

# Bloomberg MSCI USD Green Bond Select Index

The Bloomberg MSCI USD Green Bond Select Index offers investors an objective and robust measure of the global market for fixed income securities issued to fund projects with direct environmental benefits. An independent research-driven methodology is used to evaluate index-eligible green bonds to ensure they adhere to established Green Bond Principles and to classify bonds by their environmental use of proceeds. General purpose bonds from issuers assessed to be a pure-play green company, defined as a legal entity with greater than 90% of activities (as measured by revenues) within one or more of the eligible environmental categories, need to meet all four principles of the Bloomberg MSCI Global Green Bond Index in order to be eligible. The parent index is the Bloomberg MSCI US Green Bond Index. To meet the eligibility requirements, all bonds must be included in the Bloomberg MSCI US Green Bond Index, the US dollar-denominated subset of the Bloomberg MSCI Global Green Bond Index. The index was created in December 2021, with index history backfilled to January 1, 2016.

## Rules for Inclusion: Fixed Income Criteria

### Sector

- Treasury, corporate, government-related, and securitized bonds are included. This includes taxable municipals.
- Eligible sectors will not necessarily have debt included in the index if no securities satisfy the inclusion rules.

### Eligible Currencies

Principal and interest must be denominated in USD.

### Quality

Securities must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, S&P and Fitch; when a rating from only two agencies is available, the lower is used; when only one agency rates a bond, that rating is used. In cases where explicit bond level ratings may not be available, other sources may be used to classify securities by credit quality:

- Local currency treasury and hard currency sovereign issues are classified using the middle issuer-level local currency and hard currency debt ratings from each agency for all outstanding bonds, even if bond-level ratings are available.
- Expected ratings at issuance may be used to ensure timely index inclusion or to properly classify split-rated issuers.
- Unrated securities may use an issuer rating for index classification purposes if available. Unrated subordinated securities are included if a subordinated issuer rating is available.

### Amount Outstanding

- For Treasury, government-related and corporate securities, USD300mn minimum par amount outstanding.
- For MBS pass-throughs, pool aggregates must have USD1bn par amount outstanding.
- For ABS, USD500mn minimum deal size and USD25mn minimum tranche size.
- For CMBS, USD500mn minimum deal size with at least USD300mn amount outstanding remaining in the deal and USD25mn minimum tranche size.

*\*As of April 1, 2017, ABS and CMBS tranches eligible for the US Aggregate between \$25-300mn became eligible for USD Green Bond Select Index.*

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| <b>Coupon</b>            | <ul style="list-style-type: none"> <li>• Fixed-rate coupon.</li> <li>• Callable fixed-to-floating rate bonds are eligible during their fixed-rate term only.</li> <li>• Bonds with a step-up coupon that changes according to a predetermined schedule are eligible.</li> </ul>   |   |
| <b>Maturity</b>          | <ul style="list-style-type: none"> <li>• Unlike other Bloomberg Aggregate Bond Indices, the USD Green Bond Select Index does not have a 1-year minimum time to maturity and will hold bonds until final maturity. The inclusion of Green Bonds to maturity within the indices is designed to accommodate this market practice by not forcing unwanted turnover.</li> <li>• Bonds that convert from fixed to floating rate, including fixed-to-float perpetuals, will exit the index before converting to floating-rate. Fixed-rate perpetual bonds are not included.</li> </ul> |   |
| <b>Taxability</b>        | <ul style="list-style-type: none"> <li>• Only fully taxable issues are eligible.</li> <li>• Build America Bonds (BABs) with the tax credit to the issuer are eligible; those with tax credits issued to investors are considered tax exempt.</li> <li>• Dividend Received Deduction (DRD) and Qualified Dividend Income (QDI) eligible securities are excluded.</li> </ul>  |   |
| <b>Market of Issue</b>   | Publicly issued in the global and regional markets.   |   |
| <b>Country of Risk</b>   | Bonds with a Country of Risk equal to Russia were removed on April 1, 2022. See the Index Announcement <a href="#">FI Implementation Update on Russian Sanctions</a> for more details.  |   |
| <b>Seniority of Debt</b> | Senior and subordinated issues are included.  |   |
| <b>Security Types</b>    | <p>Included</p> <ul style="list-style-type: none"> <li>• Fixed-rate bullet, putable, sinkable/amortizing and callable bonds</li> <li>• Taxable municipal securities, including Build America Bonds (BABs)</li> <li>• Original issue zero coupon bonds</li> <li>• Bonds issued through underwritten MTN programs</li> <li>• Enhanced equipment trust certificates (ETEC)</li> <li>• Certificates of deposit</li> <li>• Fixed-rate and fixed-to-float (including fixed-to-variable) capital securities</li> <li>• Loan participation notes</li> <li>• US Agency CMBS</li> </ul>   | <p>Excluded</p> <ul style="list-style-type: none"> <li>• Contingent capital securities, including traditional CoCos and contingent write-down securities</li> <li>• Bonds with equity type features (e.g., warrants, convertibles, preferreds, DRD/QDI-eligible issues)</li> <li>• Inflation-linked bonds, floating-rate issues</li> <li>• Fixed-rate perpetuals</li> <li>• Tax-exempt municipal securities</li> <li>• Private placements, retail bonds</li> <li>• USD25/USD50 par bonds</li> <li>• Structured notes, pass-through certificates</li> <li>• Non-ERISA eligible CMBS</li> <li>• US agency MBS hybrid ARMs</li> <li>• Formosa bonds (as of April 1, 2017)</li> <li>• Illiquid securities with no available internal or third-party pricing source</li> </ul> |

## Rules for Inclusion: Green Bond Eligibility and Classification

### Overview

- Green bonds are fixed income securities in which the proceeds will be exclusively and formally applied to projects or activities that promote climate or other environmental sustainability purposes through their use of proceeds.
- For the Bloomberg MSCI USD Green Bond Select Index, securities are independently evaluated by MSCI ESG Research along four dimensions to determine whether they should be classified as a green bond. These eligibility criteria reflect themes articulated in the Green Bond Principles and require commitments about a bond's:
  - Stated use of proceeds;
  - Process for green project evaluation and selection;
  - Process for management of proceeds; and
  - Commitment to ongoing reporting of the environmental performance of the use of proceeds.
- Self-labeled green bonds will be evaluated using these criteria for potential index inclusion.
- Meeting all four criteria is required for bonds issued after the publication of the Green Bond Principles in 2014. Green bonds issued prior to 2014 that are widely accepted by investors as green bonds may still qualify for the index, even if all four principles are not satisfied, since no formal guidelines were available to issuers at the time of issuance.

### Stated Use of Proceeds

- Use of proceeds and project bonds are considered eligible if the use of proceeds falls within at least one of six eligible environmental categories defined by MSCI ESG Research (alternative energy, energy efficiency, pollution prevention and control, sustainable water, green building, and climate adaption). In cases where project categories do not overlap entirely, MSCI ESG Research will consider bonds eligible if at least 90% of the projected use of proceeds falls within eligible categories.
- Any bond issued by a pure-play company, which is defined as a legal entity with greater than 90% of activities (as measured by revenues) within one or more of the eligible environmental categories, should meet all four principles of the Bloomberg MSCI Global Green Bond methodology to be eligible for inclusion to the index as a Green Bond. A general-purpose bond issued by a pure-play company is not automatically eligible.
- The six eligible environmental categories defined by MSCI ESG Research are listed below.
  - Alternative Energy
  - Energy Efficiency
  - Pollution Prevention and Control
  - Sustainable Water
  - Green Building
  - Climate Adaptation
- These categories are not mutually exclusive – a bond may fall into one or more of the categories.
- Other environmental activities that do not fit into these categories, including sustainable forestry/afforestation may also be candidates for inclusion based on evaluations by MSCI ESG Research.

### Process for Green Project Selection

- Bonds are considered eligible if the issuer clearly delineates the specific criteria and process for determining eligible projects or investments in the bond prospectus or supporting documentation (e.g., green bond supplement, website, investor presentation).
- Project criteria must outline either specific projects or the specific categories of activities to be financed. Examples of eligible criteria include “Alta Wind acquisition” or “installation of wind turbines, production of photovoltaic cells, and rehabilitation of municipal water infrastructure to

reduce waste water discharge." Examples of non-eligible criteria include "green initiatives and other projects that contribute to environmental sustainability" without further definition.

- A second-party opinion is not sufficient in the absence of clearly defined processes and criteria for project selection.

## Management of Proceeds

- A formal process to apply net proceeds raised or an amount equal to net proceeds raised to the eligible use of proceeds must be disclosed in the bond prospectus or supporting documentation. Eligible mechanisms to apply net proceeds raised or an amount equal to net proceeds raised include:
  - Direct recourse to eligible revenues or assets (e.g., a green securitized bond, green project bond, or green revenue bond);
  - Creation of a separate legal entity;
  - Creation of a sub-portfolio linked to the issuer's investment operations for eligible projects;
  - Other auditable mechanism whereby the balance of tracked proceeds is reduced periodically by amounts matching investments made in eligible projects during that period.
- Third-party verification by an external auditor is preferred but not required.

## Ongoing Reporting

- At issuance, issuers of index eligible green bonds must either report on projects financed by the bonds' proceeds, or commit to doing so within one year. This reporting obligation will continue until bond proceeds have been fully dispersed or for the life of the bond, as circumstances necessitate. For reporting to be considered eligible, it must include one or more of the following:
  - A list of specific projects/investments, including amount disbursed to each individual project;
  - Aggregate project/investment categories, including amount disbursed to each project type;
  - Quantitative or qualitative reporting on the environmental impact of the project pool (e.g., greenhouse gas emissions savings, reduction in water consumption, increased energy efficiency per unit of output, etc.).
- MSCI ESG Research reserves an additional three months beyond the 12-month deadline to review an issuer's green bond report. This allows time for the green bond report to be located and contact to be made with the issuer in case any questions or issues are raised.
- If an issuer has not published a report within 15 months of issuance, or 15 months of the prior use of proceeds report, it will be flagged as "On Watch" in the next monthly green bond technical note, with details provided in the note regarding the timing and process for removal of the bond from the index.
- If the issuer has not published a report within 18 months from issuance or the last annual report, its bond(s) will be removed from the index upon the next index rebalance. Furthermore, the bond(s) will be considered permanently ineligible for the index.

## Rebalancing Rules

### Capping Methodology

Large issuers are defined as individually having at least 4.75% of the market value of the uncapped index; small issuers are defined as individually having less than 4.75% of the market value of the uncapped index. Large issuers are floored at 4.75% of the index by market value. Large issuers are also capped such that combined they do not exceed 23.75% of the index's market value. Small issuers are individually capped at 4.75% of the index by market value. The excess market value over the caps is redistributed on a pro rata basis to all other issuers' bonds in the index that are under the caps. The process is repeated until no issuer breaches the capping and flooring limits. This methodology is applied each month as the index is rebalanced.

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| <b>Frequency</b>                  | <p>For each index, Bloomberg maintains two universes of securities: the Returns (Backward) and the Projected (Forward) Universes. The composition of the Returns Universe is rebalanced at each month-end and represents the fixed set of bonds on which index returns are calculated for the next month. The Projected Universe is a forward-looking projection that changes daily to reflect issues dropping out of and entering the index but is not used for return calculations. On the last business day of the month (the rebalancing date), the composition of the latest Projected Universe becomes the Returns Universe for the following month.</p> <ul style="list-style-type: none"> <li>• The formal list of green bonds evaluated and identified by MSCI ESG Research is updated on the 25th calendar day of each month. Evaluations must be completed by the evaluation date to qualify for inclusion at the next index rebalancing. All relevant information (green bond framework, reporting, etc.) should be publicly accessible or provided to MSCI ESG Research by the 23rd of the month to enable a timely evaluation.</li> <li>• The Bloomberg MSCI USD Green Bond Select Index is rebalanced on the last business day of each month. New issues will not be added to the Projected Universe until after the Green Bond Evaluation Date.</li> </ul> |
| <b>Index Changes</b>              | <p>During the month, indicative changes to securities (credit rating change, sector reclassification, amount outstanding changes, corporate actions, and ticker changes) are reflected daily in the Projected and Returns Universe of the index. These changes may cause bonds to enter or fall out of the Projected 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 next rebalanced.</p>   |
| <b>Reinvestment of Cash Flows</b> | <p>Intra-month cash flows from interest and principal payments contribute to monthly index returns but are not reinvested at a short-term reinvestment rate between rebalance dates. At each rebalancing, cash is effectively reinvested into the returns universe for the following month so that index results over two or more months reflect monthly compounding.</p>  |
| <b>New Issues</b>                 | <p>Qualifying securities issued, but not necessarily settled on or before the month-end rebalancing date, qualify for inclusion in the following month's index if the required security reference information and pricing are readily available.</p>   |

## Pricing and Related Issues

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| <b>Sources &amp; Frequency</b> | <p>All index-eligible bonds are priced on a daily basis by Bloomberg's evaluated pricing service, BVAL.</p>   |
| <b>Timing</b>                  | <p>Prices are snapped at the following times:</p> <ul style="list-style-type: none"> <li>• North American currency bonds: 4pm (New York time); USD-denominated bonds prior to January 14, 2021 used 3pm New York time pricing snap.</li> <li>• On early market closes, prices are taken as of 1 p.m. (New York time), unless otherwise noted.</li> </ul> <p>If the last business day of the month is a public holiday prices from the previous business day are used.</p> |
| <b>Bid or Offer Side</b>       | <p>Bonds in the index are priced on the bid side. The initial price for new corporate issues entering the index is the offer side; after the first month, the bid price is used.</p>  |
| <b>Settlement Assumptions</b>  | <p>T+1 calendar day settlement basis for all bonds except MBS, which are priced for Public Securities Association (PSA) settlement in the following month and discounted back to same-day settlement. At month-end, settlement is assumed to be the first calendar day of the following month, even if the last business day is not the last day of the month, to allow for one full month of accrued interest to be calculated.</p>                                      |

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| <b>Verification</b>     | Daily price moves for each security are analyzed by the index pricing team to identify outliers. Index users may also challenge price levels, which are then reviewed and updated as needed.  |
| <b>Currency Hedging</b> | Returns hedged to various non-USD currencies are published for the USD Green Bond Select Index. The indices' FX hedging methodology takes rolling one-month forward contracts that are reset at the end of each month and hedges each non-reporting currency-denominated bond in the index into the reporting currency terms. No adjustment is made to the hedge during the month to account for price movements of constituent securities in the Returns Universe of the index |
| <b>Calendar</b>         | The USD Green Bond Select Index follows the US bond market calendar. FX rates are updated daily using WM Reuters 4pm (London) rates. FX forwards are also sourced from WM Company.  |

## Accessing Index Data

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| <b>Bloomberg Terminal®</b>   | <p>Bloomberg benchmarks are the global standard for capital markets investors.</p> <ul style="list-style-type: none"> <li>• INDE&lt;GO&gt; - The Bloomberg Indices dashboard page, which contains daily, monthly, and year-to-date index returns for key indices from each index family as well as a link to index publications.</li> <li>• IN&lt;GO&gt; - The Bloomberg Index Browser displays the latest performance results and statistics for the indices as well as history. IN presents the indices that make up Bloomberg's global, multi-asset class index families into a hierarchical view, facilitating navigation and comparisons. The "My Indices" tab allows a user to focus on a set of favorite indices.</li> <li>• DES&lt;GO&gt; - The index description page provides transparency into an individual index including membership information, aggregated characteristics and returns, and historical performance.</li> <li>• INP&lt;GO&gt; - The Bloomberg Indices Publications page, which includes methodologies, factsheets, monthly reports, announcements and technical notes. A user may also subscribe to index publications via the "Actions" button.</li> <li>• PORT&lt;GO&gt; - Bloomberg's Portfolio &amp; Risk Analytics solution includes tools to analyze the risk, return, and current structure of indices. Analyze the performance of a portfolio versus a benchmark or use models for performance attribution, tracking error analysis, value-at-risk, scenario analysis, and optimization.</li> </ul> |
| <b>Bloomberg Indices Website</b><br>( <a href="http://www.bloomberg.com/indices">www.bloomberg.com/indices</a> ) | <p>The index website makes available limited index information including:</p> <ul style="list-style-type: none"> <li>• Index methodology and factsheets</li> <li>• Current performance numbers for select indices</li> </ul>   |
| <b>Data Distribution</b>   | <p>Index subscribers may choose to receive index data in files. Files may include:</p> <ul style="list-style-type: none"> <li>• Index level and/or constituent level returns and characteristics for any indices</li> <li>• Automatic delivery of files via email or SFTP following the completion of the index production process after market close</li> <li>• Clients may receive standard files or may customize file contents</li> <li>• Index data is also available via authorized redistributors</li> </ul>  |
| <b>Index Ticker</b>  | I36761US: Total Return USD Unhedged  |

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