

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

The following sections have been updated since April 2017:

Section 3: Maintaining the MSCI Select Global Norms and Ex Controversial Businesses Indexes

- 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 updated since May 2017:

Appendix 1: ESG Screening Criteria

- Updates to Screening Criteria

The following sections have been updated since August 2017:

Section 3.1: Index Reviews

- Update to the maintenance section to clarify the treatment for securities with no ESG data coverage

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