

Zug, January 13th, 2023

Market Consultation on proposed changes to the EURO STOXX 50 ESG and STOXX ESG Broad Market Indices Methodology

Dear Sir and Madam,

STOXX Ltd., the operator of Qontigo's index business and a global provider of innovative and tradable index concepts, has decided to conduct a market consultation on proposed changes to the methodology of the EURO STOXX 50 ESG and STOXX ESG Broad Market Indices.

The market consultation may or may not lead to changes in the index methodology.

Process and Timeline

STOXX invites relevant stakeholders and interested third parties to submit responses to consultation@stox.com.

The consultation is open to all market participants until January 27th, 2023.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by February 3rd, 2023.

STOXX intends to implement the proposed changes no later than with the ordinary review on March 20th, 2023.

Motivation for the Market Consultation

As part of STOXX's ongoing methodology reviews and as sustainable investing continues to evolve, we would like to seek market opinion regarding the proposed sustainability screens for the EURO STOXX 50 ESG and STOXX ESG Broad Market Indices.

Proposed enhancements aim to help investors align their ESG objectives with the current developments in the sustainable finance space - i.e. Sustainable Finance Disclosure Regulation (SFDR)¹ and the Markets in Financial Instruments Directive II (MiFID II)². The new screens have the objective of a stricter ESG screening criteria as well as broadening considerations of some SFDR principal adverse impact (PAI) indicators, at the same time keeping to a consistent threshold approach and maintaining a close tracking error to the parent benchmarks.

Based on the outcome of this consultation, we may additionally evaluate the methodologies of the STOXX SRI, STOXX ESG Target TE, STOXX ESG Target and STOXX ESG Leaders families of indices.

¹ https://eur-lex.europa.eu/eli/reg_del/2022/1288

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R1253>

Proposed Treatments/Amendments

STOXX is looking to enhance the methodology of the EURO STOXX 50 ESG and STOXX ESG Broad Market Indices, with these additional screens.

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
Global Standards Screen	STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.	STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.	Unchanged	PAI 10 (fully aligned)
Controversial Weapons	<p>STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.</p> <p>The following weapons are considered controversial: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons.</p> <p>The criteria for involvement are:</p> <ul style="list-style-type: none"> » Internal production or sale of controversial weapons » The ultimate holding company owns >10% of voting rights of an involved company » >10% of voting rights of a company is owned by the involved company 	<p>STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.</p> <p>The following weapons are considered controversial: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons.</p> <p>The criteria for involvement are:</p> <ul style="list-style-type: none"> » Internal production or sale of controversial weapons » The ultimate holding company owns >10% of voting rights of an involved company » >10% of voting rights of a company is owned by the involved company 	Unchanged	PAI 14 (fully aligned)
(a) Tobacco	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >0% revenues from manufacturing tobacco products » >10% revenues from the distribution and/or retail sale of tobacco products (only in the EURO STOXX 50 ESG Index) 	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> > 0% revenues from manufacturing tobacco products > 5% revenues from supplying tobacco-related products/services > 5% revenues from the distribution and/or retail sale of tobacco products 	Tighten the tobacco screen to exclude companies that are involved in tobacco-related products and services or distribution of tobacco products	

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
Thermal Coal	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> > 5% revenues from thermal coal extraction (including thermal coal mining and exploration) > 5% power generation capacity: coal-fired electricity, heat or steam generation capacity / thermal coal electricity production (including utilities that own/operates coal-fired power plants). 	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> > 5% revenues from thermal coal extraction (including thermal coal mining and exploration) > 5% power generation capacity: coal-fired electricity, heat or steam generation capacity / thermal coal electricity production (including utilities that own/operates coal-fired power plants) 	Unchanged	
(b) Small Arms		<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> > 0% revenues from manufacturing and selling assault weapons to civilian customers > 0% revenues from manufacturing and selling small arms (non-assault weapons) to civilian customers > 0% revenues from manufacturing and selling key components of small arms > 5% revenues from retail and/or distribution of assault weapons > 5% revenues from retail and/or distribution of small arms (non-assault weapons) > 5% revenues from manufacturing and selling small arms to military / law enforcement customers 	<p>New criterion:</p> <p>Reduce exposure to companies involved in manufacturing and selling small arms, or key components of small arms, and distribution of small arms (both assault and non-assault weapons).</p>	

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(c) Military Contracting	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <p>>10% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons</p> <p>>10% revenues from tailor made products and/or services that support military weapons</p>	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <p>> 10% aggregated revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons and from tailor made products and/or services that support military weapons</p>	<p>Consolidate the military contracting screens</p>	
(d) Unconventional Oil & Gas		<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <p>> 5% revenues Oil & Gas exploration & extraction in Arctic regions</p> <p>> 5% revenues from extracting oil sands. This category evaluates oil sands' share of total oil and gas average production in barrels of oil equivalent per day</p> <p>> 5% revenues from shale energy exploration and/or production</p>	<p>New criterion:</p> <p>Expand the fossil fuel screen to exclude companies involved in unconventional oil & gas exploration and/or production</p>	<p>PAI 4 and 5 (partially aligned)</p>
(e) ESG Controversy		<p>STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe)</p>	<p>New criterion:</p> <p>Expand the existing screen to exclude companies involved in incidents that may negatively impact shareholders, environment or company operations beyond UN Global Compact</p>	

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(f) ESG Risk Ratings		STOXX will exclude companies that Sustainalytics identifies to have a "Severe" ESG Risk Rating.	The ESG Risk Rating evaluates the degree of a company's unmanaged material ESG risk by assessing a company's exposure to, and management of, the ESG issues that are considered most material for that company from a financial perspective. Sustainalytics assess and categorizes companies into five risk categories (Negligible, Low, Medium, High, Severe).	

Impacted Indices

EURO STOXX 50 ESG
 STOXX Japan 600 ESG Broad Market
 STOXX USA 500 ESG Broad Market
 STOXX USA 900 ESG Broad Market
 STOXX North America 600 ESG Broad Market
 STOXX Asia/Pacific 600 ESG Broad Market
 STOXX Global 1800 ESG Broad Market
 EURO STOXX ESG Broad Market
 STOXX Europe 600 ESG Broad Market
 STOXX Europe 600 ESG Broad Market Equal Weight

Questions

1. Do you agree that EURO STOXX 50 ESG and STOXX ESG Broad Market Indices should be enhanced to reflect the current developments in the sustainable finance space?
2. Do you agree that the proposed screens below would bring the EURO STOXX 50 ESG and STOXX ESG Broad Market Indices in closer alignment to relevant regulatory requirements?
3. Do you agree that the tobacco screen [see (a) Tobacco in the table] should be expanded to exclude companies that are involved in tobacco-related products and services or distribution of tobacco products?
4. Do you agree that there should be reduced exposure to companies involved in manufacturing and selling small arms, or key components of small arms, and distribution of small arms (both assault and non-assault weapons) [see (b) Small Arms in the table]?
5. Do you agree that the military contracting screens should be consolidated [see (c) Military Contracting in the table]?
6. Do you agree that there should be reduced exposure to companies involved in unconventional oil & gas exploration and/or production [see (d) Unconventional Oil & Gas in the table]?
7. Do you agree that ESG Controversy should be included as a screen [see (e) ESG Controversy in the table]?
8. Do you support a fast exit rule for severe ESG Controversies intra-quarter?
9. Do you agree that there should be a screen for ESG Risk Ratings [see (f) ESG Risk Ratings in the table]?
10. For EURO STOXX 50 ESG only, do you agree that spin-offs should only be added temporarily for one dissemination day and is then removed from the index?

If your answer to the any of the above questions is NO, please also kindly explain your reasons behind it.

11. For EURO STOXX 50 ESG only, what is your opinion regarding keeping companies without an ESG score in the EURO STOXX 50 index currently in this index?
12. Are there any other product involvement or climate emissions target settings (e.g. science-based targets) screens, or methodology enhancements that you think should be included in the methodologies?
13. The proposed screens have full or partial alignments to some of the PAIs. Are there additional PAIs that should be included in the methodologies for an SFDR Article 8 fund?