

# BLOOMBERG BARCLAYS MSCI US AGGREGATE ESG SELECT INDEX

September 2017

## 1 INTRODUCTION

Globally, institutional investors are increasingly seeking to invest in issuers that operate in accordance with their values and also exhibit leadership on Environmental, Social, and Governance (ESG) issues.

Examples of ESG leadership include issuers that demonstrate “best in class” management of ESG risks relative to its industry or peer group, and general adherence to established international normative standards of corporate behavior as represented by organizations such as the UN Global Compact.

Examples of values driven investing include the avoidance of issuers that sell products that have high negative social or environmental impact (for example alcohol, gambling, and tobacco).

The Bloomberg Barclays MSCI US Aggregate ESG Select Index is designed to represent the performance of bonds from issuers that exhibit ESG leadership, and exclude bonds from issuers that are inconsistent with specific values-based criteria.

## 2 MSCI ESG RESEARCH

The Bloomberg Barclays MSCI US Aggregate ESG Select Index uses issuer research provided by MSCI ESG Research. In particular, these indexes use the following three MSCI ESG Research products: MSCI ESG Ratings, MSCI ESG Controversies and MSCI Business Involvement Screening Research.

For details on MSCI ESG Research’s full suite of ESG products, please refer to: [http://www.msci.com/products/esg/about\\_msci\\_esg\\_research.html](http://www.msci.com/products/esg/about_msci_esg_research.html)

## 2.1 MSCI ESG RATINGS

MSCI ESG Ratings provides research, analysis and ratings of how well companies and other issuers with corporate-like<sup>1</sup> operations manage environmental, social and governance risks and opportunities.

MSCI ESG Ratings provides an overall issuer ESG rating - a seven point scale from 'AAA' to 'CCC'. In addition, the product provides scores and percentiles indicating how well an issuer manages each key issue relative to industry peers.

For more details on MSCI ESG Ratings, please refer to

[https://www.msci.com/documents/1296102/1636401/MSCI\\_ESG\\_Ratings.pdf](https://www.msci.com/documents/1296102/1636401/MSCI_ESG_Ratings.pdf)

## 2.2 MSCI ESG CONTROVERSIES

MSCI ESG Controversies provides assessments of controversies concerning the negative environmental, social, and/or governance impact of corporate and corporate-like issuers' operations, products and services. The evaluation framework used in MSCI ESG Controversies is designed to be consistent with international norms represented by the UN.

Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. MSCI ESG Controversies Score falls on a 0 - 10 scale, with "0" being the most severe controversy.

For more details on MSCI ESG Controversies, please refer to

<https://www.msci.com/documents/10199/acbe7c8a-a4e4-49de-9cf8-5e957245b86b>

## 2.3 MSCI ESG BUSINESS INVOLVEMENT SCREENING RESEARCH

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

For more details on MSCI ESG Business Involvement Screening Research, please refer to

[http://www.msci.com/resources/factsheets/MSCI\\_ESG\\_BISR.pdf](http://www.msci.com/resources/factsheets/MSCI_ESG_BISR.pdf)

---

<sup>1</sup> Includes government-owned agencies and local authorities with corporate-like operations, including but not limited to government-owned oil and gas companies (e.g. Pemex), government-owned banks and development banks (e.g. KfW), government-owned utilities (e.g. Eskom), etc. Government-owned agencies that operate as administrative bodies, based on MSCI ESG Research's methodology, are not assessed on ESG controversies.

### 3 CONSTRUCTING THE BLOOMBERG BARCLAYS MSCI US AGGREGATE ESG SELECT INDEX

Constructing the Bloomberg Barclays MSCI US Aggregate ESG Select Index involves the following steps:

- Defining the Parent Index;
- Defining the ESG Screened Universe;
- Defining the Carbon Screened Universe.

#### 3.1 DEFINING THE PARENT INDEX

Following is the list of the parent indexes for respective Bloomberg Barclays MSCI US Aggregate ESG Select Indexes:

Custom ESG Index	Parent Index
Bloomberg Barclays MSCI US Aggregate ESG Select Index	Bloomberg Barclays US Aggregate Bond Index

For more information, please refer to <https://www.bloombergindices.com/bloomberg-barclays-indices-resources/>

#### 3.2 ESG SCREENED UNIVERSE

The Bloomberg Barclays MSCI US Aggregate ESG Select Index uses issuer research provided by MSCI ESG Research to determine eligibility.

##### 3.2.1 ESG CRITERIA

###### 3.2.1.1 CONTROVERSY SCORE CRITERIA

The Bloomberg Barclays MSCI US Aggregate ESG Select Index uses MSCI ESG Controversies Scores to identify bonds issued by those companies and corporate-like entities that are involved in very serious controversies involving the environmental, social, or governance impact of their operations and/or products and services.

To be eligible for inclusion in the index, issuers must have an ESG controversy score of 2 (out of 10) or above. Issuers with an ESG controversy score of 1 could be included only if the issuer has an MSCI ESG Rating of BBB and has displayed a positive rating trend over its

previous rating in the most recent MSCI ESG Rating assessment or if it has an ESG rating above BBB (A, AA, AAA).

**3.2.1.2 CONTROVERSIAL BUSINESS EXCLUSION SCREEN**

The Bloomberg Barclays MSCI US Aggregate ESG Select Index uses MSCI ESG Business Involvement Screening Research to identify issuers that are involved in the following business activities. Issuers that meet the business involvement criteria are excluded from the Bloomberg Barclays MSCI US Aggregate ESG Select Index. Please refer to Appendix 1 for details on these criteria.

- Alcohol
- Tobacco
- Gambling
- Nuclear Power
- Weapons and Firearms

**3.2.1.3 MSCI ESG RATING CRITERIA**

- Excludes issuers with an MSCI ESG Rating of BB or lower using the MSCI ESG Rating or MSCI Government Rating model
- MSCI ESG Ratings are available for Treasury, government-related, corporate, and covered bond issuers. They are not applied to Mortgage Backed Securities (MBS), Asset Backed Securities (ABS), and Commercial Mortgage Backed Securities (CMBS).
- Ratings are applied at the Bloomberg Barclays ticker level based on the highest weighted issuer mapped to that ticker (based on aggregated weights of issues per issuer), and every bond within the same ticker will have the same MSCI ESG Rating (except for MBS, ABS, and CMBS)
- Unrated issuers from sectors with ratings are excluded. MBS, ABS, and CMBS issues are included in the index.

### 3.3 CARBON SCREENED UNIVERSE

Issuers from the ESG Screened Universe (from section 3.2) are subject to additional carbon emission criteria, resulting in the Carbon Screened Universe.

#### 3.3.1 CARBON EMISSION CRITERIA

Subject to data availability, the following carbon emissions and fossil fuel exclusions will be applied to the index:

- A. Exclude issuers with any ownership of fossil fuel reserves
- B. Exclude issuers exceeding the annually-set threshold values on absolute emissions (Scope 1 + Scope 2 emissions) and emission intensity (Absolute Emissions/ Total Sales) will be excluded from the index.

Until the availability of the aforementioned carbon emissions data, as a proxy for fossil fuel ownership, the index excludes sectors that are characterized by a high concentration of fossil fuel reserve ownership, including:

Bloomberg Barclays Sector Class 1	Bloomberg Barclays Sector Class 2	Bloomberg Barclays Sector Class 3	Bloomberg Barclays Sector Class 4
Corporates	Industrial	Energy	Independent
Corporates	Industrial	Energy	Integrated
Corporates	Industrial	Basic Industry	Metals and Mining

Once the aforementioned carbon emissions and fossil fuel data become available, the exclusions at sector-level at “Bloomberg Barclays Sector Class 4” will cease to exist.

## **4 MAINTAINING THE BLOOMBERG BARCLAYS MSCI US AGGREGATE ESG SELECT INDEX**

### **4.1 MONTHLY INDEX REBALANCING**

The Indexes are rebalanced on a monthly basis on the last business day of each month. For each index, two populations of securities are maintained daily: a fixed returns universe, which is held constant throughout the month and used to compute returns, and a dynamic statistics universe, which projects the next month’s index composition based on current eligibility. On the last business day of the month (the rebalancing date), the composition of the latest statistics universe becomes the returns universe for the following month.

During the month, indicative changes to securities (credit rating change, sector reclassification, amount outstanding changes, corporate actions, ticker changes) are reflected daily in the statistics and returns universe of the index. These changes may cause bonds to enter or fall out of the statistics universe of the index on a daily basis, but will affect the composition of the returns universe at month-end only, when the index is rebalanced.

Intra-month cash flows from interest and principal payments contribute to monthly index returns, but are not reinvested at any short-term reinvestment rate in between rebalance dates to earn an incremental return.

### **4.2 WEIGHTING**

The indexes are sector neutral, meaning that aggregate Bloomberg Barclays Class 2 Sector weights are adjusted to preserve the same sector exposure as the non-ESG versions of the same benchmark. Index eligible securities are market value weighted within each Bloomberg Barclays Class 2 Sector.

## APPENDIX 1: VALUES-BASED EXCLUSION CRITERIA

- **Alcohol**
  - All issuers classified as a “Producer” that earn either 50% or more revenue or more than \$1 billion in revenue from alcohol-related activities
- **Tobacco**
  - All issuers classified as tobacco "Producer" that earn either 50% or more revenue from tobacco-related products.
- **Gambling**
  - All issuers classified as involved in “Operations” and “Support” that earn 50% or more revenue or more than \$1 billion in revenue from gambling-related activities
- **Nuclear Power**
  - All issuers involved in operation of or have ownership of nuclear power plants and earn 50% or more in revenue from these activities
  - All issuers involved in nuclear fuel enrichment for nuclear power generation
  - All issuers involved in uranium mining for nuclear power generation
  - All issuers involved in nuclear reactor design or construction for nuclear power generation
- **Weapons and Firearms**
  - Conventional Weapons
    - All issuers that manufacture conventional weapons components or conventional weapons and weapons systems and earn 50% or more in revenue from these activities.
  - Controversial Weapons
    - Cluster munitions manufacturers
    - Landmines manufacturers
    - Depleted Uranium Weapons manufacturers
    - All issuers involved in manufacturing of nuclear weapon components or nuclear weapon systems
    - All issuers involved in manufacturing of bio-chemical weapon components or bio-chemical weapon systems

- Civilian Firearms
  - All issuers classified as a “Producer” that earn either 50% or more revenue from civilian firearms.



## CONTACT US

esgclientservice@msci.com

### AMERICAS

+ 1 212 804 5299

### EUROPE, MIDDLE EAST & AFRICA

+ 44 20 7618 2510

### ASIA PACIFIC

+ 612 9033 9339

## ABOUT MSCI ESG RESEARCH PRODUCTS AND SERVICES

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

## ABOUT MSCI

For more than 40 years, MSCI's research-based indexes and analytics have helped the world's leading investors build and manage better portfolios. Clients rely on our offerings for deeper insights into the drivers of performance and risk in their portfolios, broad asset class coverage and innovative research.

Our line of products and services includes indexes, analytical models, data, real estate benchmarks and ESG research.

MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at [www.msci.com](http://www.msci.com).

## NOTICE AND DISCLAIMER

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investable assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD, FEA, InvestorForce, and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.