

# **MSCI SRI Indexes Methodology**

December 2024

## Contents

<b>1. Introduction .....</b>	<b>4</b>
<b>2. Constructing the Indexes .....</b>	<b>5</b>
2.1 Underlying Universe .....	5
2.2 Eligibility criteria .....	5
2.2.1 Controversial Business Involvement Criteria .....	5
2.2.2 ESG Ratings Eligibility .....	6
2.2.3 ESG Controversies Score Eligibility .....	6
2.3 Index Construction .....	6
2.4 Treatment of Unrated Companies .....	7
<b>3. Maintaining the Indexes .....</b>	<b>8</b>
3.1 Annual Index Reviews .....	8
3.1.1 Updating the Eligible Universe .....	8
3.1.2 Updating the Eligible Universe .....	8
3.1.3 Selection of Eligible Securities .....	9
3.2 Quarterly Index Reviews .....	9
3.3 Ongoing Event-Related Maintenance .....	9
<b>4. MSCI ESG Research .....</b>	<b>11</b>
4.1 MSCI ESG Ratings .....	11
4.2 MSCI ESG Controversies .....	11
4.3 MSCI ESG Business Involvement Screening Research .....	11
4.4 MSCI Climate Change Metrics .....	11
4.4.1 Fossil Fuels and Power Generation Metrics .....	12
<b>Appendix I: Controversial Business Involvement Criteria .....</b>	<b>13</b>
<b>Appendix II: Guidelines on Achieving the Target Sector Coverage of 25% .....</b>	<b>16</b>
<b>Appendix III: Methodology Transition .....</b>	<b>18</b>
<b>Appendix IV: MSCI Country and Region SRI Indexes .....</b>	<b>20</b>
<b>Appendix V: Initial Construction of the MSCI Emerging Markets SRI Index at Launch.</b>	<b>21</b>
<b>Appendix VI: MSCI Extended SRI and MSCI Extended SRI 5% Issuer Capped Indexes.</b>	<b>22</b>

**Appendix VII: Methodology Set.....23**

**Appendix VIII: Changes to this Document .....24**

## 1. Introduction

The MSCI SRI Indexes (“the Indexes”) are free float-adjusted market capitalization weighted indexes that are constructed with an aim to represent the performance of companies that are consistent with specific values- and climate change-based criteria. Additionally, these indexes are designed to represent the performance of companies that are selected from an underlying index based on Environmental, Social and Governance (ESG) criteria. These criteria exclude constituents based on involvement in specific business activities, as well as ESG ratings and exposure to ESG controversies. The Indexes are derived from underlying MSCI indexes (“Parent Indexes”) and aim to achieve sector weights that reflect the sector weights of the corresponding Parent Indexes. The Index construction targets 25% free float-adjusted market capitalization coverage of each Global Industry Classification Standard (GICS®)<sup>1</sup> sector by selecting constituents primarily based on criteria including the ESG rating, the trend in that rating and the company’s industry-adjusted ESG score.

Currently, MSCI constructs the Indexes for the Standard size-segment in all Developed and Emerging Markets<sup>2</sup>.

<sup>1</sup> GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence..

<sup>2</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.

## 2. Constructing the Indexes

### 2.1 Underlying Universe

The Underlying Universe for the Indexes is defined by the constituents of the MSCI Global Investable Market Indexes (“GIMI”).

### 2.2 Eligibility criteria

The Indexes use company ratings and research provided by MSCI ESG Research<sup>3</sup> to determine eligibility for Index inclusion.

#### 2.2.1 Controversial Business Involvement Criteria

The Indexes use 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 Indexes. Please refer to Appendix I for details on these criteria.

- Controversial Weapons
- Civilian Firearms
- Nuclear Weapons
- Tobacco
- Adult Entertainment
- Alcohol
- Conventional Weapons
- Gambling
- Genetically Modified Organisms
- Nuclear Power
- Fossil Fuel Reserves Ownership
- Fossil Fuel Extraction
- Thermal Coal Power

<sup>3</sup> 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 ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research 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.

## 2.2.2 ESG Ratings Eligibility

The Indexes use 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 'A' or above to be eligible for inclusion in the Indexes.

## 2.2.3 ESG Controversies Score Eligibility

The Indexes use 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 4 or above to be eligible for inclusion in the Indexes.

## 2.3 Index Construction

Currently MSCI constructs the Indexes for the Standard size-segment in all Developed Markets and Emerging Markets.

The Indexes for the Standard size-segment are constructed at a regional level, with the exception of North America which is built separately for Canada and the USA. Each regional SRI index targets 25% of the free float-adjusted market capitalization within each GICS sector of the underlying Parent Index.

The following regional SRI Indexes are aggregated to construct the MSCI World SRI Index.

MSCI Regional SRI Index	Region	Parent Index
MSCI Pacific SRI Index	Developed Asia Pacific	MSCI Pacific Index
MSCI Europe & Middle East SRI Index	Developed Europe & Middle East	MSCI Europe & Middle East Index
MSCI Canada SRI Index	Canada	MSCI Canada Index
MSCI USA SRI Index	USA	MSCI USA Index

The following regional SRI Indexes are aggregated to construct the MSCI EM SRI Index.

MSCI Regional SRI Index	Region	Parent Index
MSCI Emerging Markets Asia SRI Index	Emerging Asia	MSCI Emerging Markets Asia Index
MSCI Emerging Markets Europe, Middle East & Africa SRI Index	Emerging Europe, Middle East & Africa	MSCI Emerging Markets Europe, Middle East & Africa Index
MSCI Emerging Markets Latin America SRI Index	Emerging Latin America	MSCI Emerging Markets Latin America Index

The MSCI World SRI Index and the MSCI EM SRI Index are aggregated to construct the MSCI ACWI SRI Index.

The Large Cap and Mid Cap size-segments of the MSCI SRI Indexes are derived from the Standard size-segment.

The MSCI SRI Indexes for other regions and countries are determined by including securities from the particular region/country from the MSCI ACWI SRI Index and weighting them according to their free float-adjusted market capitalization. For example, the MSCI EAFE SRI Index and the MSCI China SRI Index are constructed by including those securities from the MSCI ACWI SRI Index which are a part of the MSCI EAFE Index and the MSCI China Index respectively and weighting them in the proportion of their free float-adjusted market capitalization.

## 2.4 Treatment of Unrated Companies

Companies not assessed by MSCI ESG Research on data for any of the following MSCI ESG Research products are not eligible for inclusion in the Indexes.

- MSCI ESG Ratings
- MSCI ESG Controversies
- MSCI Climate Change Metrics
- MSCI Business Involvement Screening Research (BISR)

## 3. Maintaining the Indexes

### 3.1 Annual Index Reviews

The Indexes are reviewed on an annual basis in May to coincide with the May Index Review of the Parent Index, and the changes are implemented at the end of May. In general, the pro forma indexes are announced nine business days before the effective date.

In general, MSCI uses MSCI ESG Research data<sup>4</sup> (including MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG 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 Indexes. 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 Indexes.

At each Annual Index Review, the eligible universe is updated and the composition of the index is reassessed in order to target 25% free float-adjusted cumulative market capitalization of each sector of the Parent Index.

#### 3.1.1 Updating the Eligible Universe

The eligible universe is updated during each Annual Index Review.

Companies that are currently not constituents of the Indexes are evaluated using the same eligibility criteria described in Section 2.2.

Existing constituents of the Indexes are maintained in the eligible universe if they meet all the following conditions:

- MSCI ESG Rating of 'BB' or above
- MSCI ESG Controversies Score of 1 or above
- Not screened by the business involvement criteria described in Section 2.2.1

#### 3.1.2 Updating the Eligible Universe

For each sector, eligible securities of the regional Parent Index are ranked based on the following criteria:

- ESG Rating
- ESG Trend (positive ESG Trend preferred to neutral ESG Trend and neutral ESG Trend preferred to negative ESG Trend)<sup>5</sup>
- Current index membership (existing constituents above non-constituents)
- Industry adjusted ESG scores

<sup>4</sup> See section 4 for details of data sourced from MSCI ESG Research used in the Indexes.

<sup>5</sup> Please refer to Appendix II for more details.



- Decreasing free float-adjusted market capitalization.

### 3.1.3 Selection of Eligible Securities

For each sector, eligible securities of the regional Parent Index are then selected from the ranked universe in the following order until the target 25% coverage by cumulative free float-adjusted market capitalization is reached:

- Securities in the top 17.5% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 17.5%
- 'AAA' and 'AA' rated securities in the top 25% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 25%
- Current index constituents in the top 32.5% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 32.5% if that security is a current index constituent
- Remaining eligible securities in the ranked universe

Please see Appendix II for additional details on the ranking and selection rules.

## 3.2 Quarterly Index Reviews

The Indexes are also reviewed on a quarterly basis in February, August and November to coincide with the regular Index Reviews of the Parent Indexes. The changes are implemented at the end of February, August and November. The pro forma indexes are in general announced nine business days before the effective date.

For the Quarterly Index Reviews, MSCI ESG Ratings, MSCI ESG Controversies Score assessments and MSCI BISR data are taken as of the end of the month preceding the Index Reviews, i.e., January, July and October. For some securities, this 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 Indexes.

At the Quarterly Index Reviews, existing constituents are deleted from the Indexes if they do not meet the eligibility criteria described in Section 3.1.1. Existing constituents that meet the eligibility criteria are retained in the Index.

Additions, from the eligible securities as per Section 2.2, are made only to those sectors where the current market capitalization coverage is less than 22.5%, until the 25% target is reached.

Market price movements may cause small deviations in the sector coverage between two Index Reviews. Therefore, in order to minimize turnover, a buffer of 10% is used on the target coverage of 25% to define under-representation.

## 3.3 Ongoing Event-Related Maintenance

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. 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.

There are no deletions from the Indexes between Index Reviews on account of a security becoming ineligible because of MSCI ESG Rating downgrade and/or decrease in MSCI ESG Controversies Score and/or change in business involvement.

## EVENT TYPE

## EVENT DETAILS

### New additions to the Parent Index

New securities added to the Parent Index (such as IPOs, other early inclusions and migrations from a different size-segment) will be added to the Indexes on the date of security inclusion only if they meet the eligibility criteria described in Section 2.2 and the market capitalization coverage of the sector to which the security belongs is less than 22.5%.

### Spin-Offs

All securities created as a result of the spin-off of an existing Index constituent will not be added to the Indexes at the time of event implementation. Reevaluation for addition in the Indexes will occur at the subsequent Index Review.

### Merger/Acquisition

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.

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

## 4. MSCI ESG Research

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI ESG Research LLC (MSCI ESG Research), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI ESG Research product: 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 ESG Controversies

MSCI ESG 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 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/legal/disclosures/esg-disclosures>.

### 4.3 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.

The MSCI Business Involvement Screening Research methodology can be found at: <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.

#### 4.4.1 Fossil Fuels and Power Generation Metrics

MSCI ESG Research 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).

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

## Appendix I: Controversial Business Involvement Criteria

MSCI ESG Research has developed a framework designed to define significant involvement in controversial activities. According to this framework, there are four levels of restrictiveness: Most Restrictive, Highly Restrictive, Moderately Restrictive, Least Restrictive.

Each controversial activity screened by the Indexes (except Fossil Fuel Reserves Ownership, Fossil Fuel Extraction and Thermal Coal Power) is assigned to one of these restrictiveness levels.

### **"Most Restrictive" screen applied**

- **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 Indexes available at <https://www.msci.com/index/methodology/latest/XCW>

### **"Highly Restrictive" screen applied**

- **Civilian Firearms**

- All companies classified as "Producer" of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets
- All companies deriving 5% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use

- **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 classified as a “Producer”
- All companies deriving 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

**“Moderately Restrictive” screen applied**

- **Adult Entertainment**

- All companies deriving 5% or more revenue from the production of adult entertainment materials
- All companies deriving 15% or more aggregate revenue from the production, distribution and retail of adult entertainment materials

- **Alcohol**

- All companies deriving 5% or more revenue from the production of alcohol-related products
- All companies deriving 15% or more aggregate revenue from the production, distribution, retail and supply of alcohol-related products

- **Conventional Weapons**

- All companies deriving 5% or more revenue from the production of conventional weapons and components
- All companies deriving 15% or more aggregate revenue from weapons systems, components, and support systems and services

- **Gambling**

- All companies deriving 5% or more revenue from ownership of operation of gambling-related business activities
- All companies deriving 15% or more aggregate revenue from gambling-related business activities

- **Genetically Modified Organisms (GMO)**

- All companies deriving 5% or more revenue from activities like genetically modifying plants, such as seeds and crops, and other organisms intended for agricultural use or human consumption

- **Nuclear Power**

- All companies generating 5% or more of their total electricity from nuclear power in a given year
- All companies that have 5% or more of installed capacity attributed to nuclear sources in a given fiscal year
- All companies deriving 15% or more aggregate revenue from nuclear power activities

### **No specific restrictiveness level applied**

- **Fossil Fuel Reserves Ownership**

- All companies with evidence of owning proven & probable coal reserves and/or proven oil and natural gas reserves used for energy purposes, as defined by the methodology of the MSCI Global Ex Fossil Fuels Indexes available at <https://www.msci.com/index-methodology>

- **Fossil Fuel Extraction**

- All companies deriving any revenue (either reported or estimated) from thermal coal mining or unconventional oil and gas extraction.
  - *Thermal Coal Mining:* Revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It does not cover 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
  - *Unconventional Oil & Gas Extraction:* Revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. It does not cover all types of conventional oil and gas production including Arctic onshore/offshore, deep water, shallow water and other onshore/offshore.

- **Thermal Coal Power**

- All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

## Appendix II: Guidelines on Achieving the Target Sector Coverage of 25%

The Indexes target 25% coverage of the free float-adjusted market capitalization of each GICS sector of the regional Parent Index (“cumulative sector coverage”). The underlying principle in the construction of the indexes is to achieve cumulative sector coverage closest to 25%, while aiming to maintain index stability.

The following guidelines are used in achieving the target cumulative sector coverage of 25%:

- For each sector, the eligible companies of the regional Parent Index are first ranked based on the company level ESG Rating.
- If two companies have the same ESG Rating, the company with better ESG Trend is given priority. ESG Trend is defined as the direction of the change in ESG Rating as of the latest review of the ESG Rating for a company.
  - Positive ESG Trend is given the highest priority. Positive ESG Trend indicates any upgrade in ESG Rating of any scale as of the latest review of the company’s ESG Rating.
  - Neutral ESG Trend indicates an unchanged ESG Rating as of the latest review of the company’s ESG Rating. Also, companies that receive a re-initiated ESG Rating due to a change in the ESG Ratings Industry are considered to have a neutral ESG Trend.
  - Negative ESG Trend is given the lowest priority. Negative ESG Trend indicates any downgrade in ESG Rating of any scale as of the latest review of the company’s ESG Rating.
- In case of two companies with the same ESG Rating and the same ESG Trend, an existing SRI index constituent is given priority to maintain index stability. Between two existing constituents with the same ESG Rating and the same ESG Trend, the company with the higher industry adjusted ESG Score is given priority. For two existing SRI index constituents with the same industry adjusted ESG score, the security with the largest free float-adjusted market capitalization is given priority.
- The cumulative sector coverage at each rank is calculated.
- In each sector, companies are selected as per the rules mentioned in Section 3.1.2 until the cumulative sector coverage crosses 25% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 25% as the “marginal company”.
  - If the marginal company is a current SRI index constituent, then it is always selected.
  - If the marginal company is not a current SRI index constituent, then it is selected only if the cumulative sector coverage with the marginal company is closer to 25% compared to the cumulative sector coverage without the marginal company.
- The minimum cumulative sector coverage is set to 22.5%.
  - The marginal company is always selected if this is required to achieve cumulative sector coverage of 22.5%.





- Securities which are ineligible as per Section 3.1.1 will not be selected even if the cumulative sector coverage after selection of all eligible securities is below 25%.

## Appendix III: Methodology Transition

### June 2012

Prior to May 2012 Index Review, the MSCI SRI Indexes were constructed using the Global Socrates ESG ratings. Any company that had an ESG rating of 'BB' or lower was not eligible for inclusion in the MSCI SRI Indexes. The underlying universe for the MSCI Global SRI Indexes was defined by the constituents of the MSCI Global ESG Indexes. The MSCI SRI Indexes were constructed by targeting 50% of the free float-adjusted market capitalization of each GICS sector of the underlying MSCI regional ESG Index.

Effective May 2012 Index Review, MSCI SRI Indexes transitioned to MSCI ESG IVA Ratings and using the regional GIMI Indexes as the Parent Index.

### June 2016

Effective May 2016 Index Review, the MSCI SRI Indexes reflected enhancements to the MSCI ESG Controversies (formerly known as MSCI Impact Monitor). The details of the changes are as given below.

The changes to MSCI ESG Controversies included adjusting the scoring model to align the scores with individual controversy case levels, including the introduction of an Orange flag, and the removal of specific controversial business involvement (CBI) criteria from the model to refocus the ESG Controversies scores on event-driven controversies.

MSCI implemented the following changes to the MSCI SRI Indexes methodology effective June 1, 2016 to maintain consistency with the existing index construction objectives:

1 - As per the old MSCI ESG Impact Monitor methodology, securities which had an Impact Monitor score of 0 and 1 had a Red controversy flag. Under the new methodology, only securities with an ESG controversies score of 0 have a Red controversy flag. For indexes where constituents were ineligible to be included in the index if their Impact Monitor score was 0 or 1 (current Red controversy flag), the exclusion criteria was changed to ESG Controversies score = 0 in order to continue to only exclude securities with Red controversy flag in the MSCI SRI Indexes.

2 - MSCI Impact Monitor earlier incorporated exclusion rules based on controversial business involvement criteria related to alcohol, tobacco, gambling, nuclear power, conventional weapons and controversial weapons. The values-based exclusion criteria that were already a part of the MSCI SRI Indexes were more stringent than most of these rules. Therefore, there is no additional impact, over the existing values-based exclusion criteria, of applying controversial business involvement exclusion related to alcohol, tobacco, gambling, conventional weapons and controversial weapons. Only the 'Nuclear Power' screen was updated to reflect the additional rules that were earlier incorporated in the MSCI Impact Monitor. The details of the exclusion rules are mentioned in Appendix I.

### June 2018

Effective from the May 2018 Annual Index Review, the controversial business involvement criteria have been enhanced to reflect a new framework designed by MSCI ESG Research to define significant involvement in controversial activities. According to this framework, there are four restrictiveness levels: Most Restrictive, Highly Restrictive, Moderately Restrictive, Least Restrictive. Also, a screen for Thermal Coal was added.



## **December 2020**

Effective from the November 2020 Index Review, new controversial business involvement criteria were added for Fossil Fuel Reserves and Fossil Fuel Extraction, and the screen for Thermal Coal was adjusted.

## Appendix IV: MSCI Country and Region SRI Indexes

The MSCI Country and Region SRI Indexes are constructed with an aim to represent the performance of companies that have high Environmental, Social and Governance (ESG) performance.

The MSCI Country SRI Indexes aim to target sector weights that reflect the relative sector weights of the underlying country Index to limit the systematic risk and country specific risk introduced by the ESG selection process. Currently the MSCI Country SRI Indexes can be constructed for the Standard size-segment in any Developed and Emerging Markets.

The MSCI Region SRI Indexes can be constructed for regions different than those used in the construction of the MSCI SRI Indexes and aim to target sector weights that reflect the relative sector weights of the underlying regional Index. Currently the MSCI Region SRI Indexes can be constructed for the Standard size-segment in any regions in Developed and Emerging Markets.

The MSCI Country and Region SRI Indexes are constructed by applying the index construction rules detailed in Section 2 at the level of the respective country or region covered by the index, instead of the specific regional level used in the construction of MSCI SRI Indexes.

The MSCI Country and Region SRI Indexes target 25% of the free float-adjusted market capitalization of each GICS sector of the Parent Country or Region Index. The MSCI Country and Region SRI Indexes follows the same index review cycle, maintenance rules and corporate events treatment as the MSCI SRI Indexes as described in Section 3.

## Appendix V: Initial Construction of the MSCI Emerging Markets SRI Index at Launch

The MSCI Emerging Markets SRI Index was launched with an initial construction as of the November 2013 Index Review.

In order to achieve free float-adjusted market capitalization coverage close to the target of 25% at launch, the entry rules for the MSCI Emerging Markets SRI Index were slightly relaxed at the initial construction. Specifically, the ESG Rating threshold was lowered to a minimum rating of 'BBB' at the initial construction instead of the threshold of a minimum ESG Rating of 'A'. The Impact Monitor threshold was not relaxed and was kept at a minimum of '4'.

Note that this relaxation was done only for the initial construction.

## Appendix VI: MSCI Extended SRI and MSCI Extended SRI 5% Issuer Capped Indexes

The MSCI Extended SRI Indexes are constructed with an aim to reflect the performance of companies that are consistent with specific values- and climate change-based criteria, and have high minimum level of ESG performance. The Index is also designed to more broadly cover the underlying investment universe. Extended SRI Indexes can be constructed on the Standard or the IMI size-segment in Developed and Emerging Markets.

Companies that fail the controversial business involvement criteria as described in Section 2 are excluded from the MSCI Extended SRI Indexes. Any company that has an ESG Rating of 'BB' or lower or has an MSCI ESG Controversies Score of 0 is not eligible for inclusion in the MSCI Extended SRI Indexes.

The MSCI Extended SRI Indexes target 50% of the free float-adjusted market capitalization of each GICS sector of the Parent Index. The MSCI Extended Global SRI Indexes follows the same index review cycle and corporate events treatment as the MSCI SRI Indexes as described in Section 3.

MSCI currently offers the following Extended SRI Indexes:

1. MSCI World Extended SRI Index
2. MSCI Emerging Markets Extended SRI Index
3. MSCI Europe Extended SRI Index
4. MSCI UK IMI Extended SRI Index
5. MSCI Sweden IMI Extended SRI Index
6. MSCI Switzerland IMI Extended SRI Index

The MSCI Extended SRI 5% Issuer Capped Indexes are issuer capped variants of the MSCI Extended SRI Indexes, capped according to the MSCI Capped Index Methodology<sup>6</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the index.

MSCI currently offers the following Extended SRI 5% Issuer Capped Indexes:

1. MSCI World Extended SRI 5% Issuer Capped Index
2. MSCI Emerging Markets Extended SRI 5% Issuer Capped Index
3. MSCI Europe Extended SRI 5% Issuer Capped Index
4. MSCI UK IMI Extended SRI 5% Issuer Capped Index
5. MSCI Switzerland IMI Extended SRI 5% Issuer Capped Index

<sup>6</sup> Please refer to the MSCI Capped Indexes methodology at [www.msci.com/index-methodology](https://www.msci.com/index-methodology)

## Appendix VII: Methodology Set

The Indexes are 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>
- MSCI Index Glossary of Terms – <https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies – <https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology – <https://www.msci.com/index/methodology/latest/GICS>
- MSCI Global Investable Market Indexes Methodology – <https://www.msci.com/index/methodology/latest/GIMI>
- MSCI Global ex Controversial Weapons Indexes Methodology – [www.msci.com/index/methodology/latest/XCW](https://www.msci.com/index/methodology/latest/XCW)
- ESG Factors In Methodology\*

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 section has been modified as of September 2014:**

Appendix 6: MSCI Extended SRI Index

- Addition of appendix 6 containing the methodology details of MSCI Extended SRI Indexes

**The following sections have been modified as of November 2014:**

Section 2: MSCI ESG Research and Section 3: Constructing the MSCI SRI Indexes

- Clarification of MSCI SRI Index construction rules

Section 4: Maintaining the MSCI SRI Indexes

- Enhancement of treatment of corporate events

Appendix I: Values-Based Exclusion Criterion

- Correction to the Values-Based Exclusion Criterion

**The following sections have been modified as of May 2016:**

Section 2: MSCI ESG Research

- Updated to include the impact of the change in the MSCI ESG Controversies Scores methodology on MSCI SRI Indexes methodology

Section 3: Constructing the MSCI SRI Indexes

- Changed Section 3 to update the eligibility criteria for inclusion in MSCI SRI Indexes and to include clarification on the construction of regional and country level SRI Indexes

Section 4: Maintaining the MSCI SRI Indexes

- Updated to clarify the treatment of ESG Rating downgrade or decrease in ESG Controversies scores between index reviews

Appendix 1: Values-Based Exclusion Criteria

- Updated the screening criteria for companies involved in 'Nuclear Power'

Appendix 2: Guidelines on achieving the target sector coverage of 25%

- Added a clarification to specify that non-eligible securities would not be included to increase the sector coverage to 25%

Appendix 3: Methodology Transition

- Added details which highlight the changes to the MSCI SRI Indexes effective June 2016

**The following section has been updated as of May 2017:**

Section 4: Maintaining the MSCI SRI Indexes

- Clarification on use of ESG data for securities whose data would be available after the end of the month preceding Index Review.



**The following sections have been updated as of June 2017:**

- Methodology book updated to reflect change in name of MSCI Global Socially Responsible Indexes to MSCI SRI Indexes.

**The following sections have been updated as of December 2017:**

Section 4.2: Quarterly Index Reviews

- Correction of the target coverage percentage in the last paragraph

Appendix 2: Guidelines on achieving the target sector coverage of 25%

- Correction of the sector coverage percentage in the last bullet

**The following section has been updated as of February 2018:**

Appendix 4: MSCI Country and Region SRI Indexes

- New appendix detailing the construction methodology for the MSCI Country and Region SRI Indexes

**The following sections have been updated as of May 2018:**

Section 3: Constructing the MSCI SRI Indexes

- Added “Thermal Coal” to the list of controversial business activities
- Removed the references to minimum ESG Ratings and ESG Controversies Score for existing constituents

Section 4: Maintaining the MSCI SRI Indexes

- Added references to minimum ESG Ratings and ESG Controversies Score for existing constituents
- Updated the ranking rules to reflect the addition of the ESG Trend criterion

Appendix 1: Values-Based Exclusion Criteria

- Updated the controversial business involvement criteria for each controversial activity according to the new framework designed by ESG Research to define significant involvement in controversial activities
- Added a controversial business involvement criterion for Thermal Coal

Appendix 2: Guidelines on Achieving the Target Sector Coverage of 25%

- Added clarifications

**The following section has been updated as of February 2019:**

Appendix 2: Guidelines on Achieving the Target Sector Coverage of 25%

- Updated the guidelines to reflect the addition of the ESG Trend criterion

**The following sections have been updated as of April 2019:**

Section 2: MSCI ESG Research

- Introduced the MSCI Climate Change Metrics product used in the MSCI SRI S-Series and MSCI SRI S-Series Capped Indexes

#### Section 4: Maintaining the MSCI SRI Indexes

- Clarified the Ongoing Event-Related Maintenance section

#### Appendix 1: Values-Based Exclusion Criteria

- Clarified the screening criteria for companies involved in 'Nuclear Weapons'

#### Appendix 7: MSCI SRI S-Series and MSCI SRI S-Series Capped Indexes

#### Addition of Appendix 7 containing the methodology details of MSCI SRI S-Series and MSCI SRI S-Series Capped Indexes

#### **The following section has been updated as of May 2019:**

##### Appendix 1: Values-Based Exclusion Criteria

- Clarified the screening criteria for companies involved in 'Tobacco'

#### **The following section has been updated as of November 2019:**

##### Appendix 1: Values-Based Exclusion Criteria

- Clarified the screening criteria for companies involved in 'Civilian Firearms' and 'Conventional Weapons'

#### **The following section has been updated as of August 2020:**

##### Appendix 7: MSCI SRI S-Series and MSCI SRI S-Series Capped Indexes

- Added details on the additional screens used for USA and Canada securities
- Updated the capping details of the MSCI Emerging SRI S-Series 5% Capped Index

#### **The following sections have been updated as of November 2020:**

##### Section 3.2.1: Controversial Business Involvement Criteria

- Added screens for 'Fossil Fuel Reserves Ownership' and 'Fossil Fuel Extraction'

##### Section 4.1.3: Selection of Eligible Securities

- Clarified the selection rules

##### Appendix 1: Controversial Business Involvement Criteria

- Added screens for 'Fossil Fuel Reserves Ownership' and 'Fossil Fuel Extraction'
- Updated the screening criteria for companies involved in 'Thermal Coal Power'

##### Appendix 6: MSCI Extended SRI and MSCI Extended SRI 5% Issuer Capped Indexes

- Additional indexes were added to the list of indexes offered under the methodology
- Updated to include the methodology for the MSCI Extended SRI 5% Issuer Capped Indexes

#### **The following sections have been updated as of February 2021:**

##### Appendix 7: MSCI SRI S-Series and MSCI SRI S-Series Capped Indexes

- Deleted the Appendix as the methodology for the MSCI SRI S-Series and MSCI SRI S-Series capped Indexes has been made available in a separate methodology book

**The following sections have been modified as of August 2022:**

Section 4.1.2: Ranking of Eligible Securities

- Updated footnote

Appendix 2: Guidelines on Achieving the Target Sector Coverage of 25%

- Clarified the definition of 'ESG Trend' and the priority rules for companies that have the same ESG Rating but a different ESG Trend

**The following sections have been modified as of November 2022:**

Section 4.1.2: Ranking of Eligible Securities

- Clarified the priority rules for existing constituents of the MSCI SRI Indexes

**The following sections have been modified as of June 2023:**

Section 3: Maintaining the MSCI SRI Indexes

- Methodology book was 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."

Section 4: MSCI ESG Research

- Moved that section after the Section 3 (Maintaining the MSCI SRI Indexes)
- Updated the descriptions of MSCI ESG Research products

**The following sections have been modified as of November 2023:**

Section 2.4: Treatment of Unrated Companies

- New section detailing the treatment of companies with ratings and research not available from MSCI ESG Research

**The following section has been modified as of January 2024:**

Appendix 7: Methodology Set

- Added details on the Methodology Set for the Indexes

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

Section 2.4: Treatment of Unrated Companies

- Added the treatment of companies when business involvement screening research and Climate Change Metrics are not available from MSCI ESG Research



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

Section 4.4: MSCI Climate Change Metrics

- Added a sub-section under Climate Change Metrics to provide additional details on Fossil Fuels related activities.

## Contact us

[msci.com/contact-us](https://www.msci.com/contact-us)

### AMERICAS

United States	+ 1 888 588 4567 *
Canada	+ 1 416 687 6270
Brazil	+ 55 11 4040 7830
Mexico	+ 52 81 1253 4020

### EUROPE, MIDDLE EAST & AFRICA

South Africa	+ 27 21 673 0103
Germany	+ 49 69 133 859 00
Switzerland	+ 41 22 817 9777
United Kingdom	+ 44 20 7618 2222
Italy	+ 39 02 5849 0415
France	+ 33 17 6769 810

### ASIA PACIFIC

China	+ 86 21 61326611
Hong Kong	+ 852 2844 9333
India	+ 91 22 6784 9160
Malaysia	1800818185 *
South Korea	+ 82 70 4769 4231
Singapore	+ 65 67011177
Australia	+ 612 9033 9333
Taiwan	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Japan	+ 81 3 4579 0333

\* toll-free

### About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit [www.msci.com](https://www.msci.com).

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

## Notice and disclaimer

This document is research for informational purposes only and is intended for institutional professionals with the analytical resources and tools necessary to interpret any performance information. Nothing herein is intended to promote or recommend any product, tool or service.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information may include "Signals," defined as quantitative attributes or the product of methods or formulas that describe or are derived from calculations using historical data. Neither these Signals nor any description of historical data are intended to provide investment advice or a recommendation to make (or refrain from making) any investment decision or asset allocation and should not be relied upon as such. Signals are inherently backward-looking because of their use of historical data, and they are not intended to predict the future. The relevance, correlations and accuracy of Signals frequently will change materially.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. The calculation of indexes and index returns may deviate from the stated methodology. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [msci.com](http://msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, provided that applicable products or services from MSCI ESG Research may constitute investment advice. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. MSCI ESG and climate ratings, research and data are produced by MSCI ESG Research LLC, a subsidiary of MSCI Inc. MSCI ESG Indexes, Analytics and Real Estate are products of MSCI Inc. that utilize information from MSCI ESG Research LLC. MSCI Indexes are administered by MSCI Limited (UK) and MSCI Deutschland GmbH.

Please note that the issuers mentioned in MSCI ESG Research materials sometimes have commercial relationships with MSCI ESG Research and/or MSCI Inc. (collectively, "MSCI") and that these relationships create potential conflicts of interest. In some cases, the issuers or their affiliates purchase research or other products or services from one or more MSCI affiliates. In other cases, MSCI ESG Research rates financial products such as mutual funds or ETFs that are managed by MSCI's clients or their affiliates, or are based on MSCI Inc. Indexes. In addition, constituents in MSCI Inc. equity indexes include companies that subscribe to MSCI products or services. In some cases, MSCI clients pay fees based in whole or part on the assets they manage. MSCI ESG Research has taken a number of steps to mitigate potential conflicts of interest and safeguard the integrity and independence of its research and ratings. More information about these conflict mitigation measures is available in our Form ADV, available at <https://adviserinfo.sec.gov/firm/summary/169222>.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P Global Market Intelligence. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and S&P Global Market Intelligence.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data.

Privacy notice: For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.