Methodology Book for:

- MSCI World Energy Climate Shift Select Index
- MSCI World Materials Climate Shift Select Index
- MSCI World Transportation Climate Shift Select Index
- MSCI World Automobiles & Components Climate Shift Select Index
- MSCI World Utilities Climate Shift Select Index

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1 Introduction

The MSCI World Energy Climate Shift Select Index, MSCI World Materials Climate Shift Select Index, MSCI World Transportation Climate Shift Select Index, MSCI World Automobiles & Components Climate Shift Select Index and MSCI World Utilities Climate Shift Select Index ("The Indexes") aim to represent the performance of a strategy that re-weights securities based on the MSCI Low Carbon Transition\(^1\) (LCT) Score to overweight companies participating in opportunities associated with transition and underweight companies exposed to risks associated with transition companies.

The Indexes are constructed in the following steps. First, from an MSCI Index (the 'Parent Index'), we exclude the stocks of companies based on their revenue exposure to thermal coal related businesses. Second, we define a reweighting factor ("Combined score") for each security based on their LCT Score, involvement in environmental controversies and involvement in unconventional oil & gas related businesses. Finally, we re-weight securities from the free-float market cap weights of the Parent Index using this combined score to construct the corresponding MSCI Climate Shift Select Index.

\(^1\) Please refer to Appendix II: MSCI Low Carbon Transition Risk Assessment and https://www.msci.com/climate-change-solutions for further details regarding the MSCI Low Carbon Transition score and category
2  **MSCI ESG Research**

MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices of thousands of companies worldwide. It consists of an integrated suite of tools and products to efficiently manage research, analysis and compliance tasks across the spectrum of ESG factors.

The Indexes use company ratings and research provided by MSCI ESG Research. In particular, these indexes use the following MSCI ESG Research products: MSCI ESG Business Involvement Screening Research and MSCI ESG Controversies.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: [https://www.msci.com/esg-integration](https://www.msci.com/esg-integration)

2.1  **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.

For more details on MSCI Climate Change Metrics, please refer to [https://www.msci.com/climate-change-solutions](https://www.msci.com/climate-change-solutions)

2.2  **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/MSCL_ESG_BISR.pdf](http://www.msci.com/resources/factsheets/MSCL_ESG_BISR.pdf)
2.3 MSCI ESG CONTROVERSIES

MSCI ESG Controversies (formerly known as MSCI Impact Monitor) 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
3 Index Construction Methodology

3.1 APPLICABLE UNIVERSE

The Applicable Universe for the Indexes includes all the constituents of their respective MSCI parent indexes (the “Parent Index”), as shown in the table below.

<table>
<thead>
<tr>
<th>Index Name</th>
<th>Parent Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World Energy Climate Shift Select Index</td>
<td>MSCI World Energy Index</td>
</tr>
<tr>
<td>MSCI World Materials Climate Shift Select Index</td>
<td>MSCI World Materials Index</td>
</tr>
<tr>
<td>MSCI World Transportation Climate Shift Select Index</td>
<td>MSCI World Transportation Index</td>
</tr>
<tr>
<td>MSCI World Automobiles &amp; Components Climate Shift Select Index</td>
<td>MSCI World Automobiles &amp; Components Index</td>
</tr>
<tr>
<td>MSCI World Utilities Climate Shift Select Index</td>
<td>MSCI World Utilities Index</td>
</tr>
</tbody>
</table>

3.2 ELIGIBLE UNIVERSE

The Eligible Universe is constructed by excluding securities that meet the following criteria:

3.2.1 UNRATED COMPANIES

Missing LCT Category/Score – Companies not rated by MSCI ESG Research for Low Carbon Transition Assessment.

3.2.2 COMPANIES INVOLVED IN CONTROVERSIAL WEAPONS BUSINESSES

Companies involved in Controversial Weapons (i.e. cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Ex-Controversial Weapons Indexes. For more details on the controversial weapons exclusion, please refer to Appendix I.

3.2.3 COMPANIES INVOLVED IN THERMAL COAL BUSINESS

- All companies deriving more than 25% revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. The following is
not used to calculate such revenue: 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 deriving more than 25% revenue (either reported or estimated) from thermal coal-based power generation

3.3 DETERMINATION OF COMBINED SCORE

Each constituent in the Eligible Universe is assigned a Combined Score, which is calculated based on a company’s Low Carbon Transition (LCT) Score, involvement in Environmental Controversies and revenues from Unconventional Oil & Gas as detailed below.

3.3.1 LOW CARBON TRANSITION DECILE SCORE

Each constituent from the Applicable Universe is assigned a Low Carbon Transition Decile Score in following steps

- All constituents in the Applicable Universe are sorted in ascending order of their LCT Scores. In case constituents have the same LCT Score, the constituent with a higher weight in the Parent Index is assigned a higher rank.

- Constituents are then assigned their decile score based on their ranking from previous step. For example, the top 10% stocks are assigned a Low Carbon Transition Decile Score of 1 and the bottom 10% stocks are assigned a Low Carbon Transition Decile Score of 10.

3.3.2 ENVIRONMENTAL CONTROVERSY DISCOUNT SCORE

The Indexes use MSCI ESG Controversies Scores to identify companies that are involved in very serious controversies associated with the environmental impact of their operations and/or products and services. All constituents in the Eligible Universe of companies marked as Red Flags or Orange Flags on Environmental Controversies are assigned an Environmental Controversy Discount Score of 0.75.

All other constituents are assigned an Environmental Controversy Discount Score of 1.

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2 For further details regarding the MSCI Low Carbon Transition Risk Assessment, please refer to Appendix II.
3.3.3 UNCONVENTIONAL OIL & GAS DISCOUNT SCORE

All constituents of companies in the Eligible Universe deriving more than 5% revenues (either reported or estimated) from unconventional oil & gas\(^3\) production are assigned an Unconventional Oil & Gas Discount Score of 0.75. All other constituents are assigned an Unconventional Oil & Gas Discount Score of 1.

3.3.4 COMBINED SCORE

Based on the Low Carbon Transition Decile Score (LCT Decile Score), Environmental Controversy Discount Score (Env. Contro. Discount) and the Unconventional Oil & Gas Discount Score (Unconv. O&G Discount), the Combined Score is calculated for each constituent of the Eligible Universe as follows:

\[
\text{Combined Score} = \text{LCT Decile Score} \times \text{Env. Contro. Discount} \times \text{Unconv O&G Discount}
\]

3.4 WEIGHTING SCHEME

At each rebalancing, all the securities from the eligible universe are weighted by the product of their weight in the Parent Index and the Combined Score.

\[
\text{Security Weight} = \text{Combined Score} \times \text{Weight in Parent Index}
\]

The above weights are then normalized to 100%.

Additionally, constituent weights are capped at the issuer level to mitigate concentration risk:

1. Issuers in the Indexes based on broad Parent Indexes (e.g. MSCI World Index) are capped at 5%

2. Issuers in the Index based on narrow Parent Indexes are capped at the maximum weight in the Parent Index.

Narrow Parent Indexes are defined as those indexes for which the maximum market capitalization weight in the Parent Index is more than 10%.

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\(^3\) Unconventional Oil & Gas includes revenue from the production of oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane, as well as revenue from onshore or offshore oil and gas production in the Arctic region. It excludes revenue from conventional oil and gas production including deepwater, shallow water, and other onshore/offshore oil and gas.
Note that the capping of the issuer weight is done for the pro forma index as of the effective date, based on the closing prices as of the index review announcement date. In cases where the issuer weight breaches the cap as a result of market price movements or corporate events between the announcement date and the effective date, the capping is not applied again. Similarly, even if any issuer weight breaches the cap as a result of market price movements or corporate events between two Semi-Annual Index Reviews, no capping is applied.
4  Maintaining the Indexes

4.1 SEMI-ANNUAL INDEX REVIEWS

The Indexes are rebalanced on a semi-annual basis, as of the close of the last business day of May and November, coinciding with the May and November Semi-Annual Index Review of the MSCI Global Investable Market Indexes. The pro forma Indexes are in general announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data (including MSCI Climate Change Metrics, MSCI Business Involvement Screening Research and MSCI ESG Controversies) as of the end of the month preceding the Index Reviews for the rebalancing of The Indexes.

4.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the Indexes 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 MSCI Climate Shift Select Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI Climate Shift Select Index.

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

No new securities will be added (except where noted below) to the Index between Index Reviews. Parent Index deletions will be reflected simultaneously.

<table>
<thead>
<tr>
<th>EVENT TYPE</th>
<th>EVENT DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>New additions to the Parent Index</td>
<td>A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.</td>
</tr>
</tbody>
</table>
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: Companies Involved in Controversial Weapons Business

Companies which meet the following Controversial Weapons criteria are excluded from the Index

- **Cluster Bombs**
  MSCI ESG Research’s cluster bomb research identifies public companies that are involved in the production of cluster bombs and munitions, or the essential components of these products.

- **Landmines**
  MSCI ESG Research’s landmines research identifies public companies that are involved in the production of anti-personnel landmines, anti-vehicle landmines, or the essential components of these products.

- **Depleted Uranium Weapons**
  MSCI ESG Research’s depleted uranium weapons research identifies public companies involved in the production of depleted uranium weapons and armor.

- **Chemical and Biological Weapons**
  MSCI ESG Research’s chemical and biological weapons research identifies public companies that are involved in the production of chemical and biological weapons, or the essential components of these products.

- **Blinding Laser Weapons**
  MSCI ESG Research’s blinding laser weapons research identifies public companies that are involved in the production of weapons utilizing laser technology to cause permanent blindness.

- **Non-Detectable Fragments**
  MSCI ESG Research’s non-detectable fragments research identifies public companies that are involved in the production of weapons that use non-detectable fragments to inflict injury.

- **Incendiary Weapons (White Phosphorus)**
  MSCI ESG Research’s incendiary weapons research identifies companies that are involved in the production of weapons using white phosphorus.
Involvement criteria:

- Producers of the weapons
- Producers of key components of the weapons (only applies to cluster bombs, landmines, depleted uranium weapons as well as chemical and biological weapons)
- Ownership of 20% or more of a weapons or components producer
- The minimum limit is raised to 50% for financial companies having an ownership in a company that manufactures controversial weapons or key components of controversial weapons
- Owned 50% or more by a company involved in weapons or components production

Revenue limits:

Any identifiable revenues, i.e., zero tolerance

The exclusion criteria above are reflective of the MSCI Global ex Controversial Weapons Index Methodology as of June 2019. For details please refer to MSCI Global ex Controversial Weapons Indexes Methodology at https://www.msci.com/index-methodology.

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Appendix II: MSCI Low Carbon Transition Risk Assessment

MSCI ESG Research’s Low Carbon Transition Risk assessment is designed to identify potential leaders and laggards by holistically measuring companies’ exposure to and management of risks and opportunities related to the low carbon transition.

The final output of this assessment is two company-level factors as described below:

1. **Low Carbon Transition Category**: This factor groups companies in five categories that highlight the predominant risks and opportunities they are most likely to face in the transition (Exhibit 1).

2. **Low Carbon Transition Score**: This score is based on a multi-dimensional risks and opportunities assessment and considers both predominant and secondary risks a company faces. It is industry agnostic and represents an absolute assessment of a company’s position vis-à-vis the transition.

<table>
<thead>
<tr>
<th>LOW CARBON TRANSITION SCORE</th>
<th>LOW CARBON TRANSITION CATEGORY</th>
<th>LOW CARBON TRANSITION RISK / OPPORTUNITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score = 0</td>
<td>ASSET STRANDING</td>
<td>Potential to experience “stranding” of physical / natural assets due to regulatory, market, or technological forces arising from low carbon transition.</td>
</tr>
<tr>
<td></td>
<td>PRODUCT</td>
<td>Reduced demand for carbon-intensive products and services. Leaders and laggards are defined by the ability to shift product portfolio to low-carbon products.</td>
</tr>
<tr>
<td></td>
<td>TRANSITION</td>
<td>Oil &amp; gas exploration &amp; production; Petrochemical-based chemical manufacturers, thermal power plant turbine manufacturers etc.</td>
</tr>
<tr>
<td></td>
<td>OPERATIONAL</td>
<td>Increased operational and/or capital cost due to carbon taxes and/or investment in carbon emission mitigation measures leading to lower profitability of the companies.</td>
</tr>
<tr>
<td></td>
<td>NEUTRAL</td>
<td>Fossil fuel based power generation, cement, steel etc.</td>
</tr>
<tr>
<td></td>
<td>SOLUTIONS</td>
<td>Limited exposure to low carbon transition carbon risk. Though companies in this category could have exposure to physical risk and/or indirect exposure to low carbon transition risk via lending, investment etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Renewable electricity, electric vehicles, solar cell manufacturers etc.</td>
</tr>
</tbody>
</table>

**Exhibit 1: Low Carbon Transition Categories and Scores**

For more details on MSCI Climate Change Metrics, please refer to [https://www.msci.com/climate-change-solutions](https://www.msci.com/climate-change-solutions)
Calculation methodology

The Low Carbon Transition Categories and Scores are determined by a combination of each company's current risk exposure and its efforts to manage the risks and opportunities presented by the low carbon transition. The 3-step process followed by MSCI ESG Research is explained below.

Step 1: Measure Low Carbon Transition Risk Exposure

The first step towards measuring the Low Carbon Transition Risk Exposure for a company is the computation of its Carbon Intensity profile – which is informed by its Product Carbon Intensity, Operational Carbon Intensity and Total Carbon Intensity. In the next step, we compute Low Carbon Transition Risk Exposure Category and Score based on Total Carbon Intensity.

Step 2: Assess Low Carbon Transition Risk Management

In the second step, we assess a company’s management of risks and opportunities presented by the low carbon transition. This assessment is based on policies and commitments to mitigate transition risk, governance structures, risk management programs and initiatives, targets and performance, and involvement in any controversies.

Step 3: Calculate Low Carbon Transition Category and Score

In the final step, the Low Carbon Transition Risk Exposure Category and Score that was calculated in Step 1 are adjusted for the strength of management efforts. Following this adjustment, Low Carbon Transition Risk Exposure Score of companies with top or second quartile risk management improves and some top and second quartile companies may move up one category.
Contact us

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
São 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 *
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