

Consultation on Potential Enhancements to the MSCI ESG Leaders Indexes Methodology

APRIL 2024

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Summary

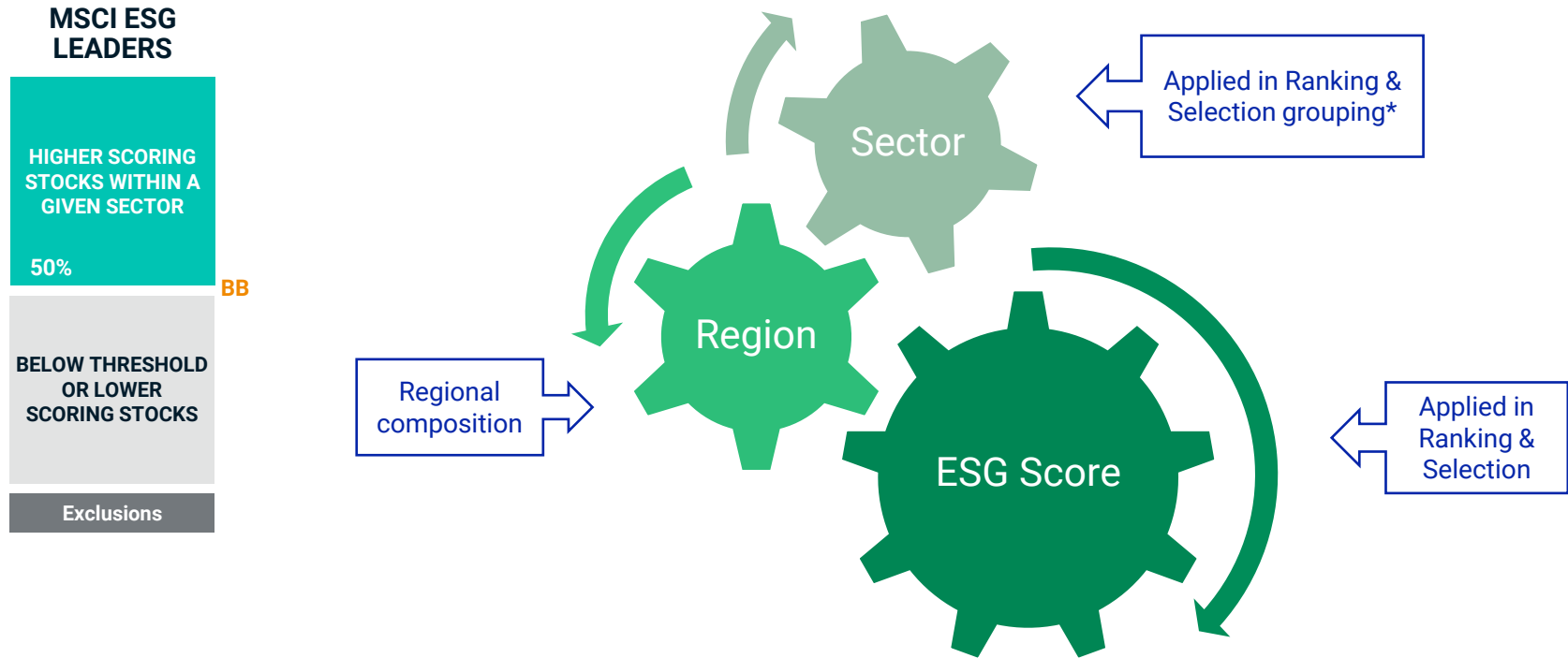
- MSCI proposes to enhance the MSCI ESG Leaders Indexes methodology to address the following:
 1. High observed turnover driven by the underlying MSCI ESG Ratings data,
 2. Reflect latest thinking and regulatory considerations for the exclusions criteria, and
 3. Incorporate a carbon intensity reduction overlay to target a minimum index-level carbon reduction
- In addition,
 4. On the back of proposed ESMA Fund Naming and UK FCA Anti-Greenwashing rules, MSCI is proposing alternative names for select standard MSCI ESG indexes, including the MSCI ESG Leaders Indexes

Considering pending final text on the aforementioned regulations, which are expected between May 2024 (UK FCA) and June 2024 (ESMA), MSCI may complement this consultation if there are pressing concerns arising from the final text.
- MSCI invites feedback from market participants on or before **June 30, 2024** and will announce the results of the consultation as well as the implementation timeline on or before **July 12, 2024**.

Summary of Proposed Enhancements to the MSCI ESG Leaders Indexes Methodology

No.	Proposed Enhancements	What the Proposal Aims to Achieve
1	Remove ESG Ratings Trend from the ranking component and AA from the Top 50% selection prioritization	<ul style="list-style-type: none"> • Reduce unnecessary turnover and reverse turnover coming from ESG Ratings Trend • Take into account the upward trend of MSCI ESG Ratings
2	Revisit and update the exclusions criteria related to certain business activities	Ensure that the exclusions criteria are up-to-date and relevant, as well as reflect the regulatory considerations
3	Include a carbon reduction mechanism using an overlay	Ensure a minimum percentage of index-level carbon reduction, while aiming to preserve turnover gains from Proposal 1
4	Rename MSCI ESG Leaders and other key indexes	Address the potential naming challenges resulting from various fund naming and anti-greenwashing regulations

Recap: Key Considerations of the MSCI ESG Leaders Indexes



Proposal 1: Removing ESG Trend from Ranking and AA from Selection

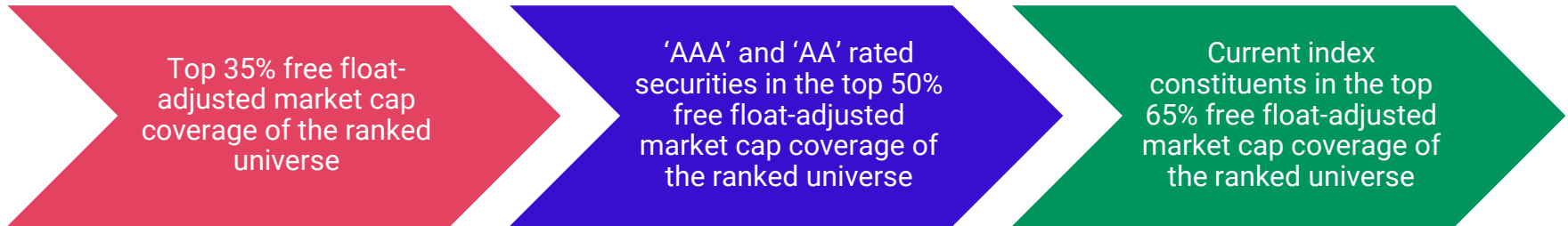
OVERVIEW OF PROPOSAL AND SIMULATIONS

Recap: Current MSCI ESG Leaders Indexes Ranking and Selection

RANKING CRITERIA PER SECTOR BASED ON SECTION 3.1.2 OF THE INDEX METHODOLOGY*

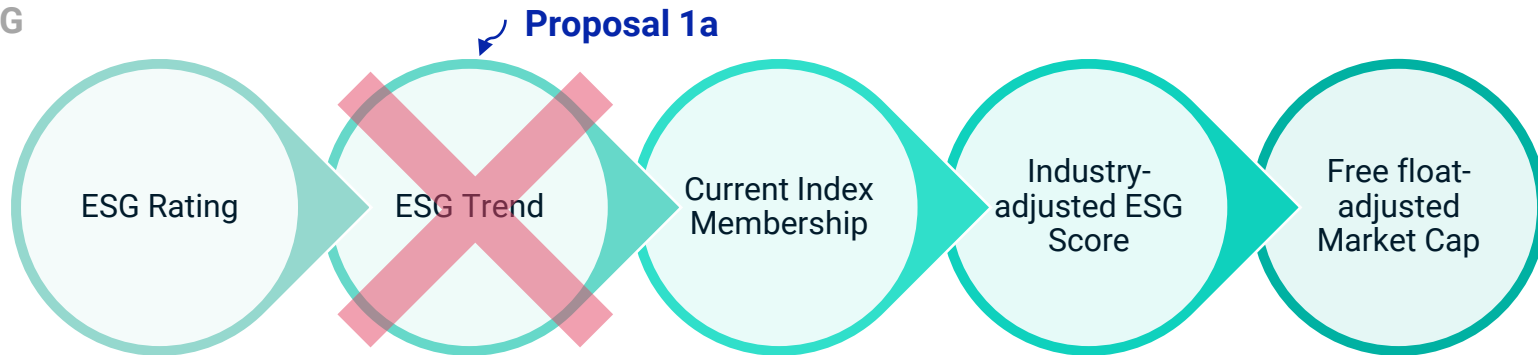


SELECTION RULES PER SECTOR AS PER SECTION 3.1.3



Proposal 1: Removal of ESG Ratings Trend in Ranking + AA Prioritization in Selection

RANKING



SELECTION



Proposal 1a: Removal of ESG Ratings Trend in Ranking

- MSCI ESG Research has observed an **upward trend in issuer ESG Ratings**,¹ as well as **greater uptick in ESG Rating changes**.²
- We have also seen **high index turnover due to ESG Ratings Trend** in the ranking logic in recent rebalances.
- Moreover, we note that the higher priority for ESG Ratings Trend may negatively impact longstanding ESG Leaders (AAA-AA) companies.
- The proposed removal saw reduced turnover while maintaining the overall ESG characteristics during the simulated period (May 2020 to December 2023)

Key Metrics

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Simulated ACWI ESG Leaders Ranking and Selection Ex Trend
Total Return* (%)	12.8	13.3	13.7
Total Risk (%)	17.1	17.6	17.2
Return / Risk	0.75	0.76	0.80
Sharpe Ratio	0.63	0.65	0.68
Active Return (%)	0.0	0.5	0.9
Tracking Error (%)	0.0	1.6	1.7
Information Ratio		0.33	0.55
Historical Beta	1.00	1.03	1.00
Number of Constituents***	2943	958	960
Turnover** (%)	2.7	11.2	7.1

Period: May 29, 2020 to Dec 29, 2023. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Integration, Values and Norms

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Simulated ACWI ESG Leaders Ranking and Selection Ex Trend
Integration			
ESG Score	6.8	8.0	8.0
ESG Leaders (AAA-AA) (%)	44.0	77.6	77.6
ESG Laggards (B-CCC) (%)	3.2	0.0	0.0
ESG Trend Positive (%)	15.2	10.7	9.1
ESG Trend Negative (%)	8.3	6.8	7.6
Index ESG Rating	A	AA	AA
Environmental Pillar Score	6.0	6.6	6.7
Social Pillar Score	5.0	5.6	5.6
Governance Pillar Score	5.6	6.1	6.1

As of December 29, 2023.

Note: Simulations do not apply any other exclusions apart from ESG Ratings to isolate the impact

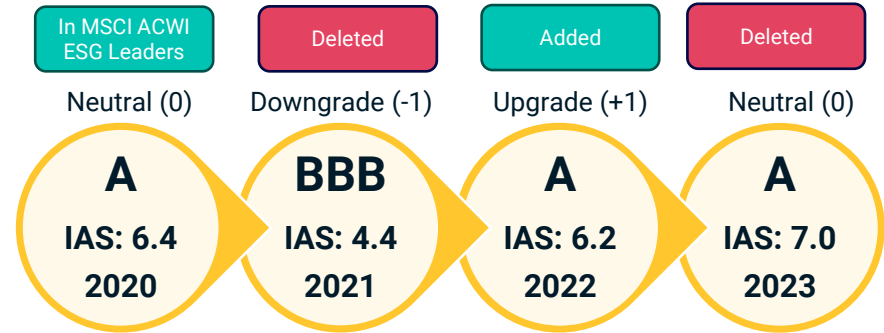
¹ MSCI ESG Fund Rating consultation: <https://support.msci.com/documents/10186/48546c07-e385-89fc-2420-7c9cdb699d8>

² MSCI ESG Ratings consultation: <https://support.msci.com/documents/10186/307f6810-15da-8fd6-de7f-d099715669a6>

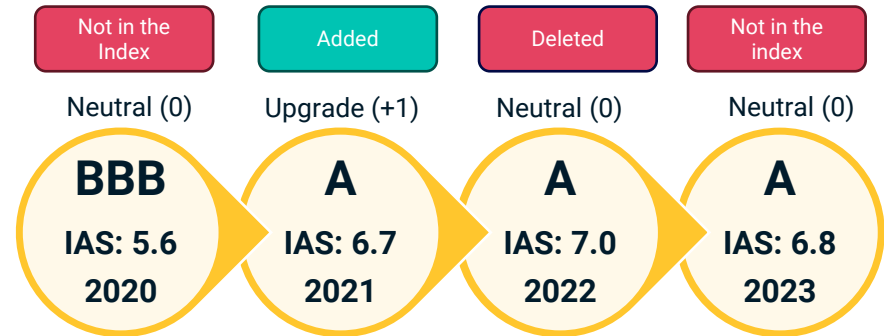
Proposal 1a: Removal of ESG Ratings Trend in Ranking > Reverse Turnover

- Using the simulated MSCI ACWI ESG Leaders' ranking and selection between June 2020 and June 2023, we observed that the removal of the ESG Ratings Trend reduced the number of reverse turnovers, **from 115 impacted securities in the simulated index to 40** for the simulated index without ESG Ratings Trend.
- We also note that the incorporation of ESG Ratings Trend, considering the upward trajectory of companies' ESG Ratings, means that **even Neutral (0) could put a stock's ranking negatively**, despite higher industry-adjusted ESG scores (IAS).

EXAMPLE: SANOFI



EXAMPLE: SAMSUNG ELECTRONICS



Proposal 1b: Removal of AA Prioritization in Selection

- Including AA-rated companies in the Top 50% selection bucket means that new AA-rated companies are prioritized over lower rated existing constituents, which is a source of high turnover given the proportion of AAA- and AA-rated companies has grown significantly.
- Considering the noted upward trend of ESG ratings, we propose to remove AA from the Top 50% bucket but ensure AAA-rated companies are still prioritized.
- We observe that the removal of AA in the Top 50% selection bucket also contributes to a reduction in turnover during the simulated period (May 2020 to December 2023)

Key Metrics

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Simulated ACWI ESG Leaders Ranking and Selection Ex AA
Total Return* (%)	12.8	13.3	13.3
Total Risk (%)	17.1	17.6	17.5
Return / Risk	0.75	0.76	0.76
Sharpe Ratio	0.63	0.65	0.65
Active Return (%)	0.0	0.5	0.5
Tracking Error (%)	0.0	1.6	1.6
Information Ratio		0.33	0.30
Historical Beta	1.00	1.03	1.02
Number of Constituents***	2943	958	953
Turnover** (%)	2.7	11.2	10.3

Period: May 29, 2020 to Dec 29, 2023. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Integration, Values and Norms

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Simulated ACWI ESG Leaders Ranking and Selection Ex AA
Integration			
ESG Score	6.8	8.0	8.0
ESG Leaders (AAA-AA) (%)	44.0	77.6	76.2
ESG Laggards (B-CCC) (%)	3.2	0.0	0.0
ESG Trend Positive (%)	15.2	10.7	9.6
ESG Trend Negative (%)	8.3	6.8	6.8
Index ESG Rating	A	AA	AA
Environmental Pillar Score	6.0	6.6	6.6
Social Pillar Score	5.0	5.6	5.5
Governance Pillar Score	5.6	6.1	6.1

As of December 29, 2023.



Note: Simulations do not apply any other exclusions apart from ESG Ratings to isolate the impact

Proposal 1: Combined Removal of Ratings Trend and AA in Top 50% Bucket

Key Metrics

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Combined Simulated ACWI ESG Leaders Ex AA and Ex Trend
Total Return* (%)	12.8	13.3	13.7
Total Risk (%)	17.1	17.6	17.2
Return / Risk	0.75	0.76	0.79
Sharpe Ratio	0.63	0.65	0.68
Active Return (%)	0.0	0.5	0.9
Tracking Error (%)	0.0	1.6	1.7
Information Ratio		0.33	0.54
Historical Beta	1.00	1.03	1.00
Number of Constituents***	2943	958	949
Turnover** (%)	2.7	11.2	5.0

Period: May 29, 2020 to Dec 29, 2023. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

Integration, Values and Norms

	MSCI ACWI Index	Simulated ACWI ESG Leaders Ranking and Selection	Combined Simulated ACWI ESG Leaders Ex AA and Ex Trend
Integration			
ESG Score	6.8	8.0	8.0
ESG Leaders (AAA-AA) (%)	44.0	77.6	73.2
ESG Laggards (B-CCC) (%)	3.2	0.0	0.0
ESG Trend Positive (%)	15.2	10.7	9.7
ESG Trend Negative (%)	8.3	6.8	8.3
Index ESG Rating	A	AA	AA
Environmental Pillar Score	6.0	6.6	6.7
Social Pillar Score	5.0	5.6	5.5
Governance Pillar Score	5.6	6.1	6.0

As of December 29, 2023.

Proposal 1:

Removal of ESG Ratings Trend & AA Priority – Simulations based on Current Methodology

	ACWI		World		EM		USA		Canada	
	Current*	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA
Active Return (%)	0.6	0.6	0.8	0.8	-0.9	-0.5	1.2	1.0	-3.1	-2.9
Tracking Error (%)	1.8	1.9	1.9	2.0	2.8	2.9	2.4	2.4	4.6	5.2
Turnover (%)	10.3	6.8	10.0	6.6	13.7	10.9	8.3	6.1	15.9	11.7
ESG Score	7.7	7.7	7.8	7.8	7.0	7.0	7.6	7.6	8.1	8.1
ESG Leaders (AAA-AA) (%)	66.7	65.6	69.5	68.2	41.9	42.5	60.1	58.6	87.5	90.5
Index ESG Rating	AA	AA	AA	AA	A	A	AA	AA	AA	AA

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA	Current	Ex-Trend/Ex-AA
Active Return (%)	1.8	1.8	-1.0	-0.4	-0.3	0.0	-7.4	-7.6	0.2	0.9
Tracking Error (%)	2.2	2.4	1.8	1.9	3.4	3.6	6.2	6.4	5.2	4.4
Turnover (%)	15.9	10.1	12.2	6.3	13.3	10.3	25.5	22.6	14.3	11.4
ESG Score	8.5	8.5	8.2	8.2	7.2	7.2	6.2	6.3	6.5	6.4
ESG Leaders (AAA-AA) (%)	94.5	93.5	86.7	82.4	46.1	46.8	21.8	22.2	32.8	32.5
Index ESG Rating	AA	AA	AA	AA	AA	AA	A	A	A	A

* Indexes are simulated using the current methodology as of April 2024

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 29, 2020 – December 29, 2023; 2. ESG Metrics (ESG Score, ESG Leaders, and Index ESG Rating) are as of December 29, 2023



Proposal 2: Review Current Exclusions Screens

OVERVIEW OF PROPOSAL AND SIMULATIONS

Proposal 2

Summary of Proposed Enhancements to the Exclusions Criteria

No.	Proposed Enhancements	What the Proposal Aims to Achieve
2a	Revisit the existing business involvement screens	<ul style="list-style-type: none">- Address potential regulatory-related considerations on Tobacco screening- Align the Civilian Firearms screen with other MSCI ESG indexes- [Optional] Reconsider Nuclear Power screen based on potentially changing perspectives on nuclear power's contribution to the climate change mitigation as per the EU Taxonomy Climate Delegated Acts
2b	Introduce new exclusions screens	<p>Add the following screens that are in line with biodiversity- and/or nature-related considerations:</p> <ul style="list-style-type: none">- Arctic Oil & Gas Extraction- Palm Oil Production

Proposal 2a

Review of Existing Exclusions Criteria

Screen	Exclusions Criteria	For Review	Consideration
ESG Ratings	B or CCC	No	
ESG Controversies	≤ 2 for New / 0 for Existing	No	
Controversial Weapons	Most Restrictive	No	
Nuclear Weapons	Highly Restrictive	No	
Tobacco	Moderately Restrictive	Yes	EU Regulations (i.e., Minimum Safeguards)
Civilian Firearms	Moderately Restrictive	Yes	Alignment of screens
Alcohol	Least Restrictive	No	
Conventional Weapons	Least Restrictive	No	
Gambling	Least Restrictive	No	
Nuclear Power	Least Restrictive	Yes	Changing views on Nuclear Power's contribution
Fossil Fuel Extraction	5% Coal + Unconventional O&G	No	
Thermal Coal Power	5%	No	

Proposal 2a

Review of Existing Exclusions Criteria (1/2)

Proposal	Details	Additional Names Excluded from MSCI ACWI ESG Leaders
Proposed: Adjust the Tobacco criterion	Adjust criteria from a Moderately Restrictive to Highly Restrictive criteria to align with MSCI ESG Screened and SRI Index methodologies, as well as address EU regulatory trends on Tobacco Previous: 5% Producers / 15% Aggregate New: All Producers / 5% Aggregate	Aggregate Weight*: 0.34% Amcor (USA) Seven & I Holdings Co (Japan) Tesco (UK) Alimentation Couche (Canada) Yunnan Ener New A (HK-C) (China)
Alternate: Adjust Tobacco Primary Involvement	Adjust Producers criteria but retain the aggregate threshold Previous: 5% Producers / 15% Aggregate New: All Producers / 15% Aggregate	No impact
Proposed: Adjust Civilian Firearms criterion	Adjust criteria from a Moderately Restrictive to Highly Restrictive criteria to align with MSCI ESG Screened and SRI Indexes Methodology Previous: 5% Producers / 15% Aggregate New: All Producers / 5% Aggregate	No impact

Proposal 2a

Review of Existing Exclusions Criteria (2/2)

Optional Proposal	Details	Summary / Newly Eligible Names*
<p>Remove Nuclear Power Screen</p>	<p>Remove the nuclear power criteria considering differing views on Nuclear Power, and this power source considered as contributing to green taxonomies such as the EU Taxonomy.</p>	<p><i>Aggregate Count and Weight in MSCI ACWI: 16 Utilities companies (0.80%)**</i> Of which, USA (10) with 0.76%.</p> <p>Dominion Energy (USA) Duke Energy Corp (USA) Entergy Corp (USA) NextEra Energy (USA) Kansai Electric Power Co (Japan) PG&E Corp (USA) Public Service Ent Grp (USA) The Southern Company (USA) Ameren Corporation (USA) Cez Ceske Ener Zavody (Czech Republic) Xcel Energy (USA) BKW (Switzerland) CGN Power Co H (China) China Natl Nucl A (HK-C) (China) CGN Power Co A (HK-C) (China) Constellation Energy (USA)</p>

* Newly eligible on individual screen basis. These companies will still be subject to other screening, ranking and selection rules.

** Data is as of the December 2023 Rebalance date (1 December 2023)

Proposal 2b

Introduction of New Exclusions Criteria

Proposal	Details	Additional Names Excluded from MSCI ACWI ESG Leaders
Proposed: Add biodiversity/nature-related considerations	Arctic Oil and Gas Extraction \geq 5%	No impact
	Palm Oil Production \geq 5%	Aggregate Weight*: 0.02% Kuala Lumpur Kepong (Malaysia) QL Resources (Malaysia) Energy Absolute (Thailand)

Proposal 2: Update of Exclusions Criteria - Transitioning the Indexes

Assuming a simulated transition of the indexes in May 2023 to coincide with the annual ranking and selection, most of the simulated region indexes, apart from small universes such as Canada (i.e., higher turnover partly due to the new Tobacco screen), remained unchanged or had relatively low impact compared to their corresponding simulated live indexes.

Note: The simulations apply the proposed Tobacco, Civilian Firearms, Arctic Oil & Gas Extraction, and Palm Oil Production screens

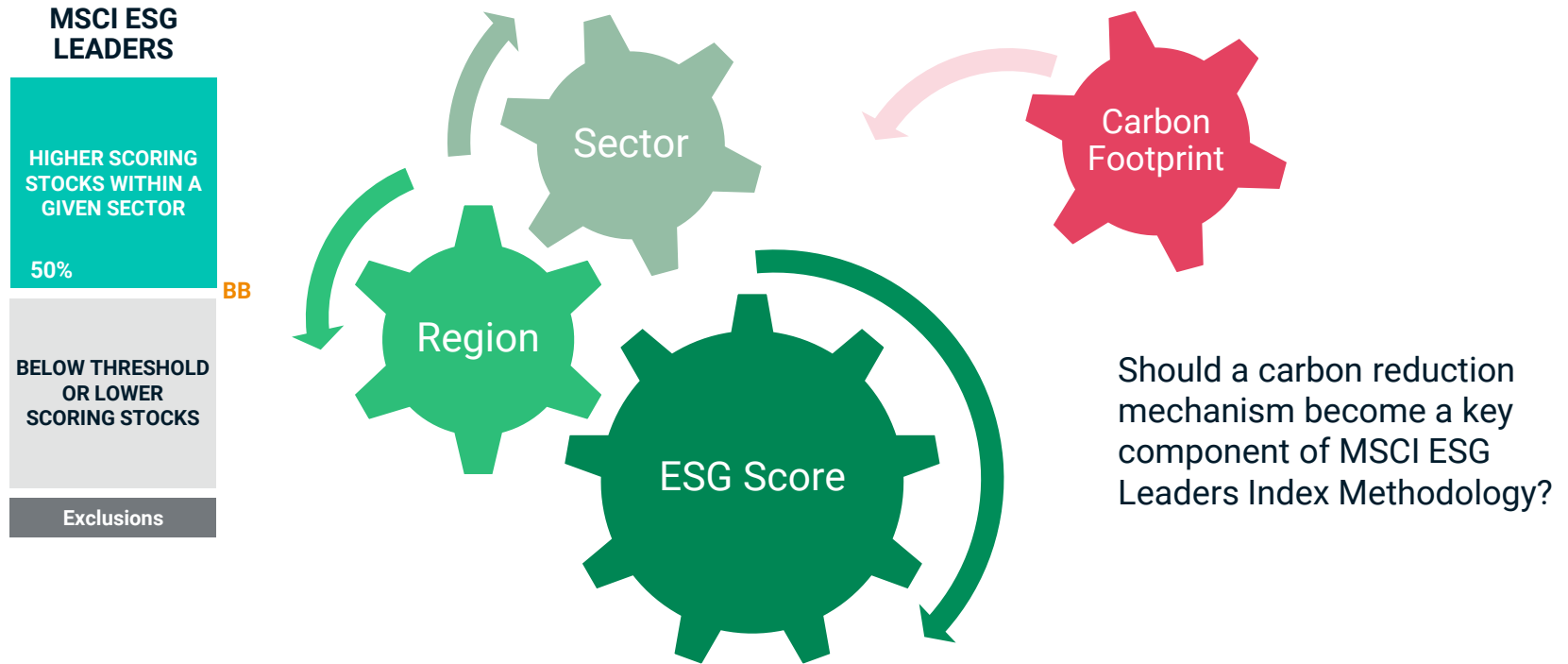
	ACWI		World		EM		USA		Canada	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover	11.3	11.4	11.3	11.3	11.2	12.2	9.1	8.6	5.1	8.6
No. of stocks added	222	228	136	135	86	93	62	56	5	7
No. of stocks deleted	140	153	107	113	33	40	35	34	2	3

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover**	22.4	22.2	14.9	15.5	12.0	13.1	5.6	5.6	11.8	12.7
No. of stocks added	45	44	24	28	71	77	0	0	15	16
No. of stocks deleted	45	48	25	28	24	30	4	4	5	6

Proposal 3: Incorporate a Carbon Intensity Reduction Mechanism

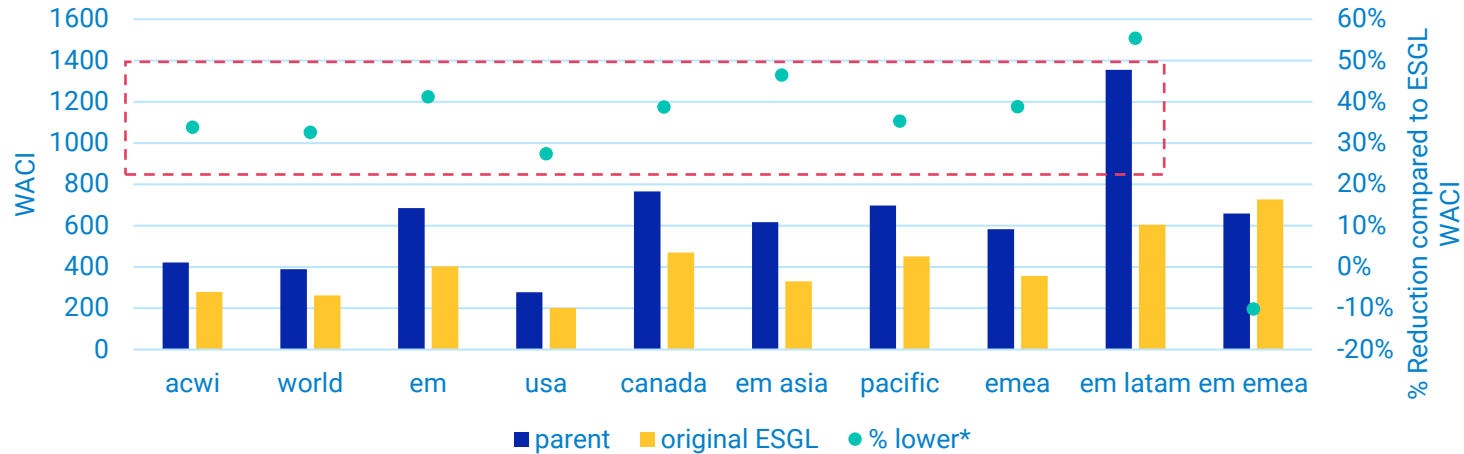
OVERVIEW OF PROPOSAL AND SIMULATIONS

Recap: Key Considerations of the MSCI ESG Leaders Indexes



WACI of MSCI ESG Leader Indexes (without WACI Overlay)

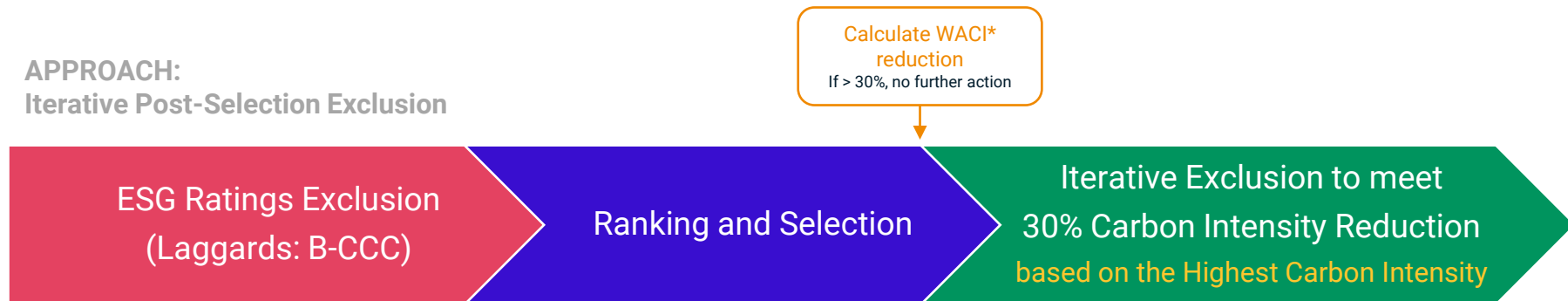
Based on the June 2023 simulation snapshot, most MSCI ESG Leaders indexes have lower carbon footprint compared to their corresponding parent indexes, i.e., around 30%-40%, with a few outliers having much lower or much higher % reduction.



Following a consultation, effective Dec 2020, the MSCI ESG Leaders methodology was *enhanced with the objective of improving the climate profile of MSCI ESG Leaders indexes*. In this enhancement, following screens were introduced in the MSCI ESG Leaders methodology : (1) All companies deriving 5% or more aggregate revenue (either reported or estimated) from thermal coal mining and unconventional oil and gas extraction (2) All companies deriving 5% or more revenue (either reported or estimated) from thermal coal-based power generation.

Proposal 3: Adding a Carbon Intensity Reduction Overlay

APPROACH:
Iterative Post-Selection Exclusion



Proposal 3: Methodology Overview

Parameter	Iterative Post-Selection Exclusion (Overlay)
Parent Universe	MSCI USA / Canada / Pacific / EMEA / EM Asia / EM EMEA / EM Latin America
Exclusions	Applied as per the MSCI ESG Leaders Indexes Methodology*
Application of Carbon Intensity Reduction	<p>STEP 1 Ranking & Selection Applied as per the MSCI ESG Leaders Indexes Methodology</p> <p>STEP 2 Calculation of Carbon Intensity</p> <p>STEP 3 Iterative Exclusions ≥30% reduction relative to Parent</p>
	Applied at regional building block level: USA / Canada / Pacific / EMEA / EM Asia / EM EMEA / EM Latin America
Metric Used	Highest Carbon Intensity (Wtd Avg Scope 1-3 t CO2e/\$M EVIC)
Composite Layer (select regions)	<ul style="list-style-type: none"> • World: USA + Canada + Pacific + EMEA • EM: EM Asia + EM EMEA + EM Latin America • ACWI: World + Emerging Markets (EM)
Rebalance Frequency	Quarterly

Proposal 3:

Adding a Carbon Reduction Overlay – Simulations based on Current Methodology (1/2)

	ACWI		World		EM		USA		Canada	
	Current	Proposal	Current	Proposal	Current	Proposal	Current	Proposal	Current	Proposal
Active Return (%)	0.6	0.7	0.8	0.8	-0.9	-0.5	1.2	1.2	-3.1	-2.8
Tracking Error (%)	1.8	1.9	1.9	1.9	2.8	3.0	2.4	2.4	4.6	4.6
Turnover (%)	10.3	10.6	10.0	10.4	13.7	14.2	8.3	8.2	15.9	17.0
Number of Constituents (Avg)	1261	1249	770	763	491	486	306	304	41	41
Max. Constituent Weight	8.00	8.00	8.93	8.93	13.77	13.84	12.80	12.80	12.37	12.37
Max. Active Sector Wt.(%)	2.0	2.2	2.0	2.4	7.1	7.4	2.4	2.4	10.2	10.2
Sector with largest overweight	Financials	IT	Financials	IT	Cons. Disc.	Cons. Disc.	Financials	Financials	Financials	Financials
Min. Active Sector Wt.(%)	-2.6	-2.7	-2.9	-2.9	-5.8	-5.8	-3.3	-3.3	-15.6	-15.6
Sector with largest underweight	Energy	Energy	Energy	Energy	Comm. Serv.	Comm. Serv.	Energy	Energy	Energy	Energy
Carbon Intensity to EVIC - Scope 1 + 2 + 3*	243	239	225	225	398	361	149	149	367	367
Carbon Reduction Target	-	279	-	253	-	502	-	181	-	415
% Reduction relative to Parent	39.1%	40.1%	37.8%	37.8%	44.5%	49.7%	42.5%	42.5%	38.1%	38.1%
Implied Temperature Rise (°C)	2.1	2.1	2.0	2.0	2.5	2.4	2.0	2.0	3.1	3.1
ESG Score	7.7	7.7	7.8	7.8	7.0	7.0	7.6	7.6	8.1	8.1
ESG Leaders (AAA-AA) (%)	66.7	66.7	69.5	69.5	41.9	42.0	60.1	60.1	87.5	87.5

* Indexes are simulated using the current methodology as of April 2024

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 29, 2020 – December 29, 2023; 2. ESG Metrics (ESG Score, ESG Leaders) and Carbon Metrics are as of December 29, 2023



Proposal 3:

Adding a Carbon Reduction Overlay – Simulations based on Current Methodology (2/2)

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Proposal	Current	Proposal	Current	Proposal	Current	Proposal	Current	Proposal
Active Return (%)	1.8	1.7	-1.0	-1.2	-0.3	-0.3	-7.4	-7.4	0.2	3.1
Tracking Error (%)	2.2	2.3	1.8	1.9	3.4	3.4	6.2	6.2	5.2	6.7
Turnover (%)	15.9	17.6	12.2	13.3	13.3	13.3	25.5	25.5	14.3	17.7
Number of Constituents (Avg)	225	224	198	195	376	375	43	43	71	68
Max. Constituent Weight	6.51	6.51	6.84	6.84	18.06	18.06	10.71	10.71	6.32	6.55
Max. Active Sector Wt.(%)	3.9	3.9	3.4	3.6	7.3	7.3	11.8	11.8	8.0	9.9
Sector with largest overweight	Health Care	Health Care	Cons. Disc.	Cons. Disc.	Cons. Disc.	Cons. Disc.	Financials	Financials	Cons. Disc.	Cons. Disc.
Min. Active Sector Wt.(%)	-6.4	-6.2	-2.0	-2.2	-6.8	-6.8	-18.8	-18.8	-4.8	-7.6
Sector with largest underweight	Cons. Stap.	Cons. Stap.	Mat. / Fin.	Materials	Comm. Serv.	Comm. Serv.	Materials	Materials	Financials	Energy
Carbon Intensity to EVIC - Scope 1 + 2 + 3*	373	373	468	468	337	337	437	437	695	440
Carbon Reduction Target	-	399	-	464	-	470	-	823	-	452
% Reduction relative to Parent	34.6%	34.6%	29.4%	29.4%	49.9%	49.9%	62.8%	62.8%	-7.6%	31.9%
Implied Temperature Rise (°C)	1.9	1.9	2.2	2.2	2.3	2.3	2.5	2.5	3.1	2.7
ESG Score	8.5	8.5	8.2	8.2	7.2	7.2	6.2	6.2	6.5	6.5
ESG Leaders (AAA-AA) (%)	94.5	94.5	86.7	86.7	46.1	46.1	21.8	21.8	32.8	32.8

* Indexes are simulated using the current methodology as of April 2024

1. Key Metrics (Active Return, Tracking Error, Turnover) Period: May 29, 2020 – December 29, 2023; 2. ESG Metrics (ESG Score, ESG Leaders) and Carbon Metrics are as of December 29, 2023



Proposal 3:

Adding a Carbon Intensity Reduction Overlay - Transitioning the Indexes

Assuming simulated transition of the indexes in May 2023 to coincide with the annual ranking and selection, we observed that all regions would require no or minimal extra deletions, with lower turnover, for the proposed Overlay option.

	ACWI		World		EM		USA		Canada	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover	11.3	11.3	11.3	11.3	11.2	11.1	9.1	9.1	5.1	5.1
No. of stocks added	222	219	136	136	86	83	62	62	5	5
No. of stocks deleted	140	147	107	108	33	39	35	36	2	2

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover	22.4	22.4	14.9	14.9	12.0	11.9	5.6	5.6	11.8	11.3
No. of stocks added	45	45	24	24	71	70	0	0	15	13
No. of stocks deleted	45	45	25	25	24	24	4	4	5	11

Question: Do you agree with the proposed Overlay approach to efficiently reach the target carbon reduction, which aims to be as least invasive to the ranking and selection logic as possible, considering the volatility of carbon emissions data?

Combined Simulations



Summary of Proposals Incorporated in the Combined Simulations

1. Removal of the following elements in the Ranking and Selection
 - a) ESG Ratings Trend in ranking, and
 - b) AA prioritization in Top 50% selection
2. Adjustment of the Exclusions Criteria
 - a) Adjust Tobacco AND Civilian Firearms Criteria to Highly Restrictive, and
 - b) Add biodiversity/nature-related considerations, including Arctic Oil & Gas Extraction and Palm Oil Production
3. Incorporate a Carbon Reduction Overlay that applies an iterative exclusions logic post-selection if the reduction based on weighted average carbon intensity is less than 30%

Combined Proposals – Simulations based on Current Methodology (1/3)

	ACWI			World			EM		
	Current	Combined Proposal 1-2	Combined Proposal	Current	Combined Proposal 1-2	Combined Proposal	Current	Combined Proposal 1-2	Combined Proposal
Active Return (%)	0.6	0.6	0.7	0.8	0.8	0.8	-0.9	-0.5	-0.1
Tracking Error (%)	1.8	1.9	2.0	1.9	2.0	2.1	2.8	2.9	3.1
Turnover (%)	10.3	6.9	7.3	10.0	6.7	7.1	13.7	11.0	11.5
Number of Constituents (Avg)	1261	1238	1228	770	759	753	491	479	475
Max. Constituent Weight	8.00	8.07	8.08	8.93	9.02	9.02	13.77	13.79	13.82
Max. Active Sector Weight (%)	2.0	1.7	2.1	2.0	1.9	2.3	7.1	6.7	7.0
Min. Active Sector Weight (%)	-2.6	-2.6	-2.7	-2.9	-2.9	-2.9	-5.8	-5.8	-5.7
ESG Score	7.7	7.7	7.7	7.8	7.8	7.8	7.0	7.0	7.0
ESG Leaders (AAA-AA) (%)	66.7	65.3	65.3	69.5	68.0	68.0	41.9	42.6	42.5
Index ESG Rating	AA	AA	AA	AA	AA	AA	A	A	A
Carbon Intensity to EVIC - Scope 1 + 2 + 3	243	226	225	225	210	210	398	368	353
Carbon Reduction Target	-	-	279	-	-	253	-	-	502
% Reduction relative to Parent	39.1%	43.4%	43.6%	37.8%	42.0%	42.0%	44.5%	48.7%	50.8%
Implied Temperature Rise (°C)	2.1	2.1	2.1	2.0	2.0	2.0	2.5	2.5	2.4

Combined Proposals – Simulations based on Current Methodology (2/3)

	USA			Canada			Europe & Middle East			Pacific		
	Current	Combined Prop 1-2	Combined Proposal	Current	Combined Prop 1-2	Combined Proposal	Current	Combined Prop 1-2	Combined Proposal	Current	Combined Prop 1-2	Combined Proposal
Active Return (%)	1.2	1.0	1.0	-3.1	-3.3	-2.9	1.8	1.7	1.6	-1.0	-0.4	-0.5
Tracking Error (%)	2.4	2.5	2.5	4.6	5.6	5.6	2.2	2.4	2.5	1.8	1.9	1.9
Turnover (%)	8.3	6.0	6.0	15.9	12.2	11.5	15.9	10.9	12.7	12.2	6.3	7.0
Number of Constituents (Avg)	306	301	299	41	40	39	225	228	227	198	191	188
Max. Constituent Weight	12.80	12.98	12.98	12.37	11.07	11.07	6.51	6.48	6.48	6.84	6.66	6.66
Max. Active Sector Weight (%)	2.4	2.1	2.1	10.2	10.8	10.8	3.9	4.4	4.4	3.4	3.5	3.3
Min. Active Sector Weight (%)	-3.3	-3.3	-3.3	-15.6	-15.2	-15.2	-6.4	-6.4	-6.2	-2.0	-2.0	-2.2
ESG Score	7.6	7.5	7.5	8.1	8.1	8.1	8.5	8.6	8.6	8.2	8.2	8.2
ESG Leaders (AAA-AA) (%)	60.1	58.3	58.3	87.5	90.0	90.0	94.5	94.3	94.3	86.7	82.4	82.4
Index ESG Rating	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA	AA
Carbon Intensity to EVIC - Scope 1 + 2 + 3	149	146	146	367	304	304	373	336	336	468	403	403
Carbon Reduction Target	-	-	181	-	-	415	-	-	399	-	-	464
% Reduction relative to Parent	42.5%	43.6%	43.6%	38.1%	48.7%	48.7%	34.6%	41.1%	41.1%	29.4%	39.2%	39.2%
Implied Temperature Rise (°C)	2.0	2.0	2.0	3.1	2.8	2.8	1.9	1.8	1.8	2.2	2.1	2.1

Combined Proposals – Simulations based on Current Methodology (3/3)

	EM Asia			EM Latin America			EM EMEA		
	Current	Combined Proposal 1-2	Combined Proposal	Current	Combined Proposal 1-2	Combined Proposal	Current	Combined Proposal 1-2	Combined Proposal
Active Return (%)	-0.3	0.1	0.0	-7.4	-7.6	-7.6	0.2	0.9	3.5
Tracking Error (%)	3.4	3.6	3.6	6.2	6.4	6.4	5.2	4.4	5.7
Turnover (%)	13.3	10.3	10.5	25.5	22.6	22.6	14.3	11.4	15.1
Number of Constituents (Avg)	376	369	367	43	43	43	71	68	65
Max. Constituent Weight	18.06	17.98	17.98	10.71	8.45	8.45	6.32	6.45	6.55
Max. Active Sector Weight (%)	7.3	7.0	7.0	11.8	12.6	12.6	8.0	7.1	9.1
Min. Active Sector Weight (%)	-6.8	-6.7	-6.7	-18.8	-18.7	-18.7	-4.8	-6.1	-5.0
ESG Score	7.2	7.2	7.2	6.2	6.3	6.3	6.5	6.4	6.3
ESG Leaders (AAA-AA) (%)	46.1	46.8	46.8	21.8	22.2	22.2	32.8	32.5	31.8
Index ESG Rating	AA	AA	AA	A	A	A	A	A	A
Carbon Intensity to EVIC - Scope 1 + 2 + 3	337	322	322	437	444	444	695	563	465
Carbon Reduction Target		-	470		-	823		-	452
% Reduction relative to Parent	49.9%	52.1%	52.1%	62.8%	62.2%	62.2%	-7.6%	12.8%	28.0%**
Implied Temperature Rise (°C)	2.3	2.4	2.4	2.5	2.5	2.5	3.1	3.0	2.8

Combined Proposals > Transitioning the Indexes

Assuming simulated transition of the indexes in May 2023 to coincide with the annual ranking and selection, almost all of the simulated region indexes, apart from small universes such as Canada and EM Latin America, required lower turnover than their corresponding simulated current indexes.

	ACWI		World		EM		USA		Canada	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover	11.3	4.9	11.3	5.1	11.2	5.0	9.1	4.4	5.1	6.6
No. of stocks added	222	94	136	53	86	41	62	22	5	4
No. of stocks deleted	140	91	107	61	33	30	35	27	2	3

	Europe & Middle East		Pacific		EM Asia		EM Latin America		EM EMEA	
	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*	Current	Transition*
Turnover	22.4	7.0	14.9	5.6	12.0	5.0	5.6	7.3	11.8	8.7
No. of stocks added	45	16	24	11	71	36	0	0	15	5
No. of stocks deleted	45	20	25	11	24	15	4	6	5	9

Consultation Questions



Consultation Questions

1. **Proposal 1:** Removal of ESG Ratings Trend and AA prioritization in the Top 50% selection bucket
 - Do you agree with the removal of ESG Ratings Trend from the ranking logic, considering the reduced significance, impact on long-standing ESG Leaders and the associated turnover?
 - Considering the observed upward ESG Ratings trend, do you agree with the removal of AA in the Top 50% selection prioritization, but keeping AAA?
2. **Proposal 2:** Adjustment of the Exclusions Criteria
 - Do you agree with adjusting the Tobacco screen in line with evolving trends coming from various EU regulations and/or labeling requirements?
 - Do you agree with aligning the Civilian Firearms screen with other ESG indexes?
 - Do you agree with adding new screens that are geared towards biodiversity-/nature-related considerations?
 - Do you think the Nuclear Power screen should be removed given changing perspectives on nuclear power's contribution to the climate change mitigation as per the EU Taxonomy Climate Delegated Acts?
3. **Proposal 3:** Incorporate an Iterative Post-Selection Exclusion Overlay
 - Do you think a carbon reduction mechanism should be an additional component to MSCI ESG Leaders?
 - Do you agree with an overlay approach applied on the regional building blocks, that aims to be as efficient in meeting the target reduction, despite some potential impact on sector representation?
4. **Timeline of Implementation**
 - Should there be any changes, do you have a preferred implementation timeline (e.g., Nov '24 or May '25 Index Review)?

Proposal 4: Alternative Names to MSCI ESG Leaders Indexes

Product Consultation on ESG index renaming

MSCI ANNOUNCES A CONSULTATION ON A PROPOSAL TO RENAME THREE MSCI ESG INDEXES

Ahead of new regulations that may potentially impact fund names in Europe as they take effect over the course of 2024, MSCI announces a consultation on its proposal to rename MSCI ESG Leaders Indexes, MSCI ESG Screened Indexes and MSCI ESG Universal Indexes.

Details of the consultation are available on: <https://www.msci.com/index-consultations>.

MSCI welcomes feedback from market participants on this topic until the end of May 2024. The results of this consultation will be announced by early July 2024.

Appendix

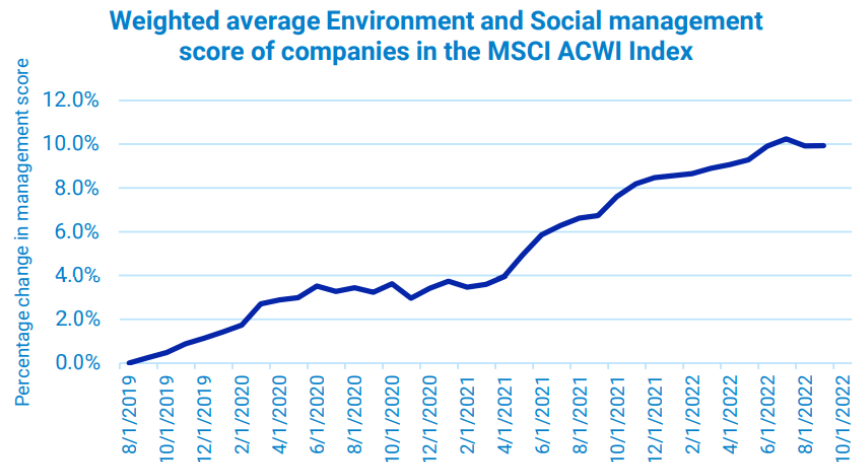
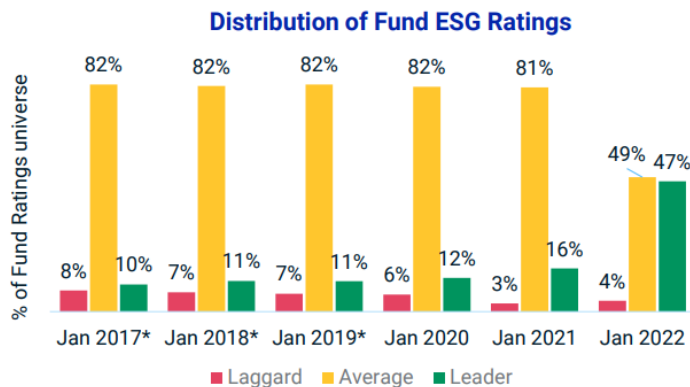


Rationale for Proposal 1

Observations on MSCI ESG Ratings in Recent Years

- A notable **upward trend in issuer ESG Ratings** was observed, driven by improved ESG transparency and practices.¹ In the specific fund metric use case that utilized ESG Ratings Trend, ESG Ratings Trend “amplified the trend in issuer ESG Ratings” and was **determined to have become less meaningful as a differentiator**.
- In November 2023, MSCI ESG Research launched a model consultation² to introduce ESG Rating buffers considering the **greater uptick in ESG Rating changes** in recent years, resulting in a 10% increase in the weighted average management scores.

The current distribution of MSCI ESG Fund Ratings presents challenges in identifying funds with top ESG characteristics.



Proposal 2b

Introduction of New Exclusions Criteria

Proposal	Details	Additional Names Excluded from MSCI ACWI ESG Leaders
<p>Do not add the biodiversity-related controversies applied to ESG Screened</p>	<p>Considering issues given the recent MSCI ESG Controversies enhancement and resulting impact on the Consumer , we propose to <u>not apply</u> the following:</p> <p>Environment - Land Use and Biodiversity Score =1/ Orange Flags</p> <p>Environment - Supply Chain Management Score = 1/ Orange Flags</p>	<p>Aggregate Weight: 3.23%</p> <p>Danone (France)</p> <p>Coca-Cola (The) (USA)</p> <p>Colgate-Palmolive (USA)</p> <p>Pepsico (USA)</p> <p>Procter & Gamble Co (USA)</p> <p>Unilever PLC (United Kingdom)</p>

Proposal 2b

Introduction of New Exclusions Criteria > Biodiversity-related Controversies

EXCLUSIONS FROM BIODIVERSITY-RELATED CONTROVERSIES
(currently already excluded from the Live MSCI ACWI ESG Leaders Index)

Security Short Name	Country Name	GICS Sector	Index Weight in the Securities' Corresponding Region/ Country Index
NESTLE	SWITZERLAND	Consumer Staples	2.99%
PHILIP MORRIS INTL	USA	Consumer Staples	0.36%
MONDELEZ INTERNATIONAL A	USA	Consumer Staples	0.24%
BASF	GERMANY	Materials	0.41%
BAYER	GERMANY	Health Care	0.33%
CORTEVA	USA	Materials	0.08%
POSCO HOLDINGS	KOREA	Materials	0.50%
ELETROBRAS ON	BRAZIL	Utilities	1.62%
ASTRA INTERNATIONAL	INDONESIA	Industrials	0.13%
JARDINE MATHESON (USD)	HONG KONG	Industrials	0.12%
ADANI PORTS AND SEZ	INDIA	Industrials	0.10%
ADANI ENTERPRISES	INDIA	Industrials	0.09%
JBS ON	BRAZIL	Consumer Staples	0.59%
POSCO INTERNATIONAL	KOREA	Industrials	0.04%
ELETROBRAS PN B	BRAZIL	Utilities	0.37%
GENTING	MALAYSIA	Consumer Discretionary	0.04%
INDOFOOD SUKSES MAKMUR	INDONESIA	Consumer Staples	0.03%

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