

# **MSCI WORLD EQUAL WEIGHTED EX BUSINESS INVOLVEMENT SCREENS SELECT INDEX METHODOLOGY**

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## 1 Introduction

The MSCI World Equal Weighted Ex Business Involvement Screens Select Index<sup>1</sup> (the “Index”) aims to provide exposure to the constituents of MSCI World Index (the “Parent Index”) after applying business activity and ESG score related exclusions. The Parent Index is first screened for controversial business involvement. Securities are then selected from the screened index in descending order of ESG score until the target number of constituents (80% of number of constituents in the Parent index) is achieved. Subsequently, the index is weighted equally at the security level.

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

## 2 Constructing the Indexes

The Index uses company ratings and research provided by MSCI ESG Research<sup>2</sup> for the Index construction.

### 2.1 Applicable Universe

The Applicable Universe includes all the existing constituents of the Parent Index.

### 2.2 Eligible Universe

The Eligible Universe is constructed from the Applicable Universe by excluding companies that are involved in the following businesses and meet the business involvement exclusion criteria as detailed in Appendix I:

- Controversial Weapons
- Fossil Fuel Extraction
- Thermal Coal Power
- Tobacco Production

Additionally, companies are required to have an MSCI ESG Controversies Score of 1 or above to be eligible for inclusion.

### 2.3 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 Controversies

### 2.4 Selected Universe

The Selected Universe is constructed from the Eligible Universe by excluding securities based on their ESG Score in the following steps:

1. Securities in the Applicable Universe are sorted in descending order of their ESG Score.
2. Securities are selected in decreasing order of ESG Score until the target number of constituents is achieved.<sup>3</sup>

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<sup>2</sup> See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH sources 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.

<sup>3</sup> Target number of constituents is 80% of the number of constituents in the Parent Index. In case of a tie, security with a higher parent weight is selected first.

## 2.5 Security Weighting

The Index is constructed by applying equal weight to each security within the Selected Universe at each Quarterly Index Review.

## 3 Maintaining the Indexes

### 3.1 Quarterly Index Reviews

The Indexes are reviewed on a quarterly basis, coinciding with the February, May, August and November Index Reviews of the Parent Index. The pro forma Indexes are in general announced nine business days before the effective date.

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

### 3.2 Ongoing Event Related Changes

The general treatment of corporate events in the Indexes aims to minimize turnover outside of Index Reviews. The methodology aims to appropriately represent an investor’s participation in an event based on relevant deal terms and pre-event weighting of the index constituents that are involved. Further, changes in index market capitalization that occur as a result of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

Additionally, if the frequency of Index Reviews in the Parent Indexes is greater than the frequency of Index Reviews in the Index, the changes made to the Parent Indexes during intermediate Index Reviews will be neutralized in the Indexes.

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

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

#### EVENT TYPE

#### EVENT DETAILS

#### **New additions to the Parent Index**

A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.

#### **Spin-Offs**

All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

#### **Merger/Acquisition**

For Mergers and Acquisitions, the acquirer’s post event weight will account for the proportionate

amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

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

**Changes in Security Characteristics**

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

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

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

## 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 products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research, and MSCI Climate Change Metrics. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

### 4.1 MSCI ESG Ratings

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

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

### 4.2 MSCI 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.

For more details on MSCI ESG Business Involvement Screening Research, please refer to [http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_BISR.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf)

### 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/climate-solutions>.



## Appendix I: Business Involvement Screening Criteria

- **Controversial Weapons**

- All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, nondetectable 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>.

- **Fossil Fuel Extraction**

All companies deriving 10% or more aggregate revenue (either reported or estimated) from thermal coal mining and 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 10% or more revenue (either reported or estimated) from thermal coal-based power generation.

- **Tobacco Production**

- All companies deriving 5% or more revenue from the production of tobacco related products. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products

## Appendix II: 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 – [www.msci.com/index/methodology/latest/ReadMe](http://www.msci.com/index/methodology/latest/ReadMe)
- MSCI Corporate Events Methodology – [www.msci.com/index/methodology/latest/CE](http://www.msci.com/index/methodology/latest/CE)
- MSCI Fundamental Data Methodology – [www.msci.com/index/methodology/latest/FundData](http://www.msci.com/index/methodology/latest/FundData)
- MSCI Index Calculation Methodology – [www.msci.com/index/methodology/latest/IndexCalc](http://www.msci.com/index/methodology/latest/IndexCalc)
- MSCI Index Glossary of Terms – [www.msci.com/index/methodology/latest/IndexGlossary](http://www.msci.com/index/methodology/latest/IndexGlossary)
- MSCI Index Policies – [www.msci.com/index/methodology/latest/IndexPolicy](http://www.msci.com/index/methodology/latest/IndexPolicy)
- MSCI Global Industry Classification Standard (GICS) Methodology – [www.msci.com/index/methodology/latest/GICS](http://www.msci.com/index/methodology/latest/GICS)
- MSCI Global Investable Market Indexes Methodology – [www.msci.com/index/methodology/latest/GIMI](http://www.msci.com/index/methodology/latest/GIMI)
- MSCI Global ex Controversial Weapons Indexes Methodology – [www.msci.com/index/methodology/latest/XCW](http://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.

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