

# **MSCI SRI Select Reduced Fossil Fuel Indexes Methodology**

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## 1. Introduction

The MSCI SRI Select Reduced Fossil Fuel Indexes<sup>1</sup> (herein, ‘MSCI SRI Select Reduced Fossil Fuel Indexes’ or ‘the Indexes’<sup>2</sup>) are free float-adjusted market capitalization weighted indexes that exclude companies which are inconsistent with specific values based criteria focused on products with high negative social or environmental impact.

These indexes are designed to meet the following objectives:

- Represent the performance of companies that have high Environmental, Social and Governance (ESG) ratings relative to their sector peers
- Target sector weights that reflect the relative sector weights of the underlying MSCI Global Investable Market Indexes to limit the systematic risk introduced by the ESG selection process. Overall, the Indexes target coverage of 25% of the underlying MSCI Global Investable Market Index.
- Apply a set of exclusions that reflect an interpretation aiming to align with the European Securities and Markets Authority’s (ESMA) Guidelines<sup>3</sup> on funds’ names on using ESG or sustainability-related terms.
- Ensure the index-level sustainable exposure (which reflects a particular interpretation of the company-level sustainable investment assessment as per Article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR)<sup>4</sup> along with an associated aggregation method) meets the relevant index-level sustainable exposure percentage (“Index SE%”) thresholds. The minimum thresholds vary depending on the respective MSCI parent index (“Parent Index”) and are listed in Appendix III.

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<sup>1</sup> Please refer to Section 2.1 for the full list of Indexes.

<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 V for more details

<sup>3</sup> On May 14, 2025, ESMA Guidelines on funds’ names using ESG or sustainability-related terms (reference ESMA34-472-373) were formally published on the European Securities and Markets Authority (ESMA) website.

<sup>4</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

## 2. Constructing the Indexes

The Indexes use company ratings and research provided by MSCI Solutions LLC (“MSCI Solutions”)<sup>5</sup> to determine eligibility for index inclusion.

### 2.1 Eligible Universe

The Eligible Universe for the Indexes includes all the constituents of their respective MSCI Parent Index, as shown in the table below.

Index Name	Parent Index
MSCI World SRI Select Reduced Fossil Fuel Index	MSCI World Index
MSCI Europe SRI Select Reduced Fossil Fuel Index	MSCI Europe Index
MSCI Japan SRI Select Reduced Fossil Fuel Index	MSCI Japan Index
MSCI USA SRI Select Reduced Fossil Fuel Index	MSCI USA Index
MSCI EM SRI Select Reduced Fossil Fuel Index	MSCI EM (Emerging Markets) Index
MSCI EMU SRI Select Reduced Fossil Fuel Index	MSCI EMU Index
MSCI ACWI SRI Select Reduced Fossil Fuel Index	MSCI ACWI Index

### 2.2 Eligibility Criteria

The Indexes use company ratings and research provided by MSCI Solutions to determine eligibility for Index inclusion.

#### 2.2.1 Values and Climate Change Based Exclusions

The Indexes use MSCI Business Involvement Screening Research to identify companies that are involved in the following business activities.

Companies that meet the business involvement criteria are excluded from the MSCI SRI Select Reduced Fossil Fuel Indexes.

Please refer to Appendix I for details on these criteria.

#### Values based Exclusions:

1. Controversial Weapons
2. Civilian Firearms

<sup>5</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 Solutions LLC (“MSCI Solutions”), 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.

3. Nuclear Weapons
4. Tobacco
5. Alcohol
6. Adult Entertainment
7. Conventional Weapons
8. Gambling
9. Genetically Modified Organisms
10. Nuclear Power

**Climate Change based Exclusions**

1. Thermal Coal
2. Unconventional Oil & Gas Extraction
3. Oil & Gas Activities
4. Fossil Fuel-based Power Generation

**2.2.2 ESG Ratings Eligibility**

The MSCI SRI Select Reduced Fossil Fuel 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 MSCI SRI Select Reduced Fossil Fuel Indexes.

**2.2.3 Controversies Score Eligibility**

The MSCI SRI Select Reduced Fossil Fuel Indexes use MSCI 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 Controversies Score of 4 or above to be eligible for inclusion in the MSCI SRI Select Reduced Fossil Fuel Indexes.

Companies that fail to comply with the United Nations Global Compact Principles (UN Global Compact Alignment value of "Fail") are not eligible for inclusion in the Indexes.

**2.3 Index Construction**

The Indexes use company ratings and research provided by MSCI Solutions<sup>6</sup> for the Index construction.

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<sup>6</sup> See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited sources from MSCI Solutions LLC ("MSCI Solutions"), a separate subsidiary of MSCI Inc. MSCI Solutions is solely responsible for the creation, determination and management of such data. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrator for the MSCI indexes.

The MSCI SRI Select Reduced Fossil Fuel Indexes target 25% of the free float-adjusted market capitalization within each Global Industry Classification Standard (GICS®)<sup>7</sup> sector of the underlying Parent Index.

The MSCI USA SRI Select Reduced Fossil Fuel Index, MSCI Europe SRI Select Reduced Fossil Fuel Index, MSCI Japan SRI Select Reduced Fossil Fuel Index and MSCI EMU SRI Select Reduced Fossil Fuel Index are constructed by applying the above methodology to their respective parent indexes.

The MSCI World SRI Select Reduced Fossil Fuel Index and MSCI EM SRI Select Reduced Fossil Fuel Index are constructed by applying the above methodology to the regional carve-outs of their corresponding parent indexes and then aggregating them together.

The following regions are used to construct the MSCI World SRI Select Reduced Fossil Fuel Index:

Region	Regional Carve-out
Developed Asia Pacific	MSCI Pacific Index
Developed Europe & Middle East	MSCI Europe & Middle East Index
Canada	MSCI Canada Index
USA	MSCI USA Index

The following regions are used to construct the MSCI EM SRI Select Reduced Fossil Fuel Index:

Region	Regional Carve-out
Emerging Asia	MSCI Emerging Markets Asia Index
Emerging Europe, Middle East & Africa	MSCI Emerging Markets Europe, Middle East & Africa Index
Emerging Latin America	MSCI Emerging Markets Latin America Index

The MSCI World SRI Select Reduced Fossil Fuel Index and the MSCI EM SRI Select Reduced Fossil Fuel Index are aggregated to construct the MSCI ACWI SRI Select Reduced Fossil Fuel Index.

## 2.4 Security Weighting

The MSCI SRI Select Reduced Fossil Fuel Indexes are constructed by weighting the eligible constituents in proportion of their free-float adjusted market capitalization. The weights are then normalized to sum up to 100%.

Additionally, a capping methodology is applied on issuer and sector weights, as described in Appendix IV.

<sup>7</sup> GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices.

## 2.5 Minimum Index-Level Sustainable Exposure

As a final step, the Indexes are designed so that the index-level sustainable exposure (which reflects a particular interpretation of the company-level sustainable investment assessment as per Article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR)<sup>8</sup> along with an associated aggregation method) meets the relevant thresholds. In case an MSCI SRI Select Reduced Fossil Fuel Index's sustainable exposure is below the required minimum, the Index will apply an iterative exclusion process based on a defined set of rules until the threshold is met.

Please refer to Appendix III for the Index SE% thresholds, the criteria used to determine the company-level sustainable exposure qualification, the calculation of index-level sustainable exposure, as well as details on the iterative exclusion process.

## 2.6 Treatment of Unrated Companies

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

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

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<sup>8</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

## 3. Maintaining the Indexes

### 3.1 Annual Index Review

The MSCI SRI Select Reduced Fossil Fuel Indexes are reviewed on an annual basis in May to coincide with the May semi-annual Index Review of the Parent Index. The changes are implemented at the end of May. The pro forma indexes are generally announced nine business days before the effective date.

In general, MSCI uses MSCI Solutions data (including MSCI ESG Ratings, MSCI Controversies Scores, MSCI Business Involvement Screening Research, MSCI Climate Change Metrics and MSCI Sustainable Impact Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the MSCI SRI Select Reduced Fossil Fuel 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 MSCI SRI Select Reduced Fossil Fuel Indexes.

At each Annual Index Review, the Eligible Universe is updated, and the composition of the index is reassessed in order to target for each sector, 25% free float-adjusted cumulative market capitalization of the Parent Index as well as target 25% coverage by number of securities of the Eligible Universe.

In addition, at each Annual Index Review, the Indexes are evaluated against the minimum index-level sustainable exposure thresholds.

#### 3.1.1 Updating the Eligible Universe

The Eligible Universe is updated during each Annual Index Review.

Companies that are not existing constituents of the MSCI SRI Select Reduced Fossil Fuel Indexes are evaluated using the same eligibility criteria described in Section 2.2.

Existing constituents of the MSCI SRI Select Reduced Fossil Fuel Indexes are maintained in the Eligible Universe if they meet all the following conditions:

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

#### 3.1.2 Ranking of Eligible Securities

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

- ESG Rating
- Current index membership (existing constituents above non-constituents)
- Industry adjusted ESG scores
- 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 at least 25% coverage by cumulative free float-adjusted market capitalization of the Parent Index as well as at least 25% coverage by number of securities of the Eligible Universe are reached:

- Securities with Industry adjusted ESG Score = 10
- 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.

All remaining securities in the Eligible Universe with an Industry adjusted ESG Score = 10 are included in the selection.

## 3.2 Quarterly Index Reviews

The MSCI SRI Select Reduced Fossil Fuel Indexes are also reviewed on a quarterly basis 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 generally announced nine business days before the effective date.

In general, MSCI uses MSCI Solutions data (including MSCI ESG Ratings, MSCI Controversies Scores, MSCI Business Involvement Screening Research, MSCI Climate Change Metrics and MSCI Sustainable Impact Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the MSCI SRI Select Reduced Fossil Fuel 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 SRI Select Reduced Fossil Fuel Indexes.

At the Quarterly Index Reviews, existing constituents are deleted from the MSCI SRI Select Reduced Fossil Fuel 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 cumulative sector coverage based on free float-market capitalization is reached. This selection is done based on the ranking as described in section 3.1.2.

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

In addition, at the Quarterly Index Reviews, the Indexes are evaluated against the minimum index-level sustainable exposure thresholds.

### 3.3 Monthly Review of Controversies

Index constituents are reviewed on a monthly basis for the involvement in controversies and for compliance with the United Nations Global Compact Principles. Existing constituents will be deleted if they face controversies as defined by MSCI Controversies Score of 0 ('Red Flag' companies), or if they fail to comply with the UN Global Compact Principles.

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 Index.

The pro forma Indexes are generally announced nine business days before the first business day of the month.

### 3.4 Capping Frequency

The indexes are capped at the Annual Index Review as well as the Quarterly Index Reviews.

### 3.5 Ongoing Event-Related Changes

The following section briefly describes the treatment of common corporate events within the MSCI SRI Select Reduced Fossil Fuel 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 MSCI SRI Select Reduced Fossil Fuel Indexes between Index Reviews because of a security becoming ineligible because of MSCI ESG Rating downgrade and/or decrease in MSCI 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 index on the date of security inclusion only if they meet the eligibility criteria described in section 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 Index at the time of event implementation. Reevaluation for inclusion in the Indexes will occur at the subsequent Index Review.

**Merger/Acquisition**

For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

**Changes in Security Characteristics**

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book.

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

## 4. MSCI Solutions

The MSCI SRI Select Reduced Fossil Fuel Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI Solutions LLC (MSCI Solutions), as 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, MSCI Climate Change Metrics, and MSCI Impact Solutions. 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 in: <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>

### 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>

### 4.4 MSCI Climate Change Metrics

MSCI Climate Change Metrics provide 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).

### 4.5 MSCI Impact Solutions: Sustainable Impact Metrics

MSCI Impact Solutions’ Sustainable Impact Metrics is designed to identify companies that derive revenue from products or services with positive impact on society and the environment. The Sustainable Impact Metrics are comprised of six Environmental Impact categories and seven Social Impact categories arranged by theme.

#### MSCI Sustainable Impact Taxonomy

Pillar	Themes	Categories
Environmental Impact	Climate Change	<ol style="list-style-type: none"> <li>1. Alternative energy</li> <li>2. Energy efficiency</li> <li>3. Green building</li> </ol>
	Natural capital	<ol style="list-style-type: none"> <li>4. Sustainable water</li> <li>5. Pollution prevention</li> <li>6. Sustainable agriculture</li> </ol>
Social Impact	Basic needs	<ol style="list-style-type: none"> <li>7. Nutrition</li> <li>8. Major Disease Treatment</li> <li>9. Sanitation</li> <li>10. Affordable Real Estate</li> </ol>
	Empowerment	<ol style="list-style-type: none"> <li>11. SME Finance</li> <li>12. Education</li> <li>13. Connectivity – Digital divide</li> </ol>

Under each of the actionable environmental and social impact themes, MSCI Solutions has identified specific categories of products and services that it has determined companies can offer as potential solutions to environmental and social challenges.

For more details on MSCI Sustainable Impact Metrics, please refer to <https://www.msci.com/legal/disclosures/esg-disclosures>.

## Appendix I: Values and Climate Change Based Screening Criteria

Companies whose activities meet the following values and climate change-based criteria, as evaluated by MSCI Solutions, are excluded from the MSCI SRI Select Reduced Fossil Fuel Indexes.

### Values-based Exclusions Criteria:

- **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>
  
- **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

- **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
- **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
- **Weapons**
  - All companies deriving 5% or more revenue from the production of conventional weapons
  - All companies deriving 10% 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

Climate Change based Exclusions Criteria:

- **Thermal Coal**
  - **Thermal Coal Mining:** All companies deriving 1% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: 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.
  - **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.
  - **Thermal Coal-based Power Generation:** All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.
  
- **Unconventional Oil & Gas Extraction**
  - All companies deriving 5% or more revenue (either reported or estimated) from unconventional oil and gas production. It includes revenue from the production of oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane, as well as revenue from onshore or offshore oil and gas production in the Arctic region. It excludes revenue from conventional oil and gas production including deep water, shallow water, and other onshore/offshore oil and gas.
  
- **Oil & Gas Activities**
  - All companies deriving 10% or more aggregate revenue from oil and gas related activities, including distribution / retail, equipment and services, extraction and production, petrochemicals, pipelines and transportation and refining but excluding biofuel production and sales and trading activities.
  
- **Fossil Fuel-based Power Generation**
  - All companies deriving 50% or more revenue from fossil fuel (thermal coal, liquid fuel and natural gas) based power generation<sup>9</sup>

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<sup>9</sup> As per [https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc\\_wg3\\_ar5\\_chapter7.pdf](https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter7.pdf), thermal coal based power generation, liquid fuel based power generation and natural gas based power generation have median lifecycle emissions exceeding 100gCO<sub>2</sub>/kWh.

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

The MSCI SRI Select Reduced Fossil Fuel Indexes target 25% coverage of the free float-adjusted market capitalization of each Global Industry Classification Standard (GICS®) sector of the regional Parent Index (“cumulative sector coverage”) as well as 25% coverage by number of securities of each GICS sector of the Eligible Universe. For any sector, the Indexes can exceed the 25% coverage based on free float-adjusted market capitalization in order to meet at least 25% coverage by number of securities of the Eligible Universe.

The following guidelines are used in achieving the cumulative sector coverage of at least 25% based on free float-adjusted market capitalization and at least 25% coverage by number of securities of each sector of the Eligible Universe:

- For each sector, the eligible companies of the regional Parent Index are first ranked based on the company level ESG Rating.
- In case of two companies with the same ESG Rating, an existing index constituent is given priority to maintain index stability. Between two existing constituents with the same ESG Rating, the company with the higher industry adjusted ESG Score is given priority. For two existing 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 3.1.3 until the cumulative sector coverage<sup>10</sup> crosses 25% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage<sup>11</sup> above 25% as the “marginal company”.
  - If the marginal company is a current index constituent, then it is always selected.
  - If the marginal company is not a current 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<sup>12</sup> 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%.

<sup>10</sup> Based on free float market capitalisation of the Parent Index as well as based on number of securities of the Eligible Universe

<sup>11</sup> Based on free float market capitalization.

<sup>12</sup> Based on free float market capitalization.

## Appendix III: Minimum Index-Level Sustainable Exposure

### INDEX SE% THRESHOLDS

The following minimum Index SE% thresholds are used for each index.

No.	Index Name	Index SE% Threshold
1	MSCI Europe SRI Select Reduced Fossil Fuel Index	40%
2	MSCI EMU SRI Select Reduced Fossil Fuel Index	40%
3	MSCI Japan SRI Select Reduced Fossil Fuel Index	35%
4	MSCI ACWI SRI Select Reduced Fossil Fuel Index	30%
5	MSCI World SRI Select Reduced Fossil Fuel Index	30%
6	MSCI USA SRI Select Reduced Fossil Fuel Index	20%
7	MSCI EM SRI Select Reduced Fossil Fuel Index	10%

### DEFINITIONS

A company meets the “baseline criteria” if it meets all the following conditions:

- MSCI ESG Rating of “BB” or above<sup>13</sup>
- MSCI Controversies Score of 2 or above<sup>14</sup>
- Not flagged by the following business involvement criteria:
  - Has any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), in line with the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>
  - Derives 1% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties
  - Manufactures tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco
  - Derives 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

A company qualifies as having company-level sustainable exposure if it meets all the following conditions:

<sup>13</sup> The condition is not met if the MSCI ESG Rating is missing for the company.

<sup>14</sup> The condition is not met if the MSCI Controversies Score is missing for the company.

- Passes the baseline criteria as defined above
- Passes at least one of the following:
  - Derives 20% or more aggregate revenue from any of the thirteen social and environmental impact categories of Sustainable Impact Metrics (including nutrition, sanitation, major diseases treatment, SME finance, education, connectivity, affordable real estate, alternative energy, energy efficiency, green building, pollution prevention, sustainable agriculture and sustainable water)
  - Has one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (SBTi)

The index-level sustainable exposure is calculated as the sum of the weight of companies in the index that qualify as having company-level sustainable exposure.

### **ITERATIVE EXCLUSION PROCESS**

The iterative exclusion process applied to meet the minimum Index SE% thresholds is described below.

If, and only if, the minimum Index SE% threshold is not met after the application of the Annual Index Review (Section 3.1) or Quarterly Index Review (Section 3.2) methodology, the iterative exclusion process is triggered. The Capping (as per Section 2.4) is applied after each security is excluded, and the process stops once the exclusion of a security results in the Index SE% being equal to or above the relevant minimum Index SE% threshold.

Securities are excluded one at a time according to the priority defined by the following grouping:

- Group 1: Securities of companies that are potential additions to the Index as part of the Annual Index Review (Section 3.1) or Quarterly Index Review (Section 3.2).
- Group 2: Existing securities maintained in the Index as part of the Annual Index Review (Section 3.1) or Quarterly Index Review (Section 3.2).

Within each group, the following priority steps are used:

- Step 1: Exclude securities that fail the “baseline criteria” as defined above and fail both conditions below
  - 1a. Derives 20% or more aggregate revenue from Sustainable Impact Metrics
  - 1b. Has one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (SBTi)
- Step 2: Exclude securities that fail the “baseline criteria” as defined above and fail either 1a or 1b specified above
- Step 3: Exclude securities that meet both conditions below
  - 3a. Do not derive any revenue from Sustainable Impact Metrics
  - 3b. Do not have one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (SBTi)
- Step 4: Exclude securities that do not qualify as having “company-level sustainable exposure” as defined above

At each step of the iterative process, if there is more than one security that meets the exclusion requirements for the step, then securities are excluded in increasing order of free float-adjusted market capitalization, from smallest to largest.

## Appendix IV: Capping Methodology

The capping methodology is applied on issuer and sector weights to mitigate the concentration in the Index.

### A. Parameters of Capping

The maximum weight of an Index constituent at an issuer level will be restricted to 18%. The maximum weight of an Index constituent at an issuer level will not exceed more than +3% of its respective weight in the Parent Index.

The maximum GICS sector weight in the Index will not deviate more than +/-1% from the sector weight in the Parent Index. If no securities are selected from a sector of the Parent Index during rebalancing, the above sector weights constraint will be applied after the proforma weight of that sector in the Parent Index is re-distributed amongst remaining sectors of the Index.

### B. Capping Methodology

The Capping methodology is iteratively applied with the following steps:

- Find the most violating constraint from all the given constraints (sector minimum bound, sector maximum bound, and issuer maximum bound).
- For each group<sup>15</sup> (for example, Energy sector) within all the constraints, the deviation ratio is calculated based on:
  - ratio of current value (for example, weight of issuer 'A' in the Index) to maximum bound (for example, maximum bound of issuer 'A' weight), in case of maximum bound constraint.
  - ratio of minimum bound value (for example, minimum bound of Energy sector weight) to current value (for example, weight of Energy sector in the Index), in case of minimum bound constraint.

The most violating constraint is the maximum of all the deviation ratios.

- The most violating constraint is adjusted first to the respective bound value.
- The excess weight (difference of current value to the respective bound value) is distributed proportionally to all the other constituents.
- The iterative capping stops when the most violating constraint ratio (rounded off to 5 decimals) is less than or equal to 1 or it has reached the maximum iteration count. In case of maximum iteration count, the capping steps will return the solution found until this maximum iteration step.
- If the most violating constraint ratio value for each group (for example, Energy sector in sector minimum bound) is repeated in more than 50 iterations, the capping methodology applies relaxation steps.

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<sup>15</sup> A group refers to an Issuer or a GICS sector

**C. Relaxation Steps**

The following conditions are alternatively relaxed until the most violating constraint ratio (rounded off to 5 decimals) is less than or equal to 1 or it has met the maximum iteration criteria of 2000 steps:

- Relax the minimum bound of sector weights in steps of -0.5%, up to a maximum of 4 iterations.
- Relax the maximum bound of sector weights in steps of +0.5%, up to a maximum of 4 iterations.
- Relax the maximum bound of issuer weights in steps of +0.5%, up to a maximum of 4 iterations.

At each step of relaxation, if the most violating constraint ratio value for each group is repeated more than 50 times, the next step of relaxation is initiated.

## Appendix V: 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>
- 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 – <https://www.msci.com/index/methodology/latest/XCW>
- ESG Factors in Methodology\*

The Methodology Set for the Index 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 VI: Changes to this document

### The following sections have been modified as of February 2022:

- Updated to include the index construction parameters for MSCI ACWI SRI Select Reduced Fossil Fuel Index

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

#### Introduction

- Updated to reflect the new requirement on index-level sustainable exposure

#### Section 2.5: MSCI ESG Sustainable Impact Metrics

- New section

#### Section 3.5: Minimum Index-Level Sustainable Exposure

- New section

#### Section 4.3: Monthly Review of Controversies

- New section

#### Appendix 3: Minimum Index-Level Sustainable Exposure

- New appendix

### The following sections have been modified as of February 2023:

#### Appendix 1: Values and Climate Change Based Screening Criteria

- Updated to clarify the 'Civilian Firearms' screen

### The following sections have been modified as of May 2024:

#### Introduction

- Updated to include source of the ESG related data

#### Section 2.4: Security Weighting

- Added reference to the capping methodology which is explained in Appendix IV

#### Previously section 2.5: Issuer Capping

- Removed section

#### Section 2.6 Treatment of Unrated companies

- New section

#### Section 3.1: Annual Index Review

- Updated to reflect the change in methodology to also target 25% coverage by number of securities of the Eligible Universe in each sector

#### Section 3.1.2: Ranking of eligible securities

- Removed ESG Trend from the ranking

#### Section 3.1.3: Selection of eligible securities

- Updated to reflect the change in methodology to also target 25% coverage by number of securities of the Eligible Universe in each sector
- Updated to reflect that the first priority in selection is to companies with Industry Adjusted ESG Score = 10 and they are selected even if the cumulative coverage exceeds 25%
- Updated to clarify the selection steps

#### Section 4: MSCI ESG Research

- Moved that section after the Section 3 (Maintaining the MSCI SRI Select Reduced Fossil Fuel Indexes).

Updated the descriptions of MSCI ESG Research products.

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

- Updated to reflect the change in methodology to also target 25% coverage by number of securities of the Eligible Universe in each sector
- Removed ESG Trend from the ranking

#### Appendix IV: Capping Methodology

- New appendix

#### Appendix V: Methodology Set

- Added details on the Methodology Set for the Indexes

### **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.

### **The following sections have been modified as of May 2025**

#### Section 2.2.1 Values and Climate Change Based Exclusions

- The screening criteria were updated to reflect the addition of Thermal Coal Distribution, Fossil Fuel Power Generation, and Oil & Gas Activities.
- The screening criteria were updated to reflect the deletion of Oil Sands Extraction, Conventional Oil & Gas Extraction, Oil & Gas-based Power Generation, Thermal Coal Reserves, and Oil Sands Reserves.

#### Section 2.4: Treatment of Unrated Companies

- Added the treatment of companies when business involvement screening research or climate change metrics research are not available from MSCI ESG Research.

#### Appendix I: Value and Climate Change Based Screening Criteria

- Added the description for Thermal Coal distribution, Fossil Fuel Power Generation and the combined screens for Oil & Gas.
- The Thermal Coal Mining revenue threshold was updated from 5% to 1%.



- Removed the description for Oil Sands Extraction, Conventional Oil & Gas Extraction, Oil & Gas-based Power Generation, Thermal Coal Reserves, and Oil Sands Reserves.
- Removed the following screen under Thermal Coal-based Power Generation: “All companies generating 10% or more of their total electricity from thermal coal in a given year”.

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