



Sustainable ESG Index Methodology

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Introduction

A Systematic Approach to Sustainable ESG Screening

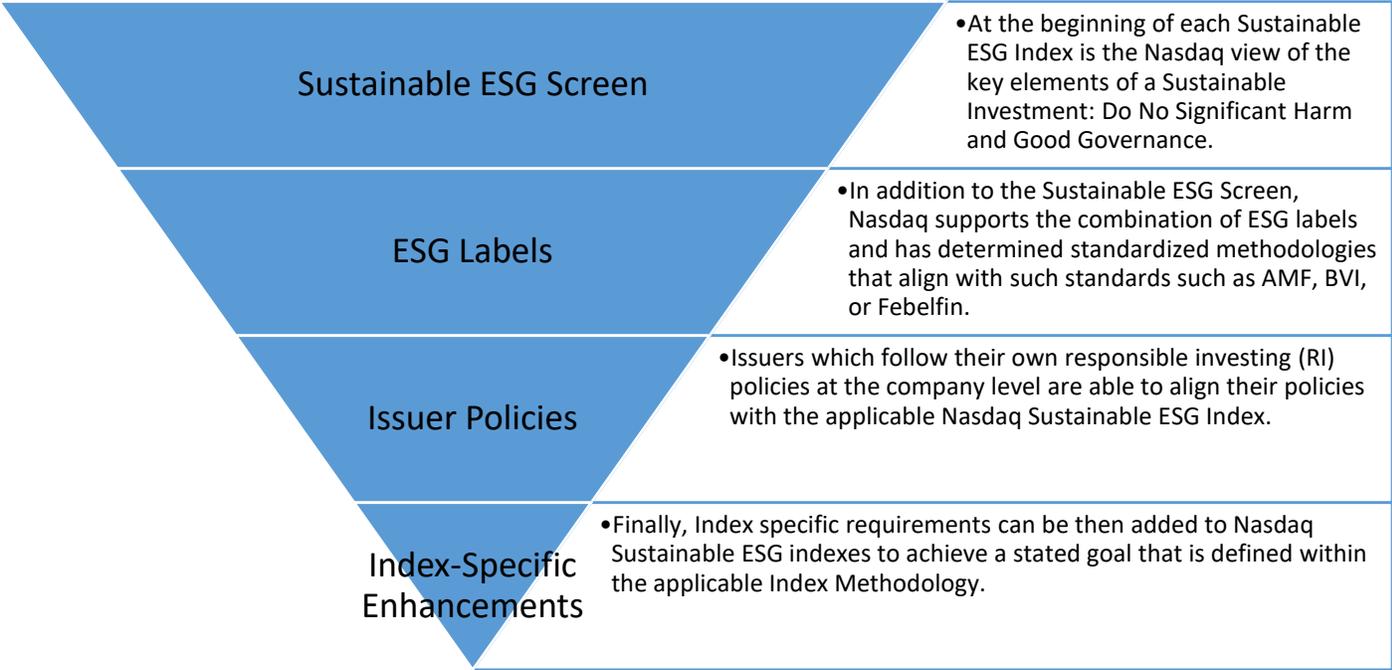
Nasdaq's Sustainable ESG Indexes are built around three systematically designed screening approaches¹:

1. Risk-based exclusions: filtering the initial universe of companies to a sub-set of holdings screened for controversies, negative business involvements, high carbon exposure, as well as poor overall ESG performance, among other factors.
2. Positive alignment: applying a thematic lens for positive alignment, refining the eligible companies to be comprised of companies that are best-in-class in terms of overall ESG performance, are involved in green business activities/carbon transition activities, and/or have identified sustainable development goals/impact-related involvements.
3. Normative alignment: ensure that the selected companies meet fundamental normative standards and good governance practices, which is a core pillar of Sustainable Finance Disclosure Regulation (**SFDR**) and EU Taxonomy aligned products. This includes screening for corporate governance performance, compliance with international human rights and labour rights norms, anti-corruption, and sound tax practices, as well as ESG due diligence practices.

¹ Individual Sustainable ESG Index screening will vary

Process Overview

Building a Sustainable ESG Index



Applying the Process

Individual Index Methodologies

- Every Nasdaq Sustainable ESG Index is governed by its applicable Index Methodology, which may include all or part of this Sustainable ESG Methodology by reference.
- If a Nasdaq Sustainable ESG Index's initial universe is based on an existing Nasdaq Index (a "**Parent Index**"), references to the Parent Index Methodology may be made to align common elements.

Sustainable ESG Screen

The Sustainable ESG Screen is applied to all Nasdaq Sustainable ESG indexes, reducing the initial universe to companies that pass the minimum thresholds for inclusion. Additional screens and criteria aligned with other ESG Labels are further applied based on the specific ESG Label for the index.

Nasdaq's Sustainable ESG Indexes are designed to systematically measure a subset of companies that have characteristics consistent with principles of a "Sustainable Investment". A "Sustainable Investment" under SFDR is an investment in a company or companies that: (a) contributes to an environmental and/or social objective; (b) does not harm any of those objectives; and (c) adheres to the "good governance" concept.

General requirements for financial products include:

- The concept of "Do No Significant Harm" states that companies should not undermine ("significantly harm") any of the environmental or social objectives of a Sustainable Investment;
- The concept of "Good Governance" is not clearly defined under SFDR, however the regulation states that it includes "sound management structures, employee relations, remuneration of staff and tax compliance."

Do No Significant Harm Screen

Nasdaq follows a risk-based approach to exclude companies from the initial universe that have product involvement in specific areas or have measurable corporate controversies. The following product involvement areas are screened for exclusion based on the percent of company revenue attributed to the product:

Environmental

- Limit exposure to oil, gas, and thermal coal energy;
- Limit exposure to pesticide manufacturers;
- Screen for violations of the UN Global Compact;
- Screen for violations of the OECD Guidelines for Multinational Enterprises; and

- Screen for severe controversies.

Social

- Eliminate exposure to controversial weapons;
- Screen for violations of the UN Global Compact;
- Screen for violations of the OECD Guidelines for Multinational Enterprises;
- Screen for violations of the UN Guiding Principles on Business and Human Rights; and
- Screen for severe controversies.

See Appendix 1 for a description of data provider methodologies used to identify product involvement and/or controversy.

See Appendix 2 for a detailed description of the revenue percentages and scores applied to each screened product involvement and/or controversy.

Removing companies that do not align with “Good Governance” principles

As a final screen, Nasdaq removes companies that have relatively low scores across corporate governance (including scores for sound management structures, employee relations, remuneration of staff and tax compliance), as well as non-compliance with UN Global Compact (**UNGC**) and other regulatory frameworks:

- Screen for violations of the UNGC;
- Screen for violations of the OECD Guidelines for Multinational Enterprises;
- Screen for violations of the UN Guiding Principles on Business and Human Rights; and
- Screen for severe controversies.

See Appendix 1 for a description of data provider methodologies used to identify product involvement and/or controversy.

See Appendix 2 for a detailed description of the scores and value ranges applied to each measurement category.

Issuer Policies and Index-specific Enhancements

Nasdaq may apply additional screens and selection criteria as well as other enhancements (such as an index-specific weighting algorithm) to align with specific issuer needs. Each additional screen or enhancement will be described in the applicable Index Methodology.

Ongoing Review and Maintenance

Missing Data

- Companies not covered by the ESG data provider detailed in Appendix 1 at the time of eligibility determination are excluded from the Nasdaq Sustainable ESG Index
- In case of partial data availability, missing values are assigned the lowest possible value within the data provider's methodology in order to determine eligibility unless otherwise specified in the applicable Index Methodology

UN Global Compact Compliance

- On a continuous basis, companies in the Sustainable ESG Indexes are reviewed for compliance with UNGC.
- Following identification and confirmation of a company's non-compliance status, a non-compliant company is removed from the Nasdaq Sustainable ESG Indexes as soon after as is practical

Methodology Review

The Nasdaq Sustainable ESG Methodology is reviewed at least annually to ensure that it closely follows the dynamic nature of regulatory change and recent legislative developments.

Appendix 1 – Data Provider Methodologies

Nasdaq uses ESG data from a variety of data providers in the construction of its Sustainable ESG Indexes. Each of the following sections describes the methodology of those providers. An individual index may use one or more of the data providers' inputs in its construction.

Morningstar Sustainalytics

Morningstar Sustainalytics' products and services are designed to provide investors with a coherent and consistent approach to identify, understand, and manage ESG risks, impact, and regulatory requirements across the investment value chain.

1. Risk

ESG Risk Ratings

Identify and understand financially material ESG risks at the security and portfolio level and how they might affect the long-term performance of equity and fixed income investments

See [ESG Risk Ratings \(sustainalytics.com\)](https://sustainalytics.com/esg-risk-ratings) for more information.

Controversies Research

Identify companies involved in incidents that pose a business or reputational risk due to the impact on stakeholders, the environment, or the company's operations.

See [Controversies Research \(sustainalytics.com\)](https://sustainalytics.com/controversies-research) for more information.

2. Impact

Impact Metrics

Our Impact Metrics solution allows investors to analyze the impact of their investee companies' Operations and economic activities in line with Sustainalytics Impact Themes and the UN SDGs. The offering includes both revenue-based sustainable activities metrics, signalling positive Impact Theme and SDG contribution, and operational and governance metrics, used to analyze a company's impact performance based on how it operates and governs itself.

See [Corporate Governance Research & Ratings \(sustainalytics.com\)](https://sustainalytics.com/corporate-governance-research-ratings) for more information.

3. Compliance

Controversial Weapons Radar

Assess corporate involvement in controversial weapons (Anti-Personnel Mines, Biological and Chemical Weapons, Cluster Munitions, Depleted Uranium, Nuclear Weapons, White Phosphorus), including the development, production, sale and maintenance thereof.

Product Involvement

Track and measure the degree and nature of companies' involvement in 25+ product areas that may be considered controversial, such as tobacco, alcohol, weapons, and thermal coal.

See [Controversial Product Involvement \(sustainalytics.com\)](https://sustainalytics.com/controversial-product-involvement) for more information.

Global Standards Screening

Identify companies that violate, or are at risk of violating, any of the UN Global Compact Principles and other international standards such as the OECD Guidelines and UN Guiding Principles.

See [Global Standards Screening \(sustainalytics.com\)](https://sustainalytics.com) for more information.

4. Climate

Low Carbon Transition Ratings

Low Carbon Transition Ratings provide investors with a forward-looking assessment of a company's current alignment to a net-zero pathway. Leveraging these ratings, investors can respond to regulatory initiatives, fulfil client net-zero mandates, and integrate climate research into their investment decision making processes.

Physical Climate Risk Metrics

Physical Climate Risk Metrics offers investors a forward-looking scenario analysis on a company's exposure to direct and indirect physical climate risks. With these metrics, investors can better evaluate the risks that companies face due to the increasing severity and probability of physical hazards brought about by climate change.

Carbon Emissions Data

Carbon Emissions Data gives investors powerful insights to assess and analyze companies' scope 1, 2 and 3 GHG emissions and intensity. Our estimation models use a common framework across all environmental metrics and considers sub-industry, geographical location, and a company's size.

See [Climate Solutions by Sustainalytics](https://sustainalytics.com) for more information.

Appendix 2 – Sustainable ESG Selection Criteria

| <i>ESG Category</i> | <i>Involvements and Controversies</i> | <i>Screen</i> | <i>Measure (Allowed in the ESG Index)</i> |
|----------------------|--|---|--|
| <i>Environmental</i> | Fossil Fuels (Oil & Gas) | Oil & Gas Generation-Capacity Percentage | Less than 5% |
| | | Oil & Gas Production-Revenue Percentage | Less than 5% |
| | | Oil & Gas Generation-Revenue Percentage | Less than 5% |
| | | Oil & Gas Supporting Products/Services-Revenue Percentage | Less than 5% |
| | Fossil Fuels (Thermal Coal) | Thermal Coal Overall-Revenue Percentage | Less than 1% |
| | | Thermal Coal Extraction-Revenue Percentage | Less than 5% |
| | | Thermal Coal Power Generation-Revenue Percentage | Less than 5% |
| | | Thermal Coal Supporting Products/Services-Revenue Percentage | Less than 5% |
| | Pesticides | Thermal Coal Power Generation-Capacity Percentage | Less than 5% |
| | | Pesticides Production-Revenue Percentage | Less than 5% |
| | | Pesticides Retail-Revenue Percentage | Less than 15% |
| | | UN Global Compact Violations | P7 –Businesses should support a precautionary approach to environmental challenges |
| | P8 –Businesses should undertake initiatives to promote greater environmental responsibility | | Compliant or Watchlist |
| | P9 –Businesses should encourage the development and diffusion of environmentally friendly technologies | | Compliant or Watchlist |
| | OECD Guidelines for Multinational Enterprises | Chapter VI –Environment | Compliant or Watchlist |
| | | Chapter IX –Science and Technology | Compliant or Watchlist |
| | Controversies | Environmental Controversies | All but the highest controversy rating |
| <i>Social</i> | Controversial Weapons | Controversial Weapons Tailor made and essential-Direct Involvement | No involvement / 0% |
| | | Controversial Weapons Non-tailor made or non-essential-Direct Involvement | No involvement / 0% |
| | | Controversial Weapons Tailor made and essential-Percentage Ownership | No involvement / 0% |
| | | Controversial Weapons Non-tailor made or non-essential-Percentage Ownership | No involvement / 0% |
| | Tobacco | Tobacco Products Production-Revenue Percentage | No involvement / 0% |
| | UN Global Compact Violations | P1 –Businesses should support and respect the protection of internationally proclaimed human rights | Compliant or Watchlist |
| | | P2 –Businesses should make sure that they are not complicit in human rights abuses | Compliant or Watchlist |
| | | P3 –Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | Compliant or Watchlist |
| | | P4 –Businesses should uphold the elimination of all forms of forced and compulsory labor | Compliant or Watchlist |
| | | P5 –Businesses should uphold the effective abolition of child labor | Compliant or Watchlist |
| | | P6 –Businesses should uphold the elimination of discrimination in respect of employment and occupation | Compliant or Watchlist |
| | OECD Guidelines for Multinational Enterprises | P10 –Businesses should work against corruption in all its forms, including extortion and bribery | Compliant or Watchlist |
| | | Chapter IV –Human Rights | Compliant or Watchlist |
| | | Chapter VIII –Consumer Interests | Compliant or Watchlist |
| | UN Guiding Principles on Business and Human Rights | Chapter V –Employment and Industrial Relations | Compliant or Watchlist |
| | | 11 –Respect for Human Rights | Compliant or Watchlist |
| | | 12 –Respect internationally recognized Human Rights | Compliant or Watchlist |

| <i>ESG Category</i> | <i>Involvements and Controversies</i> | <i>Screen</i> | <i>Measure (Allowed in the ESG Index)</i> | |
|---------------------|---------------------------------------|---|---|--|
| <i>Governance</i> | | 13 –Avoid / Prevent Human Rights impacts | Compliant or Watchlist | |
| | | 14 –Enterprise context and structure adverse impacts | Compliant or Watchlist | |
| | | 15 –Policy Commitment | Compliant or Watchlist | |
| | | 16 –Policy Statement | Compliant or Watchlist | |
| | | 17 –Human Rights Due Diligence | Compliant or Watchlist | |
| | | 18 –Identify and assess actual / potential impacts | Compliant or Watchlist | |
| | | 19 –Integration and appropriate action | Compliant or Watchlist | |
| | | 20 –Verification of adverse impacts with stakeholders | Compliant or Watchlist | |
| | | 21 –Communicate on human rights impact | Compliant or Watchlist | |
| | | Controversies | Social Controversies | All but the highest controversy rating |
| | | UN Global Compact Violations | P1 –Businesses should support and respect the protection of internationally proclaimed human rights | Compliant or Watchlist |
| | | | P2 –Businesses should make sure that they are not complicit in human rights abuses | Compliant or Watchlist |
| | | | P3 –Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining | Compliant or Watchlist |
| | | | P4 –Businesses should uphold the elimination of all forms of forced and compulsory labor | Compliant or Watchlist |
| | | | P5 –Businesses should uphold the effective abolition of child labor | Compliant or Watchlist |
| | | | P6 –Businesses should uphold the elimination of discrimination in respect of employment and occupation | Compliant or Watchlist |
| | | | P10 –Businesses should work against corruption in all its forms, including extortion and bribery | Compliant or Watchlist |
| | | OECD Guidelines for Multinational Enterprises | Chapter IV –Human Rights | Compliant or Watchlist |
| | | | Chapter VIII –Consumer Interests | Compliant or Watchlist |
| | | | Chapter V –Employment and Industrial Relations | Compliant or Watchlist |
| | | | Chapter VII –Combating Bribery, Bribe Solicitation and Extortion | Compliant or Watchlist |
| | | | Chapter X –Competition | Compliant or Watchlist |
| | | | Chapter XI –Taxation | Compliant or Watchlist |
| | | UN Guiding Principles on Business and Human Rights | 11 –Respect for Human Rights | Compliant or Watchlist |
| | | | 12 –Respect internationally recognized Human Rights | Compliant or Watchlist |
| | | | 13 –Avoid / Prevent Human Rights impacts | Compliant or Watchlist |
| | | | 14 –Enterprise context and structure adverse impacts | Compliant or Watchlist |
| | | | 15 –Policy Commitment | Compliant or Watchlist |
| | | | 16 –Policy Statement | Compliant or Watchlist |
| | | | 17 –Human Rights Due Diligence | Compliant or Watchlist |
| | | | 18 –Identify and assess actual/potential impacts | Compliant or Watchlist |
| | | | 19 –Integration and appropriate action | Compliant or Watchlist |
| | | 20 –Verification of adverse impacts with stakeholders | Compliant or Watchlist | |
| | | 21 –Communicate on human rights impact | Compliant or Watchlist | |
| | | 22 –Provide remediation | Compliant or Watchlist | |
| | Controversies | Governance Controversies | All but the highest controversy rating | |

Appendix 3 – Methodology Change Log

| Effective Date | Methodology Section | Previous | Updated |
|----------------|---|----------|--|
| 09/25/2024 | Appendix 2 – Sustainable ESG Selection Criteria | -- | Addition of two new fields: <ul style="list-style-type: none"> • Thermal Coal Overall-Revenue Percentage (less than 1%) • Tobacco Products Production-Revenue Percentage (no involvement / 0%) |

Disclaimers

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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Nasdaq evaluates potential holdings using data from Sustainalytics, a Morningstar company and a globally recognized provider of ESG research, ratings and data. Nasdaq Sustainable ESG Indexes are created/ managed by Nasdaq in its full discretion and single responsibility for the assessment conclusions. The ESG-related information, methodologies, tool, ratings, data and opinions provided by Sustainalytics are not directed to, or intended for distribution to or use by India-based clients or users and their distribution to Indian resident individuals or entities is not permitted.