

# MSCI World Select Catholic Principles ESG Universal and Environment Index

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Executive Director – MSCI Index Client Coverage

October 26<sup>th</sup> 2020

# 1. MSCI Overview

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# MSCI Overview



## 50

Years in Business



## 3,500+

Employees



## 35

Global Locations



## 7,800+

Active Clients

## Indexes



- MSCI ACWI Index
- MSCI World Index
- MSCI Emerging Markets Index
- Factor Indexes
- ESG and Climate Indexes
- Thematic Indexes

**1300+ ETFs are based on MSCI indexes, more than any other index provider<sup>1</sup>**

**230,000+ indexes calculated daily**

**12,000+ in real time**

## Analytics



- Risk Management
- Asset Allocation
- Fixed Income Analytics
- Multi-asset Class Factor Models

**MSCI Global Risk and Performance Engine runs up to 1 trillion calculations/day**

**2 million time series**

**70+ million client positions**

**50+ global FI markets**

## ESG & Climate Research



- ESG Issuer & Fund Ratings
- ESG Screening & Controversies
- ESG Governance Metrics
- Climate Solutions
- Climate Value at Risk
- Sustainable Impact

**World's largest provider of ESG data, research and indexes<sup>2</sup>**

**Over 1,500 ESG equity and fixed income indices use MSCI ESG Research ratings and data<sup>2</sup>**

## Private Real Estate



- Performance attribution services
- Risk Analytics
- Global market information
- Indexes

**Global leader in Real Estate investment tools**

**In over 32 markets worldwide**

**Coverage spanning \$2 trillion of private real estate assets**

# MSCI: A Global Index Powerhouse

MSCI is a leading provider of investment decision support tools to over 7,800 clients worldwide, ranging from large pension plans to boutique hedge funds



MSCI continues to leverage its deep understanding of the world's financial markets to turn data-driven insights into products and services designed to help our clients make more informed investment decisions



MSCI is dedicated to supporting the increasingly complex needs of the investment community with groundbreaking new products, high quality data, superior distribution and dedicated client support



MSCI is proud of its reputation as a pioneer in the index and risk management space



# MSCI Equity Index Categories

Country & Regional Indexes	Size Indexes	Sector and Style Indexes	ESG and Climate indexes	Factor Indexes	Thematic Indexes	Strategy Indexes	Custom Indexes
<ul style="list-style-type: none"> <li>▪ All Country (DM+EM)</li> <li>▪ Developed Markets (DM)</li> <li>▪ Emerging Markets (EM)</li> <li>▪ Frontier Markets (FM)</li> <li>▪ Domestic               <ul style="list-style-type: none"> <li>– US</li> <li>– China</li> <li>– Australia</li> </ul> </li> <li>▪ Tradable               <ul style="list-style-type: none"> <li>– Asia APEX</li> <li>– EM 50</li> <li>– FM 100</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Large Cap</li> <li>▪ Mid Cap</li> <li>▪ Standard (Large + Mid)</li> <li>▪ Small Cap</li> <li>▪ SMID (Small + Mid)</li> <li>▪ IMI (Large+ Mid + Small)</li> <li>▪ Micro Cap (DM Only)</li> <li>▪ All Cap (DM Only)</li> </ul>	<p><b>Sector Indexes</b></p> <ul style="list-style-type: none"> <li>▪ Sector</li> <li>▪ Industry</li> <li>▪ Sub-industry</li> <li>▪ Real Estate</li> </ul> <p><b>Style Indexes</b></p> <ul style="list-style-type: none"> <li>▪ Value</li> <li>▪ Growth</li> </ul>	<ul style="list-style-type: none"> <li>▪ ESG Leaders</li> <li>▪ ESG Focus</li> <li>▪ ESG Universal</li> <li>▪ ESG Screened</li> <li>▪ SRI</li> <li>▪ Low Carbon</li> <li>▪ Ex-Controversial Weapons</li> <li>▪ Ex Tobacco Involvement</li> <li>▪ Ex Fossil Fuel</li> <li>▪ Faith Based</li> <li>▪ Climate Change</li> <li>▪ Global Environment</li> <li>▪ KLD 400 Social</li> <li>▪ Sustainable Impact</li> <li>▪ Women's Leadership</li> <li>▪ Governance Quality</li> </ul>	<ul style="list-style-type: none"> <li>▪ Volatility</li> <li>▪ Yield</li> <li>▪ Quality</li> <li>▪ Momentum</li> <li>▪ Value</li> <li>▪ Size</li> <li>▪ Growth</li> <li>▪ Multifactor</li> <li>▪ Growth Target</li> <li>▪ Factor ESG Target</li> </ul>	<ul style="list-style-type: none"> <li>▪ Megatrends</li> <li>▪ Micro Themes</li> <li>▪ Macro Themes</li> <li>▪ Faith based</li> <li>▪ GICS based themes</li> <li>▪ Others</li> </ul>	<ul style="list-style-type: none"> <li>▪ Capped               <ul style="list-style-type: none"> <li>– 10/40</li> <li>– 25/50</li> <li>– Standard Capped</li> </ul> </li> <li>▪ Hedged &amp; Currency               <ul style="list-style-type: none"> <li>– Hedged</li> <li>– FX Hedged</li> <li>– Global Currency</li> </ul> </li> <li>▪ Short &amp; Leveraged (Daily)</li> <li>▪ Risk Control</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regional and Country Selection</li> <li>▪ GICS Selection</li> <li>▪ Rule-based security selection</li> <li>▪ Equity Screening</li> <li>▪ Custom Weighting</li> <li>▪ Custom Special Tax rates</li> <li>▪ Stock exclusions</li> <li>▪ Custom ESG</li> <li>▪ Custom Factor</li> <li>▪ Custom Thematic</li> <li>▪ Custom Delivery and File Format</li> </ul>

# Our Index Awards\*



**Asia Risk Awards - 2020**  
Best Index Provider of the year



**ETF.com 2018 (awarded in 2019)**  
Index Provider of the Year



**Asian Investor Asset Management Awards 2019**  
Best Global Index Provider



**Institutional Asset Management Awards 2020**  
Best Product Innovation and Best Global Index Provider



**ETF.com 2018 (awarded in 2019)**  
Best Index Provider Website



**Environmental Finance Green Bond Awards 2019**  
Best Index - Bloomberg Barclays MSCI Green Bond Index



**Environmental Finance Green Bond Awards 2017-2020**  
Best Green Bond Index



**Institutional Asset Management Awards 2019**  
Best Product Innovation and Best Global Index Provider



**Financial News Trading & Technology Awards 2019**  
Index Provider of the Year



# Market leader with ETP Providers

More than \$710 billion in assets in over 1,300 funds linked to MSCI Indexes globally

## ► YTD 2020 Highlights

👉 #1 in **net equity flows** and share in:



**\$12bn**  
ESG

👉 #1 in **new equity fund launches**:



👉 #1 in **equity assets** linked in the following categories:

**\$710bn**  
linked to MSCI  
equity indexes



**\$523bn**  
International



**\$148bn**  
EM



**\$29bn**  
Real Estate



**\$108bn**  
Factors



**\$37bn**  
Equity ESG

👉 #1 in **fixed income assets** linked to:



**\$4bn**  
Fixed Income ESG Indexes

**1,300+**  
Funds

**110+**  
Funds with over \$1bn in assets

**80**  
ETP partners

**\$375bn+**  
in cumulative 5Y flows



# Market leader with ESG ETP Providers

## #1 ESG Index Provider by assets for Equity and Fixed Income

### ▶ YTD 2020 Highlights

↪ #1 in **total net equity ESG flows** including the following categories:



↪ #1 in **net equity ESG flows exposure** for:



↪ #1 in **total equity ESG assets** linked including the following categories:



↪ #1 in **fixed income assets** linked to:



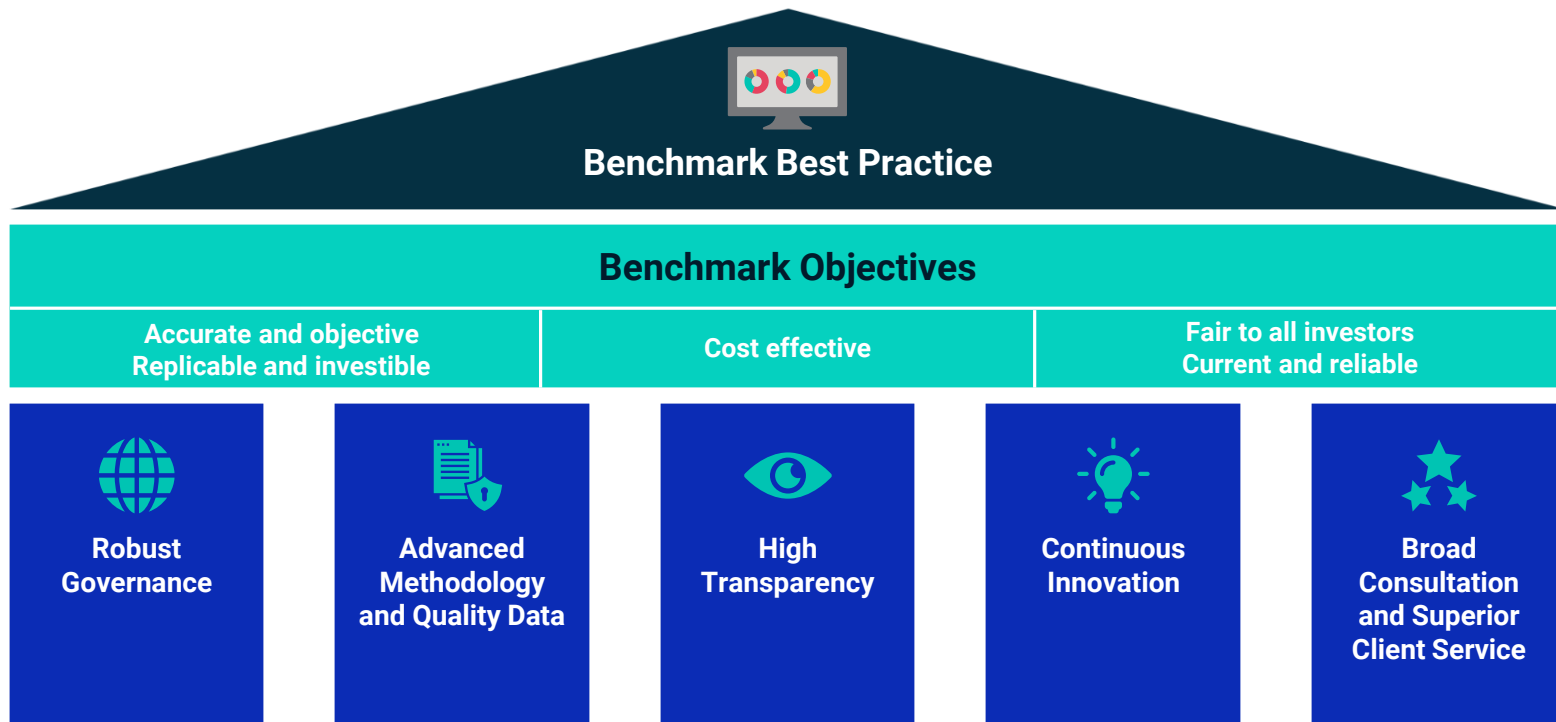
<b>90%</b>	<b>3x</b>	<b>180</b>	<b>25</b>	<b>10/10</b>
5Y asset CAGR	Next competitor growth	Funds	ETP partners	Top funds by flows



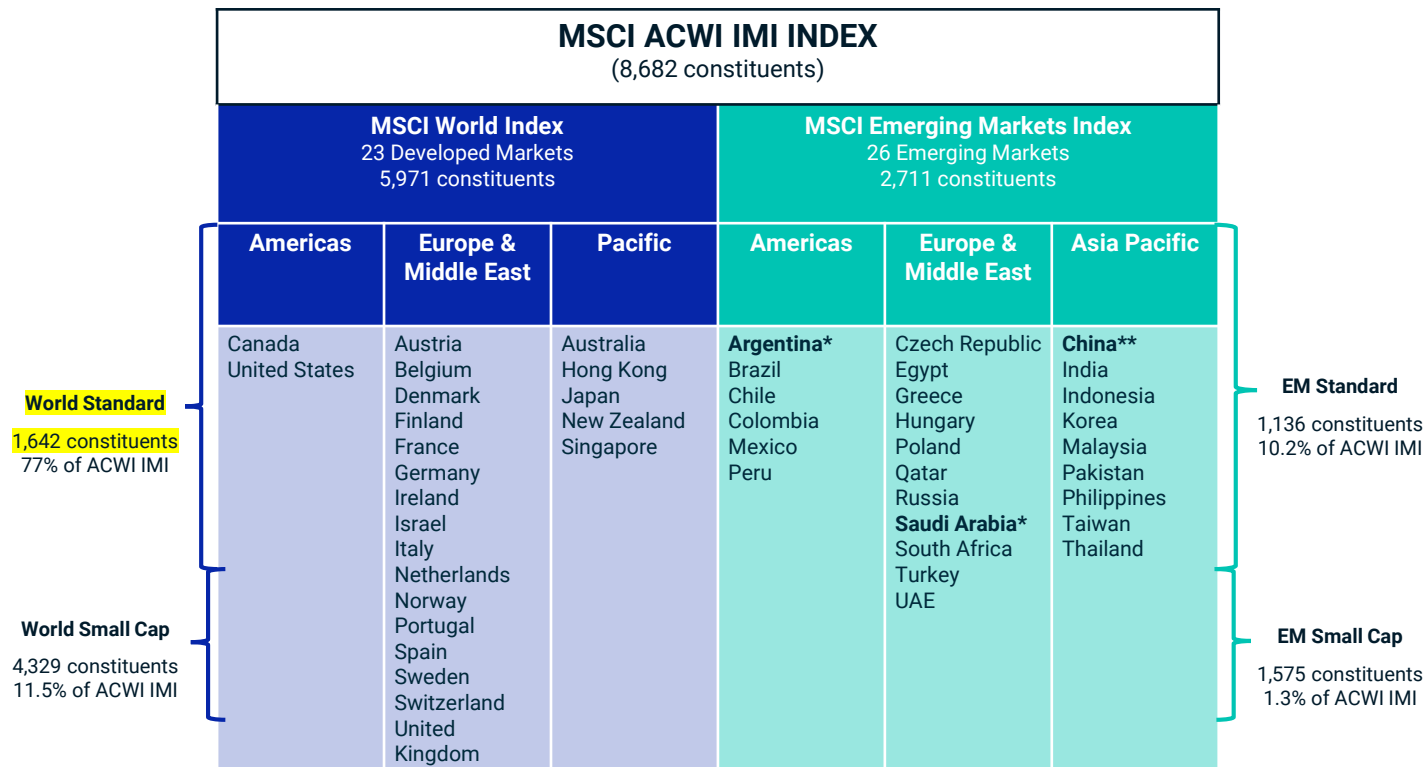
1 All data as of March 31, 2020; defined as each share class of an exchange traded fund, as identified by a separate Lipper ID. Only primary listings, and not cross-listings, are counted. MSCI does not guarantee the accuracy of third party data.



# Building effective benchmarks



# Standard asset allocation Framework from which MSCI equity Indexes are built



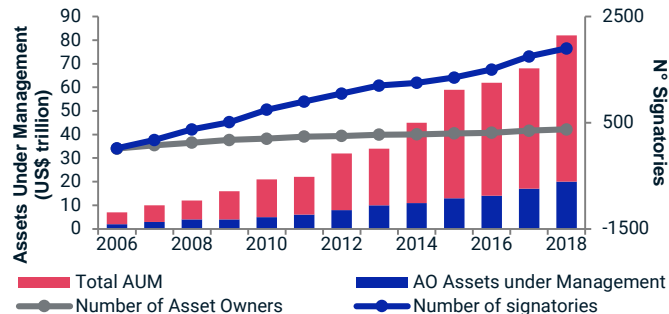
## 2. ESG Investing & Indexes

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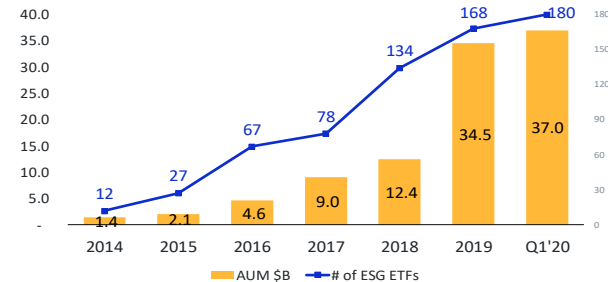


# ESG investing is growing significantly...why now?

## UN PRI\* Has Grown to Over 1,900 Signatories with \$81.7 Trillion In AUM



## As of Q1 2020, 120% growth \*YOY in ETF AUM tracking MSCI ESG indexes



## HERE'S WHY:

**1. Investors have become less tolerant of corporate ESG incidents**  
(e.g. Volkswagen, Equifax)

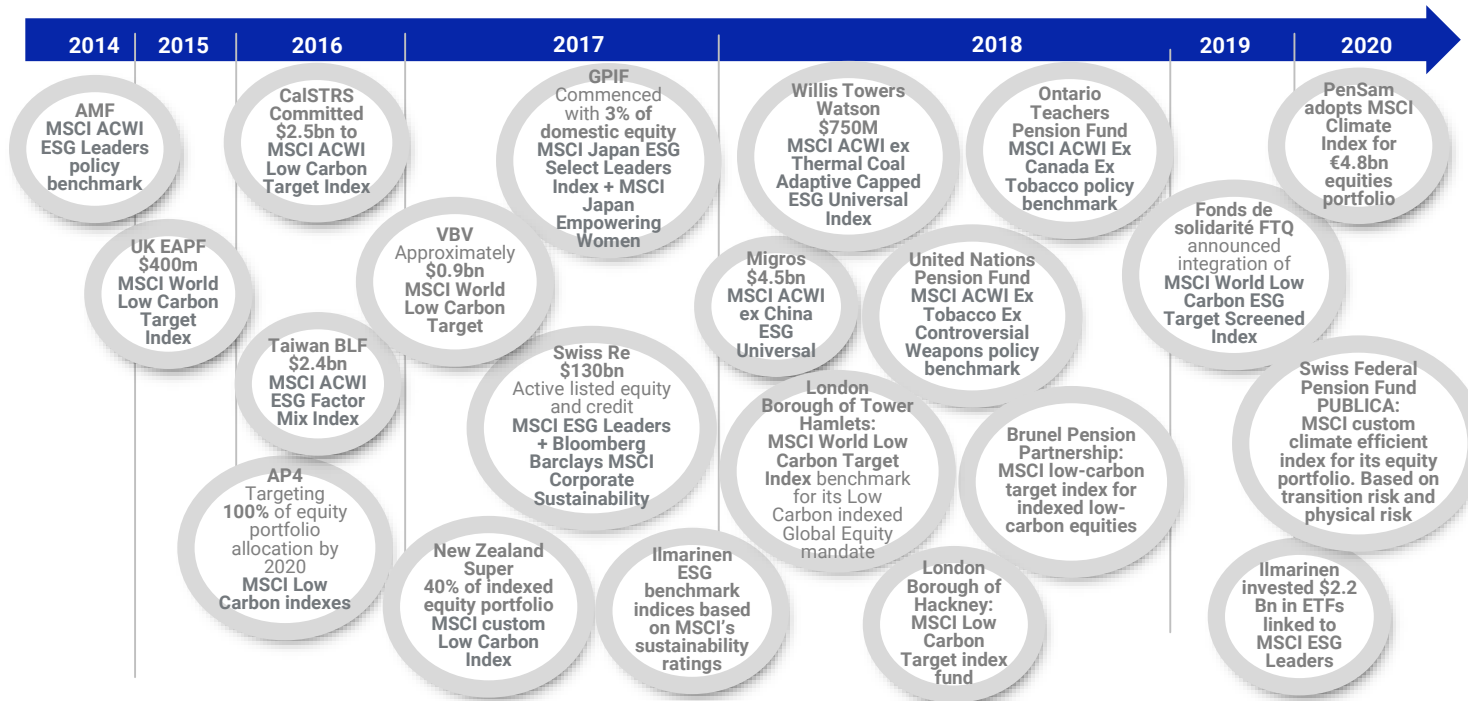
**2. Regulation is shifting**  
(e.g. EU Sustainable Action Plan)

**3. ESG as financially relevant**  
(e.g. more links between ESG factors and improved risk-adjusted returns)

**4. Improved ESG Ratings**  
(e.g. better data and longer history)

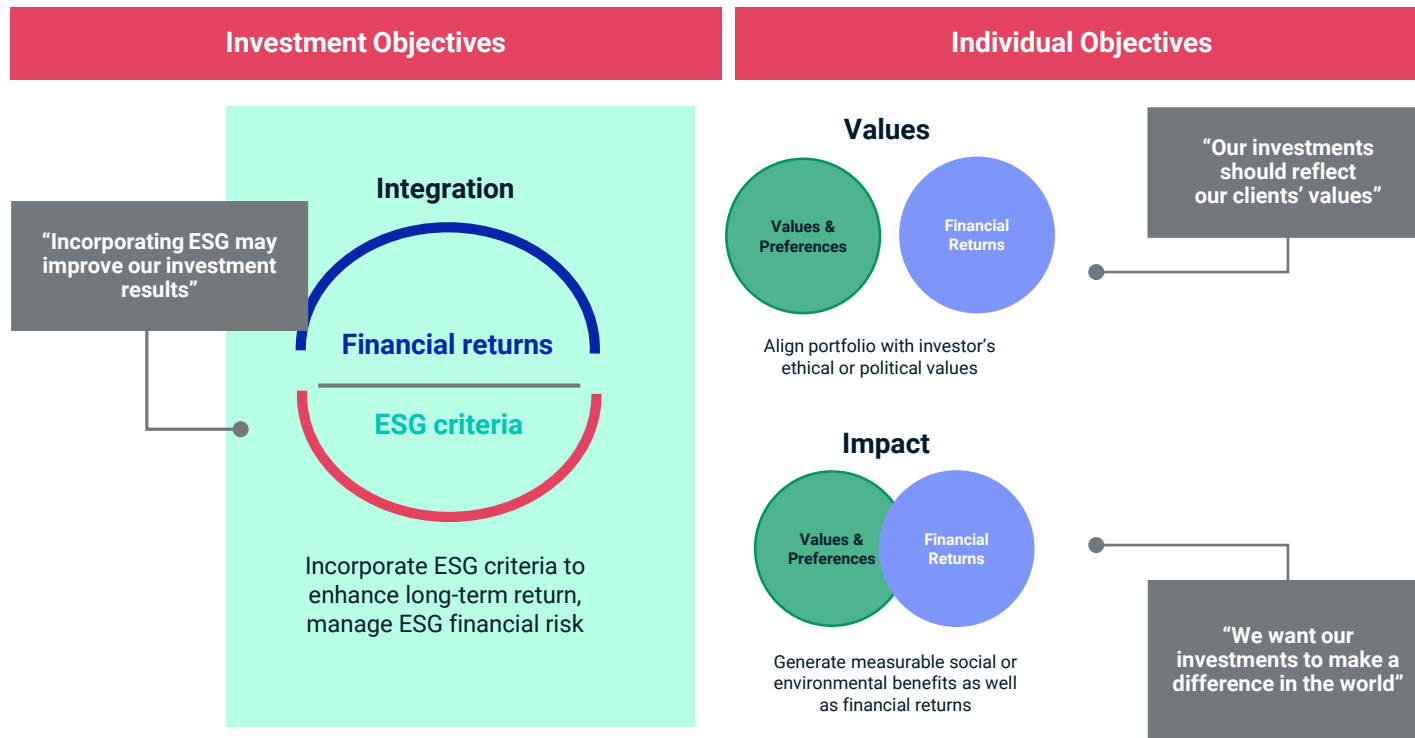
# Asset owner adoption of MSCI ESG Indexes

Approximately \$270 bn allocated to investments tracking / benchmarked to MSCI ESG equity & fixed income indexes since 2014<sup>1</sup>



<sup>1</sup> Based on publicly available information or press releases published from 2014 to date. Some of the examples listed have not publicly disclosed allocations and are not included in this total

# What are the main drivers for ESG investing?



# ESG Equity & Fixed Income Indexes

	MSCI ESG Equity	MSCI ESG Fixed Income & Bloomberg Barclays MSCI
Integration	<ul style="list-style-type: none"> <li>• ESG Universal</li> <li>• ESG Leaders</li> <li>• ESG Focus</li> <li>• Low Carbon</li> <li>• Climate Change</li> </ul>	<p><b>MSCI</b></p> <ul style="list-style-type: none"> <li>• ESG Universal</li> <li>• ESG Leaders</li> <li>• Climate Change*</li> </ul> <p><b>Bloomberg Barclays MSCI</b></p> <ul style="list-style-type: none"> <li>• ESG Weighted</li> <li>• Sustainability</li> </ul>
Values & Screens	<ul style="list-style-type: none"> <li>• SRI, KLD 400 Social</li> <li>• ESG Screened</li> <li>• Ex Controversial Weapons</li> <li>• Ex Tobacco Involvement</li> <li>• Ex Fossil Fuel</li> <li>• Faith Based</li> </ul>	<p><b>Bloomberg Barclays MSCI</b></p> <ul style="list-style-type: none"> <li>• Socially Responsible (SRI)</li> <li>• Faith based</li> </ul>
Impact	<ul style="list-style-type: none"> <li>• Sustainable Impact</li> <li>• Global Environment</li> <li>• Women's Leadership</li> </ul>	<p><b>Bloomberg Barclays MSCI</b></p> <ul style="list-style-type: none"> <li>• Green Bonds</li> </ul>

# What makes our ESG Index range different?

## LONG TRACK RECORD

- **KLD400 was the first ESG index** (1990)
- Approximately \$270 bn allocated to investments tracking / benchmarked to MSCI ESG equity & fixed income indexes since 2014

## HIGH QUALITY RESEARCH

- Largest global ESG Research team including **200+ analysts**
- ESG rating focuses on identifying **most relevant risks** by sector and capturing **forward-looking** management data

## INTEGRATED CAPABILITIES

- **In-house ESG index, research and analytics capabilities**, supporting high data quality and innovation
- Customization capabilities: ESG, Climate, Factor
- ESG Reporting capabilities via managed services

## HIGH QUALITY DATA

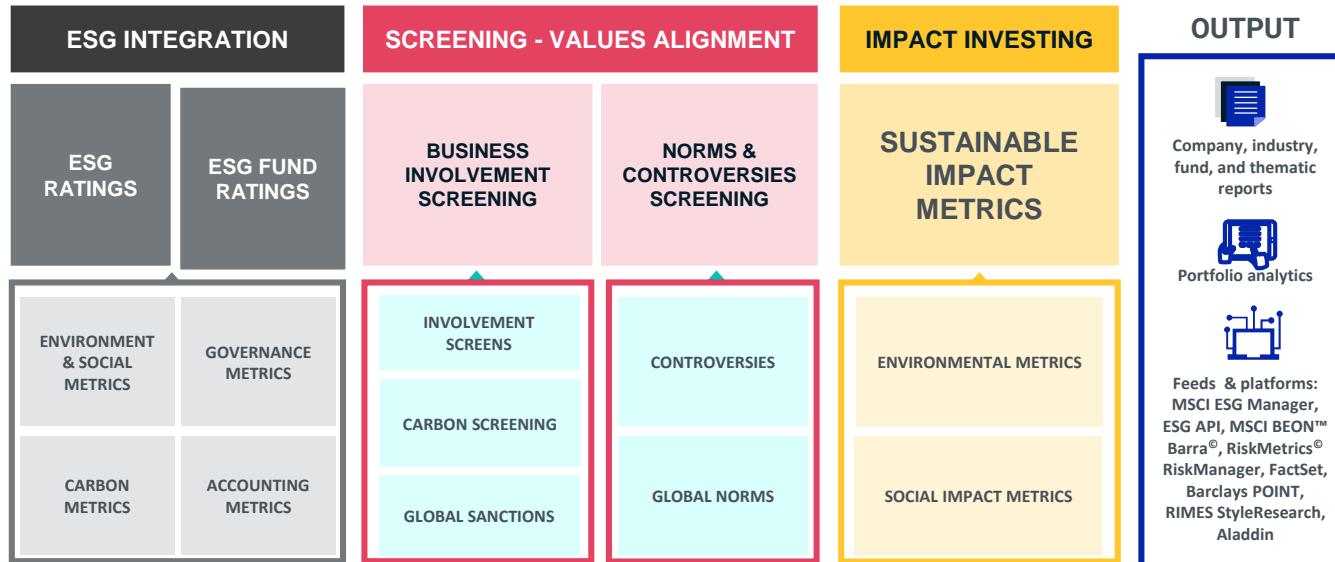
- Over 300 MSCI ESG indexes with **5 or more years of live history**
- Use of technologies & alternative data sources : **45% of the contribution to ESG score come from alternative data sources beyond company disclosed data**



# ESG investment objectives drive investors' ESG data needs

MSCI ESG Research rates\* 7,500+ companies (13,000 total issuers including subsidiaries), more than 650,000 equity and fixed income securities globally, and 32,000 mutual funds and ETFs

## MSCI ESG RESEARCH



# ESG Ratings: a key input into ESG Indexes



1  
EVALUATE CORPORATE  
GOVERNANCE

Analysis begins with a **deep governance assessment**

Ownership, Board, Pay, Accounting,  
Corporate Behavior



2  
IDENTIFY KEY ISSUES BY  
INDUSTRY

Focus on **most relevant ESG factors** by industry

Quantitative Approach +  
Annual Consultation



3  
SCORE KEY ISSUES  
(0-10)

Focus on **risk exposure**  
not just disclosure

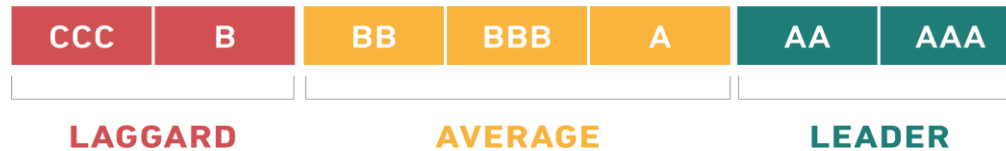
Scoring Models Assess Risk Exposure  
+ Risk Management



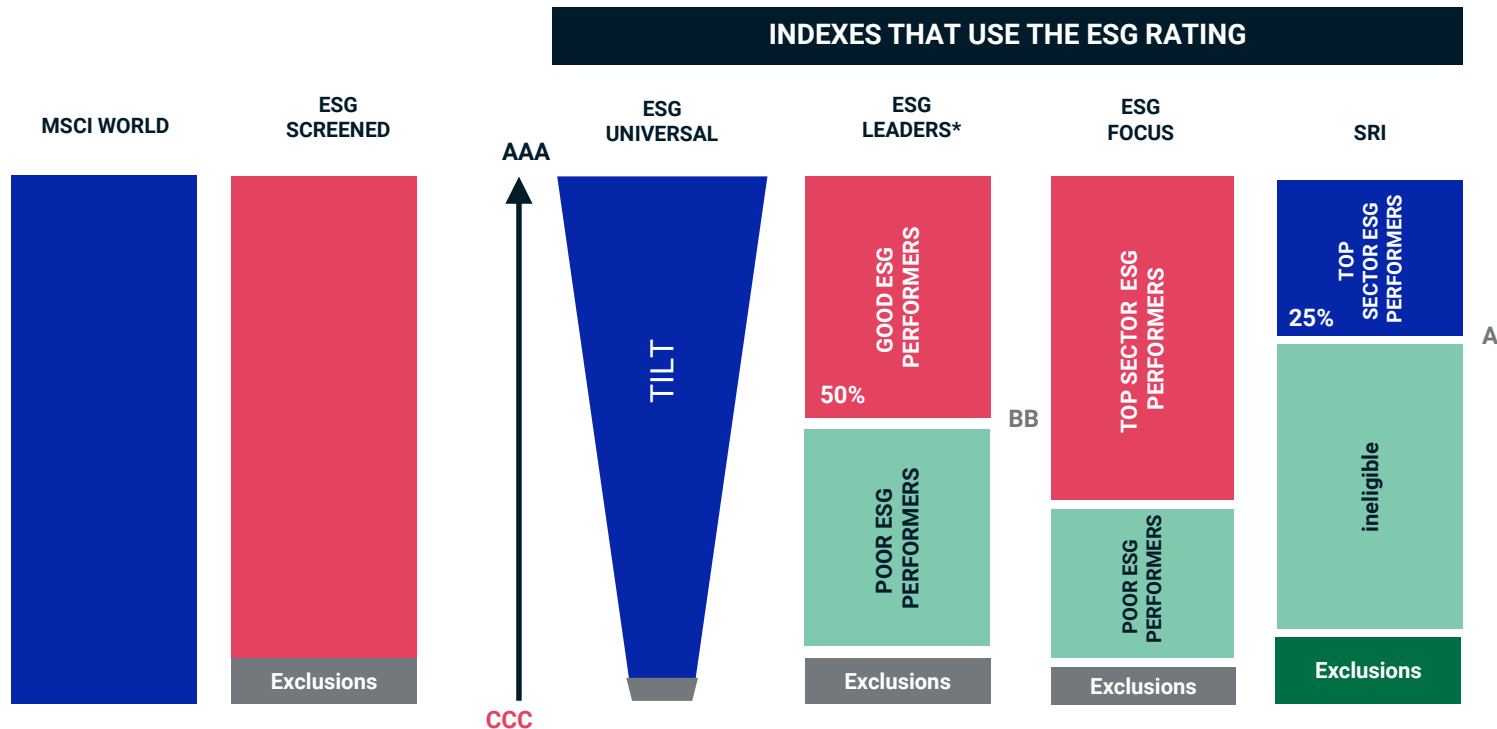
4  
FINAL ESG RATINGS  
(AAA-CCC)

Identify **leaders and laggards**, not business type  
exclusion

Industry-Relative  
ESG Ratings (AAA-CCC)



# MSCI ESG Indexes



# Standardized ESG disclosures

## MSCI is promoting ESG transparency:

- ESG Metrics publicly available for more than 40,000 MSCI EU Regulated benchmarks
- ESG rating publicly available for more than 36,000 funds
- ESG rating available for 2,800 companies

1. Overall ESG factors

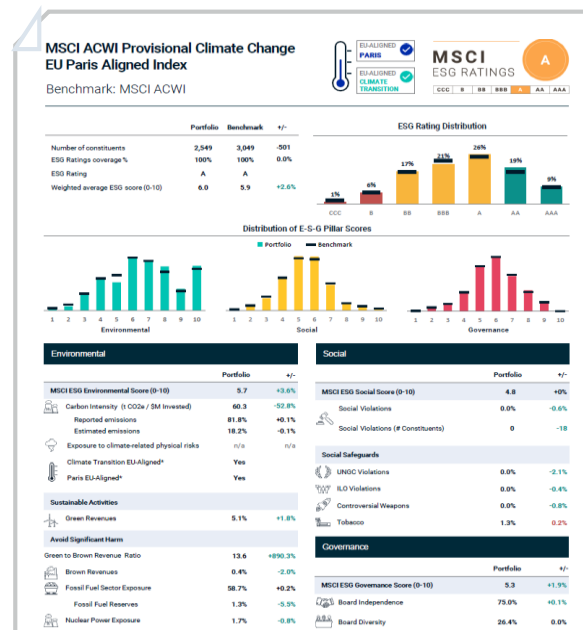
MSCI ACWI SRI		MSCI ACWI	
	Score	Coverage %	
Consolidated ESG Rating	7.9	100.0%	6.0 99.8%
UNGC Violations %	0.0%	100.0%	2.0% 100.0%
Very Severe Controversies % (*)	0.0%	100.0%	2.5% 100.0%

(\*) Additional ESG factors

Top Ten Constituents

MSCI ACWI SRI			MSCI ACWI		
Company	Weight	MSCI ESG Rating	Company	Weight	MSCI ESG Rating
MICROSOFT CORP	10.86%	AAA	MICROSOFT CORP	2.87%	AAA
PROCTER & GAMBLE CO	2.61%	AA	APPLE	2.84%	A
ROCHE HOLDING GENUSS	2.17%	A	AMAZON.COM	2.07%	BB
TAIWAN SEMICONDUCTOR MFG	2.12%	AA	FACEBOOK A	1.01%	BBB
HOME DEPOT	1.94%	AA	ALPHABET C	0.9%	AA
DISNEY (WALT)	1.65%	BBB	ALPHABET A	0.88%	AA
PEPSICO	1.59%	AA	JOHNSON & JOHNSON	0.87%	BBB
ADOBE	1.46%	AA	ALIBABA GROUP HLDG ADR	0.85%	BBB
NVIDIA	1.46%	AAA	NESTLE	0.77%	AA
MCDONALD'S CORP	1.18%	BB	JPMORGAN CHASE & CO	0.71%	BB



Metrics based on final TEG report

MSCI ESG Indexes utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Equity Indexes are products of MSCI Inc. and are administered by MSCI UK Limited.

# 3. MSCI World Select Catholic Principles ESG Universal and Environment Index

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# Index Overview

The MSCI World Select Catholic Principles ESG Universal and Environment Index is designed to represent the performance of a strategy that aims to select companies having lower carbon exposure and higher Environmental, Social and Governance (ESG) performance than that of the broad market, while excluding companies that are involved in controversial businesses like weapons, gambling, adult entertainment, etc.

The Index also excludes companies that are involved in abortion and contraceptives, stem cell research, and animal testing.

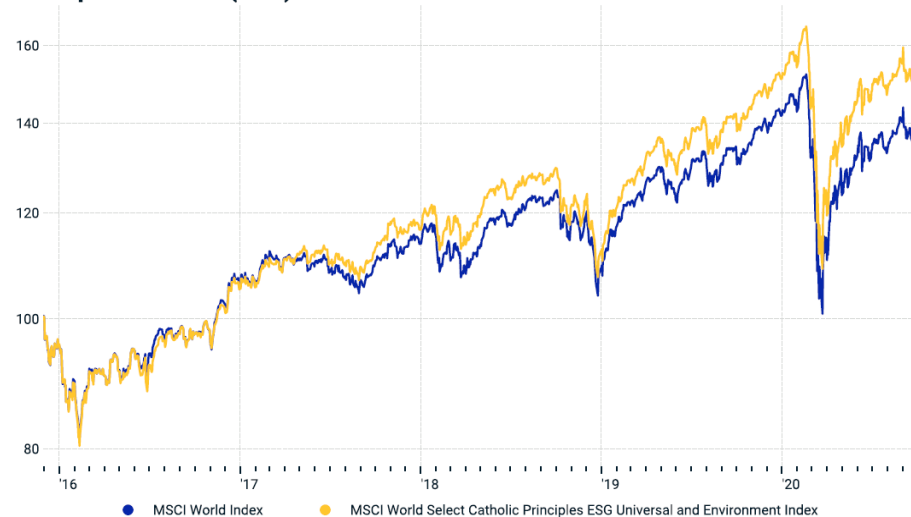
**1** Parent Index: MSCI World Index

**2** ESG Eligibility Criteria

**3** Securities Selection

**4** Security Weighting

Index performance (EUR)



# Index Construction

1

## Parent Index: MSCI WORLD

2

### ESG Ratings & Controversies score Eligibility

Companies involved in serious controversies concerning the environmental, social, or governance impact of their operations and/or products and services are excluded

Companies are required to have an ESG Controversies Score  $\geq 3$  & an ESG Rating  $\geq$  BB

2

### Values Based Exclusions

Companies that meet the below values- based criteria are excluded from the Index

- Controversial Weapons
- Stem Cells
- Nuclear Weapons
- Gambling
- Abortions and Contraceptives
- Adult Entertainment
- Animal Welfare

3

### Securities Selection

Pick the stocks of companies with:

- Low carbon emission intensity score
- Low potential emissions per dollar of market capitalization

4

### Securities weighting

As a final step, securities included in the index are re-weighted in accordance with the MSCI ESG Universal Indexes methodology.

At each rebalancing, each security weight is calculated in the following way:

*Security Weight = Combined ESG Score \* Mkt Cap Weight in the Parent Index*

# Key Metrics

## Key metrics

	MSCI World Index	MSCI World Select Catholic Principles ESG Universal and Environment Index
Total return* (%)	6.9	9.2
Total risk (%)	13.5	13.8
Return / risk	0.51	0.67
Sharpe ratio	0.54	0.69
Active return (%)	0.0	2.3
Tracking error (%)	0.0	2.4
Information Ratio	nan	0.98
Historical beta	1.00	1.01
Number of constituents***	1642	886
Turnover** (%)	2.5	29.5
Price to book***	2.3	2.4
Price to earnings***	19.8	19.6
Dividend yield*** (%)	2.5	2.3

Period: Nov 30, 2015 to Sep 30, 2020. \* Net returns annualized in EUR \*\* Annualized one-way index turnover over index reviews \*\*\* Monthly averages

## Performance (%)

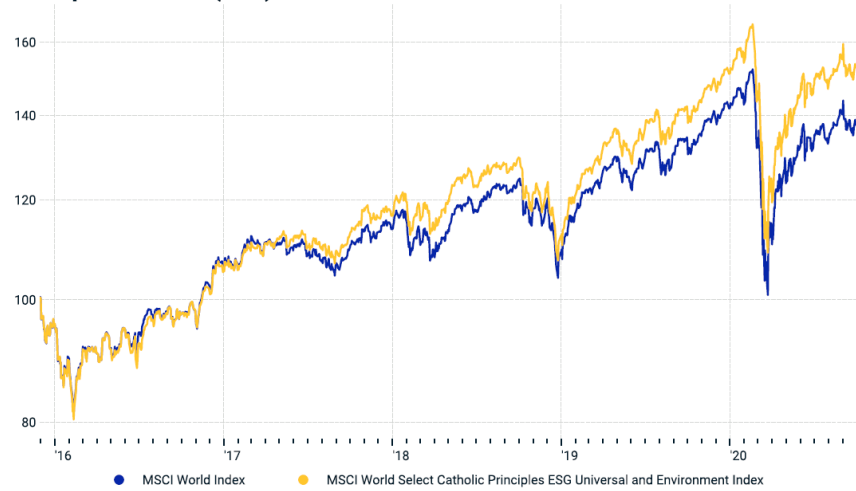
	MSCI World Index	MSCI World Select Catholic Principles ESG Universal and Environment Index
YTD	-2.6	1.5
1 Yr	2.6	7.6
3 Yr	8.0	10.9
5 Yr	nan	nan
10 Yr	nan	nan

Net returns for the period ending Sep 30, 2020  
Returns are annualized for periods longer than a year

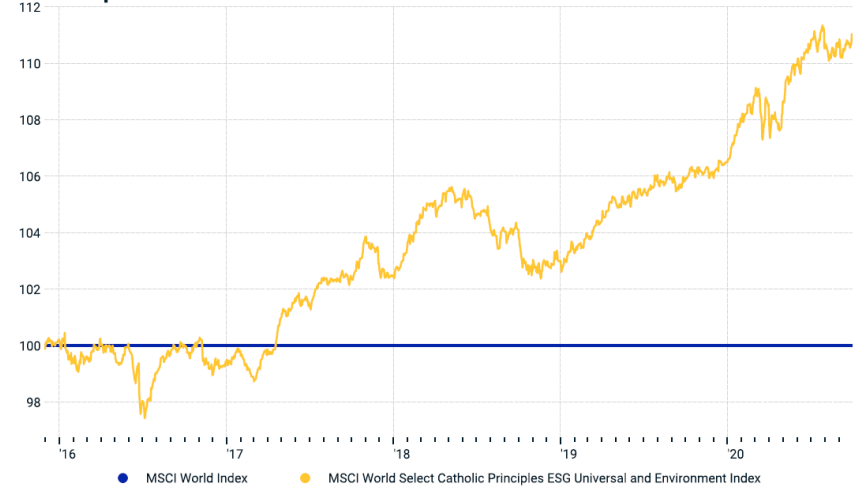


# Absolute & Relative Performance

Index performance (EUR)

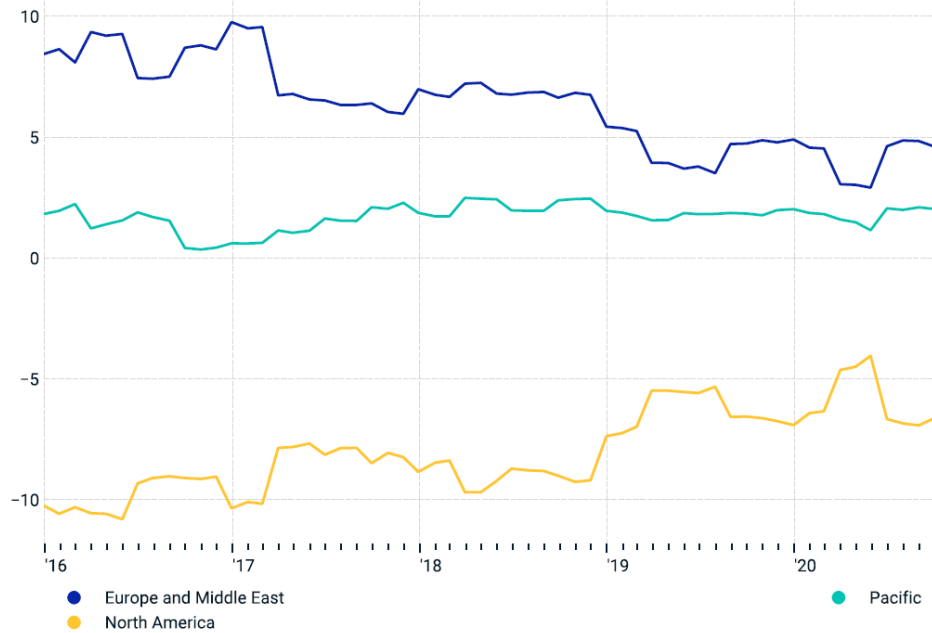


Relative performance



# Active Regional Exposure

MSCI World Select Catholic Principles ESG Universal and Environment Index



# ESG Metrics Comparison (1)

## Integration, values and norms

	MSCI World Index	MSCI World Select Catholic Principles ESG Universal and Environment Index
<b>Integration</b>		
ESG score	6.3	7.5
ESG leaders (AAA-AA) (%)	32.1	61.2
ESG laggards (B-CCC) (%)	5.1	0.2
ESG trend positive (%)	14.9	15.2
ESG trend negative (%)	3.0	1.8
Index ESG rating	A	AA
Environmental pillar score	5.7	6.2
Social pillar score	4.9	5.5
Governance pillar score	5.5	6.0
<b>Key governance metrics</b>		
Board independence (wtd avg %)	78.6	78.0
Female directors (wtd avg %)	30.4	29.8
Deviation from one share one vote (%)	23.0	22.6
<b>Values and norms</b>		
Tobacco involvement (%)	1.0	0.4
Civilian firearms producers (%)	0.2	0.3
Ties to controversial weapons (%)	0.6	0.0
Global compact compliance violation (%)	1.4	0.0
Red flag controversies (%)	1.8	0.0
Orange flag controversies (%)	30.5	0.3

As of September 30, 2020

# ESG Metrics Comparison (2)

## Climate change

	MSCI World Index	MSCI World Select Catholic Principles ESG Universal and Environment Index
<b>Climate footprint</b>		
Carbon emissions (t CO2e/\$M invested)	98	51
Carbon intensity (t CO2e/\$M sales)	177	101
Wtd avg carbon intensity (t CO2e/\$M sales)	146	87
<b>Low carbon transition risks</b>		
Low carbon transition score	6.2	6.3
Solutions (%)	7.0	9.5
Product & operational transition (%)	13.3	9.7
Asset stranding (%)	0.1	0.0
<b>Exposure to asset stranding risks</b>		
Potential carbon emissions (t CO2e/\$M invested)	1713	382
Fossil fuel reserves (%)	4.2	2.5
Thermal coal mining (%)	0.9	0.6
Thermal coal-based power generation (%)	3.2	3.4
Unconventional oil & gas extraction (%)	1.9	0.8
<b>Exposure to clean technology solutions</b>		
Clean technologies solutions (> 20% revenue)	5.1	9.1
Clean technologies solutions revenue (wtd avg %)	4.5	6.7
Green/brown net revenue exposure	2.9	5.8
<b>Other climate metrics</b>		
Exposure to carbon-related assets (%)	5.5	6.3
Climate-related controversies (% score ≤ 4)	0.6	1.0
Low carbon transition management score (% top quartile)	69.1	68.0

As of September 30, 2020

# Appendix

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# Focus: Values - Based Exclusions (1/2)

## ➤ 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).

## ➤ Stem Cell:

- Companies that conduct stem cell research with cells derived from human fetal tissue & human embryos.
- 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.
- Companies that use fetal cell lines in the development of vaccines and other biologics, such as therapeutic proteins and gene therapy products.

## ➤ Nuclear Weapons:

- Companies that manufacture key nuclear weapons components, nuclear weapons, including nuclear warheads, intercontinental ballistic missiles, and ballistic missile submarines, which are capable of the delivery of nuclear warheads.

## ➤ Gambling:

- Companies that own or operate gambling facilities (e.g. casinos, racetracks...)
- Companies that provide key products or services fundamental to gambling operations (e.g. slot machines, roulette wheels...), gambling-related services such as credit lines, and casino management and consultation that have earned more than 10% revenue from providing key products or services fundamental to gambling operations.

# Focus: Values - Based Exclusions (2/2)

## ➤ Abortion and Contraceptives:

- Companies engaged in the development or manufacture of products that may be used as abortifacients.
- Companies that own or operate a facility where an abortion has been performed within the last three fiscal years.
- Companies that derive more than 10 % of revenue from the manufacturing or licensing of contraceptives.

## ➤ Adult Entertainment:

- Companies that produce, direct, or publish adult entertainment materials (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) and have derived any revenue from adult entertainment.
- Companies that retail adult entertainment products through specialty stores or online sites
- Companies that have derived more than 10% revenue from adult entertainment and distribute sexually explicit products and services, including X-rated movies and videos, printed materials, television programs, and online products. This includes companies providing cable channels and television for adult viewing only. Companies in the hospitality industry are also included if they offer 'adults only' films for in-room viewing through pay-per-view services.

## ➤ Animal Welfare:

- Companies that conduct animal testing for non-pharmaceutical products such as cosmetic, personal care, and household cleaning products; and do not disclose statements in support of researching or employing alternatives to animal testing (i.e. other methods of ensuring product safety that do not include the use of animals in experiments) or statements or policies addressing the welfare of animals used for laboratory testing.

# Focus: Securities Selection- Low Carbon Leaders

As defined by MSCI Global Low Carbon Leaders methodology, **companies with low exposure to carbon risk are identified as companies with low carbon emission intensity and low potential emissions per dollar of market capitalization**

➤ **Low carbon emission intensity:**

To select companies with low exposure to carbon emissions, the Parent Index constituents are ranked by the carbon emission intensity, and the top 20% of securities, by number, are excluded from the Index. The cumulative weight of securities excluded from any sector is less than 30% of the weight of the sector in the Parent Index

➤ **Low potential emissions per dollar of market capitalization:**

To select companies with low exposure to fossil fuel reserves, the Parent Index constituents are ranked by the potential carbon emissions per dollar of the market capitalization of the company. Securities are excluded until the cumulative potential carbon emission of the excluded securities reaches 50% of the sum of the potential carbon emission of the constituents of the Parent Index.



# Focus: Security Weighting - ESG Universal Tilt

Parameter	ESG Universal Index Methodology
<u>Objective</u>	<ul style="list-style-type: none"> <li>To create an ESG benchmark index – by tilting index in favor of better ESG rated stocks and stocks with an ESG ratings upgrade</li> </ul>
<u>Opportunity Set</u>	<ul style="list-style-type: none"> <li>Any Market Cap Index [simulations included in this presentation are based on MSCI ACWI and EM Indexes]</li> </ul>
<u>Filters</u>	<ul style="list-style-type: none"> <li>Exclude un-rated stocks</li> <li>Exclude Companies involved in 'Controversial Weapons' business</li> <li>Exclude Companies with ESG Controversy Score of 0 (ESG Red Flag companies)</li> </ul>
<u>Stock level ESG Score</u>	<ol style="list-style-type: none"> <li>ESG Rating Score: Assign a rating score to each stock based on its ESG Rating           <ol style="list-style-type: none"> <li>Leaders (AAA, AA) = 2</li> <li>Average (A ,BBB,BB) = 1</li> <li>Laggards (B,CCC) = 0.5</li> </ol> </li> <li>ESG Trend Score: Assign a trend score to each stock based on rating upgrade           <ol style="list-style-type: none"> <li>Upgrade = 1.25</li> <li>Flat = 1</li> <li>Downgrade = 0.75</li> </ol> </li> <li>ESG Combined Score : ESG Rating Score * ESG Trend Score           <ul style="list-style-type: none"> <li>Max ESG score is capped at 2</li> <li>Min ESG score is floored at 0.5</li> <li>Capping is required to prevent drop in weight of a AAA rated company and increase in weight of a CCC rated company.</li> </ul> </li> </ol>
<u>Weighting</u>	<ul style="list-style-type: none"> <li>Market Capitalization tilted with ESG Combined score and then re-scaled to 100%</li> </ul>
<u>Max Issuer Weight</u>	5%.
<u>Rebalance Frequency</u>	Semi Annual

# A rapidly evolving regulatory framework in Europe



## OVERVIEW OF THE NEW REGULATION

In February 2019, a political agreement was reached between the European Council and the Parliament to create a new category of financial benchmarks. This regulation was one of the first to be adopted as part of the **European Sustainable Finance Action plan**. The regulation includes:

1. **The creation of two benchmarks focusing on climate change\*** :
  1. EU Climate Transition Benchmarks
  2. EU Paris-Aligned Benchmarks
2. **Greater transparency on ESG integration for benchmark providers**
  1. ESG information in benchmark statement
  2. Reporting on Paris alignment for all benchmarks

MSCI was actively involved in the development of the criteria through the consultation process through its **membership to the EU Technical Expert group (TEG)**<sup>1</sup>

## WHAT DOES IT MEAN FOR MSCI INDEXES?

- MSCI responded to the consultation on TEG's interim report in Aug 2019. The final TEG report reflects MSCI's feedback and suggestions on a number of interim guidelines
- The EU Sustainable Finance TEG final report on climate benchmarks and disclosures were published on 30th Sep 2019
- On November 7, 2019, MSCI launched two provisional methodologies aligned with the TEG guidelines:
  1. MSCI Provisional Climate Change EU Climate Transition Indexes<sup>2</sup>
  2. MSCI Provisional Climate Change Paris Aligned Indexes<sup>3</sup>

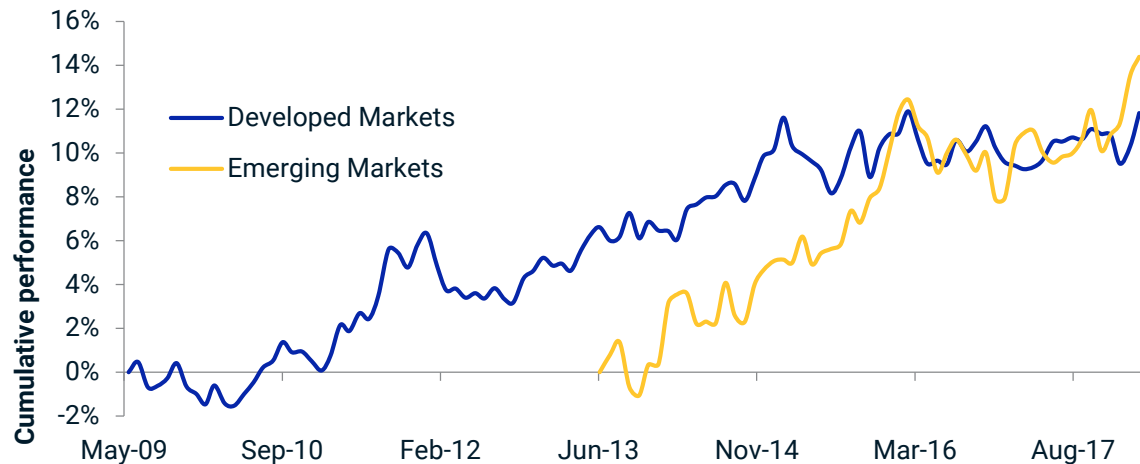
\*Source: [http://europa.eu/rapid/press-release\\_IP-19-1418\\_en.htm](http://europa.eu/rapid/press-release_IP-19-1418_en.htm)

\*\*The MSCI Provisional Climate Indexes are not Climate Transition or Paris Aligned Benchmarks because the requirements published in the TEG Final Report have not been passed by the European Commission

\*\*\*There is no obligation for Index providers to calculate a Paris Aligned Benchmark and that Index providers should endeavor to develop Climate Transition Benchmark

1, 2 & 3: While MSCI has been involved in the consultation process, the Indexes reflect the requirements of the TEG Final Report  
 TEG Final Report: [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/190930-sustainable-finance-teg-final-report-climate-benchmarks-and-disclosures\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190930-sustainable-finance-teg-final-report-climate-benchmarks-and-disclosures_en.pdf)

# How markets price ESG



Source of return	MSCI World long-short ESG momentum Average return (% p.a.)	MSCI Emerging Markets long-short ESG momentum Average return (% p.a.)
<b>Total Active</b>	<b>1.09</b>	<b>3.61</b>
Risk Indexes	0.09	-0.06
Industry	0.26	-0.76
Country	0.05	1.22
Currency	-0.28	0.33
<b>Specific</b>	<b>0.97</b>	<b>2.88</b>

MSCI World Index, from June 2009 to February 2018, MSCI Emerging Markets Index, June 2013 to February 2018

# ESG Rating Model: Key Issues

ENVIRONMENT PILLAR				SOCIAL PILLAR				GOVERNANCE PILLAR	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety		Access to Finance	Pay	Anti-Competitive Practices
Financing Environmental Impact		Electronic Waste	Renewable Energy	Human Capital Development	Financial Product Safety		Access to Health Care	Ownership	Corruption & Instability
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	Financial System Instability
					Responsible Investment				
					Insuring Health & Demographic Risk				

*Soft Drink Sub-Industry: e.g. Coca-Cola*

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