

MSCI WORLD CLIMATE CHANGE SELECT 200 INDEX

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1 Introduction

The MSCI World Climate Change Select 200 Index (“the Index”) aims to represent the performance of a strategy that seeks to minimize risk for a given set of constraints along with improvement in the Climate Change characteristics.

2 ESG Research Framework

The Index uses company ratings and research provided by MSCI ESG Research. The index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies 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 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.

For more details on MSCI ESG Controversies, please refer to <https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>.

2.2 MSCI CLIMATE CHANGE METRICS

MSCI Climate Change Metrics is designed to support investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, and factoring climate change research into their risk management processes. It provides Carbon Emissions, Fossil Fuel exposure, environmental impact (i.e., clean technology) data and screens, as well as climate-related risk exposure and management assessment on companies such as Low Carbon Transition scores and categories.

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

3 Constructing the Index

The Index is constructed from MSCI World Index (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Defining the Parent Index, Eligible Universe and the Base Currency for optimization
- Eligible Universe Screening
- Defining the optimization constraints
- Determining the optimized portfolio

3.1 DEFINING ELIGIBLE UNIVERSE AND THE BASE CURRENCY FOR OPTIMIZATION

Constructing Index begins with the Parent Index and then applying screens to arrive at the Eligible Universe to perform total risk minimizing optimization. The optimization is performed from a base currency perspective and does not allow short selling of securities. The optimization base currency is US Dollar.

The optimization relies on factor exposures for all the securities in the Parent Index and the factor co-variance matrix of the relevant Barra Equity Model¹.

3.2 ELIGIBLE UNIVERSE SCREENING

3.2.1 LIQUIDITY CRITERIA

The securities from the Parent Index are screened for 12-month ADTV (Average Daily Traded Value) to be greater than USD 10 Million to be eligible for inclusion in the Index.

ADTV is calculated as:

$$ADTV_{12M} = \frac{ATV_{12M}^2}{252}$$

where ATV refers to Annual Traded Value.

To avoid multiple securities of the same company in the final Index, only the most liquid security for each issuer per its 12-month Annualized Traded Value (12-month ATV) is eligible for inclusion in the Index. For any issuer, should two securities have

¹ Please refer to Appendix 1 for the detailed information on model usage

² Please refer to MSCI Index Calculation Methodology <https://www.msci.com/index-methodology> and MSCI Global Investable Market Indexes Methodology at <https://www.msci.com/index-methodology>

the same 12-month ATV, the one with the higher free float-adjusted market capitalization is included.

3.2.2 ESG CONTROVERSIES SCORE ELIGIBILITY

The 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 higher to be eligible for inclusion in the Index³.

3.2.3. LCT RATINGS ELIGIBILITY

The Index uses the MSCI Low Carbon Transition Category (LCT) to select only constituents from the Parent Index that present opportunities associated with the climate transition.

This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition.

Low Carbon Transition Category
Asset Stranding
Product Transition
Operational Transition
Neutral
Solutions

Companies are required to have an LCT Category of Solutions or Neutral to be eligible for inclusion in the Index.

³ Unrated companies (Companies not assessed by MSCI ESG Research on MSCI ESG Controversies Score) are excluded from the eligible universe. For more details refer to the MSCI ESG Universal Index: https://www.msci.com/eqb/methodology/meth_docs/ESG_Universal_Index_Methodology.pdf

3.3 DEFINING THE OPTIMIZATION CONSTRAINTS

At each Quarterly Index Review (QIR), the following optimization constraints are employed, which aim to ensure replicability and investability while achieving lower risk⁴.

- The maximum weight of an Index constituent will be 2.5%
- The minimum weight of an Index constituent will be 0.25%
- The target number of constituents in the Index will be 200
- For countries with weight greater than 2.5% in the Parent Index, the weight in the MSCI World Climate Change Select 200 Index will not deviate more than +/-10% from the country weight in the Parent Index
- For countries with weight less than 2.5% in the Parent Index, the weight in the Index will be capped at 5 times their weight in the Parent Index
- The sector weights of the Index will not deviate more than +/-10% from the sector weights of the Parent Index.

3.4 DETERMINING THE OPTIMIZED INDEX

The Index is constructed using the Barra Open Optimizer in combination with the relevant Barra Equity Model⁵. The optimization uses the Eligible Universe as the universe of eligible securities and the specified optimization objective and constraints to determine the Index. The Barra Optimizer determines the optimal solution, i.e. the index with the lowest total risk, using an estimated security covariance matrix under the applicable investment constraints. The Index seeks to have the lowest absolute volatility based on the set of constraints defined in section 3.3.

⁴ An estimated security co-variance matrix based on the relevant Barra multi-factor equity model is used to forecast lowest risk. Details about the Barra multi-factor risk models are available at <https://www.msci.com/portfolio-management>

⁵ Please refer to Appendix 1 for the detailed information on model usage

4 Maintaining the Index

4.1 QUARTERLY INDEX REVIEWS

The Index is reviewed on a quarterly basis as per the steps described in Section 3, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index.

For each rebalance, the Barra Equity Model data as of the end of the month preceding the Index Review are used. This approach aims to capture timely updates to the risk characteristics of the companies and coincide with the rebalancing frequency of the relevant Parent Index.

In general, MSCI uses MSCI ESG Research data (including MSCI ESG Controversies Scores, MSCI Climate Change Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the Index.

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

4.2 ONGOING EVENT-RELATED CHANGES

The following section briefly describes the treatment of common corporate events within the Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

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. 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 1: New release of Barra® Equity Model or Barra® Optimizer

The methodology presently uses MSCI Barra Global Equity Model for Long-Term Investors (“GEMTL”) for the optimization. A new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

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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

To learn more, please visit www.msci.com.

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