

Zug, March 22nd, 2023

Market Consultation on proposed changes to the STOXX SRI 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 STOXX SRI 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 April 14th, 2023.

STOXX intends to announce the results of the market consultation, as well as an announcement about potential changes to the index methodology, by April 28th, 2023.

STOXX intends to implement the proposed changes in the course of 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

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 **STOXX SRI Indices** with these additional screens.

	CURRENT SCREENS	PROPOSED SCREENS	REASONS	LINK WITH PAI
(a) ESG Controversy		STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe)	<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>	
(b) ESG Risk Ratings		STOXX will exclude companies that Sustainalytics identifies to have a "Severe" ESG Risk Rating.	<p>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).</p>	

The following screens in STOXX SRI Indices remain unchanged:

	CURRENT SCREENS	LINK WITH MANDATORY PAI
Emission Intensity	Companies are screened for their Scope 1 and Scope 2 emission intensities based on the ISS ESG emissions data. The companies are then ranked in descending order of their emission intensities, and companies that fall within the highest 10% emitters are not eligible for selection.	PAI 3
Global Standards Screen	STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.	PAI 10
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 	PAI 14
Adult Entertainment	<p>STOXX will exclude the companies that Sustainalytics identifies to be involved with Adult Entertainment.</p> <ul style="list-style-type: none"> » >0% revenues from the production of adult entertainment and/or owns/operates adult entertainment establishments » >5% revenues from the distribution 	
Alcohol	<p>STOXX will exclude the companies that Sustainalytics identifies to be involved with Alcohol:</p> <ul style="list-style-type: none"> » >5% revenues from manufacturing alcoholic beverages » >5% revenues from supplying alcohol-related products/services to alcoholic beverage manufacturers » >5% revenues from the distribution and/or retail of alcoholic beverages 	
Gambling	<p>STOXX will exclude the companies that Sustainalytics identifies to be involved with gambling:</p> <ul style="list-style-type: none"> » >5% revenues from owning and/or operating a gambling establishment » >5% revenues from manufacturing specialized equipment used exclusively for gambling » >5% revenues from providing supporting products/services to gambling operations 	
Tobacco	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >0% revenues from manufacturing tobacco products » >0% revenues from supplying tobacco-related products/services » >0% revenues from the distribution and/or retail sale of tobacco products 	

	CURRENT SCREENS	LINK WITH PAI
Thermal Coal	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » > 0% revenues from thermal coal extraction (including thermal coal mining and exploration) » > 0% power generation capacity: coal-fired electricity, heat or steam generation capacity / thermal coal electricity production (including utilities that own/operates coal-fired power plants). 	PAI 4 and 5 (partially aligned)
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 	
Military Contracting	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >0% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons » >0% revenues from tailor made products and/or services that support military weapons » >5% revenues from non-weapons related tailor-made products and/or services to the military or defence industry 	
Unconventional Oil & Gas	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >0% revenues Oil & Gas exploration & extraction in Arctic regions » >0% 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 » >0% revenues from shale energy exploration and/or production 	PAI 4 and 5 (partially aligned)
Conventional Oil & Gas:	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >0% revenues from oil and gas exploration, production, refining, transportation and/or storage » >25% revenues from providing tailor-made products and services that support oil and gas exploration, production, refining, transportation and storage » >25% revenues from generating electricity from oil and/or gas 	PAI 4 and 5 (partially aligned)
Nuclear Power	<p>STOXX will exclude companies that Sustainalytics identifies to have:</p> <ul style="list-style-type: none"> » >25% revenues from nuclear power production » >25% revenues from nuclear power supporting products / services, » >25% revenues from nuclear power distribution 	

Affected Indices

EURO STOXX SRI

STOXX Asia/Pacific 600 SRI

STOXX Europe 600 SRI

STOXX Global 1800 SRI

STOXX Japan 600 SRI

STOXX North America 600 SRI

STOXX USA 500 SRI

Questions

1. Do you agree that the aforementioned 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 aforementioned indices in closer alignment to relevant regulatory requirements?
3. Do you agree that ESG Controversy should be included as a screen [see (a) ESG Controversy in the table]?
4. Do you agree that there should be a screen for ESG Risk Ratings for the STOXX SRI Indices [see (b) ESG Risk Ratings in the table]?
5. Do you support a fast exit rule for severe ESG Controversies intra-quarter?

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

6. What are your views on the current, unchanged screens?
7. 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?
8. 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?