

# MSCI UK IMI Low Carbon SRI Leaders Select Index Methodology

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**Contents**

- 1 Introduction..... 3
- 2 Constructing the MSCI UK IMI Low Carbon SRI Leaders Select Index..... 4
  - 2.1 Defining the Parent Index..... 4
  - 2.2 Selecting Companies with the Lowest Carbon Exposure and Highest ESG Performance ..... 4
    - 2.2.1 Lowest Carbon Exposure Selection Rules .....4
      - 2.2.1.1 Carbon Emissions Selection Rules .....4
      - 2.2.1.2 Potential Carbon Emission Selection Rules .....4
    - 2.2.2 Highest ESG Performance Selection Rules.....5
  - 2.3 Size Selection ..... 5
  - 2.4 Weighting Scheme ..... 5
- 3 Maintaining the MSCI UK IMI Low Carbon SRI Leaders Select Index..... 6
  - 3.1 Index Reviews ..... 6
  - 3.2 Ongoing Event Related Changes ..... 6
- Appendix 1: Controversial Business Involvement Criteria..... 8

## 1 Introduction

The MSCI UK IMI Low Carbon SRI Leaders Select Index (the “Index”) is designed to represent the performance of companies that have lower carbon exposure than that of the broad market and have high Environmental, Social and Governance (ESG) performance. The Index aims to represent the larger liquid segment of securities in the eligible equity universe above the defined size thresholds. Further, the Index also aims to avoid concentration by capping issuers within the Index to a maximum weight of 18% in accordance with the MSCI Capped Indexes methodology<sup>1</sup>.

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<sup>1</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

## **2 Constructing the MSCI UK IMI Low Carbon SRI Leaders Select Index**

### **2.1 DEFINING THE PARENT INDEX**

The Parent Index for the MSCI UK IMI Low Carbon SRI Leaders Select Index is the MSCI UK IMI (the “Parent Index”).

### **2.2 SELECTING COMPANIES WITH THE LOWEST CARBON EXPOSURE AND HIGHEST ESG PERFORMANCE**

The two rules described below are applied independently, and securities selected by both rules are eligible for inclusion in the index.

#### **2.2.1 LOWEST CARBON EXPOSURE SELECTION RULES**

##### **2.2.1.1 CARBON EMISSIONS SELECTION RULES**

To select companies with low exposure to carbon emissions, the Parent Index constituents are ranked by the carbon emissions per dollar of the market capitalization of the company. Securities are excluded until the cumulative carbon emissions of the excluded securities reaches 50% of the sum of the carbon emission of the constituents of the Parent Index. The cumulative weight of securities excluded from any sector is less than 30% of the weight of the sector in the Parent Index. In case this limit is reached for any sector, no further securities from that sector are excluded.

##### **2.2.1.2 POTENTIAL CARBON EMISSION SELECTION RULES**

To select companies with low exposure to fossil fuel reserves, the Parent Index constituents are ranked by the potential carbon emissions per dollar of the market capitalization of the company. Securities are excluded until the cumulative potential carbon emission of the excluded securities reaches 50% of the sum of the potential carbon emission of the constituents of the Parent Index.

The two screens mentioned above are applied independently

## 2.2.2 HIGHEST ESG PERFORMANCE SELECTION RULES

The MSCI ESG Leaders Indexes Methodology <sup>2</sup> is applied on the eligible universe to select the securities with the highest ESG Performance, with below two exceptions:

- Companies are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for inclusion in the MSCI UK IMI Low Carbon SRI Leaders Select Index.
- The Controversial Business Involvement Criteria, as defined in section 3.2.1 (Controversial Business Involvement Criteria) of the MSCI SRI Indexes Methodology<sup>3</sup>, instead of the Controversial Business Involvement Criteria used in the MSCI ESG Leaders Indexes Methodology.

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the MSCI UK IMI Low Carbon SRI Leaders Select Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities as detailed in Appendix 2.

## 2.3 SIZE SELECTION

All the securities with a free float adjusted market capitalization of less than GBP 500 million are excluded from the Index.

## 2.4 WEIGHTING SCHEME

The constituents of the MSCI UK IMI Low Carbon SRI Leaders Select Index are weighted as per their free float adjusted market capitalization and then capped in accordance with the MSCI Capped Indexes Methodology where the maximum weight of any issuer in the Index is capped at 18%. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the Index. The issuer capping is only applied at the Semi-Annual and Quarterly Index Reviews (see section 3.1) and intra-quarter weights will fluctuate according to market movements

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<sup>2</sup> Please refer to the MSCI ESG Leaders Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology).

<sup>3</sup> Please refer to the MSCI SRI Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

### 3 Maintaining the MSCI UK IMI Low Carbon SRI Leaders Select Index

#### 3.1 INDEX REVIEWS

The MSCI UK IMI Low Carbon SRI Leaders Select Index is 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 generally implemented as of the close of the last business day of February, May, August and November. 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 the MSCI UK IMI Low Carbon SRI Leaders Select 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 MSCI UK IMI Low Carbon SRI Leaders Select Index.

#### 3.2 ONGOING EVENT RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the MSCI UK IMI Low Carbon SRI Leaders Select Index.

No new securities will be added (except where noted below) to the Index 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.

For Mergers and Acquisitions, 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.

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

## Appendix 1: Controversial Business Involvement Criteria

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the MSCI UK IMI Low Carbon SRI Leaders Select Index uses MSCI ESG Business Involvement Screening Research to identify companies that are involved in the controversial business activities detailed below:

- **Weapons**
  - All companies deriving 10% or more revenue from weapons systems, components, and support systems and services
- **Conventional Oil & Gas Extraction**
  - All companies deriving any revenue (either reported or estimated) from conventional oil and gas production. It includes revenue from the production of deepwater, shallow water, and other onshore/offshore oil and gas. It excludes revenue from unconventional oil and gas production (oil sands, shale oil, shale gas) and onshore/offshore oil and gas production in the Arctic region
- **Oil & Gas-based Power Generation**
  - All companies generating more than 30% of their total electricity from liquid fuel and natural gas in a given year
  - All companies that have more than 30% of installed capacity attributed to liquid fuel and natural gas in a given year
  - All companies deriving more than 30% revenue (either reported or estimated) from liquid fuel- and natural gas-based power generation



**The following sections have been modified since August 2020:**

- Updated the index name in multiple sections from the MSCI UK IMI Low Carbon and ESG Leaders Size Select Index to the MSCI UK IMI Low Carbon SRI Leaders Select Index.

**The following sections have been modified since September 2020:**

- Updated Section 2.4 to add more details about the weighting scheme.

**The following sections have been modified since December 2020:**

- Section 2.2.2  
Updated to reflect additional Controversial Business Involvement Criteria
- Appendix 1  
Updated to reflect detailed description of the additional Controversial Business Involvement Criteria

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