

MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index Methodology

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1 Introduction

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index aims to represent the performance of a set of companies that have high Environmental, Social and Governance (ESG) performance. The index is also designed to select companies with low carbon emissions relative to sales and low potential carbon emissions per dollar of market capitalization, while excluding companies that own fossil fuel reserves used for energy purposes. The index aims to achieve diversification by controlling for the maximum weight assigned to each security, thereby avoiding concentration risk.

2 MSCI ESG Research

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped 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, MSCI 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, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities.

MSCI ESG Ratings provides an overall company ESG rating - a seven-point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers.

For more details on MSCI ESG Ratings, please refer to: <https://www.msci.com/esg-ratings>

2.2 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>

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 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 MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index (the “Index”) is constructed from the MSCI World ex Australia Index (the “Parent Index”) in the following steps.

3.1 ELIGIBILITY CRITERIA

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index uses company ratings and research provided by MSCI ESG Research to determine eligibility for index inclusion.

In addition to the below ESG screening criteria, companies classified within the “Soft Drinks” Global Industry Classification Standard (GICS®)¹ Sub-Industry (GICS Code: 30201030) are ineligible for inclusion in the Index.

3.1.1 CONTROVERSIAL BUSINESS INVOLVEMENT CRITERIA

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index uses MSCI ESG Business Involvement Screening to evaluate companies for exclusion based on their involvement in certain businesses that meet the specified criteria as detailed in the Appendix 1.

3.1.2 ESG CONTROVERSIES SCORE ELIGIBILITY

The MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index uses MSCI ESG Controversies Scores to identify those companies that are involved in human rights controversies. Companies are required to have a Human Rights Controversy Score of 5 or above to be eligible for inclusion in the Index.

3.2 APPLYING THE MSCI SRI INDEXES METHODOLOGY

The MSCI SRI Indexes methodology² is applied to the securities selected from the previous step, with the following customization:

- The selection rules per section 3 of the MSCI SRI Indexes methodology are applied on the Parent Index directly, as opposed to creating regional indexes

¹ GICS, the Global Industry Classification Standard jointly developed by MSCI Inc. and S&P Global

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

and aggregating those as detailed in section 3.3 of the MSCI SRI Indexes methodology.

- The index targets 15% of the free float adjusted market capitalization of each Global Industry Classification Standard (GICS®) sector of the underlying securities, instead of 25%. In line with section 4.1.3 of the MSCI SRI Indexes methodology, securities are selected from the ranked universe in the following order until 15% coverage by cumulative free-float adjusted market capitalization target is reached:
 - Securities in the top 10.5%
 - 'AAA' and 'AA' rated securities in the top 15%
 - Current Index constituents in the top 19.5%
 - Remaining securities in the eligible universe

3.3 APPLYING THE CARBON SCREEN

From the securities selected from the previous step, companies with low exposure to carbon risk, identified as companies with low carbon emission intensity and low potential emissions per dollar of market capitalization, are selected for inclusion in the index. The selection is done in accordance with sections 3.3.1 and 3.3.2 of the MSCI Global Low Carbon Leaders Indexes methodology³ with the following exception.

To select companies with low exposure to carbon emissions, the remaining securities are ranked by their carbon emission intensity, and the top 25%, by number, are excluded from the Index.

3.4 APPLYING THE CAPPING

The maximum weight of any security in the Index is capped at 5% in accordance with the MSCI Capped Indexes methodology⁴. The excess weight of the capped securities is distributed among the remaining constituents in proportion of their free float market capitalization.

³ Please refer to the MSCI Global Low Carbon Leaders Indexes methodology at www.msci.com/index-methodology

⁴ Please refer to the MSCI Capped Indexes methodology at www.msci.com/index-methodology

4 Maintaining the MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index

4.1 ONGOING INDEX REVIEWS

The Index is reviewed on a quarterly basis, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index. The pro forma index is typically 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 World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped 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 World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index.

4.1.1 MAY SEMI-ANNUAL INDEX REVIEW

At the May Semi-Annual Index Review, the MSCI Global ex Fossil Fuels Indexes methodology is first applied on the Parent Index. The next step is the application of the MSCI SRI Indexes methodology, which includes an annual reconstitution in order to target 15% free float-adjusted cumulative market capitalization of each sector. As described in the MSCI SRI Indexes methodology, a buffer of 30% is used on the target coverage of 15% to minimize turnover⁵.

The carbon screening and the capping as described in sections 2.3 and 2.4 are applied on the updated universe selected by the SRI methodology.

4.1.2 NOVEMBER SEMI-ANNUAL INDEX REVIEW

At the November Index Review, the MSCI Global ex Fossil Fuels Indexes methodology is first applied to the Parent Index, followed by the MSCI SRI Indexes methodology. Existing constituents of the Index are deleted from the Index if they do not meet the eligibility criteria described in section 3.2 of the MSCI SRI Indexes methodology. Additions, from the eligible securities as per section 3.2 of the MSCI SRI Indexes methodology, are made only to those sectors where the current market capitalization

⁵ For further details on application of buffer, please refer to section 4.1.1.2 of the MSCI SRI Indexes methodology, available at www.msci.com/index-methodology

coverage is less than 13.5%, until the 15% target is reached. Market price movements may cause small deviations in the sector coverage between Index Reviews. Therefore, in order to minimize turnover, a buffer of 10% is used on the target coverage of 15% to define under-representation.

The carbon screening and the capping as described in sections 2.3 and 2.4 are applied on the updated universe selected after applying the MSCI SRI Indexes methodology.

4.1.3 QUARTERLY INDEX REVIEWS

At the quarterly Index Reviews, coinciding with the February and August Quarterly Index Reviews, existing constituents are deleted from the Index if they do not meet the eligibility criteria described in section 3.2 of the MSCI SRI Indexes methodology or are screened out due to the MSCI Global ex Fossil Fuels Indexes methodology.

4.2 ONGOING EVENT RELATED CHANGES

The general treatment of corporate events in the MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped 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. There will be no additions to the Index in between Index Reviews.

Additionally, if the frequency of Index Reviews in the Parent Index is greater than the frequency of Index Reviews in the MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index, the changes made to the Parent Index during intermediate Index Reviews will be neutralized in the MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index.

The following section briefly describes the treatment of common corporate events within the MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped 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: ESG Screening Criteria

Companies, whose activities meet the following criteria, as determined by MSCI ESG Research, are excluded from the Index:

- **Fossil Fuels**
 - All companies excluded by the application of the MSCI Global ex Fossil Fuels Indexes methodology available at <https://www.msci.com/index-methodology>
 - All companies that derive a part of their revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties
 - All companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field
 - All companies that derive a part of their revenue (either reported or estimated), from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, petrochemicals, pipelines and transportation and refining but excluding biofuel production and sales and trading activities
- **Animal Welfare**
 - All companies that are involved in commercial animal husbandry for the purpose of food production, including breeding, raising, and slaughtering pork, veal, poultry, and beef, as well as dairy and egg farm operators
 - All companies that conduct animal testing for non-pharmaceutical products such as cosmetic, personal care, and household cleaning products
- **Alcohol**
 - All companies deriving 5% or more aggregate revenue from the production, distribution, retail and supply of alcohol-related products
- **Gambling**
 - All companies deriving 5% or more aggregate revenue from gambling-related business activities
- **Adult Entertainment**
 - All companies deriving 5% or more aggregate revenue from the production, distribution and retail of adult entertainment materials



- **Tobacco**
 - All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products
- **Nutrition and Health**
 - All companies with an “Opportunities in Nutrition and Health score” greater than 2 (i.e. 3rd and 4th quartile). Companies that are classified within the “Household Products” and “Personal Products” GICS® Industry group (GICS Code: 303010 and 303020, respectively) are exempted from exclusion due to this screening

The following sections have been modified since December 2017:

Section 2.1: Applying the ESG Screening

- Updated to include new criteria for screening companies based on their involvement in certain businesses related to oil and gas.

Section 2.2: Applying the MSCI SRI Indexes Methodology

- Updated to clarify the rules for selection of securities per the MSCI SRI Indexes Methodology.

Appendix 1: ESG Screening Criteria

- Added an appendix detailing the ESG Screening Criteria.

The following sections have been modified since May 2018:

Section 2: MSCI ESG Research

- Introduced the MSCI ESG Research products used in the Index

Section 3.1: Eligibility Criteria

- Updated the Index Eligibility Criteria to exclude companies classified under the “Soft Drinks” GICS® Sub-Industry and companies failing to meet the minimum Human Controversy Score requirement

Section 3.3: Applying the Carbon Screen

- Updated the selection rules to exclude the top 25% companies ranked based on carbon emission intensity

Appendix: ESG Screening Criteria

- Updated to include new criteria for screening companies based on their involvement in certain businesses related to animal welfare, alcohol, gambling, adult entertainment, and tobacco, as well as based on their nutrition and health score.

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