

iSTOXX IQAM Europe CTB ESG Select Index

OVERVIEW

The iSTOXX IQAM Europe CTB ESG Select index tracks the performance of liquid securities from the STOXX Europe 600 index. The index¹ is constructed to follow the EU Climate Transition Benchmark (EU CTB) requirements outlined in the Commission Delegated Regulation (EU) 2020/1818 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks². The index is designed to help investors in the transition to a low-carbon economy by adopting a decarbonization trajectory.

Universe: STOXX Europe 600, as observed on the review effective date.

Weighting scheme: The index is price-weighted with weighting factors determined according to an optimization process to meet the EU CTB recommendations

Base value and date: 100 on Mar 18, 2019

Index types and currencies: Price, Net and Gross return in EUR and USD

Dissemination calendar: STOXX Europe calendar

INDEX REVIEW

Selection list:

The review cut-off date is the last dissemination day of the month preceding the review month of the index, and upon this date, a set of exclusionary criteria are applied.

Sector Exclusions:

Components that belong to the following ICB Subsectors are excluded Offshore Drilling and Other Services (ICB code 60101015), Oil Equipment and Services (ICB code 60101030) and Pipelines (ICB code 60101035).

Norms Based Screening:

Companies are assessed against their adherence to international norms on human rights, labour standards, environmental protection and anti-corruption established in the

¹ [Regulation \(EU\) 2019/2089 amending Regulation \(EU\) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2089>

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R1818>

UN Global Compact and the OECD Guidelines. Companies identified as 'Red' are excluded. ISS-ESG identifies companies as 'Red', if they are failing to respect established norms and where the issue remains unaddressed.

Environmental Protection:

Companies are assessed based on their worst Case Severity Indicator within the Key Thematic Area Environmental Protection. The Case Severity Indicator is a measure of the reported risk or impact on society or the environment, and takes into account the degree of corporate involvement. Companies identified as "Severe" and "Very Severe" are excluded

Human Rights:

Companies are assessed based on their worst Case Severity Indicator within the Key Thematic Area Fundamental Human Rights. The Case Severity Indicator is a measure of the reported risk or impact on society or the environment, and takes into account the degree of corporate involvement. Companies identified as "Severe" and "Very Severe" are excluded

Controversial Weapons:

Companies must not be involved in controversial weapons activities, as identified by ISS-ESG. The following weapons are defined as controversial: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium programs, nuclear weapons (including non-NPT countries, i.e., countries not belonging to the Nuclear Non-proliferation Treaty), and white phosphorus. ISS-ESG's controversial weapons research is designed to identify all companies in a corporate structure that have control over the relevant business activities, i.e., all immediate parent companies up to and including the ultimate parent. Companies that have been flagged as "Red" are excluded.

ESG Ratings: Companies with ISS-ESG ESG ratings of D+ or below are excluded.

Sustainable Development Goals:

STOXX will exclude companies that ISS ESG assesses to have significant obstruction to the UN Sustainable Development Goals (SDGs) 12, 13, 14 and 15. SDG 12 Responsible Consumption and Production, SDG 13 Climate Action, SDG 14 Life Below Water and SDG 15 Life On Land.

Product Involvement: Not have any Product Involvement in the following areas. The revenue shares used from ISS ESG are the maximum revenue share factors which identify the maximum amount of revenue estimated or company reported to be derived from involvement in a business activity as a percentage of the issuer's total annual revenue, and the estimated values range is not inclusive. STOXX will exclude companies that ISS-

ESG identifies to have:

Tobacco:

- >0% revenues from involvement in the production of tobacco products
- >5% revenues from involvement in tobacco

Thermal Coal:

- >0% revenues from the mining of thermal coal
- >5% or more revenues from the generation of electric power sourced from coal.
- Any involvement in thermal coal mine development operations or plans.

Nuclear Power:

- >5% revenue from involvement in the provision of services to the nuclear power industry, including the supply of key components, technical support, maintenance, and the management of nuclear waste.
- >5% revenue from involvement in core activities in the nuclear fuel cycle to produce energy, including uranium mining, processing and enrichment, fuel production, and the operation of power reactors.
- >5% revenue from involvement in uranium exploration, extraction, and processing.

Fossil Fuel:

- > 5% revenue from involvement in the extraction, refining and processing of fossil fuels.
- >10% revenues from involvement in the generation of electric power from fossil fuels.

Unconventional oil & gas

- Any Involvement in shale oil and/or gas.
- >0% revenue from hydraulic fracturing
- Any Involvement in oil and gas exploration in water of depths greater than 125 meters.
- Any Involvement in the production, exploration, or provision of services related to the extraction and processing of oil sands, tar sands, or bituminous sands.
- >0% revenue from oil sands production
- >0% revenue from in oil and gas extraction through arctic drilling

Civilian Firearms:

- >5% revenue from involvement in civilian firearms or ammunition

Military Equipment:

- >5% revenue from production of military equipment and/or the provision of related services.

Carbon emissions intensity:

- All companies with total (Scope 1 + Scope 2) carbon emissions intensity > 1500. Carbon intensity is expressed as the issuer's total carbon emissions per million USD of revenue as a proxy of the carbon efficiency per unit of output.

Energy consumption intensity:

- All companies with energy consumption in GWh per million EUR of revenue (GWh/mEUR) > 300.

Weighting and capping factors:

The weights are derived through an optimization process with the goal to have a portfolio which meets the requirements of a CTB index.

Target weight calculations:

The target weight is defined according to the free-float market capitalization subject to the corporate target setting and carbon risk rating multipliers, as follows:

$$w_i = \frac{ffmcap_i * CR_i}{\sum_j^n ffmcap_j * CR_j}$$

Where:

N number of components in the index

CR_i = $(1 + CR_z_i)$ if $CR_z_i > 0$
= $(1 - CR_z_i)^{-1}$ if $CR_z_i \leq 0$

CR_z_i = zeta score of the company's Carbon Risk Rating, as defined by ISS ESG

Capped weight calculations:

The capped weights cw_i are derived from target weights via an optimization that minimizes the relative squared difference between the target weights and the capped weights while ensuring that the year-on-year self-decarbonization fulfils the criteria of at

least 7% on average starting from 2025 with respect to 2024. The optimization is performed to arrive at the weights subject to constraints to ensure that the composition fulfils the minimum requirements:

$$cw_i = \operatorname{argmin}_{cw} \left(\sum_{i=1}^n \left(\frac{(cw_i - w_i)^2}{w_i} \right) \right)$$

The following are the constraints of the optimization:

- a) Maximum security weight of 4.5%, and minimum weight of 0.01%
- b) The GHG intensity reduction of the index, $\sum_{i=1}^n (cw_i \cdot \text{Security GHG Intensity}_i)$ should be at least 30% when compared to the STOXX Europe 600 Index,
- c) Year-on-year GHG intensity reduction of at least 7% starting from 2025 with respect to 2024. The year-on-year carbon reduction included is calculated as:

$$1 - \left(\frac{\text{Index GHG Intensity}_{\text{current}} \cdot \text{Cumulative Inflation Adjustment Factor}}{\text{Index GHG Intensity}_{2024 \text{ year-end}}} \right)^{1/T}$$

where T is the number of years since 2024

- d) The green revenue share / brown revenue share of the index, $\frac{\sum_{i=1}^n (cw_i \cdot \text{Green Revenue \%}_i)}{\sum_{i=1}^n (cw_i \cdot \text{Brown Revenue \%}_i)}$, is at least equivalent to that of the STOXX Europe 600 Index
- e) The total exposure of components in the “High Climate Impact” according to NACE classification is at least equal to the STOXX Europe 600 Index
- f) The exposure to a single NACE Section code is within 5% of the STOXX Europe 600 Index exposure
If the STOXX Europe 600 Index exposure in any of the NACE Sections is greater than 30%, an additional maximum exposure constraint on the NACE Division weights will be imposed for the CTB index. In this case, the iSTOXX IQAM Europe CTB ESG Select Index exposure to a single NACE Division (within the NACE Section) cannot exceed the STOXX Europe 600 Index exposure by higher than 5%
- g) The exposure to a country is within 5% of the STOXX Europe 600 Index
- h) The potential carbon emissions reduction should be at least 30% compared to the STOXX Europe 600 Index

Weighting factors are based on the closing prices in EUR (pi) of the Thursday prior to the second Friday of the review month:

Weighting factor = $(1,000,000,000,000 \times w_i / p_i)$, rounded to the nearest integer value.

Review frequency:

The review is conducted on a quarterly basis in March, June, September and December. The cut-off date for the underlying data is the last calculation day of February, May, August and November respectively.

ONGOING MAINTENANCE

Replacements: Deleted companies are not replaced.

Fast exit: Not applicable.

Fast entry: Not applicable.

Spin-offs: Spin-offs are not added permanently

Corporate Actions: All components are maintained for corporate actions as outlined in the STOXX Calculation Guide available on stoxx.com