Zug, February 17th, 2021

Market Consultation on proposed changes to the EURO STOXX 50 ESG methodology

Dear Sir and Madam,

STOXX Limited, a leading provider of innovative, tradable and global index concepts, has decided to conduct a market consultation on proposed changes of the methodology of EURO STOXX 50 ESG index. The market consultation may or may not lead to changes in the index methodology.

Process and Timeline

STOXX invites all stakeholders and interested third parties to submit responses to consultation@stoxx.com. STOXX intends to publish the results of the market consultation, as well as an announcement about potential changes to the index methodology, before March 22nd, 2021. The consultation is open to all market participants until March 10th, 2021. STOXX intends to implement the proposed changes no later than with the ordinary review on June 18th, 2021.

Motivation for the Market Consultation

As sustainable investing continues to evolve, STOXX would like to seek market opinion regarding the current sustainability screens and replacement rules for the EURO STOXX 50 ESG index.

The changes follow new guidelines issued by local regulators.

Proposed Methodology Changes

Adding of additional screens and change of selection rule for EURO STOXX 50 ESG index

Currently, as the first step of creating the selection list of the EURO STOXX 50 ESG index, the 10% of constituents of the EURO STOXX 50 (based on number of holdings, i.e. 5) with the lowest ESG Scores are excluded. At a second step, companies that are failing a set of sustainability screens are also excluded.

The excluded companies are then replaced with companies with high ESG Scores.

The **proposed methodology change** will ensure that **at least 20%** of the companies (i.e. 10) are replaced due to a combination of the two steps (ESG Score laggards and sustainability screen violators). To that end, the order of the steps is reversed, meaning that the sustainability screens are applied ahead of the ESG Score laggard removals.

Moreover, the addition of the exclusions due to **military contracting** involvement are also proposed to be added in the list of sustainability screens of this index.

With regards to the **replacements** of the companies excluded, the proposed methodology will be selecting the company with the highest free-float market capitalization adjusted by ESG score (as compared to the company with the highest free-float market capitalization from the current methodology) from the same ICB Supersector. This adjustment is introduced **to increase the overall ESG score** of the final index composition.

Finally, if the resulting portfolio's weighted (by free-float market capitalization) average ESG score does not exceed the corresponding score of a hypothetical EURO STOXX 50 index that excludes its 20% (i.e. 10) ESG score laggards, cap factors are applied to all components that have a lower ESG score than the target (EURO STOXX 50 ex 20% laggards), such that the resulting score of the EURO STOXX 50 ESG Index will exceed the target.

Old methodology	New methodology
Selection list: **Step 1:** From the EURO STOXX 50 index, exclude 10% of constituents (based on number of holdings) with the lowest ESG Scores. Constituents that are in the index, but do not have an ESG score, remain in the selection and are not considered for the 10% exclusion screen. In the event that companies that qualify for exclusion have the same ESG score, the company / companies with the smallest free float market capitalization(s), is / are excluded. **Step 2:** Apply a set of exclusion criteria to the universe (EURO STOXX, which includes the EURO STOXX 50), which follow the Global Standards Screening assessment, a set of definitions for Controversial Weapons, Tobacco Producers and Thermal Coal. **Global Standards Screening:** STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment. Global Standards Screening identifies companies that violate or are at risk of violating commonly accepted international norms and standards, enshrined in the United Nations Global Compact (UNGC) Principles, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs), and their underlying conventions. **Controversial Weapons:** STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons.	**Selection list:** **Step 1:** Apply a set of exclusion criteria to the EURO STOXX 50 Index, which follow the Global Standards Screening assessment, a set of definitions for Controversial Weapons, Military Contracting, Tobacco Producers and Thermal Coal. If more than 20% of the EURO STOXX 50 components have been excluded by this screening, Step 2 below is omitted. **Step 2:** From the remaining companies of the EURO STOXX 50 index, exclude a number of companies with the lowest ESG scores, that in combination with the exclusions from step 1, it will result in the exclusion of a total of 20% of constituents (based on number of holdings). Constituents that are in the index, but do not have an ESG score, remain in the selection and are not considered for this exclusion screen. In the event that companies that qualify for exclusion have the same ESG score, the company (companies) with the smallest free float market capitalization(s), is (are) excluded. **Global Standards Screening:** (…) **Controversial Weapons:** (…)

The following weapons are considered controversial: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons. The criteria for involvement are: » 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	
Tobacco Producers: STOXX will exclude companies that Sustainalytics identifies to be tobacco producers (0% revenue threshold).	**Tobacco Producers:** (…)
Thermal Coal: STOXX will exclude companies that Sustainalytics identifies to have: »>25% revenues from thermal coal extraction (including thermal coal mining and exploration) »>25% power generation capacity: coal-fired electricity, heat or steam generation capacity / thermal coal electricity production (including utilities that own/operates coal-fired power plants).	**Thermal Coal:** (…)
	Military Contracting: STOXX will exclude companies that Sustainalytics identifies to have: »>10% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons »>10% revenues from tailor made products and/or services that support military weapons
Step 3: The replacement of excluded companies from Step 1 and Step 2, will be achieved in the following manner: » Compile the list of companies that are excluded from Step 1 and Step 2; the possibility exists that companies excluded from Step 1 may also feature in the exclusions of Step 2, and will therefore be considered as part of the Step 1 exclusion. » The exclusion list will contain both the ICB Supersector and ESG score of each company. » The remaining companies of the screened universe (as per Step 2), are ranked per ICB Supersector in terms of free float market capitalization, from high to low, with each constituent displaying its corresponding ESG score. » Each excluded company from the exclusion list is replaced by a company from the universe within the same ICB Supersector, where the replacement company has a higher ESG score than the excluded company. In the case where the eligible company / companies have the same ESG score, the company / companies with the highest free float market capitalization, is / are selected.	**Step 3:** The replacement of the excluded EURO STOXX 50 companies from Step 1 and Step 2, will be achieved in the following manner: » Compile the list of companies that are excluded from the EURO STOXX 50 in Steps 1 and 2 (the 20% components of the EURO STOXX 50 Index that need to be replaced) » The exclusion list will contain the ICB Supersector, ESG score and free-float market capitalization of each company. » The remaining companies of the screened EURO STOXX universe (as per Step 1), are ranked per ICB Supersector in terms of free float market capitalization adjusted by ESG score ($ffmcap * ESG$), from high to low, with each constituent displaying its corresponding ESG score and free-float market capitalization. » Each excluded company from the exclusion list is replaced by the highest-ranking company from the universe within the same ICB Supersector, where the

» In the event where a company with a high ESG score is excluded (mostly applicable to Step 2), and no component is available from the universe pertaining to the corresponding ICB Supersector that has a higher ESG score, the component with the same ESG score, or as close an ESG score to the excluded company as possible, with the highest free float market capitalization, will be selected. » Each replacement constituent must have an ESG score > 50.	replacement company has a higher ESG score than the excluded company. » In the event where a company with a high ESG score is excluded (mostly applicable to Step 1), and no component is available from the universe pertaining to the corresponding ICB Supersector that has a higher ESG score, the component with the same ESG score, or as close an ESG score to the excluded company as possible, with the highest free float market capitalization, will be selected. » Each replacement constituent must have an ESG score > 50.
Weighting cap factors: Components are capped at a maximum weight of 10%.	**Weighting cap factors:** The index is weighted by free-float market capitalization, with cap factors that aim to impose to the EURO STOXX 50 ESG Index to have a weighted average ESG score, that exceeds the corresponding score of the EURO STOXX 50 Index, excluding its worst 20% components in terms of ESG scores. This is applied as follows: A) The free-float market capitalization weighted average ESG score the EURO STOXX 50 Index, excluding its 10 worst components in terms of ESG score, is calculated, and rounded up to 2 decimals ($\mathrm{ESG}_{\mathrm{target}}$). B) Weights based on their free-float market capitalization are assigned to the components of the EURO STOXX 50 ESG Index (composition list). Correspondingly, the weighted average ESG score of the EURO STOXX 50 ESG uncapped index, is calculated $\left(\frac{\sum_{z=1}^{50} FFMCAP_z * \mathrm{ESG}_z}{\sum_{z=1}^{50} FFMCAP_z}\right)$. If that score exceeds or is equal to the $\mathrm{ESG}_{\mathrm{target}}$ score (i.e. $\frac{\sum_{z=1}^{50} FFMCAP_z * \mathrm{ESG}_z}{\sum_{z=1}^{50} FFMCAP_z} \geq \mathrm{ESG}_{\mathrm{target}}$), then the following cap factor calculation steps are omitted (no capping needed). The above condition can be reformulated as: $$\sum_{i=1}^{x}(ESG_i - ESG_{target}) * FFMCAP_i \geq -\sum_{j=1}^{y}(ESG_j - ESG_{target}) * FFMCAP_j$$ Where: x components in the composition list with ESG score exceeding ESG_{target} y components in the composition list with ESG score equal to or less than ESG_{target} If the condition does not hold (right leg exceeds the left), cap factors are imposed on the securities in the composition list that have an ESG score below the $\mathrm{ESG}_{\mathrm{target}}$, such that:

	$\sum_{i=1}^{x}(ESG_i - ESG_{target}) * FFMCAP_i \geq -\sum_{j=1}^{y}(ESG_j - ESG_{target}) * FFMCAP_j * CapFactor$ The final cap factors are therefore calculated as: $CapFactor = \frac{\sum_{i=1}^{x}(ESG_i - ESG_{target}) * FFMCAP_i}{-\sum_{j=1}^{y}(ESG_j - ESG_{target}) * FFMCAP_j}$

Question

Are you in favor of the proposal?   YES / NO

If your answer to the above question is NO please explain the reasons why.