

# **MSCI Low Carbon SRI Selection Indexes Methodology**

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## 1. Introduction

The MSCI Low Carbon SRI Selection Indexes<sup>1</sup> (the ‘Indexes’) are designed to represent the performance of companies that are selected from underlying MSCI Indexes (“Parent Indexes”) based on the following Environmental, Social and Governance (ESG) criteria:

- Exclusion of companies associated with Controversial Business Involvement Screening and Climate Change Metrics.
- Exclusion of companies which are assessed as Asset Stranding and have a low carbon transition management score based on Low Carbon Transition Management Score by MSCI Solutions.
- High Environmental, Social and Governance (ESG) ratings relative to their sector peers by targeting 50% free float-adjusted market capitalization coverage of each Global Industry Classification Standard (GICS®)<sup>2</sup> sector by selecting constituents based on ESG rating, the trend in that rating and the company’s industry adjusted ESG Score.
- Applying a reduction in carbon emissions intensity of more than 50% relative to the corresponding Parent Indexes.

The Indexes<sup>3</sup> achieve diversification and avoid concentration risk by capping issuers with a maximum weight of 5% above the weight of the issuer in the parent index.

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<sup>1</sup> The Indexes are governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document. Please refer to Appendix VII for more details.

<sup>2</sup> GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Market Intelligence

<sup>3</sup> Please refer to Section 2 for the list of Indexes covered by this methodology book.

## 2. Constructing the Indexes

The Indexes use company ratings and research provided by MSCI Solutions<sup>4</sup> for the Index construction.

### 2.1 Defining the Eligible Universe

The Eligible Universe for the Indexes includes all the constituents of their corresponding market capitalization weighted indexes (the “Parent Index”), as shown in the table below.

| Index Name                                 | Parent Index      |
|--|-------------------|
| MSCI World Low Carbon SRI Selection Index  | MSCI World Index  |
| MSCI USA Low Carbon SRI Selection Index    | MSCI USA Index    |
| MSCI Europe Low Carbon SRI Selection Index | MSCI Europe Index |
| MSCI Japan Low Carbon SRI Selection Index  | MSCI Japan Index  |
| MSCI EM Low Carbon SRI Selection Index     | MSCI EM Index     |
| MSCI EMU Low Carbon SRI Selection Index    | MSCI EMU Index    |
| MSCI China Selection Choice Capped Index   | MSCI China Index  |

The eligible securities for the Index are selected from the Parent Indexes by excluding securities of companies based on the criteria below:

**Controversial Business Involvement Screens:** Companies that meet the business involvement criteria as defined in section 2.2.1 (Controversial Business Involvement Criteria) of the MSCI SRI Indexes Methodology<sup>5</sup>. In addition to the Controversial Business Involvement Criteria defined in section 2.2.1 of the MSCI SRI Indexes Methodology, the Indexes use MSCI Business Involvement Screening Research to identify companies that are involved in the controversial business activities as detailed in Appendix II.

**Low Carbon Transition (LCT) Category<sup>6</sup>:** All companies with Low Carbon transition (LCT) category of Asset Stranding are excluded.

See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI Solutions LLC, a separate subsidiary of MSCI Inc. MSCI Solutions is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

<sup>5</sup> Please refer to the MSCI SRI Indexes methodology at <https://www.msci.com/index/methodology/latest/SRI>

<sup>6</sup> For more details on LCT Category, please refer to Appendix III.

**Low Carbon Transition (LCT) Score<sup>7</sup>:** All companies in bottom 25% of the Parent Index<sup>8</sup> by LCT Score are excluded such that cumulative weight of securities remaining in each sector is at least 50% of the weight of the sector in the Parent Index.

## 2.2 Security Selection

Apply MSCI ESG Leaders Indexes Methodology<sup>9</sup> on the Eligible Universe with the following exceptions:

- Companies are required to have an MSCI ESG Rating of 'BBB' or above to be eligible for selection.
- Companies assessed as having involvement in environmental controversies that are classified as Red (MSCI Environmental Controversy Score of 0) or Orange Flags (MSCI Environmental Controversy Score of 1) are excluded from the eligible universe.
  - A Red Flag indicates an ongoing, Very Severe controversy implicating a company directly through its actions, products, or operations.
  - An Orange Flag indicates an ongoing Severe controversy implicating a company directly, or a Very Severe controversy that is either partially resolved or indirectly attributed to the company's actions, products, or operations.
- Exclusions based on Controversial Business Involvement Criteria as defined in section 2.2.3 of the MSCI ESG Leaders Indexes Methodology are not applied.

After applying MSCI ESG Leaders Indexes methodology, if the Scope 1+2+3 Carbon Emissions Intensity<sup>10</sup> of the Index is greater than or equal to 50% of the Scope 1+2+3 Carbon Emissions Intensity of the Parent Index, then the security with the highest Scope 1+2+3 Carbon Emissions Intensity is removed from the Index. This step is repeated till the Scope 1+2+3 Carbon Emissions Intensity of the Index is less than 50% of the Scope 1+2+3 Carbon Emissions Intensity of the Parent Index.

## 2.3 Weighting Scheme

The Indexes are constructed by weighting the eligible constituents in proportion of their free float adjusted market capitalization.

The maximum overweight of any issuer in the MSCI Low Carbon SRI Selection Indexes is capped at 5%. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index. After applying issuer capping, if the Scope 1+2+3 Carbon Emissions Intensity of the index is greater than or equal to 50% of the Scope 1+2+3 Carbon Emissions Intensity of the Parent Index, then the security with the highest Scope 1+2+3 Carbon

<sup>7</sup> While applying the LCT Score screen, no security with LCT Category of Neutral or Solutions is removed even if these are in the bottom 25% by LCT Score. Also, if the sector weight is already less than 50% of the sector weight in the Parent Index due to earlier screens, then no security will be removed from that sector.

<sup>8</sup> Since, the MSCI ESG Leaders methodology is applied at a regional level, the Parent Index used to apply the LCT score exclusion for Europe, EMU, Japan and China are also applied at regional level.

<sup>9</sup> Please refer to the MSCI ESG Leaders Indexes methodology at <https://www.msci.com/index/methodology/latest/ESG>

<sup>10</sup> For more details on Carbon Emissions Intensity, please refer to Appendix V.

Emissions Intensity is removed from the portfolio. This step is repeated till the maximum overweight of any issuer is capped at 5% and the Scope 1+2+3 Carbon Emissions Intensity of the index is less than 50% of the Scope 1+2+3 Carbon Emissions Intensity of the Parent Index.

## 2.4 Treatment of Unrated Companies

Companies not assessed by MSCI Solutions on data for the following MSCI sustainability and climate product are not eligible for inclusion in the Indexes.

- MSCI ESG Ratings
- MSCI Controversies

For the treatment of unrated companies in the calculation of Carbon Emissions Intensity, please refer to Appendix VI.

### 3. Maintaining the Indexes

#### 3.1 Index Reviews

The Indexes are reviewed on a quarterly basis to coincide with the regular 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 Solutions data<sup>11</sup> (including MSCI ESG Ratings, MSCI Controversies, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the MSCI ESG Leaders Indexes. For some securities, such data may not be published by MSCI Solutions 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 ESG Leaders Indexes.

#### 3.2 Monthly Review of Controversies

Index constituents for the indexes listed in the below table are reviewed on a monthly basis for the involvement in controversies<sup>12</sup>. Existing constituents will be deleted if they are assessed as having involvement in controversies that are classified as Red Flags (MSCI Controversies Score of 0). A Red Flag indicates an ongoing, Very Severe controversy implicating a company directly through its actions, products, or operations.

MSCI uses MSCI Controversies data as of the end of the month preceding the review (e.g., end of June data for the end of July monthly review). For some securities, such data may not be published by MSCI Solutions by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Indexes.

The pro forma Index is generally announced nine business days before the first business day of the month.

| Index Name                                 |
|--|
| MSCI World Low Carbon SRI Selection Index  |
| MSCI USA Low Carbon SRI Selection Index    |
| MSCI Europe Low Carbon SRI Selection Index |
| MSCI Japan Low Carbon SRI Selection Index  |
| MSCI EM Low Carbon SRI Selection Index     |
| MSCI EMU Low Carbon SRI Selection Index    |

See section 4 for details of data sourced from MSCI Solutions used in the Indexes.

The monthly review of controversies is applied in the Indexes listed in the table from July 2023.

### 3.3 Ongoing Event Related Changes

The general treatment of corporate events in the MSCI Low Carbon SRI Selection 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.

The following section briefly describes the treatment of common corporate events within the MSCI Low Carbon SRI Selection Indexes.

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.

| <b>EVENT TYPE</b>                          | <b>EVENT DETAILS</b>   |
|--|--|
| <b>New additions to the Parent Index</b>   | A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.  |
| <b>Spin-Offs</b>                           | 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.  |
| <b>Merger/Acquisition</b>                  | <p>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.</p> <p>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.</p> |
| <b>Changes in Security Characteristics</b> | 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/latest/CE>.

## 4. MSCI Solutions

The Indexes are products of MSCI Inc. that utilizes information such as company ratings and research produced and provided by MSCI Solutions LLC (MSCI Solutions), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI sustainability and climate products: MSCI ESG Ratings, MSCI Controversies, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

### 4.1 MSCI ESG Ratings

MSCI ESG Ratings aim to measure entities' management of environmental, social and governance risks and opportunities. MSCI ESG Ratings use a weighted average key issue calculation that is normalized by industry to arrive at an industry-adjusted ESG score (0-10), which is then translated to a seven-point scale from 'AAA' to 'CCC', indicating how an entity manages relevant key issues relative to industry peers.

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

### 4.2 MSCI Controversies

MSCI Controversies provide assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI 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 Controversies Score falls on a 0-10 scale, with "0" being the most severe controversy.

The MSCI Controversies methodology can be found at: [.https://www.msci.com/legal/disclosures/esg-disclosures](https://www.msci.com/legal/disclosures/esg-disclosures)

### 4.3 MSCI Business Involvement Screening Research

MSCI 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 Business Involvement Screening Research, please refer to [.https://www.msci.com/legal/disclosures/esg-disclosures](https://www.msci.com/legal/disclosures/esg-disclosures)

### 4.4 MSCI Climate Change Metrics

MSCI Climate Change Metrics provides climate data & tools to support institutional investors seeking to integrate climate risk & opportunities into their investment strategy and processes. This includes investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, alignment 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/legal/disclosures/climate-disclosures>

#### **4.4.1 Fossil Fuels and Power Generation Metrics**

MSCI Solutions identifies companies involved in fossil fuel-related assets and activities including fossil fuel reserves, resource extraction, power generation and generation capacity, revenue from such assets and activities and capital investments in such assets and activities. The metrics are based on disclosed activities, disclosed revenue and estimates of revenue that are extrapolated from company disclosures and eligible third-party sources (such as NGOs).

#### **4.4.2 Greenhouse Gas (GHG) Emissions**

MSCI Solutions collects reported emissions and uses proprietary estimation methodologies that follows the GHG Protocol in including carbon dioxide (CO<sub>2</sub>) and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). Emissions of these other gases are accounted for in terms of the quantity of CO<sub>2</sub> that has an equivalent global warming potential.

#### **4.4.3 Low-Carbon Transition (LCT) Risk Assessment**

MSCI Solutions' LCT data assesses companies' exposure to risks and opportunities related to the low-carbon transition (the transition) based on the carbon-intensive nature of their business lines. In particular, in the event that the transition takes place, demand for carbon-intensive products would decline in favor of low- and zero-carbon products, which would put carbon-intensive companies and industries (for example, coal-based power generation and coal mining) at risk of having stranded assets over the long term (5+ years). MSCI Solutions considers a company exposed to low-carbon transition risks and opportunities through two main transmission channels: (1) exposure through involvement in carbon-intensive operations, and (2) exposure through involvement in or solutions for carbon-intensive products.

## Appendix I: MSCI China Selection Choice Capped Index

The MSCI China Selection Choice Capped Index is created by capping the maximum weight of any issuer in the MSCI China Low Carbon SRI Selection Index at 18% in accordance with the MSCI Capped Indexes methodology<sup>13</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the Index.

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<sup>13</sup> Please refer to the MSCI Capped Indexes methodology at <https://www.msci.com/index/methodology/latest/Capped>.

## Appendix II: 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 Low Carbon SRI Selection Indexes use MSCI Business Involvement Screening Research to identify companies that are involved in the controversial business activities detailed below:

- **Controversial Weapons**
  - All companies with any tie to Controversial Weapons (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 Global Ex-Controversial Weapons.
- **Nuclear Weapons**
  - All companies that manufacture nuclear warheads and/or whole nuclear missiles
  - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
  - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
  - All companies that provide auxiliary services related to nuclear weapons
  - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons
  - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons
  - All companies that manufacture components for nuclear-exclusive delivery platforms
- **Tobacco**
  - All companies deriving 10% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products
- **Thermal Coal**
  - All companies deriving 10% or more revenue (either reported or estimated) from thermal coal mining.
  - All companies generating 10% or more power from thermal coal – All companies with 10% or more installed capacity for thermal coal – All companies deriving 10% or more revenue from thermal coal-based power generation
- **Thermal Coal Distribution**
  - All companies with evidence of thermal coal distribution or transport involvement. This includes transport of thermal coal by road, rail, shipping or air, and physical trading of thermal coal. It does not include involvement in storage of thermal coal, or involvement in metallurgical coal-related activities.

- **Nuclear Power**
  - All companies generating 30% or more of their total electricity from nuclear power in a given year
  - All companies that have 30% or more of their installed capacity attributed to nuclear sources in a given year
  - All companies deriving 30% or more revenue (either reported or estimated) from the ownership or operation of nuclear power plants
- **Oil and Gas**
  - All companies deriving any revenue from unconventional oil and gas (including revenue from arctic oil and gas).
  - All companies deriving 5% or more revenue from oil and gas related activities, including pipelines and transportation, refining and equipment and services.
  - All companies deriving 10% or more revenue from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, pipelines and transportation and refining but excluding biofuel production and sales and trading activities.<sup>14</sup>
- **Weapons**
  - All companies deriving 5% 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
- **Fossil Fuel and Nuclear Energy based Power Generation<sup>15</sup>**

<sup>14</sup> This criterion is applied to all indexes in this range except for the MSCI China Selection Choice Capped Index.

<sup>15</sup> Such companies, where the total revenue derived from any of the six environmental impact themes including alternative energy, energy efficiency, green building, pollution prevention, sustainable water, or sustainable agriculture is greater than or equal to 50, are exempted from this screen. Similarly, companies with one or more active carbon emissions reduction target/s approved by the Science Based Targets initiative (SBTi) are exempted from this screen.



- All companies deriving any revenue from Fossil Fuel based or Nuclear energy based Power Generation.
- All companies deriving 50% or more revenue from nuclear power activities.
- **United Nations Global Compact Principles:**
  - All companies which are unrated on United Nations Global Compact Principles compliance

## Appendix III: MSCI Low Carbon Transition Risk Assessment

MSCI Solutions' Low Carbon Transition Risk assessment<sup>16</sup> 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 assessment is derived from company disclosures and estimates.

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 primary and secondary risks a company faces. It is industry agnostic of a company's position vis-à-vis the transition.

Exhibit 1: Low Carbon Transition Categories and Score

| LOW CARBON TRANSITION SCORE | LOW CARBON TRANSITION CATEGORY |             | LOW CARBON TRANSITION RISK / OPPORTUNITY  | INDUSTRY EXAMPLES  |
|-----------------------------|--------------------------------|-------------|---|--|
| SCORE = 0                   | ASSET STRANDING                |             | Potential to experience "stranding" of physical / natural assets due to regulatory, market, or technological forces arising from low carbon transition.   | Coal mining & coal-based power generation; industries in the Oil & Gas value chain |
|                             | TRANSITION                     | PRODUCT     | Reduced demand for carbon-intensive products and services. Leaders and laggards are defined by the ability to shift product portfolio to low-carbon products.   | Petrol/diesel-based automobile manufacturers                                       |
|                             |                                | OPERATIONAL | 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.   | Cement, Steel  |
|                             | NEUTRAL                        |             | 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. | Consumer Staples, Healthcare   |
| SCORE = 10                  | SOLUTIONS                      |             | Potential to benefit through the growth of low-carbon products and services.  | Renewable electricity, Electric vehicles, Solar cell manufacturers                 |

<sup>16</sup> For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/legal/disclosures/climate-disclosures>

## Appendix IV: MSCI Low Carbon SRI Selection Capped Indexes

The MSCI AC Asia ex Japan Low Carbon SRI Selection Capped Index, MSCI EM LATAM Low Carbon SRI Selection Capped Index, and MSCI EM EMEA Low Carbon SRI Selection Capped Index (herein, “MSCI Low Carbon SRI Selection Capped Indexes”) are designed to represent the performance of companies that are selected from an underlying index based on ESG criteria and have low carbon exposure than that of the broad market. These ESG criteria exclude constituents based on involvement in specific business activities, as well as ESG ratings and exposure to controversies. The Indexes are free float-adjusted market capitalization weighted.

### Eligible Universe

The Eligible Universe for MSCI Low Carbon SRI Selection Capped Indexes includes all the constituents of their respective MSCI Parent Index (the “Parent Index”), as shown in the table below.

| Index Name  | Parent Index                |
|---|-----------------------------|
| MSCI AC Asia ex Japan Low Carbon SRI Selection Capped Index | MSCI AC Asia ex Japan Index |
| MSCI EM LATAM Low Carbon SRI Selection Capped Index         | MSCI EM LATAM Index         |
| MSCI EM EMEA Low Carbon SRI Selection Capped Index          | MSCI EM EMEA Index          |

### Selecting Companies with the Lowest Carbon Exposure and Based on ESG Criteria

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

#### Lowest Carbon Exposure Selection Rules

From the securities in the Eligible Universe, 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 completed in accordance with the below Carbon Emission Exclusions and Potential Emission Exclusions.

The Parent Index constituents are ranked by their Carbon Emission Intensity, and the top 20% of securities are excluded from the Index. The cumulative weight of securities excluded from any sector of the Parent Index has a limit of 30%. If the limit is reached for any sector, no further securities from that sector are excluded.

The Parent Index constituents are ranked by their Potential Emissions per dollar of market capitalization. Securities are excluded until the cumulative potential carbon emission of the excluded securities reaches 50% of the Parent Index.

The two screens mentioned above are applied independently.

#### Highest ESG Performance Selection Rules

The MSCI ESG Leaders Indexes Methodology<sup>17</sup>, using the Controversial Business Involvement Criteria, as defined in section 2.2.1 (Controversial Business Involvement Criteria) of the MSCI SRI

<sup>17</sup> Please refer to the MSCI ESG Leaders Indexes methodology at <https://www.msci.com/index/methodology/latest/ESG>

Indexes Methodology<sup>18</sup>, instead of the Controversial Business Involvement Criteria used in the MSCI ESG Leaders Indexes Methodology, is applied on the Eligible Universe to select the securities based on ESG criteria described in the Methodology.

In addition to the Controversial Business Involvement Criteria defined in section 3.2.1 of the MSCI SRI Indexes Methodology, the MSCI Low Carbon SRI Selection Indexes use MSCI Business Involvement Screening Research to identify companies that are involved in the controversial business activities as 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:
  - All companies deriving 10% or more revenue from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, pipelines and transportation and refining but excluding biofuel production and sales and trading activities.
- Fossil Fuel-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
  - All companies deriving 50% or more revenue from thermal coal based power generation, liquid fuel based power generation and natural gas based power generation
- Thermal Coal Distribution:
  - All companies with evidence of thermal coal distribution or transport involvement. This includes transport of thermal coal by road, rail, shipping or air, and physical trading of thermal coal. It does not include involvement in storage of thermal coal, or involvement in metallurgical coal-related activities.
- United Nations Global Compact Principles:

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<sup>18</sup> SRI Indexes methodology at <https://www.msci.com/index/methodology/latest/SRI>

- All companies which are unrated on United Nations Global Compact Principles compliance

**Weighting Scheme**

The MSCI Low Carbon SRI Selection Capped Indexes are constructed by weighting the eligible constituents in proportion of their free-float adjusted market capitalization.

The maximum weight of any issuer in the MSCI Low Carbon SRI Selection Capped Index is capped at a predetermined level in accordance with the MSCI Capped Indexes methodology<sup>19</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the Index.

| <b>Index Name</b>   | <b>Issuer Level Capping</b> |
|---|-----------------------------|
| MSCI AC Asia ex Japan Low Carbon SRI Selection Capped Index | 10% <sup>20</sup>           |
| MSCI EM EMEA Low Carbon SRI Selection Capped Index          | 18%                         |
| MSCI EM LATAM Low Carbon SRI Selection Capped Index         | 18%                         |

In addition to the issuer level capping for MSCI AC Asia ex Japan Low Carbon SRI Selection Capped Index, a country level cap is applied for securities in India, further details in Appendix V.

<sup>19</sup> Capped Indexes methodology at <https://www.msci.com/index/methodology/latest/Capped>

<sup>20</sup> The issuer level capping may not apply for India, given the capping is applied at the country level. Further details in Appendix V.

## **Appendix V: MSCI AC ex Japan Low Carbon SRI Selection Capped Index**

The maximum weight of India in the MSCI AC Asia ex Japan Low Carbon SRI Selection Capped Index is capped<sup>21</sup> at 18%. This capping is applied at the Quarterly Index Review.

A monthly check on securities in India will be applied, such that if the aggregate weight of securities in India exceeds 18%, the Index will be reweighted and the aggregate weight of securities in India will be capped at 18%. The excess weight will be distributed among the remaining constituents in proportion of their existing weights in the index.

A daily check on securities in India will be applied, such that if the aggregate weight of securities in India exceeds 20% at the end of any business day, the index will be reweighted and the aggregate weight of securities in India will be reduced to 18%. The excess weight will be distributed among the remaining constituents in proportion of their existing weights in the Index.

The monthly and daily check is only applied for the country level capping in India.

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<sup>21</sup> For more details, please refer to the Capped Indexes methodology at <https://www.msci.com/index/methodology/latest/Capped>

## Appendix VI: Calculation of Carbon Emissions Intensity

For Parent Index constituents where the Scope 1+2+3 Emissions Intensity is not available, the average Scope 1+2+3 Emissions Intensity of all the constituents of the MSCI ACWI in the same GICS Industry Group in which the constituent belongs is used.

Security Level Carbon Emissions Intensity =

$$\frac{\text{Scope 1 + 2 + 3 Carbon Emission}}{\text{Enterprise Value + Cash (in M\$)}}$$

## Appendix VII: Methodology Set

The Index is governed by a set of methodology and policy documents (“Methodology Set”), including the present index methodology document as mentioned below:

- Description of methodology set –  
<https://www.msci.com/index/methodology/latest/ReadMe>
- MSCI Corporate Events Methodology –  
<https://www.msci.com/index/methodology/latest/CE>
- MSCI Fundamental Data Methodology –  
<https://www.msci.com/index/methodology/latest/FundData>
- MSCI Index Calculation Methodology –  
<https://www.msci.com/index/methodology/latest/IndexCalc>
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<https://www.msci.com/index/methodology/latest/IndexGlossary>
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<https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology –  
[www.msci.com/index/methodology/latest/GICS](https://www.msci.com/index/methodology/latest/GICS)
- MSCI Global Investable Market Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/GICS>
- MSCI ESG Leaders Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/GIMI>
- MSCI SRI Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/SRI>
- MSCI Capped Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/Capped>

The Methodology Set for the Indexes can also be accessed from MSCI’s webpage <https://www.msci.com/index-methodology> in the section ‘Search Methodology by Index Name or Index Code’.

\* ‘ESG Factors in Methodology’ contains the list of environmental, social, and governance factors considered, and how they are applied in the methodology (e.g., selection, weighting or exclusion). It can be accessed in the Methodology Set as described above.

## Appendix VIII: Changes to this Document

### The following sections have been modified since January 2018:

- Update to include the Index construction parameters for the MSCI EM Low Carbon SRI Leaders Index

### The following sections have been modified since March 2018:

- Update to include the Index construction parameters for MSCI AC Asia ex Japan Low Carbon SRI Leaders Index and the MSCI AC Asia ex Japan Low Carbon SRI Leaders 10% Capped Index.

### The following sections have been modified since January 2019:

Update to include:

- The enhanced value business exclusions from the MSCI SRI Indexes methodology
- The updated index names from the MSCI ESG Leaders Low Carbon ex Tobacco Involvement 5% Indexes to the MSCI Low Carbon SRI Indexes

### The following sections have been modified since May 2020:

Update to include the Index construction parameters for the MSCI EMU Low Carbon SRI Leaders Index

### The following sections have been modified since June 2020:

Update to include the Index construction parameters for the MSCI China Low Carbon SRI Leaders Index and the MSCI China Low Carbon SRI Leaders 18% Issuer Capped Index

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

Update to include the Index construction parameters for the MSCI EM EMEA Low Carbon SRI Leaders Index, MSCI EM LATAM Low Carbon SRI Leaders Index, MSCI EM EMEA Low Carbon SRI Leaders 18% Issuer Capped Index and MSCI EM LATAM Low Carbon SRI Leaders 18% Issuer Capped Index

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

- Section 2.2.2  
Updated to reflect additional Controversial Business Involvement Criteria
- Appendix I  
Updated to reflect new branding of the MSCI Low Carbon SRI Leaders Capped Indexes
- Appendix II  
Updated to reflect detailed description of the additional Controversial Business Involvement Criteria

### The following sections have been modified since May 2022:

- Section 2.1, 2.2, 2.3 and 2.4 to incorporate changes in methodology
- Appendix II to include additional screening criteria

- Appendix III to include MSCI Low Carbon Transition Assessment
- Appendix IV to include the methodology of MSCI Low Carbon SRI Leaders Capped Indexes.

**The following sections have been modified since November 2022:**

- Section 2 added to show ESG Research Products used
- Appendix V to reflect the country level capping in India and the monthly check to ensure securities in India remain below 20% at the beginning of the month.

**The following sections have been modified since May 2023:**

- Section 2.2 clarified the exclusion criteria for companies involved in Controversies.
- Section 3.1 updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews. All references to “Semi-Annual Index Reviews” and “Quarterly Index Reviews” of the MSCI GIMI were replaced with “Index Reviews.”

**The following sections have been modified since July 2023:**

- ESG Research Section moved to the end (changed from Section 2 to Section 4). Updated the descriptions of MSCI sustainability and climate products.
- Section 3.2 added to detail the monthly review of controversies and subsequent sections re-numbered.

**The following sections have been modified since February 2024:**

- Appendix V was updated to reflect new capping criteria for securities in India
- Appendix VIII added details on the Methodology Set for the Indexes

**The following sections have been modified since November 2024:**

- Appendix II was updated to reflect the additional criterion under the Oil & Gas screen
- Appendix IV was updated to reflect the additional Oil & Gas screen and the enhanced Power Generation screen

**The following section has been modified as of December 2024**

Section 2.4 Treatment of Unrated Companies

- Added the treatment of companies when ratings and research is not available from MSCI Solutions

Section 4.4: MSCI Climate Change Metrics

- Added sub-sections under Climate Change Metrics to provide additional details on Fossil Fuels related activities and Greenhouse Gas Emissions.

Appendix III: MSCI Low Carbon Transition Risk Assessment

- Updated language and the Low Carbon Transition Categories and Scores table.

**The following sections have been modified as of June 2025:**

- Appendix II: Controversial Business Involvement Criteria



- Included additional screening criteria for thermal coal distribution.

#### Appendix IV: MSCI Low Carbon SRI Selection Capped Indexes

- Included additional screening criteria for thermal coal distribution

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