

# **MSCI ESG Leaders Select 5% Issuer Capped Indexes Methodology**

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## 1. Introduction

The MSCI ESG Leaders Select 5% Issuer Capped Indexes (‘the 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 50% 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.

The Index aims to avoid concentration by capping issuers within the Index to a maximum weight of 5% in accordance with the MSCI Capped Indexes methodology<sup>2</sup>

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<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 V for more details.

## 2. Constructing the Indexes

Indexes use company ratings and research provided by MSCI ESG Research<sup>2</sup> to determine eligibility for Index inclusion.

The Indexes and their corresponding Parent Indexes are listed in the table below.

Index Name	Parent Index
MSCI World ESG Leaders Select 5% Issuer Capped Index	MSCI World Index
MSCI USA ESG Leaders Select 5% Issuer Capped Index	MSCI USA Index
MSCI Europe ESG Leaders Select 5% Issuer Capped Index	MSCI Europe Index
MSCI EM ex China ESG Leaders Select 5% Issuer Capped Index	MSCI EM ex China Index
MSCI China ESG Leaders Select 5% Issuer Capped Index	MSCI China Index
MSCI AC Far East ex Japan ESG Leaders Select 5% Issuer Capped Index	MSCI AC Far East ex Japan Index
MSCI Europe ex Switzerland ESG Leaders Select 5% Issuer Capped Index	MSCI Europe ex Switzerland Index
MSCI Europe ex EMU ESG Leaders Select 5% Issuer Capped Index	MSCI Europe ex EMU Index
MSCI EM EMEA ex Egypt ESG Leaders Select 5% Issuer Capped Index	MSCI EM EMEA ex Egypt Index
MSCI EM Latin America ESG Leaders Select 5% Issuer Capped Index	MSCI EM Latin America Index
MSCI EMU ESG Leaders Select 5% Issuer Capped Index	MSCI Europe and Middle East Index
MSCI EM ex Egypt ESG Leaders Select 5% Issuer Custom Capped Index	MSCI EM (Emerging Markets) Index
MSCI EM ASIA ESG Leaders Select 5% Issuer Custom Capped Index	MSCI EM ASIA Index
MSCI EM ESG Leaders Select 5% Issuer Custom Capped Index	MSCI Emerging Markets Index

### 2.1 Eligible Universe

The Eligible Universe is defined by applying exclusions based on the eligibility criteria provided below.

<sup>2</sup> Please refer to Section 4 for further information regarding the ESG and climate data used in the Indexes that MSCI Limited 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. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

### 2.1.1 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 'BB' or above to be eligible for inclusion in the Indexes.

### 2.1.2 ESG Controversies Score Eligibility

The Indexes use MSCI ESG Controversies Scores to identify 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 3 or above to be eligible for inclusion in the Indexes.

### 2.1.3 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 2 for further details.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Alcohol
- Conventional Weapons
- Gambling
- Nuclear Power
- Fossil Fuel Extraction
- Thermal Coal Power
- Aggregate Weapons

## 2.2 Index Construction

The MSCI ESG Leaders Select 5% Issuer Capped Index select eligible constituents targeting 50% of the free float-adjusted market capitalization within each Global Industry Classification Standard (GICS®) sector of the underlying Parent Index as detailed in the Appendix 1 of the MSCI ESG Leaders Index Methodology.

The MSCI USA ESG Leaders Select 5% Issuer Capped Index and MSCI China ESG Leaders Select 5% Issuer Capped Index are constructed by applying the above methodology on their respective Parent Indexes.

The MSCI World ESG Leaders Select 5% Issuer Capped Index, MSCI EM ex China ESG Leaders Select 5% Issuer Capped Index and MSCI EM ESG Leaders Select 5% Issuer Capped Index are constructed

by applying the above methodology to the regional carve-outs of their corresponding Parent Indexes, which are then aggregated together.

The following regions are used to construct the MSCI World ESG Leaders Select 5% Issuer Capped 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 (Emerging Markets) ESG Leaders Select 5% Issuer Capped 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 following regions are used to construct the MSCI EM ex China ESG Leaders Select 5% Issuer Capped Index:

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

The constituents of the MSCI Europe ESG Leaders Select 5% Issuer Capped Index, MSCI Europe ex Switzerland ESG Leaders Select 5% Issuer Capped Index, and MSCI Europe ex EMU ESG Leaders Select 5% Issuer Capped Index are determined by selecting securities from the corresponding region in the MSCI World ESG Leaders Select 5% Issuer Capped Index.

In order to construct the MSCI AC Far East ex Japan ESG Leaders Select 5% Issuer Capped Index, at each index review, a Composite Index is constructed by combining the component indexes as specified in the table below, based on the MSCI Global Investable Market Indexes methodology

Component No.	Component Name
1	MSCI World ESG Leaders Select Index
2	MSCI EM ex China ESG Leaders Select Index
3	MSCI China ESG Leaders Select Index

The constituents of MSCI AC Far East ex Japan ESG Leaders Select 5% Issuer Capped Index are determined by selecting the securities belonging to the MSCI Far East ex Japan Index from the Composite Index.

### 2.3 Issuer Capping

The constituents of the Indexes are weighted as per their free float adjusted market capitalization and capped with the maximum weight of any issuer in the Indexes is 5% in accordance with the MSCI Capped Indexes Methodology<sup>3</sup>. The excess weight of the capped issuers is distributed among the remaining constituents in proportion of their existing weights in the Indexes.

### 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

<sup>3</sup> For further details on the MSCI Capped Indexes Methodology, please refer to <https://www.msci.com/index-methodology>.

### 3. Maintaining the Indexes

#### 3.1 Annual Index Review

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 Scores, MSCI Business Involvement Screening Research and MSCI Climate Change Metrics) as of the end of the month preceding the Index Reviews for the rebalancing of the 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 50% 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 2.2.3

##### 3.1.2 Ranking of Eligible Securities

For each sector, eligible securities of the regional Parent Index as described in Section 2.2 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 of the Indexes)
- Industry-adjusted ESG scores
- Decreasing free float-adjusted market capitalization

<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 1 for more details.



### 3.1.3 Selection of Eligible Securities

For each sector, eligible securities of the regional Parent Index are then selected from the ranked Eligible Universe in the following order until the target 50% coverage by cumulative free float-adjusted market capitalization is reached:

- Securities in the top 35% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 35%
- 'AAA' and 'AA' rated securities in the top 50% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 50%
- Current Index constituents in the top 65% cumulative free float-adjusted market capitalization coverage of the ranked universe, including the first security that increases the cumulative coverage above 65% if that security is a current index constituent
- Remaining eligible securities in the ranked universe

Please see Appendix 1 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 45%, until the 50% 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 50% to define under-representation.

## 3.3 Monthly Review of Controversies Index Reviews

Index constituents are reviewed on a monthly basis for the involvement in ESG controversies<sup>6</sup>. Existing constituents will be deleted if they are assessed as having involvement in ESG controversies

<sup>6</sup> The monthly review of ESG controversies was implemented effective November 1, 2023 and the proforma indexes were announced nine business days before the effective date.

that are classified as Red Flags (MSCI ESG Controversies Score of 0). A Red Flag indicates an ongoing, Very Severe ESG controversy implicating a company directly through its actions, products, or operations. Existing Index constituents with missing MSCI ESG Controversy Scores are not deleted during Monthly Review of Controversies.

MSCI uses MSCI ESG Controversies data as of the end of the month preceding the review (e.g., end of June data for the July monthly review). For some securities, such data may not be published by MSCI ESG Research 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 effective date.

### 3.4 Capping Frequency

Issuer capping of 5% is applied in February, May, August and November, coinciding with the index reviews of the MSCI Global Investable Market Indexes.

### 3.5 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 45%.

##### **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>.

## 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.

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: Guidelines on Achieving the Target Sector Coverage of 50%

The MSCI ESG Leaders Select 5% Issuer Capped Indexes target 50% coverage of the free float-adjusted market capitalization of each GICS sector of the regional Parent Index. The underlying principle in the construction of the indexes is to achieve cumulative sector coverage closest to 50%, while aiming to maintain index stability.

The following guidelines are used in achieving the target cumulative sector coverage of 50%:

- 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, the existing ESG Leaders 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 ESG Leaders 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 50% or there are no eligible securities left to be selected.
- MSCI defines the company that increases the cumulative sector coverage above 50% as the “marginal company”.
  - If the marginal company is a current ESG Leaders Index constituent, then it is always selected.
  - If the marginal company is not a current ESG Leaders Index constituent, then it is selected only if the cumulative sector coverage with the marginal company is closer to 50% compared to the cumulative sector coverage without the marginal company.
- The minimum cumulative sector coverage is set to 45%.
  - The marginal company is always selected if this is required to achieve cumulative sector coverage of 45%.
- 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 50%.

## Appendix II: 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 MSCI ESG Leaders Indexes (except 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 Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>

### **“Highly Restrictive” screen applied**

#### **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

### **“Moderately Restrictive” screen applied**

#### **Civilian Firearms**

- All companies deriving 5% or more revenue from the production 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 15% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use

**“Least Restrictive” screen applied**

**Alcohol**

- All companies deriving 10% or more revenue from the production of alcohol-related products

**Conventional Weapons**

- All companies deriving 10% or more revenue from the production of conventional weapons and components

**Gambling**

- All companies deriving 10% or more revenue from ownership or operation of gambling-related business activities

**Nuclear Power**

- All companies deriving 10% or more revenue from the ownership or operation of nuclear power plants

**No specific restrictiveness level applied**

**Fossil Fuel Extraction**

- All companies deriving 5% 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.

**Tobacco**

- All companies involved in the production of tobacco products. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.
- All companies deriving 10% or more reported revenue (or, where not disclosed, maximum estimated revenue) from the production, distribution or retail of tobacco products, as a licensor of brand names for tobacco products, or as a supplier for tobacco products as a percentage of total revenue in its most recently completed fiscal year. Tobacco products include nicotine-containing products, including traditional and alternative tobacco smoking products.



### Thermal Coal

- All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.
- All companies that are deriving 50% or more power<sup>7</sup> from thermal coal.
- All companies providing evidence of owning thermal coal including those that own less than 50% of a reserves field. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves.

### Aggregate Weapons

All companies deriving 10% or more aggregate revenue from conventional, controversial and nuclear weapons based on the following categories:

- Companies involved in the production of conventional weapons, components for such products or support systems and services for such products.
- Companies involved in the production of biological or chemical weapons, components for such products.
- Companies involved in the production of blinding laser, incendiary or non-detectable fragments weapons in its most recently completed fiscal year.
- Companies involved production of nuclear weapons, exclusive and dual-use delivery platform capable to deliver such products, intended and dual-use components of such products, services provided for such products.

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<sup>7</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 has median lifecycle emissions exceeding 100gCO<sub>2</sub>/kWh.

## **Appendix IV: Issuer and Country Capping for two EM Regional Indexes**

The MSCI EM ex Egypt ESG Leaders Select 5% Issuer Custom Capped Index and MSCI EM Asia ESG Leaders Select 5% Issuer Custom Capped Index (the “Indexes”) apply a 5% issuer cap on all securities except those from India.

The maximum weight of securities in India in the Indexes is capped at 18%. If the weight of securities in India exceeds 18%, the Indexes will be reweighted and the weight of securities in India will be reduced to 14%. This capping is applied at the Quarterly Index Review.

A daily check on securities in India will also be applied, such that if the weight of securities in India exceeds 18%, the Index will be reweighted and the weight of securities in India will be reduced to 14%. The excess weight will be distributed among the remaining constituents in proportion of their existing weights in the Index.

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

## Appendix III: Methodology Transitions

The methodology transition for the MSCI ESG Leaders Indexes and the MSCI ESG Leaders Select 5% Issuer Capped Indexes is detailed in this section.

### June 2013

Prior to the May 2013 Index Review, the MSCI ESG Leaders Indexes were constructed using Global Socrates ESG Ratings. Effective May 2013 Index Review, MSCI ESG Leaders Indexes transitioned to MSCI ESG IVA Ratings. Any company that had an ESG Rating of 'CCC' or lower was not eligible for inclusion in the MSCI ESG Leaders Indexes. The MSCI ESG Leaders Indexes were constructed by targeting 50% of the free float-adjusted market capitalization of each GICS sector of the underlying MSCI regional ESG Leaders Index.

### June 2016

Effective May 2016 Index Review, the MSCI ESG Leaders 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 ESG Leaders 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 ESG Leaders 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. Therefore, additional exclusion rules based on the controversial business involvement criteria related to alcohol, tobacco, gambling, nuclear power, conventional weapons and controversial weapons that were incorporated in the old MSCI Impact Monitor scores were introduced as part of the methodology of the MSCI ESG Leaders Indexes. The details of the exclusion rules are mentioned in Appendix 2.

### June 2018

Prior to the May 2018 Annual Index Review, existing constituents of the MSCI ESG Leaders Indexes could be maintained in the eligible universe if their MSCI ESG Rating was 'B' or above. Effective from the May 2018 Annual Index Review, existing constituents are required to have MSCI ESG Rating of 'BB' or above in order to be maintained in the eligible universe.

**December 2020**

Effective from the November 2020 Index Review, the controversial business involvement criteria have been enhanced to reflect the 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, screens for Fossil Fuel Extraction and Thermal Coal Power were added.

**June 2022**

The constituents of the European region of the MSCI EMU ESG Leaders Select 5% Issuer Capped Index had differences compared to the constituents of the MSCI Europe ESG Leaders Select 5% Issuer Capped Index prior to June 2022. The differences were due to a different threshold being applied till March 2020 for the Thermal Coal Power screen and differences in the rules for existing constituents versus non-constituents. Post June 2022, the constituents from the European region of the MSCI EMU ESG Leaders Select 5% Issuer Capped Index are aligned with the constituents of the MSCI Europe ESG Leaders Select 5% Issuer Capped Index.

**March 2024**

The MSCI EM ESG Leaders 5% Issuer Capped Index was transitioned to the MSCI EM ESG Leaders Select 5% Issuer Capped Index at the March 2024 Index Review. Prior to March 1, 2024, the Index has the same constituents and weight as the MSCI EM ESG Leaders 5% Issuer Capped Index

## **Appendix IV: MSCI Country and Region ESG Leaders Indexes**

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

The MSCI Country ESG Leaders 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 ESG Leaders Indexes can be constructed for the Standard size-segment in any Developed and Emerging Markets.

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

The MSCI Country and Region ESG Leaders 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 ESG Leaders Indexes.

The MSCI Country and Region ESG Leaders Indexes target 50% of the free float-adjusted market capitalization of each GICS sector of the Parent Country or Region Index. The MSCI Country and Region ESG Leaders Indexes follows the same index review cycle, maintenance rules and corporate events treatment as the MSCI ESG Leaders Indexes as described in Section 3.

## Appendix V: 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 ESG Leaders Indexes Methodology – <https://www.msci.com/index/methodology/latest/ESG>
- MSCI Capped Indexes Methodology – <https://www.msci.com/index/methodology/latest/Capped>
- 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 VI: Changes to this Document

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

Appendix 5: Methodology Set

- Added details on the Methodology Set for the Indexes.

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

Section 3.3: Monthly Review of Controversies Index Reviews

- Missing data treatment for Monthly Review of Controversies clarified in Section

Section 4: MSCI ESG Research

- Updated wording on the MSCI ESG Research Products.

Appendix II: Controversial Business Involvement Criteria

- Updated the exclusion criteria for the Thermal Coal Power Generation screen

**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.

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