

# **MSCI Select Catholic Principles Selection 10/40 Index Methodology**

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## Contents

<b>1. Introduction .....</b>	<b>3</b>
<b>2. Constructing the Index.....</b>	<b>4</b>
2.1 Selection Universe.....	4
2.2 Applying the MSCI Selection Indexes Methodology .....	4
2.2.1 MSCI ESG Ratings .....	4
2.2.2 MSCI ESG Controversies Score Eligibility.....	4
2.2.3 Controversial Business Involvement Criteria .....	4
2.2.4 Catholic Principles and Animal Welfare Screens .....	5
2.3 Weighting Scheme .....	5
2.4 Applying the 10/40 Capping.....	5
2.5 Treatment of Unrated Companies .....	5
<b>3. Maintaining the Index .....</b>	<b>7</b>
3.1 Annual and Quarterly Index Reviews .....	7
3.2 Ongoing Event Related Changes .....	7
<b>4. MSCI ESG Research .....</b>	<b>9</b>
4.1 MSCI ESG Ratings .....	9
4.2 MSCI ESG Controversies .....	9
4.3 MSCI ESG Business Involvement Screening Research.....	9
<b>Appendix I: Value Based Exclusion Criteria .....</b>	<b>10</b>
<b>Appendix II: Methodology Set .....</b>	<b>15</b>
<b>Appendix III: Changes to this Document.....</b>	<b>16</b>
<b>Contact Us.....</b>	<b>17</b>

## 1. Introduction

The MSCI Europe Select Catholic Principles Selection 10/40 Index<sup>1</sup> (the “Index”) is a free float-adjusted market capitalization index designed to represent the performance of companies that have high Environmental, Social and Governance (ESG) ratings relative to their sector peers. The index aims to target sector weights that reflect the relative sector weights of the MSCI Europe Index to limit the systematic risk introduced by the ESG selection process. The index excludes companies involved in certain controversial businesses like alcohol, tobacco, gambling etc. The index also excludes companies that are not in compliance with Catholic Principles or are involved in Animal Testing.

At the final step, the 10/40 Capping is applied as per the MSCI Capped Indexes Methodology<sup>2</sup>.

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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.

<sup>2</sup> For further details on the MSCI Capped Indexes methodology, please refer to the [www.msci.com/index-methodology](https://www.msci.com/index-methodology)

## 2. Constructing the Index

The Index uses company ratings and research provided by MSCI ESG Research<sup>3</sup> to determine eligibility for index construction

### 2.1 Selection Universe

The Index is constructed from the MSCI Europe Index ("Parent Index").

### 2.2 Applying the MSCI Selection Indexes Methodology

The MSCI Selection Indexes Methodology<sup>4</sup> is applied on the Parent Index with the following exceptions:

#### 2.2.1 MSCI ESG Ratings

Existing constituents of the Index are required to have an MSCI ESG Rating score above B to remain in the index, while companies that are currently not constituents of the Index are required to have an MSCI ESG Rating score above BB to be considered eligible for addition.

#### 2.2.2 MSCI ESG Controversies Score Eligibility

Existing constituents of the Index are required to have an MSCI ESG Controversies Score above 0 to remain in the index, while companies that are currently not constituents of the Index are required to have an MSCI ESG Controversies Score above 3 to be considered eligible for addition

#### 2.2.3 Controversial Business Involvement Criteria

The Index uses 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 Index. Please refer to Appendix I for details on these criteria.

- Controversial Weapons
- Civilian Firearms
- Nuclear Weapons
- Tobacco
- Adult Entertainment
- Alcohol
- Conventional Weapons

<sup>3</sup> See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI ESG Research LLC, a separate subsidiary of MSCI Inc. MSCI ESG Research is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

<sup>4</sup> For more details, please refer to the MSCI Selection Indexes Methodology, available at <https://www.msci.com/index-methodology>

- Gambling
- Genetically Modified Organisms
- Nuclear Power
- Fossil Fuel Reserves Ownership
- Fossil Fuel Extraction
- Thermal Coal
- Arctic Oil & Gas

## 2.2.4 Catholic Principles and Animal Welfare Screens

The MSCI Index also excludes companies that are not in accordance with Catholic Principles as evaluated based on their involvement in the following areas:

- Stem Cells
- Adult Entertainment
- Conventional Weapons
- Abortion and Contraceptives
- Human Rights
- Animal Welfare

Please refer to Appendix I for a detailed description of these criteria.

## 2.3 Weighting Scheme

The remaining securities are weighted in proportion of their free float-adjusted market capitalization.

## 2.4 Applying the 10/40 Capping

The 10/40 Capping<sup>5</sup> is then applied on the remaining securities such that the weight of any single group entity<sup>6</sup> is capped at 10% and the sum of the weights of all group entities with a weight of more than 5% is capped at a maximum of 40%.

## 2.5 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>5</sup> For details, refer to the MSCI 10/40 Indexes Methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology).

<sup>6</sup> For a definition and a description of the maintenance of Group Entities, please refer to the MSCI 10/40 Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology).



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

## 3. Maintaining the Index

### 3.1 Annual and Quarterly Index Reviews

The Index is reviewed on an annual basis in May and quarterly basis in February, August and November to coincide with the regular Index Reviews of the MSCI Global Investable Market Indexes. The Index is rebalanced in accordance with Section 3 of the MSCI SRI Indexes Methodology. The changes are implemented as of the close of the last business day of February, May, August and November.

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

The pro forma Index is in general announced nine business days before the effective date.

### 3.2 Ongoing Event Related Changes

The general treatment of corporate events in the Index 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. The following section briefly describes the treatment of common corporate events within the MSCI Europe Select Catholic Principles Selection 10/40 Index. 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.

#### 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 be added to the index, if it meets the eligibility criteria.

#### 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.

#### 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>



## 4. MSCI ESG Research

The Index is a product of MSCI Inc. that utilizes 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 Index uses the following MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies, MSCI ESG Business Involvement Screening Research. 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>.

## Appendix I: Value Based Exclusion Criteria

MSCI ESG Research has developed a framework designed to define significant involvement in controversial activities. According to this framework, there are three tolerance levels: Zero Tolerance, Minimal Tolerance and Low Tolerance.

Each controversial activity screened by the MSCI Europe Select Catholic Principles Selection 10/40 Index (except Animal Testing and Global Norms) is assigned to one of these tolerance levels.

### Value-Based Exclusion Criteria

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

- **Controversial Weapons**
  - All companies with any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), as defined by the methodology of the MSCI Global Ex-Controversial Weapons Indexes available at <https://www.msci.com/index/methodology/latest/XCW>

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

- **Civilian Firearms**
  - All companies classified as "Producer" of firearms and small arms ammunitions for civilian markets. It does not include companies that cater to the military, government, and law enforcement markets
  - All companies deriving 5% or more aggregate revenue from the production and distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use
- **Nuclear Weapons**
  - All companies that manufacture nuclear warheads and/or whole nuclear missiles
  - All companies that manufacture components that were developed or are significantly modified for exclusive use in nuclear weapons (warheads and missiles)
  - All companies that manufacture or assemble delivery platforms that were developed or significantly modified for the exclusive delivery of nuclear weapons
  - All companies that provide auxiliary services related to nuclear weapons
  - All companies that manufacture components that were not developed or not significantly modified for exclusive use in nuclear weapons (warheads and missiles) but can be used in nuclear weapons
  - All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons but have the capability to deliver nuclear weapons
  - All companies that manufacture components for nuclear-exclusive delivery platforms

- **Tobacco**

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

**“Moderately Restrictive” screen applied**

- **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 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 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
  - Companies involved in the production of blinding laser, incendiary or non-detectable fragments weapons in its most recently completed fiscal year

- **Gambling**

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

- **Genetically Modified Organisms (GMO)**

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

- **Nuclear Power**

- All companies generating 5% or more of their total electricity from nuclear power in a given year

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

## No specific restrictiveness level applied

### • Thermal Coal

- **Thermal Coal Mining:** All companies deriving more than 0% 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
- **Thermal Coal Power Generation:** All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

### • 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, or evidence of owning thermal coal reserves.

### • Fossil Fuel Extraction

- **Unconventional Oil & Gas Extraction:** All companies deriving more than 0% 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.
- **Arctic Oil & Gas:** All companies deriving more than 0% revenue from Arctic Oil or Arctic Gas production.

## Catholic Principles and Animal Welfare Screens

### Activities classified under “Minimal Tolerance”

#### • Adult Entertainment

- All companies that produce, direct, or publish adult entertainment materials that fall into the following categories: Producer of X-rated films, Producer of Pay-per-view programming or channels, Producer of sexually explicit video games, Producer of books or magazines with adult content, Live entertainment of an adult nature, Producer of adults-only material on the internet.
- All companies deriving 5% or more revenue from the retail sales of adult entertainment related products through specialty stores or online sites. All companies deriving 5% or more revenue from the distribution of adult entertainment materials.
- All companies deriving 5% or more aggregate revenue from the production, distribution and retail of adult entertainment materials

- **Conventional Weapons**

- All companies that manufacture conventional weapons and weapons systems, including naval, land-based and aircraft gun and fire-control systems; tactical missiles and their warheads and launchers, long-range strategic missiles; howitzers, torpedoes, bombs, ordnance, mortars, sub munitions, grenades, ammunition, and other explosive devices; delivery platforms such as bombers, fighters, combat helicopters and attack aircraft; ships (warships, battleships, submarines, battlecruisers, corvettes, landing craft, destroyers, frigates, minehunters, minesweepers, flotillas, river craft, ); armored land vehicles (tactical, assault, tanks, main battle tanks (MBTs)).
- All companies that manufacture conventional weapons components such as engines for attack vehicles or command and control systems.
- All companies deriving 5% or more revenue from weapons-related support systems and services.

- **Stem Cell**

- All companies that conduct stem cell research with cells derived from human embryos.
- All companies that develop or produce products for scientific research specifically on embryonic or fetal stem cells, such as technology that isolates or regulates the growth and proliferation of stem cells.
- All companies that conduct stem cell research with cells derived from human fetal tissue.
- All companies that use fetal cell lines in the development of vaccines and other biologics, such as therapeutic proteins and gene therapy products

- **Abortion And Contraceptives**

- All companies engaged in the development or manufacture of products that may be used as abortifacients.
- All companies that own or operate one or more acute care hospitals or surgical centers that provide general medical services, which may include abortions.
- All companies that own or operate a facility where an abortion has been performed within the last three fiscal years.
- All companies that manufacture or are developing contraceptives.

**Activities not classified under any specific tolerance level**

- **Animal Testing**

- All companies engaged in “Animal Testing for Non-Pharmaceutical Products” and “Do Not Disclose Any Statement” addressing the welfare of animals used for laboratory testing and do not disclose any statement in support of researching or “Employing Alternatives to Animal Testing”.

- **Global Norms – Human Rights Compliance**



- All companies that fail to be in compliance with the United Nations Guiding Principles for Business and Human Rights.

## Appendix II: 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 –  
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- MSCI Selection Indexes Methodology –  
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<https://www.msci.com/index/methodology/latest/SRI>
- MSCI 10 40 Indexes Methodology –  
<https://www.msci.com/index/methodology/latest/1040>
- 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 III: Changes to this Document

### The following sections have been modified as of February 2025

- The methodology Name and index name was updated. Effective February 3, 2025, the MSCI Europe Select Catholic Principles ESG Leaders 10/40 Index will be renamed as MSCI Europe Select Catholic Principles Selection 10/40 Index.

### Section 2.5: 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.

### Section 4: MSCI ESG Research

- Moved section after the Section 3 “Maintaining the Index”

### Appendix I: Methodology Set

- Added details on the Methodology Set for the Indexes

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

### Section 2.2.3: Values-Based Exclusions

- Updated section to decouple screening criteria from the MSCI SRI Indexes Methodology
- Added new screening criteria for Arctic Oil and Gas
- Updated the Fossil Fuel Reserves Ownership criteria

### Appendix I: Value Based Exclusion Criteria

- Updated Section to add details for the Values-Based Exclusions



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