

METHODOLOGY BOOK FOR:

- MSCI WORLD SELECT
SRI INDEX**
- MSCI EUROPE SELECT
SRI INDEX**

June 2017

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1 INTRODUCTION

The MSCI World Select SRI Index and MSCI Europe Select SRI Index are designed to maximize their exposure to positive environmental, social and governance (ESG) factors, while aiming to exhibit risk and return characteristics similar to those of underlying market capitalization weighted index.

This methodology book provides a description of the rules and guidelines followed by MSCI for the construction and maintenance of the MSCI World Select SRI Index and MSCI Europe Select SRI Index.

2 CONSTRUCTING THE MSCI SELECT SRI INDEXES

The Indexes are constructed from their respective parent index as defined in the table below.

Index	Parent Index
MSCI World Select SRI Index	MSCI World Index
MSCI Europe Select SRI Index	MSCI Europe Index

The following steps are applied sequentially for the construction of the Indexes.

- Applying the MSCI SRI Indexes methodology
- Applying ESG Screening
- Applying the MSCI ESG Focus Indexes methodology

2.1 APPLYING THE MSCI SRI INDEXES METHODOLOGY

The MSCI SRI Indexes methodology¹ is applied on the Parent Index.

2.2 APPLYING ESG SCREENING

The ESG screens described in Appendix 1 are applied on the set of securities included as a result of the previous step.

2.3 APPLYING THE MSCI ESG FOCUS INDEXES METHODOLOGY

The MSCI ESG Focus Index methodology² is applied on the set of securities remaining from the previous step. Please refer to Appendix 2 for details relating to optimization constraints.

¹ MSCI SRI Indexes methodology book available at <https://www.msci.com/index-methodology>

² MSCI ESG Focus Indexes methodology book available at: <https://www.msci.com/index-methodology>

3 MAINTAINING THE MSCI SELECT SRI INDEXES

3.1 QUARTERLY INDEX REVIEWS

The Index is reviewed on a quarterly basis as described in section 2, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent 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 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 For some securities, such data may not be published by MSCI ESG Research by the end of the month preceding the Index Review.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 Indexes.

The pro forma Index is typically announced nine business days before the effective date.

3.2 ONGOING EVENT RELATED CHANGES

In general, the Index follows the event maintenance of the Parent Index. In between Index Reviews, securities deleted from the Parent Index are simultaneously deleted from the Index. There will be no additions to the Index in between Index Reviews.

The details relating to the handling of specific corporate event types can be found in the MSCI Corporate Events Methodology book³.

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

APPENDIX 1: ESG SCREENING CRITERIA

Companies whose activities meet the following values based criteria, as evaluated by MSCI ESG Research, are excluded from the MSCI Select SRI Indexes:

- **Coal Reserves**
 - All companies that are assessed as owning any proved and probable reserves (1P+2P) of coal. It is computed as the sum of metallurgical coal and thermal coal reserves owned by the company.
- **Carbon and Fossil Fuel**
 - All companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves (i.e. 1P and 2P) for coal and proved reserves (i.e. 1P) for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.
- **Alcohol - Distiller**
 - All companies that manufacture distilled alcoholic products.
- **Conventional Weapons**
 - All companies that derive more than 0% of total annual revenues from the weapons systems, components, and support systems and services.
- **Labor Rights - Controversy Score**
 - All companies that are assessed as being involved in controversies (those with a score of less than 5) 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.

APPENDIX 2: OPTIMIZATION CONSTRAINTS

At each Quarterly Index Review, the following optimization constraints for MSCI ESG Focus Index methodology are used:

Optimization Constraints

No.	Parameter	Europe	World
1	Predicted Tracking Error	0.5%	0.5%
2	Min Constituent Weight	0.1%	0.1%
3	Constituent Active Weight	+/-2%	+/-2%
4	Security Weight as a Multiple of its weight in the Parent Index	20	20
5	Active Sector Weights	+/-5%	+/-5%
6	Active Country Weights	+/-5%	+/-5%
7	One Way Turnover during May and November Index Review	20%	20%
8	One Way Turnover during February and August Index Review	10%	10%
9	Specific Risk Aversion	0.075	0.075
10	Common Factor Risk Aversion	0.0075	0.0075

The following sections have been updated since April 2017:

Section 4: Maintaining the MSCI Select SRI 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:

- Methodology book updated to reflect change in name of MSCI Global Socially Responsible Indexes to MSCI SRI Indexes.

CONTACT US

* = toll free

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 *
Tokyo	+ 81 3 5290 1555

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Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

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