

Net Zero Solution

Description of the Methods and Assumptions Used

The methodology behind Net Zero Analysis is based on current reporting frameworks, such as the Net Zero Investment Framework, as well as consultations with leading investment institutions and other market participants. The analysis and data set utilizes close to 200 metrics to assess the Net Zero status of issuers and portfolios, with a focus on the quality of issuer target-setting.

The Net Zero Solution helps investors understand the level of disclosure and target setting they can expect from an issuer today, and how this translates into issuer- and portfolio-level Net Zero alignment.

The Net Zero Analysis includes Net Zero-specific metrics as well as metrics from other ISS STOXX data sets, including Energy and Extractives, EU Taxonomy Solutions and Governance Quality Score.

Research Process

The Net Zero data is collected annually from company publications. The update cycle is determined by the issuers' annual reporting.

The research process can be broken down as follows:

- **Data collection:** The Net Zero research focuses on a company's disclosure practices. Data is collected from company publications including public filings, annual reports, sustainability and CSR reports, integrated reports, publicly available company policies, and information on company websites. Both quantitative and qualitative data are collected. Assessments are predominantly based on qualitative data and disclosures.
- **Quality assurance:**
 - Experienced analysts review the accuracy of collected data.
 - Stratified sample reviews of data are performed on a monthly basis by net zero topic experts.
- **Final report:** The Net Zero datapoints are available at company and portfolio level on ISS customer platform, as part of the Climate Impact Report and as factors.

The solution also leverages climate-related data from various ISS STOXX datasets such as Energy and Extractives, EU Taxonomy Alignment Solution, or Governance QualityScore. Some of those research processes are detailed below.

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Methodology and Research Process

- Emission database: Company reported or estimated emissions, company-specific data is used from the ISS STOXX database covering approximately 30,500 primary issuers across scope 1, 2 and 3.

A summary of the research process is provided below:

- Self-reported emissions data is collected from all available sources on an annual basis.
 - Self-reported numbers are evaluated for trustworthiness and, where necessary, discarded.
 - All companies are classified according to their carbon-profile, allowing ISS STOXX to benchmark non-reporting companies against their reporting peers.
 - ISS STOXX applies its 800 sub-sector specific models to estimate the emissions of non-reporting companies according to sector-relevant financial or operations metrics.
 - Scope 3 emissions of each company are assessed based on the sector profile of the company.
 - Emissions of holdings are allocated to the portfolio according to an investor ownership logic. To ensure compatibility with other providers and TCFD recommendations or PCAF, multiple other metrics may also be applied.
 - Quality assurance: If ISS STOXX's analysts, after manually reviewing the data, do not find the self-reported numbers to be reliable, estimated emissions numbers will be used instead.
- EU Taxonomy Alignment Solution: Company EU reported taxonomy alignment data is collected by ISS STOXX on an annual basis for each company within the scope of data collection where data is available. The research process can be broken down as follows:
 - Data collection: Information is gathered from corporate disclosures such as sustainability reports and annual reports.
 - Quality assurance: Experienced analysts review the accuracy of collected data.

For companies that do not report their taxonomy alignment and/or are outside of ISS STOXX's data collection universe, ISS STOXX models issuers' taxonomy alignment leveraging several proprietary, as well as third party, data sets. These data sets include ISS STOXX's Energy & Extractives data, SDG Solutions Assessment as well as FactSet's Hierarchy with Revenue data, which are used to identify involvement in eligible activities and quantify respective revenues and capex. A variety of factors from ISS STOXX's Corporate Rating, Norm-Based Research, SDG Solutions Assessment and Climate Solutions are used to assess compliance with the EU Taxonomy's screening criteria for substantial contribution, DNSH requirements and minimum social safeguards. *For more details, please refer to the respective descriptions of those distinct ISS offerings.*

- Energy and Extractives Screening: Energy & Extractives assessments are updated annually as well as on an ad-hoc basis in case of relevant corporate actions (e.g., mergers, acquisitions). ISS STOXX's Energy & Extractives research process can be broken down as follows:
 - Risk assessment: Classification of industry by risk to fossil fuel extraction, power generation and related services, and the review of third-party data and reports.

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- Research: Review of corporate disclosure such as regulatory filings, sustainability reports, press releases, investor presentations, company websites, and other company disclosures. Third-party information such as government sources, industry databases, and reputable newspapers are cross-referenced as supplemental to company disclosures. All assessments are based on publicly available information, with corporate reporting being the primary source. The screens collect financial and non-financial metrics, which can be of quantitative as well as qualitative in nature, to provide clients with a full suite of data to inform their investing strategies.
- Quality assurance: All significant changes as well as new assessments are peer-reviewed, and company dialogues are initiated if key information is not disclosed.
- ISS STOXX's Governance QualityScore is a data-driven scoring and screening solution designed to enable quality reviews of corporate governance across four key areas: *Board Structure, Compensation, Shareholder Rights, and Audit & Risk Oversight*.
 - Data collection: draws from companies' proxies, annual reports, 10-Ks, circulars, meeting notices, and other publicly disclosed materials related to their annual general meeting. Both qualitative and quantitative information is considered in the assessment.
 - Generation of assessments leverage proprietary ISS analytics, analyses, interpretations, proxy voting policies, and resulting Benchmark Policy voting recommendations.
- Data verification: Companies can submit Data Verification requests at any point in the year except during the Annual Meeting Blackout Period and the Governance QualityScore Methodology Release Blackout Period.

Please refer to the respective methodology documents for further information.

Use of Estimated Data

- ISS STOXX's Net Zero Alignment is based on disclosed data.
- The solutions that the Net Zero solution leverages also rely to an extent on estimated data, such as modelled emissions as part of the emissions database, and the EU Taxonomy solution.
- Emissions database: For companies which do not disclose emissions, and those who report with a low trust metric (according to internal analysis conducted by ISS STOXX), emissions data is modelled. Due to limited disclosure from issuers, emissions are modelled.
- EU taxonomy Alignment Solution: While ISS STOXX prioritizes taxonomy alignment data reported by companies where available, the majority of outputs stem from ISS STOXX's model-based solution which leverages proprietary and third-party data to approximate the degree to which companies align with the EU Taxonomy. For transparency, the ISS STOXX EU Taxonomy Alignment Solution clearly differentiates which data is reported vs. modeled.
- Governance QualityScore methodology does not incorporate any estimated data.

Please refer to the respective methodology documents for further information.

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