MSCI Climate Paris Aligned Indexes

msci.com

MSCI Climate Paris Aligned Indexes

Is your portfolio built for the net-zero transition?

Climate change can pose profound risk to portfolio companies — and create vast opportunities for institutional investors. At MSCI, our goal is to equip you with the tools to minimize exposure to these risks, both physical and transition, and maximize exposure to sustainable investment opportunities, as you seek to decarbonize your portfolio.

Our Climate Paris Aligned Indexes are designed to help investors transitioning to a net-zero economy build resilient portfolios aligned with the 1.5°C temperature-rise scenario of the Paris Agreement.

The index methodology aligns with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the requirements of the EU Paris Aligned Benchmark, methodology standards established by the European Commission.

Want to learn how we can help your net-zero transition?

Contact us

Defining your role in capping global emissions

Climate change is the greatest threat to the planet we have ever faced and its consequences, from weather extremes to rising sea levels, have already taken a devastating toll on our ecosystems and organisms.

The Paris Agreement aims to keep global temperature rise to well below 2°C, preferably to no more than 1.5°C, above preindustrial levels. To achieve this goal, global greenhouse gas (GHS) emissions need to fall by nearly half by 2030, and reach net-zero no later than 2050, according to the Intergovernmental Panel on Climate Change.

In response, more and more investors have been setting their own net-zero targets. For owners and managers of assets seeking to decarbonize their portfolios, investment policy benchmarks can provide a reference point for a net-zero transition. Climate indexes also can help investors identify climate-related financial risks and novel investment opportunities.

What's at stake for institutional investors?

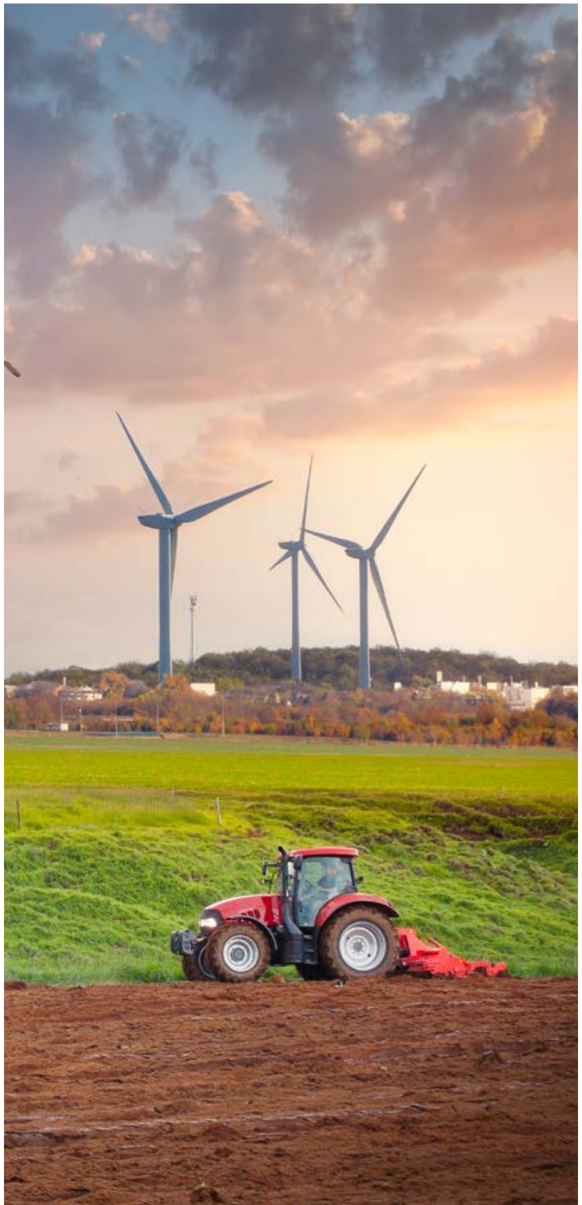
Climate change can pose profound risk to portfolio companies

- Extreme weather could damage assets
- Increased carbon pricing could result in significant costs
- Stranded asset risk
- Strategies could result in loss of trust in management

It also can create vast opportunity for investors

- New low-carbon technologies could boost company profits
- Shift in consumer preferences
- Access to new markets could spur growth
- Green strategies could enhance reputation and brand value

Built to help you integrate your climate strategy



Our transparent, rules-based indexes are designed to help investors incorporate net-zero strategies into their portfolio across their investment process.

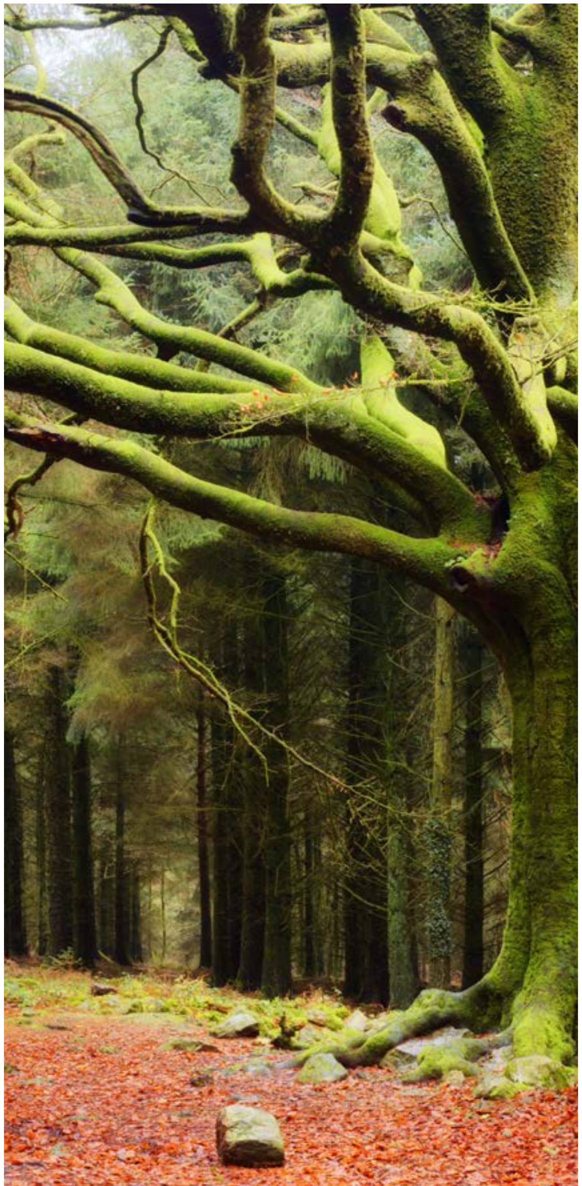
The indexes aim to:

The MSCI Paris Aligned Climate Indexes follow a rules-based optimized methodology and aim to achieve the following:

- Align with a 1.5°C climate scenario using MSCI Climate Value-at-Risk model and "self-decarbonization" rate of 10% year-on-year.
- Reduce exposure to physical risk arising from extreme weather events by at least 50%.
- Shift index weight from companies facing climate transition risks to those with climate transition opportunities by using MSCI Low Carbon Transition Score and excluding categories of fossil fuel-linked companies.
- Reduce weight of companies assessed as high carbon emitters using Scope 1, 2 and 3 emissions.
- Increase weight of companies with credible carbon reduction targets through weighting scheme.
- Achieve modest tracking error compared to parent index as well as low turnover.

The index methodologies align with the minimum technical requirements of EU Paris Aligned Benchmark. and the TCFD recommendations by accounting for the portfolio's exposure to physical and transition risk, as well as increased exposure to climate opportunities.

Why MSCI Climate Paris Aligned Indexes?



- Rely on advanced climate analytics data and models, including forward-looking metrics designed to show temperature alignment of investments with global temperature goals
- Built for customization; can be combined with MSCI's ESG, Sustainable Impact, Factor and Thematic data indexes and sets
- MSCI EU PAB Overlay Index methodology available for investors looking for a strict application of EU regulatory minimum requirements

1. The EU Paris Aligned Benchmark is contained in the EU Commission's Technical Expert Group on Sustainable Finance's Final Report on Climate Benchmarks and Benchmarks' ESG Disclosures: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-climate-benchmarks-and-benchmarks-esg-disclosures_en

We bring together some of the best minds in quantitative finance and climate science to build new types of models and analytics for pricing climate risk, allocating capital, and advancing understanding of how a changing climate and the energy transition influence financial markets.

We use an array of advanced, proprietary tools to construct our indexes.

Climate Value-at-Risk

Model built to provide a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities in portfolios

Low Carbon Transition Score

Measure of a company's exposure to climate transition risks and opportunities reached by aggregating measures of Scope 1, 2 and 3 emissions, avoided emissions and climate management quality

Barra® Open Optimizer

Flexible optimization library designed to reduce risk during core portfolio construction while aiming to control for turnover and minimize tracking error

View full methodology **here**

Helping you achieve your goals

Our indexes can be used as:

- Basis for index-based strategies for mutual funds, exchange-traded funds (ETFs), derivatives and structured products.
- Reference or policy benchmarks to support net-zero strategies.
- Climate performance benchmarks for actively managed climate-aligned portfolios.

Can be used as policy benchmark for strategic asset allocation

Leading asset owners have adopted MSCI Climate Indexes to align benchmarks with climate objectives

ASSET ALLOCATION

Can be used as underlying benchmark for index products such as ETFs and mutual funds

Asset managers worldwide have used MSCI Climate Indexes to launch ETFs and index funds

FINANCIAL INSTRUMENTS

Can be used as benchmark to measure performance of active managers

Asset managers can use MSCI Climate Indexes as performance benchmark to measure impact of climate on portfolio risk and return

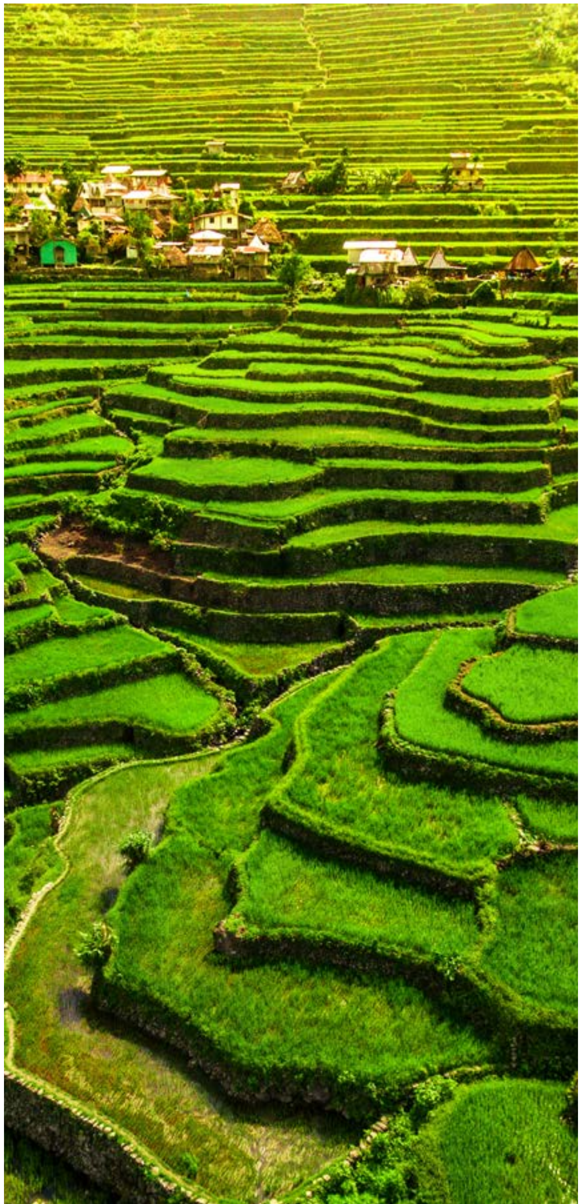
PERFORMANCE BENCHMARKS

Can be used to support engagement

Investors can use indexes to identify and engage high-emitting companies to help drive decarbonization

ENGAGEMENT TOOL

How are MSCI's Climate Paris Aligned Indexes constructed?



When constructing these indexes, we begin with all existing constituents of the parent market cap weighted index, such as the MSCI ACWI Index, our flagship global equity index, with the aim of providing an opportunity set with sufficient liquidity and replicability.

STEP ONE:

DEFINE THE ELIGIBLE UNIVERSE

Exclude securities of companies based on these criteria:

✕	Controversial Weapons
✕	ESG Controversies
✕	Tobacco
✕	Environmental Harm
✕	Thermal Coal Mining
✕	Oil & Gas
✕	Power Generation (Thermal Coal, Liquid Fuel, Natural Gas)

STEP TWO:

AIM TO MEET INDEX OBJECTIVES

Aim to achieve the index objectives (see p. 4), such as aligning with a 1.5°C climate scenario and shifting index weight toward green revenues.

STEP THREE:

MAINTAIN INDEXES

The indexes are rebalanced twice yearly, as of the close of the last business day of May and November. The rebalancing coincides with the May and November index reviews of the MSCI Global Investable Market Indexes.

For more information, please visit https://www.msci.com/our-solutions/esg-investing/esg-indexes/climate-paris-aligned-indexes.

Conclusion

Investors seeking to implement net-zero strategies can use the MSCI Climate Paris Aligned Indexes to take a broad-based approach to portfolio construction, embedding forward-looking measures of climate risk and return to help reach their goals. Our indexes, whether used as benchmarks or for the basis for indexed allocations, are designed to help investors make more informed decisions in the transition to a net-zero economy.

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 Inc.

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.