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Methodology Book For:

- MSCI USD IG Broad Corporate Bond with Reg S Index
- MSCI USD IG Corporate Bond Select Screens Index
- MSCI USD IG Top 200 Corporate Bonds Select Screens Index
- MSCI USD IG Top 200 Corporate Bonds Select Screens Hedged to EUR Index



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1 Introduction

The MSCI USD IG Top 200 Corporate Bonds Select Screens Index (the "Index") aims to represent the performance of a strategy that seeks systematic integration of environmental, social and governance (ESG) norms while selecting the two largest bonds from each of the 100 largest issuers in the MSCI USD IG Corporate Bond Select Screens Index (the "Parent Index").

The Parent Index is constructed from the MSCI USD IG Broad Corporate Bond with Reg S Index (the "Starting Index") by incorporating business exclusion screens based on involvement in Controversial Weapons, Civilian Firearms, Nuclear Weapons, Tobacco, Adult Entertainment, Alcohol, Conventional Weapons, Gambling, Genetically Modified Organisms, Nuclear Power, Fossil Fuel Reserves, Fossil Fuel Extraction, Thermal Coal Based Power Generation, ESG Controversy Score and ESG Rating.

The Starting Index is constructed from the global credit universe by applying various selection criteria based on security type, credit rating, bond size, maturity and country of domicile.

The MSCI USD IG Top 200 Corporate Bonds Select Screens Hedged to EUR Index (the "Hedged Index") aims to represent the return resulting from hedging 100% of the MSCI USD IG Top 200 Corporate Bonds Select Screens Index (the "Unhedged Underlying Index") to EUR in the 1-month Forward currency market and contains both a bond and a currency component. The amount hedged is kept constant over the whole month and the currency P&L is assumed to be reinvested at the month end only.

2 Index Construction Methodology

Constructing the MSCI USD IG Top 200 Corporate Bonds Select Screens Index involves the following step:

- Defining the MSCI USD IG Broad Corporate Bond with Reg S Index
- Defining the MSCI USD IG Corporate Bond Select Screens Index
- Defining the MSCI USD IG Top 200 Corporate Bonds Select Screens Index

2.1 Defining MSCI USD IG Broad Corporate Bond with RegS Index

The MSCI USD IG Broad Corporate Bond with Reg S Index (the “Starting Index”) is constructed using the methodology defined for MSCI USD IG Core Corporate Bond Index in the MSCI Corporate Bond Indexes Methodology¹ except for the below changes:

- At rebalancing, each security included in the Starting Index will have a notional amount outstanding greater than or equal to USD 300 million. Issuer Size threshold is not applicable.
- Regulation S bonds are eligible for inclusion and 144a bonds are ineligible for inclusion in the Starting Index.

2.2 Defining the MSCI USD IG Corporate Bond Select Screens Index

The MSCI USD IG Corporate Bond Select Screens Index (the “Parent Index”) is constructed from the Starting Index by applying the screening criteria defined in Appendix II. The exclusions are based on the data provided by MSCI ESG Research at the time of index rebalancing. The screened securities which are eligible for inclusion in the MSCI USD IG Corporate Bond Select Screens Index are weighted in proportion of their weight in the Starting Index.

2.3 Defining the MSCI USD IG Top 200 Corporate Bonds Select Screens Index

The MSCI USD IG Top 200 Corporate Bonds Select Screens Index (the “Index”) is constructed from the MSCI USD IG Corporate Bond Select Screens Index by applying the following steps:

- **Issuer Selection:** Top 125 largest issuers are identified based on sum of bond amount outstanding for each issuer in the MSCI USD IG Corporate Bond Select Screens Index. Selection Buffer² of 25% is applied to select the top 100 issuers³.

¹ Refer to MSCI Corporate Bond Indexes Methodology available at: <https://www.msci.com/index-methodology>

² Refer to Appendix III for details

³ In case of a tie, the issuer with higher weight in Parent Index is preferred.

- **Bond Selection:** Two largest bonds⁴ are selected from each of the top 100 issuers based on bond amount outstanding.
- **Weighting:** Bonds are weighted in proportion of their weights in the MSCI USD IG Corporate Bond Select Screens Index.

2.4 Treatment of Unrated Companies

All securities that are not excluded by the specified MSCI ESG Business Involvement Screening Research (BISR) criteria are eligible for inclusion in the index.

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 Rating Score
- MSCI Controversy Score

⁴ If case of a tie, the bond with longer time to maturity is preferred. If tie is not resolved, then the bond with larger coupon is preferred.

3 Index Rebalancing & Maintenance

3.1 Monthly Index Review

- The composition of the Indexes is reviewed monthly, with an effective rebalancing impact on the first business day of the month (Rebalancing Date). For clarification, bonds are added to the Index at the closing of the last business day of every month, however, the return impact is on the first business day of the month.
- In general, change in the Index composition is based on latest⁵ data available (including MSCI ESG & Climate data) three days prior to the Rebalancing Date, which is defined as the Cut-Off Date. Any inclusion or exclusion criteria satisfied for a given security in the universe, after the Cut-Off Date (T-3), will generally become effective at the following monthly rebalancing; should conditions remain unchanged. In exceptional cases, for instance, cases of input data correction, MSCI can reduce the Cut-Off Date for Index rebalancing from T-3 to T-2, T-1 or T. In such instances, MSCI will notify Index clients of such changes via announcement.
- MSCI will disclose proforma Index rebalancing results starting the second business day of each month. MSCI will freeze the pro forma Index rebalancing results as of the Cut-Off Date.
- Bonds are added to or deleted from the Index only on monthly rebalancing dates. For the existing Index components any changes to Index eligibility will only be reflected in the next monthly rebalancing.
- Any inclusion or exclusion criteria satisfied for a given security in the universe, after the Cutoff Date, will generally become effective at the following monthly rebalancing; should conditions remain unchanged.
- Any cash that accrues within the index each month is re-invested on a pro-rata basis across the index constituents on the effective date of rebalancing. In essence, cash in the Index is swept out on rebalancing and the opening Index portfolio on the Rebalancing Date starts with zero accrued cash balance.
- Specific variants of total return calculation of the Index on the Rebalancing Date may be adjusted for transaction costs as securities are added to the Index at the offer price.

For further information on index total return calculation please refer to the MSCI Fixed Income Index Calculation Methodology⁶. For the holiday calendar used in the index, please refer to the MSCI

⁵ ESG and Climate data will utilize the most recent, quality-assured information available. For index rebalancing, the latest data that has successfully undergone quality assurance checks will be employed. In cases where recent data changes are still undergoing verification, only data that has passed the quality assurance process will be considered.

⁶ Please refer to MSCI Fixed Income Index calculation methodology for further details on calculation of market value. Available at <https://www.msci.com/index-methodology>

Fixed Income Data Methodology⁷. MSCI leverages the GICS^{®8} sector classification framework for MSCI Corporate Bond Indexes as well. Please refer to MSCI GICS Methodology⁹ for details.

⁷ Please refer to MSCI Fixed Income Index Data methodology for further details on the holiday calendar. Available at <https://www.msci.com/index-methodology>

⁸ GICS, the global industry classification standard jointly developed by MSCI Inc. and S&P Dow Jones Indices

⁹ The GICS methodology is available at: <https://www.msci.com/gics>

4 Hedged Index Construction Methodology

The Hedged Index¹⁰ is designed to represent a close estimation of the return that can be achieved by hedging the currency exposures of the Unhedged Underlying Indexes in the one-month Forward market at the end of each month. The Hedged Index hedges each foreign currency in the index back to the home currency of the index by selling each foreign currency forward at the one-month Forward rate. The amount of Forwards sold on the last weekday¹¹ of the month represents the market value of the index as of the close of two weekdays before the first calendar day of the following month with the aim of achieving better index replicability. The foreign currency weights, however, take into account any changes in the composition of the index implemented as of the close of last weekday of the month. No adjustment to the hedge is done during the month to account for changes in the indexes due to price movement of securities, corporate events, additions, deletions or any other changes. In other words, the amount hedged is kept constant over the whole month.

4.1 Monthly Index Reviews of the MSCI USD IG Top 200 Corporate Bonds Select Screens Index

Constructing the Hedged Index involves the following steps:

- Defining the home currency
- Identifying the currencies to be sold in the index
- Identifying the weight for each currency to be sold in the index
- Combining the Unhedged Underlying Index return with the Hedge Impact.

4.1.1 Defining the Home Currency

The home currency is the home currency of an investor investing in international fixed income markets. Often, a cross-border investor would like to measure the performance impact of hedging the currency exposure of his holdings relative to his home currency. For construction of Hedged Index, the home currency is the EUR.

4.1.2 Identifying the Currencies to be Sold in the Index

The Unhedged Underlying Indexes have security constituents that can be quoted in different foreign currencies. Each foreign currency used to denote securities in the Unhedged Underlying Index is included in the calculation of the Hedged Index.

4.1.3 Identifying the Weight for Each Currency to be Sold in the Index

In the Hedged Index, the weight of each currency corresponds to the relative market cap weight of the securities quoted in that currency in the Unhedged Underlying Index. More precisely, the weights are derived from the weight of the securities quoted in the respective currencies in the

¹⁰ Refer Appendix IV for common principles in the calculation of the Hedged Index

¹¹ The treatment of missing spot and forward rates on any weekday is defined in Appendix IV Section 3

Unhedged Underlying Index as of the close of two weekdays before the first calendar day of following month but taking into account any month end changes in the index constituents due to rebalancing and corporate actions.

4.1.4 Combining the Unhedged Underlying Index Return with the Hedge Impact

The Hedged Index return is calculated as a sum of the Unhedged Underlying Index return expressed in the home currency, and the Hedge Impact. As currency weights and corresponding Forward notional amounts are determined two weekdays before the first day of the following month, an adjustment factor needs to be introduced in the calculation of the Hedge Impact to account for the performance of the Hedged Index on the last weekday of the month. This adjustment is described in detail in section 5.2.

4.2 Hedged Index Calculation Formula

4.2.1 Calculation Formula

There are two components to the Hedged Index return¹²:

1. The performance of the unhedged index in the home currency
2. The Hedge Impact (aimed to represent the gain or loss on the Forward contracts) in the home currency

The Hedge Impact, expressed in percent, is calculated as follows (all exchange rates are expressed as amount of foreign currency for 1 unit of hedged currency).

$$HI(t) = NAF \times \sum_{i=1}^n \left\{ Weight_{i,M-2} \times FXRate_{i,M-2} \times \left(\frac{1}{FFRate_{i,M-1}} - \frac{1}{FFRate_{i,odd-days_t}} \right) \right\}$$

where,

t = Index calculation date

NAF = Notional Adjustment Factor that accounts for the fact that the total value of the currency notional amount is not the same as the value of the Unhedged Underlying Index due to the fact that the first is determined on M-2 whereas the second on M-1. It is defined as the ratio of the Hedged Index level on M-2 and the Hedged Index level on M-1

$$= \frac{HedgedIndex_{M-2}}{HedgedIndex_{M-1}}$$

M = First calendar day of the month

$HI(t)$ = Index Hedge Impact at time t

¹² Refer Appendix V Section 1 for an example of hedged index return calculation.

$Weight_{i,M-2}$	= Weight of the currency i in the Unhedged Underlying Index two weekdays before the start of the current calendar month, but reflecting changes in the composition of the index to be implemented as of the close of the last weekday of the previous month
$FXRate_{i,M-2}$	= Spot rate of the currency i two weekdays before the start of the current calendar month. This term determines the notional amount of the foreign currency to be sold corresponding to its weight in the index
$FFRate_{i,M-1}$	= 1-month Forward (ask quote) for the currency i one weekday before the start of the current calendar month (or last weekday of the previous calendar month)
$FFRate_{i,odd-days_t}$	= Interpolated odd-days Forward rate of the currency i on day t. This term is used to mark to market the currency position intra month and is equal to the Spot rate of currency i on the last day of the month. Its calculation is defined in Section 5.4.1.

The Hedged Index performance is the combination of the unhedged performance (in hedged currency terms) and the Hedge Impact:

Performance of the Hedged Index =

$$\frac{UnhedgedUnderlyingIndex_t}{UnhedgedUnderlyingIndex_{M-1}} - 1 + HI(t)$$

where,

$UnhedgedUnderlyingIndex_t$	= Value of the Unhedged Underlying Index on the calculation date
$UnhedgedUnderlyingIndex_{M-1}$	= Value of the Unhedged Underlying Index on the last weekday of the previous calendar month.
$HI(t)$	= Hedge Impact on the index calculation date defined above

4.3 Calculation of Daily Returns

4.3.1 Marking to Market the Forward Contracts on a Daily Basis

The daily calculation of Hedged Index marks to market the one-month Forward contracts on a daily basis by using an equal and offsetting Forward position. For instance, after 8 days, the Forward would be marked to market using a 22-days offsetting Forward in the case of a month when the last weekday of the month is the 30th (i.e. $30 - 8 = 22$).

4.3.2 Pricing the Offsetting Forward

Typically, only a limited number of standard duration of Forwards is available in the market. These rates are called "tenors", and represent one day, one week, one month, etc. This means that other durations for Forwards (called odd-days Forwards) are generally not available but must be calculated. For the sake of simplicity, when calculating Hedged Index, MSCI uses a linear interpolation based solely on the 1- month Forwards to estimate the value of odd-days Forwards every day during the whole month. Odd-days Forwards are computed simply as the Spot rate plus the 1- month Forward premium or discount pro-rated for the number of days until the last weekday of the month.

4.4 Odd-Days Forwards Calculation Using a Linear Interpolation

4.4.1 Calculation Formula

MSCI uses a linear interpolation formula to compute odd-days Forwards¹³. The general formula is as follows:

$$FFRate_{odd-days_t} = FXRate_t + \left((FFRate_{1-month_t} - FXRate_t) \times \frac{Odd-days_t}{TotNbOfCalDaysDuringMonth} \right)$$

where,

$FXRate_t$ = Spot rate at time t

$FFRate_{1-month_t}$ = 1-month Forward rate (ask quote) at time t

$odd-days_t$ = Interpolated odd-days Forward rate of the currency i on day t. This term is used to mark to market the currency position intra month and is equal to the Spot rate of currency i on the last day of the month. Its calculation is defined in Section 5.4.1.

¹³ Refer Appendix V Section 2 for an example of interpolated odd-days forward rate calculation.

5 Maintaining the Hedged Index

The Hedged Index is maintained with an objective of reflecting the evolution of the underlying currency exposures in the Unhedged Underlying Indexes on a timely basis. In particular, the hedged index maintenance involves:

- Resetting the weights of the currencies to be sold in the index
- Rolling the Forward contracts over to the next month

The Hedged Index is rebalanced monthly on the last trading day of the month, when the Hedged Index will take into account the effect of rolling into new 1-month Forward contracts based on the newly determined weights of currency to be sold for the next month's Hedged Index calculation. The currency weights corresponding foreign currency notional amounts are determined as of the close of two weekdays before the first calendar day of the following month and remain constant intra month.

This means that no changes in the weights are made during the month to account for changes in the Unhedged Underlying Indexes due to price movement of securities, corporate events, additions, deletions or any other changes

6 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, ESG Controversies, and ESG Business Involvement Screening Research. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

6.1 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>.

6.2 MSCI ESG Controversies

MSCI ESG Controversies provides assessments of controversies concerning the 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.

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

6.3 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: <https://www.msci.com/legal/disclosures/esg-disclosures>.

Appendix I: List of Developed Market Countries¹⁴

Australia	Japan
Austria	Luxembourg
Belgium	Netherlands
Canada	New Zealand
Cyprus	Norway
Denmark	Portugal
Finland	Singapore
France	Spain
Germany	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom
Israel	USA
Italy	

¹⁴ Refer to the MSCI Fixed Income Market Classification Framework for detail. The document is available at - <https://www.msci.com/indexes/index-resources/market-classification>.

Appendix II: ESG-based Exclusion Criteria

Controversial Weapons:

- All companies with any tie to Controversial Weapons as defined below:
 - **Cluster Bombs**
 - MSCI ESG Research's cluster bomb research identifies issuers that are involved in the production of cluster bombs and munitions, or the essential components of these products.
 - **Landmines**
 - MSCI ESG Research's landmines research identifies issuers that are involved in the production of anti - personnel landmines, anti - vehicle landmines, or the essential components of these products.
 - **Depleted Uranium Weapons**
 - MSCI ESG Research's depleted uranium weapons research identifies issuers involved in the production of depleted uranium weapons and armor.
 - **Chemical and Biological Weapons**
 - MSCI ESG Research's chemical and biological weapons research identifies issuers that are involved in the production of chemical and biological weapons, or the essential components of these products.
 - **Blinding Laser Weapons**
 - MSCI ESG Research's blinding laser weapons research identifies issuers that are involved in the production of weapons utilizing laser technology to cause permanent blindness.
 - **Non-Detectable Fragments**
 - MSCI ESG Research's non-detectable fragments research identifies issuers that are involved in the production of weapons that use non-detectable fragments to inflict injury.
 - **Incendiary Weapons (White Phosphorus)**
 - MSCI ESG Research's incendiary weapons research identifies issuers that are involved in the production of weapons using white phosphorus.

Involvement criteria:

- Producers of weapons.
- Producers of key components of the weapons (only applies to cluster bombs, landmines, depleted uranium weapons as well as chemical and biological weapons).
- Ownership of 20% or more of a weapons or components producer

The minimum limit is raised to 50% for financial companies having an ownership in a company that manufactures controversial weapons or key components of controversial weapons.

- Owned 50% or more by a company involved in weapons or components production

Revenue limits:

- Any identifiable revenues, i.e., zero tolerance

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.

Adult Entertainment

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

Alcohol:

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

Conventional Weapons:

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

Gambling:

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

Genetically Modified Organisms (GMO)

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

Nuclear Power:

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

Fossil Fuel Reserves Ownership:

- All companies with evidence of owning proven & probable coal reserves and/or proven oil and natural gas reserves used for energy purposes.

Fossil Fuel Extraction:

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

ESG Controversies:

- All companies having faced very severe controversies pertaining to ESG issues – defined as companies with an ESG Controversy Score of 0.

ESG Rating:

- Securities of companies having an MSCI ESG Rating of "BB", "B", "CCC" or unrated.

Appendix III: Issuer Selection Buffer Rule

Assuming 100 issuers must be selected, issuers in the eligible universe ranked at or above 75 will be added to the Index on a priority basis. Buffers are applied between selection ranks 76 and 125. The existing constituents (from previous rebalance) that have a selection rank between 76 and 125 are then successively added until the number of issuers in the Index reaches 100. If the number of issuers is below 100 after this step, the remaining issuers in the eligible universe with the highest selection rank are added until the number of issuers in the Index reaches 100.5

Appendix IV: Common Principles in the Calculation of the Hedged Index

1. Closing Spot Rates

For constructing the Hedged Index, MSCI uses the WM/Reuters closing Spot rates (the mid-point of closing bid and ask rates to five decimal places), taken at 4 p.m. UK time in the daily index calculation and also in the determination of the notional amount of currencies to be sold forward on the roll date.

The WM/Reuters closing Spot rates are provided by Refinitiv. MSCI may elect to use alternative sources of exchange rates if the WM/Reuters rates are not available, or if MSCI determines that the WM/Reuters rates may not reflect market conditions.

2. Closing Forward Rates

For constructing the Hedged Index, MSCI uses the bid and ask values of the 1-month WM/Reuters Forward rates published by Refinitiv at 4 p.m. UK time.

3. Missing Spot or Forward Rates

In the case Refinitiv does not provide Spot rates for specific markets on given days (for example, Christmas Day and New Year Day), the Spot rates on the last weekday for which they are available will be used. If a Forward rate is missing, the Forward premium/discount on the last weekday for which it is available is applied to the current day's Spot rate.

4. Currency Crisis

Disruptions in the currency Spot and/or Forward market may potentially result in a currency being excluded from the Hedged Index even though the currency may be still included in the Unhedged Underlying Indexes. In this case, the resulting currency weights may be different from the currency weights in the Unhedged Underlying Indexes.

In such circumstances, MSCI would send an announcement to clients with the related information and with sufficient advance notice. All such determinations are made by the MSCI Fixed Income Index Committee (FIIC).

5. Calculation Time and Frequency

The Hedged Index is calculated after the calculation of the Unhedged Underlying Indexes.

Similar to the Unhedged Underlying Index calculation schedule, the official month- end index levels for the Hedged Index is calculated on the last weekday of the month.

Appendix V: Calculation Examples

1. Calculation Example – Hedged Index Return

We consider a simple example of calculation of a two-currency index hedged to GBP. We describe the hypothetical calculation of the hedged index level for August 31, 2021. The data relevant for this calculation is displayed below.

	(M-2)	(M-1)	(t)
	29-Jul-21	30-Jul-21	31-Aug-21
Proforma EUR Weight (effective 02-Aug-21)	19.61%		
Proforma USD Weight (effective 02-Aug-21)	80.39%		
GBPEUR spot (Mid Quote)	1.1759		1.1659
GBPUSD spot (Mid Quote)	1.3976		1.3763
GBPEUR 1M forward (Ask Quote)		1.1722	
GBPUSD 1M forward (Ask Quote)		1.3906	
GBPEUR odd-days forward			1.1659
GBPUSD odd-days forward			1.3763
Hedged Index Level (GBP)	1016.64	1017.02	
Parent index Level (GBP)		1920.75	1947.63

where,

$$GBPEUR \text{ spot (Mid Quote)}_{M-2} = \frac{USDEUR \text{ spot (Mid Quote)}}{USDGBP \text{ spot (Mid Quote)}} = \frac{0.8414}{0.7155} = 1.1759$$

$$GBPUSD \text{ spot (Mid Quote)}_{M-2} = \frac{1}{USDGBP \text{ spot (Mid Quote)}} = \frac{1}{0.7155} = 1.3976$$

$$GBPEUR \text{ 1M forward (Ask Quote)}_{M-1} = \frac{USDEUR \text{ 1M forward (Ask Quote)}}{USDGBP \text{ 1M forward (Bid Quote)}} = \frac{0.8429}{0.7191} = 1.1722$$

$$GBPUSD \text{ 1M forward (Ask Quote)}_{M-1} = \frac{1}{USDGBP \text{ 1M forward (Bid Quote)}} = \frac{1}{0.7191} = 1.3906$$

The Notional Adjustment Factor is $1016.64/1017.02 = 0.9996$ and the Hedge Impact is calculated as follows:

$$HI(Aug31) = 0.9996 \times \left[19.61\% \times 1.1759 \times \left(\frac{1}{1.1722} - \frac{1}{1.1659} \right) + 80.39\% \times 1.3976 \times \left(\frac{1}{1.3906} - \frac{1}{1.3763} \right) \right] \\ = -0.9454\%$$

The Hedged Index performance (month-to-date) for August 31 is

$$Perf(Aug31) = \frac{1947.63}{1920.75} - 1 + (-0.9454\%) = 0.4541\%$$

Leading to a Hedged Index level of $1017.02 \times (1 + 0.4541\%) = 1021.63$

2. Calculation Example - Interpolated Odd-days Forward Rate

To compute a linear interpolation, the following process is used, using as an example data as of September 16, 2021:

- Obtain the date of the last weekday of the month, in our example September 30, 2021.
- Check if today is the last weekday of the month, in which case, the Spot exchange rate is used and there is no need to compute a linear interpolation.
- Obtain the 1-month Forward rate as of today, i.e. September 16, 2021, for example 1.3773 GBP / USD. This Forward settles in one month.
- Compute the price difference between the Spot and the 1-month Forward, as of today, September 16, 2021, called the premium (or discount). In this example, the Spot is at 1.3770, so the premium is 0.0003.
- Using a linear interpolation, compute the value, as of today, September 16, 2021, of a Forward with a duration equal to the number of days until the last weekday of the month. In our example, the last weekday of the month is the 30th, so the duration of the Forward is $30 - 16 = 14$ days.

The value of a 14 day Forward is estimated as the Spot rate plus the discount pro rated for the period. The total number of days taken into account is the number of days in the month, in our example 30, as there are 30 days in September 2021.

Interpolated value of a Forward for 14 days

$$= 1.3770 + 0.0003 \times (14/30) \\ = 1.3770 + 0.00014 \\ = 1.37714$$

Appendix VII: Methodology Set

The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document as mentioned below:

- Description of methodology set –
<https://www.msci.com/index/methodology/latest/FIInfo>
- MSCI Fixed Income Data Methodology –
<https://www.msci.com/index/methodology/latest/FIDATA>
- MSCI Fixed Income Calculation Methodology –
<https://www.msci.com/index/methodology/latest/FIINDEXCALC>
- MSCI Fixed Income Glossary of Terms –
<https://www.msci.com/index/methodology/latest/FIGLOSS>
- MSCI Fixed Income Index Policies –
<https://www.msci.com/index/methodology/latest/FIINDEXPOLICY>
- MSCI Corporate Bond Indexes Methodology–
<https://www.msci.com/index/methodology/latest/FIIGCORP>
- 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 VII: Changes to the Document

The following sections have been modified as of July 2025:

- The Index Names were updated, effective July 2025; MSCI USD IG Sustainable SRI Select 200 Corporate Bond Index Methodology has been renamed as MSCI USD IG Top 200 Corporate Bonds Select Screens Index Methodology
- Added Section 2.4 to clarify treatment of issuers which are not within coverage from MSCI ESG Research
- Updated links for ESG Data Disclosures in Section 6
- Added Appendix VII to clarify the Methodology Set of the Index
- Updated the branding template.

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