

MSCI World Climate Change ESG Select Index Methodology

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1 Introduction

The MSCI World Climate Change ESG Select Index (the “Index”) is constructed based on the MSCI Climate Change Indexes methodology¹ while incorporating additional business involvement screens for nuclear weapons, tobacco, thermal coal, nuclear power, unconventional oil & gas and arctic oil & gas. Additionally, companies with an MSCI ESG Rating below BB and companies not in compliance with the United Nations Global Compact principles are excluded from the Index.

The Index is diversified by capping issuers at 10%.

¹ Please refer to the MSCI Climate Change Indexes Methodology at <https://www.msci.com/index-methodology>

2 MSCI ESG Research

The Index uses company ratings and research provided by MSCI ESG Research. In particular, the Index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research, and MSCI Climate Change Metrics.

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 provides research, data, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities. The product provides an overall company ESG rating based on a seven-point scale from ‘AAA’ to ‘CCC’, 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.

The MSCI ESG Ratings methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

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.

The MSCI ESG Controversies methodology can be found at: <https://www.msci.com/esg-and-climate-methodologies>

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.

2.4 MSCI CLIMATE CHANGE METRICS

MSCI Climate Change Metrics provides climate data & tools to support investors integrating climate risk & opportunities into their investment strategy and processes. It supports investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, align with temperature pathways and factoring climate change research into their risk management processes, in particular through climate scenario analysis for both transition and physical risks.

The dataset spans across the four dimensions of a climate strategy: transition risks, green opportunities, physical risks and 1.5° alignment.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/climate-solutions>

3 Index Construction Methodology

3.1 UNDERLYING UNIVERSE

The Eligible Universe for the Index includes all the constituents of the MSCI World Index (the “Parent Index”).

3.2 ELIGIBILITY CRITERIA

Securities are selected and weighted in accordance with the MSCI Climate Change Indexes Methodology.

- In addition to screening detailed in section 3.3 of MSCI Climate Change Indexes Methodology, the following screens are also in effect during that process of Index Construction.

Additionally, the Index uses company ratings and research provided by MSCI ESG Research to determine eligibility for Index inclusion.

3.2.1 CONTROVERSIAL BUSINESS INVOLVEMENT CRITERIA

The MSCI World Climate Change ESG Select Index uses MSCI ESG Business Involvement Screening Research and MSCI Climate Change Metrics to identify companies that are involved in the following business activities. Companies that meet the business involvement criteria are excluded from the MSCI World Climate Change ESG Select Index:

- Nuclear Weapons
- Tobacco
- Thermal Coal
- Unconventional Oil & Gas
- Arctic Oil & Gas
- Nuclear-based Power Generation
- Global Norms – United Nations Global Compact Compliance
- Conventional Weapons
- Human Rights Concerns Controversies
- Scope 1+2 Emissions Intensity
- Energy Consumption Intensity

- Nuclear Mining

Please refer to Appendix 1 for details on these criteria.

3.2.2 ESG RATINGS ELIGIBILITY

The MSCI World Climate Change ESG Select Index uses MSCI ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities. Companies are required to have an MSCI ESG Rating of 'BB' or above to be eligible for inclusion in the MSCI World Climate Change ESG Select Index.

3.2.3 ESG CONTROVERSIES SCORE ELIGIBILITY

The MSCI World Climate Change ESG Select Index uses MSCI ESG Controversies Scores to identify those companies that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services. Companies are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for inclusion in the MSCI World Climate Change ESG Select Index.

3.3 SECURITY CAPPING

The maximum weight of any issuer in the Index is capped at 10% in accordance with the MSCI Capped Indexes methodology².

² Please refer to the MSCI Capped Indexes methodology at www.msci.com/index-methodology.

4 Maintaining the MSCI Climate Change ESG Select Index

4.1 SEMI-ANNUAL INDEX REVIEWS

The Index is reviewed on a semi-annual basis to coincide with the regular Semi-Annual Index Reviews of the MSCI Global Investable Market Indexes. The changes are implemented as of the close of the last business day of May and November.

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

4.2 QUARTERLY INDEX REVIEWS

The Index is reviewed on a quarterly basis to coincide with the regular 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 and August.

The pro forma Index is in general announced nine business days before the effective date. During the Quarterly Index Reviews, existing constituents meeting the below criteria are excluded from the Index:

- Companies having an MSCI ESG Rating of ‘CCC’ or ‘B’.
- Companies having an MSCI ESG Controversies Score of 0
- Companies having an MSCI Environmental Controversies Score of 0 or 1
- Missing ESG Rating or ESG Controversy Score – Companies which are not rated by MSCI ESG Research for an MSCI ESG Rating or ESG Controversies.
- HR Concerns Controversies - All companies with more than 1 Severe and Very Severe controversy cases in the last three years related to: Human rights violations issues.

4.3 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the index 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. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Climate Change Index.

The following section briefly describes the treatment of common corporate events within the index.

No new securities will be added (except where noted below) to the Index between Index Reviews. 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 be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

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.) 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 under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

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

Appendix I: Controversial Business Involvement Criteria

- **Nuclear Weapons**
 - All companies as defined in section 3.2.1 Controversial Business Involvement Criteria of the MSCI SRI Indexes methodology³.
- **Tobacco**
 - All companies as defined in section 3.2.1 Controversial Business Involvement Criteria of the MSCI SRI Indexes methodology.
- **Thermal Coal**
 - All companies deriving more than 0% 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 disclosing evidence of thermal coal production. Disclosure may range from precise volumes to more general statements about thermal coal production.
 - All companies deriving more than 10% revenue (either reported or estimated) from the thermal coal based power generation
- **Unconventional Oil & Gas**
 - All companies deriving revenue from unconventional oil and gas. It includes revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It excludes all types of conventional oil and gas production including Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore.
 - All companies with evidence of producing shale oil. It excludes revenue from non-extraction activities (e.g. exploration, surveying,

³ Please refer to the MSCI SRI Indexes methodology at www.msci.com/index-methodology

- processing, refining); ownership of shale oil reserves with no associated extraction revenues; revenue from intra-company sales.
 - All companies with evidence of producing shale gas. It excludes revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of shale gas reserves with no associated extraction revenues; revenue from intra-company sales.
 - All companies with evidence of producing oil sands. It excludes revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of oil sands reserves with no associated extraction revenues; revenue from intra-company sales.
- **Arctic Oil & Gas**
 - All companies deriving more than 0% revenue from Arctic oil.
 - All companies deriving more than 0% revenue from Arctic gas.
 - All companies with evidence of producing Arctic oil. It excludes revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of Arctic oil reserves with no associated extraction revenues; revenue from intra-company sales.
 - All companies with evidence of producing Arctic gas. It excludes revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of Arctic gas reserves with no associated extraction revenues; revenue from intra-company sales.
- **Nuclear-based Power Generation**
 - All companies that own or operate nuclear power plants.
 - All companies deriving more than 5% aggregate revenue (either reported or estimated) from nuclear power activities
- **Global Norms – United Nations Global Compact Compliance**
 - All companies that fail to comply with the United Nations Global Compact principles.
- **Conventional Weapons**
 - All companies deriving 5% or more aggregate revenue from weapons systems, components, and support systems and services
- **Human Rights Concerns Controversies**



- All companies with more than 1 Severe and Very Severe controversy cases in the last three years related to: Human rights violations issues.
- **Scope 1+2 Emissions Intensity**
 - All companies with a Scope 1+2 Emissions Intensity more than 1500 tCO₂/M Sales
- **Energy Consumption Intensity**
 - All companies with more than 300 Energy consumption (GWh) per million EUR revenue
- **Nuclear Mining**
 - All companies that own or operate active uranium mines.

The following sections have been modified effective December 01, 2022:

- Introduction – Updated to reflect the new screen for ‘arctic oil & gas’
- Section 3.2.1: Updated to reflect the new screen for ‘arctic oil & gas’
- Appendix I: Updated to reflect the revised screens for ‘thermal coal’ and ‘unconventional oil & gas’ and the new screen for ‘arctic oil & gas’

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The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: www.msci.com/index-regulation.

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