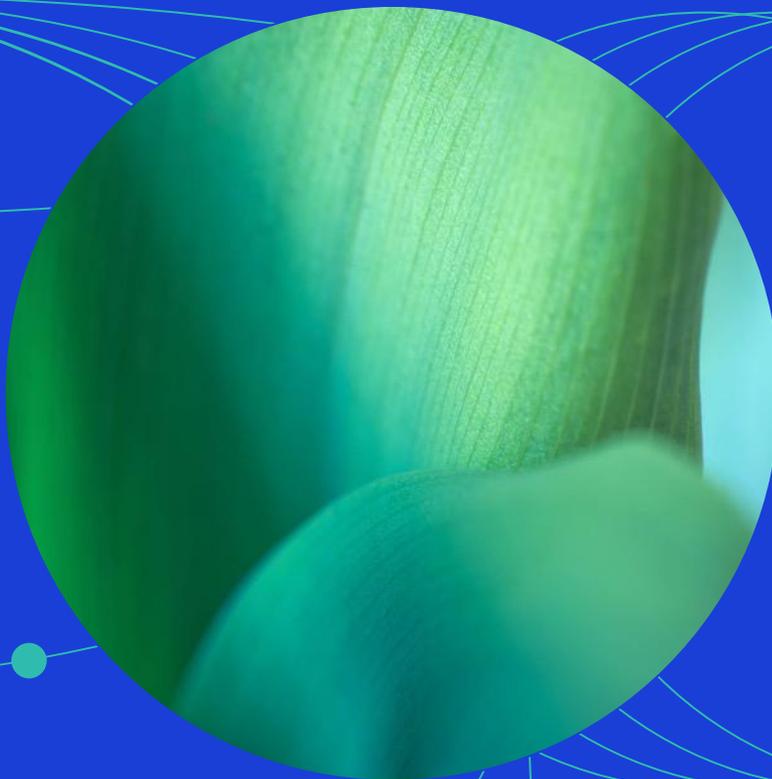




MSCI Sector Advanced Select 20/35 Capped Indexes Methodology



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1 Introduction

The MSCI World Energy Advanced Select 20 35 Capped, MSCI World Materials Advanced Select 20 35 Capped, MSCI World Industrials Advanced Select 20 35 Capped, MSCI World Consumer Discretionary Advanced Select 20 35 Capped, MSCI World Consumer Staples Advanced Select 20 35 Capped, MSCI World Healthcare Advanced Select 20 35 Capped, MSCI World Financials Advanced Select 20 35 Capped, MSCI World Information Technology Advanced Select 20 35 Capped, MSCI World Communication Services Advanced Select 20 35 Capped, MSCI World Utilities Advanced Select 20 35 Capped Indexes (the "Indexes"¹) are designed to support investors seeking to increase exposure to positive environmental, social and governance (ESG) factors and reduce the carbon-equivalent exposure to carbon dioxide (CO₂) and other greenhouse gases (GHG) as well as their exposure to potential emissions risk of fossil fuel reserves relative to the Parent Indexes².

The Indexes are constructed from their corresponding free-float adjusted market capitalization weighted Parent Indexes by excluding securities based on ESG and Climate Change-related criteria and use an optimization-based approach. The optimization-based approach aims to:

- Minimize ex-ante tracking error relative to the Parent Index
- Increase the weighted average ESG Score by 10%³
- Reduce the Carbon Intensity and Potential Emissions per dollar of Market Capitalization by 21%⁴
- Ensure that the index-level sustainable exposure⁵ (which reflects a particular interpretation of the company-level sustainable investment assessment as per Article 2(17) of the Sustainable Finance Disclosure Regulation (SFDR)⁶ along with an associated aggregation method) meets the relevant index-level sustainable exposure percentage ("Index SE%") thresholds. The minimum thresholds vary depending on the respective MSCI Parent Index and are listed in Appendix II.

As a final step, the Indexes are capped as per the MSCI 20/35 Indexes methodology.

¹ The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. Please refer to Appendix VII for more details.

² The corresponding Parent Indexes for the Indexes are defined in Section 2.1 of this methodology document.

³ Prior to Feb 2025 index review, the Indexes targeted a 20% increase in weighted average ESG Score.

⁴ Prior to Feb 2025 index review, the Indexes targeted a 30% reduction in Carbon Emission Intensity and Potential Emissions per dollar of market capitalization.

⁵ Applicable only for MSCI World Information Technology Advanced Select 20 35 Capped, MSCI World Materials Advanced Select 20 35 Capped, MSCI World Health Care Advanced Select 20 35 Capped, MSCI World Industrials Advanced Select 20 35 Capped Indexes, MSCI World Consumer Staples Advanced Select 20 35 Capped, MSCI World Utilities Advanced Select 20 35 Capped Indexes, MSCI World Consumer Discretionary Advanced Select 20 35 Capped, MSCI World Communication Services Advanced Select 20 35 Capped Indexes.

⁶ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

2 Constructing the Index

The Indexes use company ratings and research provided by MSCI Solutions LLC (“MSCI Solutions”)⁷ to determine eligibility for index construction

2.1 Applicable Universe

The Applicable Universe of the Indexes includes all the constituents of their respective MSCI Parent Index (“the Parent Index”) as shown in the table below:

Table 1: Indexes and their corresponding Parent Indexes

| No. | Index Name | Parent Index |
|-----|--|---|
| 1 | MSCI World Energy Advanced Select 20 35 Capped Index | MSCI World Energy Index |
| 2 | MSCI World Materials Advanced Select 20 35 Capped Index | MSCI World Materials Index |
| 3 | MSCI World Industrials Advanced Select 20 35 Capped Index | MSCI World Industrials Index |
| 4 | MSCI World Consumer Discretionary Advanced Select 20 35 Capped Index | MSCI World Consumer Discretionary Index |
| 5 | MSCI World Consumer Staples Advanced Select 20 35 Capped Index | MSCI World Consumer Staples Index |
| 6 | MSCI World Healthcare Advanced Select 20 35 Capped Index | MSCI World Healthcare Index |
| 7 | MSCI World Financials Advanced Select 20 35 Capped Index | MSCI World Financials Index |
| 8 | MSCI World Information Technology Advanced Select 20 35 Capped Index | MSCI World Information Technology Index |
| 9 | MSCI World Communication Services Advanced Select 20 35 Capped Index | MSCI World Communication Services Index |
| 10 | MSCI World Utilities Advanced Select 20 35 Capped Index | MSCI World Utilities Index |

⁷ See section 4 for further information regarding ESG and climate data used in the Indexes that MSCI Limited and MSCI Deutschland GmbH source from MSCI Solutions LLC (“MSCI Solutions”), a separate subsidiary of MSCI Inc. MSCI Solutions is solely responsible for the creation, determination and management of such data as a provider to MSCI Limited and MSCI Deutschland GmbH. MSCI Limited and MSCI Deutschland GmbH are the benchmark administrators for the MSCI indexes.

2.2 Eligible Universe

Securities of companies involved in Very Severe business controversies as defined by the MSCI Controversies Methodology are not eligible for inclusion in the Indexes. This is implemented by excluding constituents of the Parent Index with Controversy Score = 0 ('Red Flag' companies).

Companies that are involved in specific businesses which have high potential for negative social and/or environmental impact are ineligible for inclusion in the index.

- Controversial Weapons
- Nuclear Weapons
- Civilian Firearms
- Tobacco
- Thermal Coal
- Oil Sands
- Conventional Weapons

In addition to the above, companies that fail to comply with the United Nations Global Compact Principles are also excluded from The Indexes.

Please refer to Appendix I for more details on these criteria.

2.3 Defining the Optimization Constraints

The optimization process aims to minimize the Index's ex-ante tracking error relative to the Parent Index subject to the optimization constraints detailed in Appendix II.

Infeasible Solution –

During the Quarterly Index Review, in the event that there is no optimal solution that satisfies all the optimization constraints, the following constraints will be relaxed, until an optimal solution is found:

- The one-way turnover constraint will be relaxed in 5 steps up to 30%.
- The weighted average ESG Score increase constraint will be relaxed in 5 steps up to 0%.

The relaxations are completed in an alternative manner – a single step of turnover relaxation is followed by a single step of ESG score improvement relaxation, before the turnover constraint is relaxed further. In the event that no optimal solution is found after the above constraint relaxations are exhausted, the relevant Index will not be rebalanced for that Index Review.

2.3.1 Determining the Optimized Index

The Indexes are constructed using the Barra Open Optimizer⁸ in combination with the relevant Barra Equity Model. The optimization uses the universe of eligible securities and the specified optimization objectives and constraints to determine the constituents of and the weights of constituents in the Indexes.

2.4 Applying the MSCI 20/35 Indexes Methodology

As a final step, the Indexes are capped as per the MSCI 20/35 Indexes methodology. For details, refer to the MSCI Capped Indexes Methodology at www.msci.com/index-methodology

2.5 Treatment of Unrated Companies

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

- MSCI Controversy Score
- MSCI ESG Rating or ESG Score

For the treatment of unrated companies in the calculation of target metrics for the optimization process, please refer to Appendixes III.

⁸ Please refer to Appendix IV and V for more details.

3 Maintaining the Index

3.1 Quarterly Index Reviews

The Indexes are rebalanced on a quarterly basis to coincide with the regular Index Reviews of the MSCI Global Investable Market Indexes. Changes are implemented at the end of February, May, August and November. The pro forma indexes are in general announced nine business days before the effective date.

ESG scores used for the Quarterly Index Reviews will be taken as of the end of the month preceding the Index Review, i.e., January, April, July, and October.

At each Index Review, the optimization process outlined in Section 3 is implemented.

In general, MSCI uses MSCI Solutions data (including MSCI ESG Ratings, MSCI Controversies Scores, MSCI Business Involvement Screening Research, and MSCI ESG Carbon Metrics) as of the end of the month preceding the Index Reviews. For some securities, such data may not be published by MSCI Solutions by the end of the month preceding the Index Review. For such securities, MSCI will use ESG data published after the end of month, when available.

3.2 Monthly Review of Controversies

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

MSCI uses MSCI Controversies data as of the end of the month preceding the review (e.g., end of June data for the end of July monthly review). For some securities, such data may not be published by MSCI Solutions by the end of the month preceding the review. For such securities, MSCI will use ESG data published after the end of month, when available, for the monthly review of the Index.

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

3.3 Ongoing Event-Related Maintenance

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

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. Parent Index deletions will be reflected simultaneously.

| EVENT TYPE | EVENT DETAILS |
|--|--|
| New additions to the Parent Index | A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index. |
| Spin-Offs | All securities created as a result of the spin-off of an existing Index constituent will be added to the Index at the time of event implementation if the spin-off security is also added to the Parent Index. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review. |
| Merger/Acquisition | <p>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.</p> <p>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.</p> |
| 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 pertaining to deletions that would be relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

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

4 MSCI Solutions

The Indexes are products of MSCI Inc. that utilize information such as company ratings and research produced and provided by MSCI Solutions LLC (MSCI Solutions), a subsidiary of MSCI Inc. In particular, the Indexes use the following MSCI sustainability and climate products: MSCI ESG Ratings, MSCI Controversies, MSCI Business Involvement Screening Research, MSCI Climate Change Metrics, and MSCI Impact Solutions. MSCI Indexes are administered by MSCI Limited and MSCI Deutschland GmbH.

4.1 MSCI ESG Ratings

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

The MSCI ESG Ratings methodology can be found at:

<https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.2 MSCI Controversies

MSCI Controversies provide assessments of controversies concerning the potential negative environmental, social, and/or governance impact of company operations, products and services. The evaluation framework used in MSCI Controversies is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI Controversies Score falls on a 0-10 scale, with "0" being the most severe controversy.

The MSCI Controversies methodology can be found at: <https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.3 MSCI Business Involvement Screening Research

MSCI Business Involvement Screening Research (BISR) aims to enable institutional investors to manage environmental, social and governance (ESG) standards and restrictions reliably and efficiently.

The MSCI Business Involvement Screening Research methodology can be found at:

<https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.4 MSCI Climate Change Metrics

MSCI Climate Change Metrics provide climate data & tools to support institutional investors seeking to integrate climate risk & opportunities into their investment strategy and processes. This includes investors seeking to achieve a range of objectives, including measuring and reporting on climate risk exposure, implementing low carbon and fossil fuel-free strategies, alignment with temperature pathways and factoring climate change research into their risk management processes, in particular through climate scenario analysis for both transition and physical risks.

4.4.1 Fossil Fuels and Power Generation Metrics

MSCI Solutions identifies companies involved in fossil fuel-related assets and activities including fossil fuel reserves, resource extraction, power generation and generation capacity, revenue from such assets and activities and capital investments in such assets and activities. The metrics are based on disclosed activities, disclosed revenue and estimates of revenue that are extrapolated from company disclosures and eligible third-party sources (such as NGOs).

For more details on MSCI Climate Change Metrics, please refer to: <https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.4.2 Greenhouse Gas (GHG) Emissions

MSCI Solutions collects reported emissions and uses proprietary estimation methodologies that follows the GHG Protocol in including carbon dioxide (CO2) and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH4), nitrous oxide (N2O), perfluorocarbons (PFCs), and sulfur hexafluoride (SF6). Emissions of these other gases are accounted for in terms of the quantity of CO2 that has an equivalent global warming potential.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.4.3 Other Metrics: Target and Management

MSCI ESG Research also provides a number of other climate-related metrics such as MSCI ESG Ratings-based Key Issues (e.g., Carbon Emissions, Product Carbon Footprint, etc.) and their underlying metrics (e.g., targets, mitigation, performance), which are referenced and governed within the MSCI ESG Ratings Methodology (see Section 4.1 of this document). In addition, MSCI ESG Research collects additional target-level datapoints, including whether the target has been submitted to the Science Based Targets initiative (SBTi), whether SBTi has approved the target and whether the company is committed to setting a science-based target in the future.

For more details on MSCI Climate Change Metrics, please refer to <https://www.msci.com/legal/sustainability-and-climate-resources-and-disclosures>.

4.5 MSCI Impact Solutions: Sustainable Impact metrics

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

MSCI Sustainable Impact Taxonomy

| Pillar | Themes | Categories |
|----------------------|----------------|-----------------------|
| Environmental Impact | Climate Change | 1. Alternative energy |
| | | 2. Energy efficiency |
| | | 3. Green building |

| | | |
|---------------|-----------------|---|
| Social Impact | Natural capital | <ul style="list-style-type: none"> 4. Sustainable water 5. Pollution prevention 6. Sustainable agriculture |
| | Basic needs | <ul style="list-style-type: none"> 7. Nutrition 8. Major Disease Treatment 9. Sanitation 10. Affordable Real Estate |
| | Empowerment | <ul style="list-style-type: none"> 11. SME Finance 12. Education 13. Connectivity – Digital divide |

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

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

Appendix I: Business Exclusion Criteria

MSCI Solutions 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 Indexes (except Thermal Coal, Conventional Weapons, Oil Sands and Global Norms) is assigned to one of these tolerance levels:

Activities classified under “Zero Tolerance”

- **Controversial Weapons**

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

Activities classified under “Minimal Tolerance”

- **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)
- All companies that manufacture or assemble delivery platforms that were not developed or not significantly modified for the exclusive delivery of nuclear weapons
- All companies that manufacture components for nuclear-exclusive delivery platforms

- **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 revenue from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use

- **Tobacco**

- All companies classified as a “Producer”

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

Activities not classified under any specific tolerance level

- **Thermal Coal**

- All companies deriving 5% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading
- All companies deriving 5% or more revenue (either reported or estimated) from the thermal coal based power generation

- **Conventional Weapons**

- All companies deriving 5% or more revenue from the production of conventional weapons
- All companies deriving 10% or more aggregate revenue from weapons systems, components and support systems and services

- **Oil Sands**

- All companies deriving 5% or more revenue from oil sands extraction, which own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Companies that derive revenue from non-extraction activities (e.g. exploration, surveying, processing, refining) or intra-company sales are not excluded. Additionally, companies that own oil sands reserves with no associated revenue are also not excluded

- **Global Norms – United Nations Global Compact Compliance**

All companies that fail to comply with the United Nations Global Compact principles.

Appendix II: Optimization Constraints

At each Quarterly Index Review, the following optimization constraints are used to ensure replicability and investability.

Screened Parent

The screened parent is constructed by excluding securities from the Parent Index based on the exclusion criteria as defined in Section 2.2 ("Screened Parent"). The security weights are then normalized to 100%.

Optimization Constraints

Table 2: Optimization Constraints

| No. | Parameter | Values |
|----------------|--|--|
| 1 | Minimum Constituent Weight | Minimum constituent weight in the Screened Parent |
| 2 | Asset Lower Bound | Maximum (Minimum constituent weight in the Screened Parent, 0.25 * Security Weight in the Screened Parent) |
| 3 | Asset Upper Bound | Minimum (5 * Security Weight in the Screened Parent, Security Weight in the Screened Parent + 2%) |
| 4 [^] | Active Country Weights* | +/-10% |
| 5 [^] | Minimum Increase in the Weighted Average ESG Score relative to the Parent Index ⁹ | 10% |
| 6 [^] | Minimum Reduction in the Weighted Average Carbon Emission Intensity ¹⁰ relative to the Parent Index ¹¹ | 21% |
| 7 [^] | Minimum Reduction in the Potential Emissions per dollar of market | 21% |

⁹ Prior to the February 2025 index review, the Indexes target a 20% increase in ESG Score.

¹⁰ Calculation of Target metrics is described in Appendix III.

¹¹ Prior to the February 2025 index review, the Indexes targeted a 30% reduction in Carbon Emission Intensity.

| | | |
|----|---|--|
| | capitalization ¹² relative to the Parent Index ¹³ | |
| 8 | One Way Turnover during May and November Index Review | 10% |
| 9 | One Way Turnover during Feb and Aug Index Review | 5% |
| 10 | Specific Risk Aversion | 0.075 |
| 11 | Common Factor Risk Aversion | 0.0075 |
| 12 | Maximum Issuer Weight | 35% |
| 13 | Minimum Index Sustainable Exposure | Applicable Indexes and Threshold as mentioned in Table 3 |

* Active Country Weights – In case there are countries in the Parent Index which weigh less than 2.5% in the Parent Index, then for such countries the active country upper bound of +10% is not applicable. When a country weighs less than 2.5% in the Parent Index then the upper bound of country weight in The Index is set at three times of the country’s weight in the Parent Index. The Active Weight constraint is applied as a “Soft” constraint in The Indexes.

^ The Optimization Constraints are applied relative to the Parent Index.

Minimum Index SE% Constraints

The following optimization constraints on minimum Index SE% are used for each index.

¹² Calculation of Target metrics is described in Appendix III.

¹³ Prior to the February 2025 index review, the Indexes targeted a 30% reduction in Potential Emissions per dollar of market capitalization.

Table 3: Index Sustainable Exposure Threshold

| No. | Index | Index SE% Threshold |
|-----|--|---------------------|
| 1 | MSCI World Information Technology Advanced Select 20 35 Capped Index | 35% |
| 2 | MSCI World Materials Advanced Select 20 35 Capped Index | 25% |
| 3 | MSCI World Health Care Advanced Select 20 35 Capped Index | 20% |
| 4 | MSCI World Industrials Advanced Select 20 35 Capped Index | 20% |
| 5 | MSCI World Consumer Staples Advanced Select 20 35 Capped Index ¹⁴ | 20% |
| 6 | MSCI World Consumer Discretionary Advanced Select 20 35 Capped Index ¹⁵ | 10% |
| 7 | MSCI World Utilities Advanced Select 20 35 Capped Index | 15% |
| 8 | MSCI World Communication Services Advanced Select 20 35 Capped Index | 10% |

Please refer to Appendix VI for the criteria used to determine the company-level sustainable exposure qualification and the calculation of index-level sustainable exposure.

¹⁴ Prior to Feb 2025 index review, the Index SE% threshold for MSCI World Consumer Staples Advanced Select 20 35 Capped index was 30%

¹⁵ Prior to Feb 2025 index review, the Index SE% threshold for MSCI World Consumer Discretionary Advanced Select 20 35 Capped index was 20%

Appendix III: Calculation of Carbon Exposure Metrics

Calculation of GHG Intensity relative to Sales

Scope 1+2 Emissions and Company sales data used for the carbon intensity calculation are aligned as of the same fiscal year.

Security Level GHG Intensity relative to Sales = CARBON_EMISSIONS_SCOPE_12_INTEN

For Parent Index constituents where Scope 1+2 Emissions Intensity is not available, the average Scope 1+2 Emissions Intensity relative to Sales of all the constituents of the MSCI ACWI in the same GICS Industry Group in which the constituent belongs to is used.

For the Parent Index constituents where Scope 1+2 Emissions Intensity is not available for all securities in an GICS Industry Group, the Scope 1+2 Emissions Intensity relative to Sales of all the constituents of the MSCI ACWI in the same GICS Sector in which the GICS Industry group belongs to is used.

Weighted Average GHG Intensity relative to Sales of the Parent Index =

$$\sum (Weight\ in\ Parent\ Index * Security\ Level\ GHG\ Intensity\ relative\ to\ Sales)$$

Weighted Average GHG Intensity relative to Sales of the Optimized Index =

$$\sum (Index\ Weight * Security\ Level\ GHG\ Intensity\ relative\ to\ Sales)$$

Index Potential Emissions Intensity

MSCI Solutions collects fossil fuel reserves data where relevant for companies which have reserves, typically in the Oil & Gas, Coal Mining and Electric Utilities industries¹⁶. Fossil fuel reserves can be used for several applications including energy or industrial (e.g., coking coal used for steel production). For the development of the Indexes, only fossil fuel reserves used for energy application are taken into account. The data is updated on an annual basis and based on information disclosed by companies. Sources include company publications, other public records and third-party data providers.

For newly added companies to the index where data is not available yet, MSCI uses zero fossil fuel reserves. The size of reserves of a company typically influences its market valuation, and hence MSCI normalizes for size by dividing the potential carbon emissions of the company by its market capitalization.

¹⁶ For more information on MSCI ESG Carbon Metrics, please refer to <https://www.msci.com/index-carbon-footprint-metrics>

To convert reserves data to potential carbon emissions, MSCI Solutions applies a formula from the Potsdam Institute for Climate Impact Research¹⁷.

Security Level Potential Emissions Intensity =

$$\frac{\text{Potential Emissions}}{\text{Issuer Market Capitalization}}$$

Weighted Average Potential Emissions Intensity of the Parent Index =

$$\sum (\text{Weight in Parent Index} * \text{Security Level Potential Emissions Intensity})$$

Weighted Average Potential Emissions Intensity of the Optimized Index =

$$\sum (\text{Index Weight} * \text{Security Level Potential Emissions Intensity})$$

¹⁷ Malte Meinshausen, Nicolai Meinshausen, William Hare, Sarah C. B. Raper, Katja Frieler, Reto Knutti, David J. Frame & Myles R. Allen. Greenhouse-gas emission Target for limiting global warming to 2 °C. Nature 458, 1158-1162 (30 April 2009) | doi: 10.1038/nature08017; Received 25 September 2008; Accepted 25 March 2009. Supplementary Information, p. 7.

Appendix IV: Barra Equity Model Used in The Optimization

The Indexes currently uses an optimization setup using the MSCI Barra Global Equity Model for Long-Term Investors (GEMTLT).

Appendix V: New Release of Barra® Equity Model or Barra® Optimizer

A major new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

Appendix VI: Company-Level Sustainable Exposure and Calculation of Index SE%

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

1. MSCI ESG Rating of "BB" or above¹⁸
2. MSCI Controversies Score of 2 or above¹⁹
3. At least one of the following conditions is met:
 - a. Derives 20% or more aggregate revenue from any of the thirteen social and environmental impact categories of Sustainable Impact Metrics (including nutrition, sanitation, major diseases treatment, SME finance, education, connectivity, affordable real estate, alternative energy, energy efficiency, green building, pollution prevention, sustainable agriculture and sustainable water)
 - b. Has one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (SBTi)
4. Not flagged by the following business involvement criteria:
 - a. Has any tie to Controversial Weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), in line with the methodology of the MSCI Ex-Controversial Weapons Indexes available at <https://www.msci.com/index-methodology>
 - b. Derives 1% or more revenue (either reported or estimated) from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties
 - c. Manufactures tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco
 - d. Derives 5% or more aggregate revenue from the production, distribution, retail, supply and licensing of tobacco-related products

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

¹⁸ The condition is not met if the MSCI ESG Rating is missing for the company.

¹⁹ The condition is not met if the MSCI Controversies Score is missing for the company.

Appendix VII: Methodology Set

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

- Description of methodology set –
<https://www.msci.com/index/methodology/latest/ReadMe>
- MSCI Corporate Events Methodology –
<https://www.msci.com/index/methodology/latest/CE>
- MSCI Fundamental Data Methodology –
<https://www.msci.com/index/methodology/latest/FundData>
- MSCI Index Calculation Methodology –
<https://www.msci.com/index/methodology/latest/IndexCalc>
- MSCI Index Glossary of Terms –
<https://www.msci.com/index/methodology/latest/IndexGlossary>
- MSCI Index Policies –
<https://www.msci.com/index/methodology/latest/IndexPolicy>
- MSCI Global Industry Classification Standard (GICS) Methodology –
<https://www.msci.com/index/methodology/latest/GICS>
- MSCI Global Investable Market Indexes Methodology –
<https://www.msci.com/index/methodology/latest/GIMI>
- MSCI Global ex Controversial Weapons Indexes Methodology –
<https://www.msci.com/index/methodology/latest/XCW>
- 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 VII: Changes to this Document

The following sections have been modified as of March 09, 2022:

- Section 3.5: Added clarification that the relaxed parameters are also applicable for Quarterly Index Reviews.

The following sections have been modified as of November 2022:

- Introduction: Updated to reflect the new requirement on index-level sustainable exposure
- Section 4.2: Monthly Review of Controversies Added to reflect the monthly exclusions of 'Red Flag Companies'
- Appendix 2: Updated to reflect the optimization constraints on index-level sustainable exposure
- Appendix 5: Additional details regarding criteria used to determine the company-level sustainable exposure qualification and the calculation of index-level sustainable exposure.

The following sections have been modified as of February 2023:

- Methodology book was updated to reflect the transition of the MSCI Global Investable Market Indexes (GIMI) to Quarterly Comprehensive Index Reviews.
- All references to "Semi-Annual Index Reviews" and "Quarterly Index Reviews" of the MSCI GIMI were replaced with "Index Reviews".
- Section 4.2: Monthly Review of Controversies Updated to reflect the monthly exclusions of 'Red Flag Companies', across all MSCI World Sector ESG Reduced Carbon Select 20 35 Capped Indexes.

The following sections have been modified as of November 2023:

- ESG Research Section moved to the end (changed from Section 2 to Section 4)
- Section 3.1 updated to add clarification on data cutoff dates.
- Appendix 2 updated to reflect addition of Minimum Index SE% commitment for Consumer Staples and Consumer Discretionary indexes.

The following sections have been modified as of February 2025

- The methodology and index names were updated. Effective February 3, 2025, the MSCI World Sector ESG Reduced Carbon Select 20 35 Capped Indexes were renamed to MSCI Sector Advanced Select 20 35 Capped Indexes

Section 4.4: MSCI Climate Change Metrics.

- Added a sub-section under Climate Change Metrics to provide additional details on Fossil Fuels related activities and Greenhouse Gas Emissions.

Section 2.4: Applying the MSCI 20/35 Indexes Methodology

- Updated relaxation pathway

Section 2.7 Treatment of Unrated Companies

- Moved treatment of companies when ratings and research is not available from MSCI ESG Research to a new section.

Section 4: MSCI ESG Research:

- Added a sub-section under Climate Change Metrics to provide additional details on Fossil Fuels related activities and Greenhouse Gas Emissions.

Appendix II: Optimization Constraints

- Updated the thresholds for the optimization objectives
 - ESG Score upliftment target updated from 20% to 10%
 - Carbon Emission Intensity reduction target updated from 30% to 21%
 - Potential Emissions per dollar of market capitalization reduction target updated from 30% to 21%
 - Index SE% threshold updated for MSCI World Consumer Staples Advanced Select 20 35 Capped index from 30% to 20% and for MSCI World Consumer Discretionary Advanced Select 20 35 Capped index from 20% to 10%
 - Index SE% constraint added for MSCI World Utilities Advanced Select 20 35 Capped index and MSCI World Communication Services Advanced Select 20 35 Capped index

Appendix III: Calculation of Carbon Exposure Metrics

- Added Appendix showing the Calculation for Target metrics

Appendix VI: Methodology Set

- Added details on the Methodology Set for the Indexes

The following section has been modified as of February 2026

- Updated references to research provider from "MSCI ESG Research" to "MSCI Solutions LLC ("MSCI Solutions")." and related products.

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