Market Consultation on proposed changes to the STOXX ESG Leaders family of indices

Dear Sir and Madam,

STOXX Ltd., the operator of Qontigo's index business and a global provider of innovative and tradable index concepts, decided to conduct a market consultation on proposed changes to the methodology of the STOXX ESG Leaders family of 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@qontigo.com.

The consultation is open to all market participants until July 26th, 2023.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by August 4th, 2023.

STOXX intends to implement the potential changes resulting from this consultation with the ordinary review in September 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 affected 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.

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

STOXX is looking to enhance the methodology of the STOXX ESG Leaders Indices with these additional screens.

<table>
<thead>
<tr>
<th></th>
<th>CURRENT SCREENS</th>
<th>PROPOSED SCREENS</th>
<th>REASONS</th>
<th>LINK WITH PAI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Standards Screen</strong></td>
<td>STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.</td>
<td>STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.</td>
<td>Unchanged</td>
<td>PAI 10 (fully aligned)</td>
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<td><strong>Controversial Weapons</strong></td>
<td>STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.</td>
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<td>Unchanged</td>
<td>PAI 14 (fully aligned)</td>
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<tr>
<td><strong>(a) Tobacco</strong></td>
<td></td>
<td>STOXX will exclude companies that Sustainalytics identifies to have:</td>
<td>New criterion: Reduce exposure to companies involved in tobacco-related products and services or distribution of tobacco products</td>
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<td></td>
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<td>&gt; 0% revenues from manufacturing tobacco products</td>
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<td>&gt; 5% revenues from supplying tobacco-related products/services</td>
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<td>&gt; 5% revenues from the distribution and/or retail sale of tobacco products</td>
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<td><strong>(b) Thermal Coal</strong></td>
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<td>STOXX will exclude companies that Sustainalytics identifies to have:</td>
<td>New criterion: Reduce exposure to companies involved in thermal coal extraction and power generation</td>
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<td>&gt; 5% revenues from thermal coal extraction (including thermal coal mining and exploration)</td>
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<td>&gt; 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)</td>
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<tr>
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</table>
| (c) Small Arms  | STOXX will exclude companies that Sustainalytics identifies to have:  
> 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 | New criterion:  
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). |  |
| (d) Military Contracting | STOXX will exclude companies that Sustainalytics identifies to have:  
> 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 | New criterion:  
Reduce exposure to companies involved in military contracting |  |
| (e) Unconventional Oil & Gas | STOXX will exclude companies that Sustainalytics identifies to have:  
> 5% revenues Oil & Gas exploration & extraction in Arctic regions  
> 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  
> 5% revenues from shale energy exploration and/or production | New criterion:  
Expand the fossil fuel screen to exclude companies involved in unconventional oil & gas exploration and/or production | PAI 4 and 5 (partially aligned) |
|---|---|---|---|
| (f) ESG Controversy | STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe) | New criterion:  
Expand the existing screen to exclude companies involved in incidents that may negatively impact shareholders, environment or company operations beyond UN Global Compact |  |
| (g) ESG Risk Rating | STOXX will exclude companies that Sustainalytics identifies to have a “Severe” ESG Risk Rating, sourced from the Sustainalytics ESG Risk Ratings dataset | 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

STOXX Global ESG Leaders
STOXX Global ESG Leaders Select 50 USD
STOXX Global ESG Leaders Select 50 Risk Control 10%
STOXX Global ESG Leaders Select 50 EUR
STOXX Global ESG Leaders Diversification Select 50 USD
STOXX Global ESG Leaders Diversification Select 50 EUR
STOXX Global ESG Social Leaders Select 30 EUR
STOXX Global ESG Social Leaders Diversification Select 30 EUR
STOXX Global ESG Social Leaders
STOXX Global ESG Governance Leaders Select 30 EUR
STOXX Global ESG Governance Leaders Diversification Select 30 EUR
STOXX Global ESG Governance Leaders
STOXX Global ESG Environmental Leaders Select 30 EUR
STOXX Global ESG Environmental Leaders Diversification Select 30 EUR
STOXX Global ESG Environmental Leaders
STOXX Europe ESG Leaders Select 30 EUR
STOXX Europe ESG Leaders Diversification Select 30 EUR
STOXX Europe ESG Social Leaders Select 30 EUR
STOXX Europe ESG Social Leaders Diversification Select 30 EUR
STOXX Europe ESG Governance Leaders Select 30 EUR
STOXX Europe ESG Governance Leaders Diversification Select 30 EUR
STOXX Europe ESG Environmental Leaders Select 30 EUR
STOXX Europe ESG Environmental Leaders Diversification Select 30 EUR
STOXX Europe ESG Environmental Leaders
STOXX Europe ESG Leaders 50
EURO STOXX ESG Leaders 50
STOXX North America ESG Leaders 50
STOXX Asia/Pacific ESG Leaders 50
iSTOXX North America ESG Select 30
iSTOXX Nordic ESG DW Decrement 4.5%
iSTOXX Nordic ESG DW
iSTOXX Global ESG Select 50
iSTOXX Global ESG Select 100
iSTOXX Europe ESG Select 30
iSTOXX Europe ESG Leaders Additional Exclusions Select 30
EURO iSTOXX ESG Leaders 50 NR Decrement 5%
EURO iSTOXX ESG Leaders 50 GR Decrement 5%

Questions

1. Do you agree that STOXX ESG Leaders index series 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 STOXX ESG Leaders index series in closer alignment to relevant regulatory requirements?
3. Do you agree that there should be reduced exposure to companies involved in in tobacco-related products and services or distribution of tobacco products [see (a) Tobacco in the table]?
4. Do you agree that there should be thresholds for companies involved in thermal coal extraction and power generation [see (b) Thermal Coal in the table]?

5. 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 (c) Small Arms in the table]?

6. Do you agree that there should be reduced exposure to companies involved in military contracting [see (d) Military Contracting in the table]?

7. Do you agree that there should be reduced exposure to companies involved in unconventional oil & gas exploration and/or production [see (e) Unconventional Oil & Gas in the table]?

8. Do you agree that ESG Controversy should be included as a screen [see (f) ESG Controversy in the table]?

9. Do you support a fast exit rule for severe ESG Controversies intra-quarter?

10. Do you agree that there should be an ESG Risk Ratings screen for the Global ESG Leaders indices [see (g) ESG Risk Rating Screen in the table]?

11. Are you in favour of changing the review frequency of the below listed indices to quarterly?
   - STOXX Global ESG Leaders
   - STOXX Global ESG Social Leaders
   - STOXX Global ESG Governance Leaders
   - STOXX Global ESG Environmental Leaders
   - STOXX Europe ESG Leaders 50
   - STOXX Asia/Pacific ESG Leaders 50
   - STOXX North America ESG Leaders 50
   - EURO STOXX ESG Leaders 50

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

12. Are there any other product involvement screens that you think should be included in the methodology?