

# Bloomberg MSCI US Corporate High Yield SRI Sustainable Index

This document is intended to be read in conjunction with the [Bloomberg US Corporate High Yield 3% Issuer Capped Index Methodology](#) and the [Bloomberg MSCI ESG Fixed Income Indices Methodology](#); these documents collectively constitute the index methodology for this Index.

The Bloomberg MSCI US Corporate High Yield SRI Sustainable Bond Index is a fixed-rate, high-yield, USD-denominated corporate bond benchmark. The index includes securities with at least one year until final maturity. The index includes issuers with a MSCI ESG Rating of BBB or higher, while also excluding issuers per the standard Bloomberg MSCI SRI and ESG Controversy Screens. Additionally, the index excludes issuers that derive revenue from arctic oil or gas, or issuers subject to human rights controversies. The market value weight of issuers in the index is capped at 3%. The index was created in October 2019, with history backfilled to June 1, 2013.

The features specific to this Index are set out below.

<b>Description of Index Constituents</b>	USD High Yield Bonds
<b>Index Ticker</b>	I35279US Index: Total Return USD Unhedged

## Eligibility Requirements:

<b>Currency</b>	Principal and interest must be denominated in USD
<b>Sector</b>	Corporate
<b>Credit Rating</b>	High Yield
<b>Minimum Amount Outstanding</b>	USD 300mn minimum par amount outstanding
<b>Maturity</b>	At least one year until final maturity, regardless of optionality.
<b>Minimum Liquidity Requirements</b>	See Minimum Amount Outstanding specified above.
<b>Market of Issue</b>	144A securities that do not have a Reg-S tranche are excluded
<b>Rebalance Date</b>	Monthly
<b>Issuer Capping Methodology</b>	Issuers that exceed 3% of the market value of the uncapped US Corporate High Yield SRI Sustainable Index are limited to 3%. The excess market value over the 3% cap is redistributed on a pro rata basis to all other issuers' bonds in the index that are under the 3% cap. The process is repeated until no issuer exceeds the 3% limit.

## Environmental, Social and Governance (ESG)

This section is not intended to be exhaustive and is being provided for information purposes only - detailed ESG disclosures set out in dedicated section below.

The Index applies the standard ESG factors outlined in the [Bloomberg MSCI ESG Fixed Income Indices Methodology](#) Appendix A: Bloomberg MSCI SRI Indices and Appendix B: Bloomberg MSCI Sustainability Indices ESG annexes:

- Standard Bloomberg MSCI SRI screen, and
- Standard Bloomberg MSCI ESG Controversies score threshold.

Additionally, the index applies additional screens based on the MSCI ESG Rating of the issuer, or issuers involved in, or deriving revenue from the following:

- Arctic Oil and Arctic Gas revenue  $\geq$  5%
- Human Rights Concerns Assessment of Moderate, Severe or Very Severe are excluded
- MSCI ESG Rating of CCC, B, BB, and Unrated issuers are excluded

### Minimum ESG Exclusions

On the last business day before month end, using the Forward Universe of the previous day, after applying the non-ESG criteria rules for inclusion, defined above, and additionally removing any non-ESG rated bonds, the number of issuers for the eligible universe are defined. If, after having additionally applied the ESG selection criteria above, less than 20% of the total number of issuers in the eligible universe are excluded, then the eligible issuers are ranked in the order below, according to the following criteria:

- MSCI ESG Rating score (higher Ticker ESG Rating score preferred to remain in the index)
- MSCI ESG Controversies score (higher Ticker Controversies score preferred to remain in the index)

Then based on this ranking, issuers will be excluded from the index, until the number of excluded issuers is higher than 20% of the eligible universe total number of issuers. If, more than one issuer has the same ESG Rating and Controversy score and is required to be removed to reach the 20% threshold, then all issuers with the same ESG Rating and Controversy score are removed.

## Document Version History

Date	Update
September 2023	Publication in new format

## Environmental, Social and Governance (ESG) Disclosures

This document should be read in conjunction with [Bloomberg MSCI ESG Fixed Income Indices Methodology](#) Appendix A: Bloomberg MSCI SRI Indices and Appendix B: Bloomberg MSCI Sustainability Indices ESG disclosures annexes. These annexes and the information below collectively constitute the ESG factors taken into account in this Index and associated disclosures.

<b>ESG Factors</b>	
MSCI ESG Ratings	<p>MSCI ESG Ratings provide research, data, analysis and ratings of how well companies manage environmental, social and governance risks and opportunities. MSCI ESG Ratings provides an overall company ESG rating – a seven-point scale from ‘AAA’ to ‘CCC’. In addition, the product provides scores and percentiles indicating how well a company manages each key issue relative to industry peers, as well as underlying data and metrics used to compile the scores and ratings.</p> <p>The Index excludes issuers with ESG ratings of CCC, B, or BB using the MSCI ESG Corporate Rating model. Issuers not covered by MSCI ESG research are also excluded.</p> <p>Please refer to the MSCI ESG Ratings Methodology that can be accessed <a href="#">here</a> and summary of what an MSCI ESG rating is can be found <a href="#">here</a>.</p>
Arctic Oil and Arctic Gas	Excludes researched companies deriving 5% or more revenue (either reported or estimated) from offshore or onshore Arctic Oil or Gas production. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude.
Human Rights - Human Rights Concerns Assessment	Excludes researched companies that have Human Rights Concerns Assessment of Moderate, Severe or Very Severe. Factors affecting the evaluation include, but are not limited to, a history of involvement in human rights-related legal cases, widespread or egregious complicity in killings, physical abuse, or violation of other rights, resistance to improved practices, and criticism by NGOs and/or other third-party observers.
<b>Data and standards used</b>	
<p>a) Data input.</p> <p>(i) Describe whether the data are reported, modelled or, sourced internally or externally.</p> <p>(ii) Where the data are reported, modelled or sourced externally, please name the third party data provider.</p>	<p>All ESG data for the benchmarks is sourced externally from:</p> <p>MSCI Research  <a href="mailto:esgclientservice@msci.com">esgclientservice@msci.com</a>  <a href="https://www.msci.com/research-and-insights">https://www.msci.com/research-and-insights</a></p> <p>MSCI ESG Research relies on a proprietary methodology informed by a range of data sources.</p> <ul style="list-style-type: none"> <li>• Reported data <ul style="list-style-type: none"> <li>○ Corporate documents: annual reports, proxy filings, environmental and social reports, securities filings, websites and Carbon Disclosure Project responses. Externally sourced data.</li> <li>○ Government data: central bank data, U.S. Toxic Release Inventory, Comprehensive Environmental Response and Liability Information System (CERCLIS), RCRA Hazardous Waste Data Management System, etc. We continue to assess the value of other, similar information sources, particularly for European companies.</li> <li>○ Popular, trade, and academic journals: accessed through websites, subscriptions and searches of online databases.</li> <li>○ News media: major news publications globally, including local-language sources across a range of markets.</li> <li>○ Relevant organizations and professionals: reports from and interviews with trade groups, industry experts and nongovernmental organizations familiar with the companies’ operations and any related controversies</li> </ul> </li> <li>• Modelled data <ul style="list-style-type: none"> <li>○ For climate-related metrics, when data is not disclosed by companies, MSCI ESG Research uses a proprietary GHG emission estimation model.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>o When companies do not report exact revenue figures for a covered business activity, MSCI ESG Research provides an estimate of the extent of companies’ involvement in the subject activity.</li> </ul> <p>For top level scores (ESG Ratings, Environmental, Social and Governance pillars), MSCI ESG Research estimates macro-level risk exposure for companies’ based on the type and location of operations, distribution of products. Data sources used in the exposure calculations include, but not limited to:</p> <ul style="list-style-type: none"> <li>• Comprehensive Environmental Data Archive (CEDA)</li> <li>• US Department of Energy; International Council on Clean Transportation</li> <li>• Lamont-Doherty Earth Observatory, Columbia University</li> <li>• Organization of Economic Co-Operation and Development (OECD)</li> <li>• Canadian Industrial Water Survey</li> <li>• Hoekstra, A.Y. and Mekonnen, M.M. (2011)</li> <li>• Ecorisk</li> <li>• World Development Indicators (WDI)</li> <li>• Annual Change of Forest Resources _ Food and Agriculture Organization (FAO)</li> <li>• World Wildlife Fund (WWF)</li> <li>• US EPA’s Toxics Release Inventory (TRI)</li> <li>• Risk-Screening Environmental Indicators (RSEI)</li> <li>• US Bureau of Labor Statistics (BLS)</li> <li>• International Labour Organization (ILO)</li> <li>• US Occupational Health &amp; Safety Administration (OSHA)</li> <li>• UK Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR)</li> <li>• International Chemical Secretariat (ChemSec) Substitute It Now (SIN) List</li> <li>• International Monetary Fund (IMF)</li> <li>• World Health Organization (WHO)</li> <li>• UN Principles for Responsible Investments (UN PRI)</li> <li>• World Resource Institute (WRI)</li> <li>• Consultative Group to Assist the Poor (CGAP)</li> <li>• US Census Bureau Current Population Survey Supplement</li> <li>• World Bank Governance Indicators (WGI)</li> <li>• Transparency International (TI)</li> <li>• World Bank (WB)</li> <li>• SNL Financial</li> <li>• Thomson Financial</li> </ul> <p>Refer to the <a href="#">MSCI ESG &amp; Climate Methodologies page</a> for further details on the data sources for the relevant ESG factors.</p>
<p>b) Verification of data and guaranteeing the quality of those data. <i>Describe how data are verified and how the quality of those data is ensured.</i></p>	<p><b>MSCI ESG Score</b></p> <p>The ESG Ratings process includes multiple steps to review the quality of the analysis and consistent application of the methodology.</p> <p>The following quality assurance and oversight processes are observed:</p> <ul style="list-style-type: none"> <li>• Quality review process: Data quality checks are conducted on all companies prior to the publication of their ESG Rating.</li> </ul>

- Analytical review: All ESG Ratings are subject to review by an analyst and a reviewer. In cases where the analyst review results in a proposal for a change to an ESG Rating, and for defined other circumstances, the Rating is subject to a review by a second senior analyst.
- Ratings Methodology Committee: This committee addresses the following specific cases, as well as other escalations related to methodology application:
  - Proposal to add a company-specific Key Issue in a company's assessment.
  - Ratings change of two letters or more.
  - New AAA- or CCC-rated company.
  - Requests for deviations from the weights for industry Key Issues due to significant differences in business model from the industry peer set.
  - Requests to deviate from standard methodology for including or excluding controversies cases in a company's ratings analysis.
- ESG Methodology Committee: This committee addresses escalations from the Ratings Methodology Committee and reviews changes to the ESG Ratings methodology, including:
  - Updates to the ESG Industry Materiality Map, which determines the relevance of ESG Key Issues to sub-industries.
  - Changes to data sources or calculations used in ESG Ratings.
  - Methodology proposals for consultation.

Please see the MSCI ESG Ratings Methodology and Process via the [MSCI ESG Methodologies website](#) for further detail.

#### **MSCI ESG Controversies and Global Norms**

The consistency of ESG controversies assessments and scoring based on MSCI ESG Controversies and Global Norms Methodology is ensured through ongoing peer review and MSCI ESG Controversies Methodology Committee (CMC) reviews. The CMC has direct oversight of the content of the company ESG Controversies reports and of the consistent application of the methodology.

The following situations require CMC review and approval:

- Proposed downgrades of controversy cases to Red Flag status must first be approved by the CMC before being escalated to the MSCI ESG Methodology Committee (EMC).
- Proposed upgrades of controversy cases from Red Flag status.
- Proposed significant score changes to existing controversy cases.
- Proposed designation of a case as of Historical Concern (whereby the case no longer has a score or a corresponding flag, but is retained in the company's ESG Controversies report for context and reference).

In addition to ESG controversy case reviews and approvals, the CMC reviews and approves clarifications and updates to the MSCI ESG Controversies and Global Norms methodology.

The CMC escalates selected individual ESG controversy cases, including upgrades from and downgrades to Red Flag status, to the EMC, which governs all MSCI ESG solutions and presides over the development, review and interpretation of all ESG Research methodologies, including the MSCI ESG Controversies and Global Norms methodology. The EMC is also responsible for the review and approval of revisions to the MSCI ESG Controversies and Global Norms methodology.

Please see the MSCI ESG Controversies and Global Norms Process via their [ESG Methodologies website](#) for further detail.

#### **MSCI Business Involvement Screens**

Initial company research and analysis is followed by a rigorous quality review process. Data accuracy and company profiles are peer-reviewed, then sent to content leads for final approval. In specific cases in which a company's business activity is not clearly defined by MSCI ESG Research's methodology and there is no precedent, the case is escalated to the Head of Screening Research. Cases that require further

	<p>interpretation or an update to the methodology are brought to the MSCI ESG Impact and Screening Methodology Committee for resolution.</p> <p>Please see the <a href="#">MSCI Business Involvement Methodology Overview</a> for further detail.</p>
<p>c) Reference standards <i>Describe the international standards used in the benchmark methodology.</i></p>	<p><b>MSCI ESG Score</b></p> <p>MSCI ESG Research relies on a proprietary methodology informed by a range of data sources. MSCI ESG Research does not explicitly mandate reporting along specific disclosure standards. Commonly utilized disclosure frameworks for data collected and used by MSCI ESG Research include GRI, SASB, UN Global Compact; and, for specific performance indicators, GHG Protocol, and applicable ISO standards.</p> <p><b>MSCI ESG Controversies and Global Norms</b></p> <p>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 principles.</p> <p><b>MSCI Business Involvement Screens</b></p> <p>The MSCI ESG Research team utilises a combination of industry classifications, business descriptions and keyword searches in company filings to identify potential involvement in each of the screening topics.</p>
<p>Date on which information has been last updated and reason for the update:</p>	<p>September 2023 (first publication)</p>

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