

Zug, July 12th, 2023

Market Consultation on the addition of screening criteria to DAX 50 ESG

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 the addition of screening criteria to DAX 50 ESG.

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.

Depending on the received feedback STOXX may implement proposed changes with effect at September review 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 DAX 50 ESG index.

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.

Proposed Treatments/Amendments

STOXX is looking to enhance the methodology of DAX 50 ESG with these additional screens.

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
Global Standards Screening	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)

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

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

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
Controversial Weapons	STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.	STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.	Unchanged	PAI 14 (fully aligned)
Thermal Coal	STOXX will exclude companies that Sustainalytics identifies to have: >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).	STOXX will exclude companies that Sustainalytics identifies to have: >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	PAI 4 and 5 (partially aligned)
Military Contracting	STOXX will exclude companies that Sustainalytics identifies to have: >5% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons >5% revenues from tailor made products and/or services that support military weapons	STOXX will exclude companies that Sustainalytics identifies to have: >5% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons >5% revenues from tailor made products and/or services that support military weapons	Unchanged	

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
Nuclear Power	<p>STOXX will exclude companies that Sustainalytics identifies as having:</p> <ul style="list-style-type: none"> >5% revenues from nuclear power production >5% revenues from nuclear power supporting products / services >5% revenues from nuclear power distribution 	<p>STOXX will exclude companies that Sustainalytics identifies as having:</p> <ul style="list-style-type: none"> >5% revenues from nuclear power production >5% revenues from nuclear power supporting products / services >5% revenues from nuclear power distribution 	Unchanged	
(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 	<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 	Expand 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
(b) Small Arms	N/A	<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>	
(c) Unconventional Oil & Gas	N/A	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> >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 	<p>New criterion:</p> <p>Expand the existing screens to exclude companies involved in unconventional oil & gas exploration and/or production</p>	PAI 4 and 5 (partially aligned)

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(d) ESG Controversy	N/A	STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe)	New criterion: Expand the existing screens to exclude companies involved in incidents that may negatively impact shareholders, environment or company operations beyond UN Global Compact	
(e) ESG Risk Rating	N/A	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).	

Affected Indices

DAX 50 ESG

Questions

1. Do you agree that DAX 50 ESG should be enhanced to reflect the current developments in the sustainable finance space?
2. Do you agree that the proposed screens below would bring DAX 50 ESG 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 there should be reduced exposure to companies involved in unconventional oil & gas exploration and/or production [see (c) Unconventional Oil & Gas in the table]?
6. Do you agree that ESG Controversy should be included as a screen [see (d) ESG Controversy in the table]?
7. Do you support a fast exit rule for severe ESG Controversies intra-quarter?

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8. Do you agree that there should be an ESG Risk Ratings screen for the DAX 50 ESG [see (e) ESG Risk Rating Screen in the table]?

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

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