Sustainability

Net Zero

Methodology & Research Process

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Version 3.0
PUBLIC DISCLOSURE ON THE METHODOLOGY, MODELS, AND KEY RATING ASSUMPTIONS USED IN ESG RATING ACTIVITIES

ISS STOXX

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Terms/Acronyms

TERMS/ACRONYMS	DEFINITION
NZ	Net Zero
NZE	Net Zero Emissions
NZIF	Net Zero Investment Framework
IEA	International Energy Agency

Regulation (EU) 2024/3005: Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities

This disclosure is published to meet the relevant requirements of the EU ESG Ratings Regulation (EU2024/3005) and related regulatory technical standards. The following index cross-references to the relevant information are made available within the Net Zero Methodology Document and on our website.

Within this disclosure, the Regulation (EU) 2024/3005 of the European Parliament and of the Council of 27 November 2024 on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities is referred to as “**Regulation (EU) 2024/3005**”.

Within this disclosure, the Commission Delegated Regulation (EU) of 21 04 2026 supplementing Regulation (EU) 2024/3005 of the European Parliament and of the Council with regard to regulatory technical standards specifying the elements of ESG rating products to be disclosed to the public and to users of ESG ratings, rated items and issuers of rated items is referred to as “**Delegated Regulation**”.

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
Rating Product Disclosures			
ANNEX III.1.f	Article 3(1)	ESG rating providers shall disclose information on the ESG rating's clearly defined objective and marking whether the rating is assessing risks, impacts, or both, according to the double materiality principle, or any other dimensions, and in the case of double materiality the proportion of the risk and impact materiality. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of the risks covered, where the ESG rating is assessing risks; b) a description of the impacts covered, where the ESG rating is assessing impacts; c) information on how the risk and impact materiality are taken into account according to the double materiality principle, where applicable; d) where the ESG rating is based on other materiality dimensions, a description of those dimensions.	Please refer to: • Introduction
ANNEX III.1.g	Article 3(2)	ESG rating providers shall disclose the ESG rating's scope, namely, whether it covers an individual E, S, or G factor or whether it is an aggregated rating aggregating E, S and G factors, or whether it covers specific issues such as transition risks. ESG rating providers shall disclose at the level of each ESG rating product: a) a description of what is covered under the E, S or G factors and which factors are aggregated, where applicable; b) a description of the specific issues that the ESG rating covers.	Please refer to: • Introduction • Additional Factors
ANNEX III.1.h	N/A	ESG rating providers shall disclose in the case of an aggregated ESG rating, the weighting of the three overarching E, S and G categories of factors (for example 33 % for the E factor, 33 % for the S factor, 33 % for the G factor), and the explanation of the weighting method, including weight per individual E, S and G category.	• This requirement is not applicable to the Net Zero solution as it is not an aggregated rating.

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
ANNEX III.1.i	N/A	ESG rating providers shall disclose within the E, S or G factors, specification of the topics covered by the ESG rating, and whether they correspond to the topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.	Please refer to: • Introduction
ANNEX III.1.j	N/A	ESG rating providers shall disclose information on whether the rating is expressed in absolute or relative value.	Please refer to: • Introduction
ANNEX III.1.o **ANNEX III.1.p**	Article 3(3) Article 3(4)	ESG rating providers shall disclose if an ESG rating of a rated item covers the E factor, information on whether that rating takes into account the targets and objectives of the Paris Agreement or any other relevant international agreements. ESG rating providers shall disclose if an ESG rating of a rated item covers the S and G factors, information on whether that rating takes into account any relevant international agreements. ESG rating providers shall at the level of each ESG rating product: a) include an indication of whether the ESG rating takes into account the targets and objectives of the Paris Agreement and which other international agreements are considered, with reference to basic identifying information on these agreements together with an explanation of their relevance to the ESG rating; b) specify whether the ESG rating is assessing alignment of commitments against the objectives of the agreements referred to in point (a).	Please refer to: • Underlying Concepts/Frameworks • Scientific Foundations of the Methodology

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
Basic Methodological Disclosures			
ANNEX III.1.a	Article 4(1)	ESG rating providers shall disclose an overview of the rating methodologies used and changes thereto, including whether analysis is backward-looking or forward-looking and the time horizon covered. ESG rating providers shall disclose: a) the title of the rating methodology used; b) a description of the types of rated items in relation to which the methodology referred to in point (a) applies; c) the time horizon over which the ESG rating is considered valid, where applicable d) a list and overview of the relevant supporting models and key rating assumptions, where applicable; information on measures and procedures to ensure the quality and reliability of data used; e) a description of the defined ranking system of rating categories used, with reference to: i. the meaning of each rating category for absolute and relative values and how the ranking system should be interpreted; ii. in the case of relative values, an explanation as to whether they are relative to a specific industry, geographical area, peer groups or other comparative references and their respective description. f) the dates of the most recent update of the methodology and a description of the changes introduced to the previous version.	Please refer to: Points a) and f) • Appendix D: Version Control Points b) to e) • b) Introduction • c) Update Cycle • d) Appendix C: Relevant Supporting Models and Key Rating Assumptions, Quality Assurance • e) Assessment Approach
ANNEX III.1.b	Article 4(2)	ESG rating providers shall disclose the industry classification used. ESG rating providers shall provide:	Please refer to:

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		a) the name of the issuing body of the industry classification used; b) the name and version of the industry classification used; c) any publicly available link to the official documentation of the industry classification system.	• Industry Classifications
ANNEX III.1.c	Article 4(3)	ESG rating providers shall disclose an overview of data sources, including whether data is sourced from sustainability statements required under Directive 2013/34/EU or from information disclosed under Regulation (EU) 2019/2088 and whether sources are public or non-public, and an overview of data processes, estimation of input data in case of unavailability and frequency of data updates. ESG rating providers shall include a description of the engagement process with rated items or issuers of rated items, including how the input from such engagement is taken into account.	Please refer to: • Data Sources: Sources/Inputs • Data Processes: Data Collection • Estimation of Input Data: Sources/Inputs, Projections • Frequency of Data Updates: Update Cycle • Engagement with rated items or issuers of rated items is not part of the Net Zero solution's process.
ANNEX III.1.e	Article 4(4)	ESG rating providers shall disclose information on whether and how the rating methodologies are based on scientific evidence. ESG rating providers shall where applicable, describe the process for identifying relevant scientific evidence.	Please refer to: • Scientific Foundations of the Methodology
ANNEX III.1.k	N/A	ESG rating providers shall disclose where applicable, reference to the use of artificial intelligence in the data collection or rating process including information about current limitations and risks of using artificial intelligence.	• This requirement is not applicable to the Net Zero solution.

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
Limitations in data sources, methodologies and information			
ANNEX III.1.m	Article 5	ESG rating providers shall disclose any limitation in data sources and methodologies used for the construction of ESG ratings.	Please refer to: • Limitations • Limitations to Methodologies & Data
ANNEX III.1.q	Article 5	ESG rating providers shall disclose any limitation on the information available to ESG rating providers. ESG rating providers shall explain any limitations in respect of the following: a) the availability or consistency of data used in the rating process; b) the completeness, timeliness and accuracy of information; c) the use of assumptions, proxy reference points and data estimation.	
Organisational Disclosures			
ANNEX III.1.d	Article 6(2)	ESG rating providers shall disclose the ownership structure of the ESG rating provider. ESG rating providers shall disclose: a) a chart illustrating their ownership links with any parent undertaking and subsidiaries. The chart shall indicate, where applicable, whether any of those entities perform any of the activities listed in Article 16 (1) or services referred to in Article 16(6) of Regulation (EU) 2024/3005.	Please refer to: • Ownership Structure
ANNEX III.1.l	Article 6(3)	ESG rating providers shall disclose general information on criteria used for establishing fees charged to clients, specifying the various elements taken into consideration, and general information on the business/payment model. ESG rating providers shall disclose the following:	Please refer to: • Pricing Policy

REGULATION (EU) 2024/3005	DELEGATED REGULATION	REQUIRED INFORMATION	ISS GERMANY AG DISCLOSURE
		a) how the criteria they apply for establishing fees ensure that fees are fair, reasonable, transparent and non-discriminatory in accordance with Article 27 of Regulation (EU) 2024/3005; b) whether the ESG rating provider operates a subscription-paid model, an issuer-paid model, a combination of those models, or another model; c) a description of the relevant business model, and the proportion of total annual revenue derived from each model; d) where applicable, the impact of fees charged for services other than ESG rating activities on the determination of fees for ESG ratings, together with a description of those other services.	
ANNEX III.1.n	Article 6(1)	ESG rating providers shall disclose the main risks of conflicts of interest and the steps take to mitigate them. ESG rating providers shall indicate the areas of the ESG rating provider's activities, services or organisational structure from which the main risks of conflicts of interest may arise.	Please refer to: • Conflict of Interest Policy

Introduction

The Task Force on Climate-Related Financial Disclosures (TCFD) identifies four key types of transition risks[1]: Policy and Legal Risks, Technology Risk, Market Risk and Reputation Risk. Net Zero is a forward-looking solution that represents a model-based analytical opinion derived from a quantitative assessment of company exposure to transition risks and investment opportunities. The solution also enables investors to understand the level of disclosure and target setting they can expect from corporate debt and listed equities issuing entities today, and how this translates into issuer- and portfolio-level Net Zero alignment. The Net Zero methodology applies a risk-lens approach.

The Net Zero Analysis is available within the existing Climate Impact Report (CIR), see Figure 1, and includes close to 200 metrics on Net Zero ambitions, quality of issuer target-setting and climate-related disclosure, decarbonization plans, climate governance, potential emissions trajectories, revenues and capital expenditures (CapEx) associated with fossil fuels and climate mitigating activities, and Net Zero alignment status.

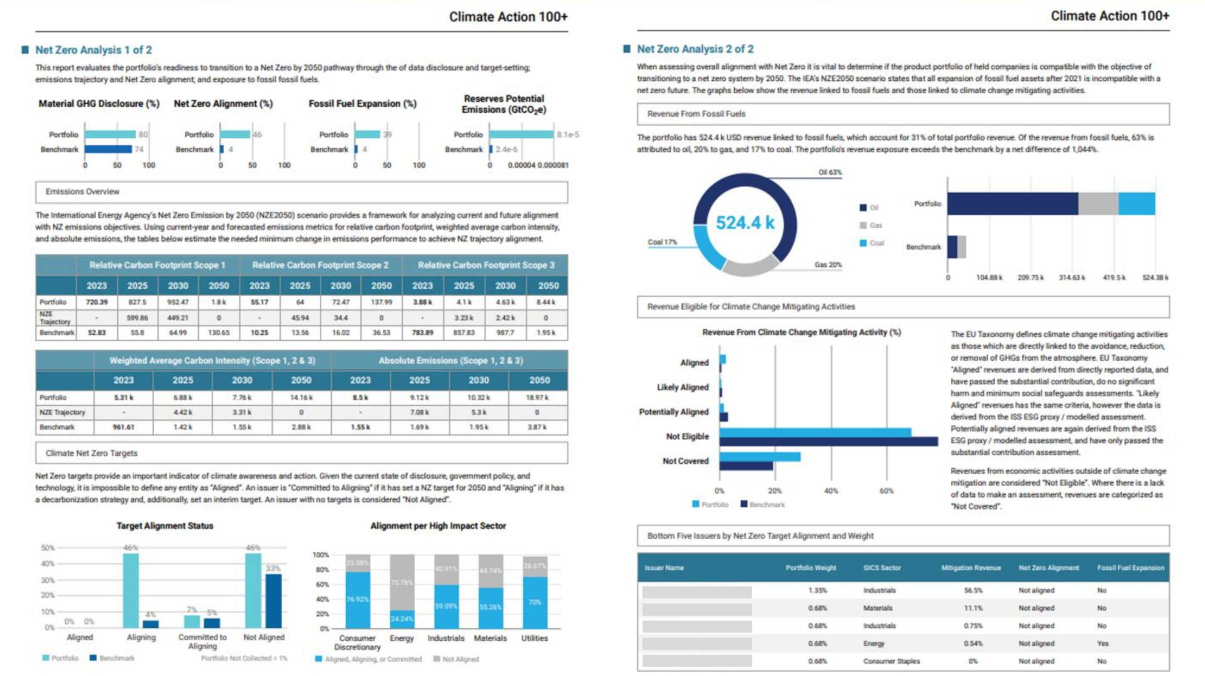
ISS STOXX has added new factors and increased the coverage which now allows clients to also form a view on the capital allocation alignment criteria for a Net Zero alignment assessment as well as on the four supplementary criteria underpinning the alignment assessment as defined by the Net Zero Investment Framework (NZIF) 2.0[2]. All Net Zero factors are expressed in absolute values. The scope of Net Zero solution covers the Environmental (E) factor with a specific focus on the following issues: disclosure of climate risks, Greenhouse gas emission reduction targets setting, and mitigation strategies.

Beyond providing quantitative and qualitative datapoints, this analysis can function as a foundation for engagement; particularly in relation to improved disclosure or more ambitious target setting.

The content of the topics within the Net Zero solution corresponds to the ESRS E1 (Climate Change) topic from the sustainability reporting standards developed pursuant to Article 29B of Directive 2012/34/EU.

[1] TCFD, p. 5 & 6
[2] NZIF 2.0. p. 23 & 24

Figure 1: Climate Impact Report - Net Zero Analysis Pages 1 & 2



**For illustrative purposes only*

Underlying Concepts / Frameworks

The methodology behind the Net Zero Analysis is based on current reporting frameworks, such as the Net Zero Investment Framework (NZIF), as well as consultations with leading investment institutions and other market participants.

NZIF, developed by the Institutional Investors Group on Climate Change (IIGCC), provides a common basis for investors to set out their net zero ambitions and strategies, measure alignment with precautionary pathways to achieve net zero by 2050 and transition their portfolios.

For listed equity & fixed income assets, NZIF provides 6 main criteria for assets alignment assessments[3]:

1. **Ambition**: A long-term goal consistent with the global goal of achieving net zero by 2050.
2. **Targets**: Short- and medium-term science-based targets to reduce GHG emissions.
3. **Emissions performance**: Current absolute or emissions intensity is at least equal to a relevant net zero pathway.
4. **Disclosure**: Disclosure of scope 1,2 and material scope 3 emissions.

[3] Net Zero Investment Framework 2.0, IIGCC

5. **Decarbonization strategy**: A quantified set of measures exists to achieve short- and medium-term science-based targets by reducing GHGs and increasing green revenues, when relevant.
6. **Capital allocation alignment**: A clear demonstration that capital expenditures are consistent with a relevant net zero pathway.

NZIF uses five categories of alignment, representing progressive steps towards alignment with a net zero pathway:

1. **Not aligning**: Refers to assets without a commitment to decarbonize in a manner consistent with achieving global net zero.
2. **Committed to aligning**: Refers to assets with a long term decarbonization goal consistent with achieving global net zero by 2050.
3. **Aligning to a net zero pathway**: Refers to assets with emissions performance not equal to a contextually relevant net zero pathway. However, importantly they have science-based targets and a decarbonization plan and are thus ready to transition.
4. **Aligned to a net zero pathway**: Refers to assets which have science-based targets, a decarbonization plan, and current absolute or emissions intensity at least equal to a relevant net zero pathway.
5. **Achieving net zero**: assets meet all relevant criteria and have an emissions performance at net zero which can be expected to continue.

Assessment Approach

Alignment Criteria

When determining alignment status, the criteria below are considered.

- **Material GHG Disclosure** – Is the company disclosing Material GHG emissions considering their sector?
- **NZ by 2050 Target** – Has the issuer declared a Net Zero target by 2050 or sooner and does the target include Scope 1, 2, and material Scope 3 emissions?
- **Interim Target** – Has the issuer declared an intermediate Net Zero target and does that target include Scope 1, 2, and material Scope 3 emissions?
- **Decarbonization Strategy** – Does the issuer have a decarbonization strategy in place, with a defined set of quantitative and qualitative actions to reach Net Zero Targets?

Table 1: ISS STOXX Net Zero Alignment

ALIGNMENT STATUS	MATERIAL GHG DISCLOSURE	NZ BY 2050 TARGET	INTERIM TARGET	DECARBONIZATION STRATEGY
Not Aligned	No	No	No	No
Committed to Aligning	Yes	Yes	No	No
Aligning	Yes	Yes	Yes	Yes
Aligned	Not Applicable	Not Applicable	Not Applicable	Not Applicable

When evaluating full Net Zero alignment, a conservative approach is taken by not considering any issuer to be Net Zero Aligned. The current state of corporate disclosure, government policy, and technological development makes it impossible to determine if an issuer fulfills all the criteria necessary to achieve Net Zero Alignment.

Thus, the highest alignment status available to issuers at this time is **Aligning**. This will change as the technological requirements to reach Net Zero become clearer and as issuers start to define clear roadmaps that include specific financial information about how a Net Zero target will be reached.

An issuer is considered aligning if it discloses material emissions, has set a Net Zero target for 2050 and an interim target, and has a credible decarbonization strategy. Targets are collected for the latest reporting year.

Material GHG emissions disclosure is the primary data point an issuer with any climate ambition can be expected to report. In order to set credible emissions reduction targets, material emissions need to be calculated and transparently reported. Effective targets cannot be set without thorough knowledge of emissions sources by scope as sector exposure to Scope 1, Scope 2, or Scope 3 emissions varies significantly. Consequently, the definition of material emissions differs between sectors. Issuers in some sectors are expected to report and set targets on Scope 1 and 2 emissions, while others are also expected to include Scope 3 emissions in reporting and target-setting.

Since emissions disclosure is vital for target setting, non-reporting companies are classified as Not Aligned. If a company has a track record of reporting but hasn’t reported yet this year, it is assumed to be a late reporter, hence the previous year’s information is used for this factor. This avoids unwarranted changes to non-aligned exclusively due to late reporting. If an issuer has data from disclosed emissions, but information on targets has not yet been collected, they are assigned the ‘Not Collected’ status.

Although for the alignment score it is required that an issuer has declared a Net Zero target by 2050 or sooner for all its relevant scopes, i.e. for Scope 1&2 and when relevant for Scope 3, the answer possibilities on factor level (*ClimateNZTarget2050Scope123*) incorporate whether an issuer has only declared Scope 1&2 targets, even though Scope 3 would be relevant, for more clarity.

For an understanding of the different types of Alignment Status see Appendix A: Example Alignment Status.

Additional Factors

In addition to the alignment assessment itself, several indicators from the Net Zero dataset can be combined to form a multi-dimensional view of the companies' performance. Combined, these factors allow a detailed view on two of the main criteria for the Net Zero alignment assessment (decarbonization plan & capital allocation alignment) as well as the four supplementary criteria (climate policy & engagement, climate governance, just transition, and climate risks & accounts) underpinning the alignment assessment according to NZIF 2.0, see Table 2. Additional factors such as green or brown revenue, fossil fuel reserves, etc. are also provided to allow for more insights. For a full list of factors please request the Net Zero Data Dictionary.

Table 2: Nr. of additional Net Zero factors per NZIF criteria

NZIF CRITERIA	NUMBER OF ADDITIONAL FACTORS FROM NET ZERO
Decarbonization strategy	10
Capital allocation alignment	37
Climate policy & engagement and climate governance	6
Just Transition	2
Climate risk and accounts	3

For a decarbonization strategy to be credible, details on how the targets will be reached are required (see criteria "decarbonization plan" from the NZIF Alignment criteria). This requirement is reflected in the alignment score. However, to provide more granularity on the disclosed decarbonization strategy of the issuer, the following seven decarbonization levers are provided:

- Industrial Energy Efficiency
- Transport
- Building Energy Efficiency
- Industrial Electrification
- Renewables
- Supply Chain
- Product Use Phase Efficiency

The factors indicate whether or not the issuer discloses a quantitative impact of a certain decarbonization lever to achieve its GHG emission reduction targets. If disclosed, they can be interpreted as a positive sign of the robustness of the issuer's decarbonization strategy.

Another important indication of the robustness of the issuer's transition plan is the amount of Capex that is consistent with a relevant net zero pathway (see criteria "capital allocation alignment" of the NZIF alignment criteria). Due to data scarcity on Capex in the past, this point is currently not reflected in the alignment assessment. However, data availability and quality have increased over the last few years, mostly thanks to the EU Taxonomy reporting requirements. Therefore, green Capex information is provided as additional data points that clients can use to expand their analysis. Please refer to the Net Zero Data Dictionary for the list of Capex data factors. Additional factors on green revenue and fossil fuel exposure extend the perspective.

In addition to the six main criteria that define the alignment assessment according to NZIF, as listed above, there are four supplementary criteria underpinning the assessment. Due to data availability and/or quality constraints they are not part of the alignment assessment according to NZIF, however, when available, add important context and credibility to an issuer's transition strategy. Those four supplementary criteria are:

- Climate policy & engagement
- Climate governance
- Just transition
- Climate risk and accounts

On the criteria of climate policies & engagement and climate governance, six factors are provided:

- **Board oversight of climate risks and opportunities**: Does the company disclose board oversight of climate-related risks and opportunities?
- **Compensation policy**: Does the company disclose that its compensation policy explicitly references science-based targets for reducing GHG emissions with a reference to the well below 2°C scenario?
- **Vote support for climate shareholder proposals**: What was the greatest percentage of vote support for climate-related shareholder proposals?
- **Incentive plans for climate performance disclosure**: What is the disclosure level of climate-related performance measures for the executive short-term or any long-term incentive plan?
- **Directors with climate skills**: How many directors have climate skills?
- **Climate committee independence**: What percentage of the committee responsible for climate is independent?

Additionally, two new factors on just transition have been added.

- **Commitment to a just transition**: Does the issuer have a public commitment to a just transition as delineated by established international bodies?
- **Acknowledgement of the importance of a just transition**: Does the issuer acknowledge the importance of a just transition?

On the topic of climate risks and accounts, the following three factors are provided:

- **Audit report includes climate**: Does the issuer's audit report mention any assessed material impacts of climate-related matters on the issuer's business or operations?
- **Financial report includes climate risks**: Does the issuer report climate change as a business risk in annual and financial reports?
- **TCFD report**: Does the issuer have a TCFD aligned disclosure in its annual reporting or publish a TCFD report?

For additional granularity and insights into the targets of an issuer, new factors on the use of carbon credits have been added. The factors allow the assessment of the percentage of total planned GHG emission reduction attributable to carbon credits as part of the issuer's effort to meet its GHG emission reduction target. Supplementarily, a new factor has been added on whether the issuer indicates the use of carbon removal for its GHG emission target management.

Sources/Inputs

The Net Zero product is based on collected data, primarily from the Environmental & Social Raw dataset. Sustainability data is collected from annual reports and sustainability reports, irrespective of whether the data is disclosed under a regulatory regime such as that required under Directive 2013/34/EU or Regulation (EU) 2019/2088 (SFDR).

In addition, the solution also includes complementary climate-related data from various ISS STOXX datasets such as Energy and Extractives Screening, EU Taxonomy Alignment Solution, and Governance QualityScore. Whereas the Net Zero Alignment status is based exclusively on publicly disclosed data, additional datapoints in the Net Zero dataset can be modeled, see Table 3.

Table 3: List of source datasets and additional datapoints used in the Net Zero Product.

NAME	USAGE	PURPOSE	SOURCE
Environment & Social Raw Data	E.g., Net Zero commitments, targets, just transition, etc.	Net Zero Alignment	Reported
Energy & Extractives Screening	Green/Brown expansion, potential emissions from reserves	Additional datapoints providing additional color	Reported / Estimated
EU Taxonomy Alignment Solution	Green Revenue, Green CAPEX	Additional datapoints providing additional color	Reported / Estimated
Governance QualityScore	Governance & policy factors, e.g., board oversight	Additional datapoints providing additional color	Reported

For further information on methodologies and research processes for these themes, as well as the overall Climate Impact Report (CIR), please see their respective methodology documents[4].

Scientific Foundations of the Methodology

The Net Zero methodology is informed by established scientific evidence and internationally recognized Climate frameworks that underpin pathways to achieve net zero greenhouse gas emissions by 2050. The methodology reflects the objectives of the Paris Agreement which aims to limit the increase in global average temperature to well below 2^{0}C above pre-industrial levels and to pursue efforts to limit warming to 1.5^{0}C (article 2.1.a). Net Zero targets must include near-term and long-term targets by 2050, reflecting the Paris' agreement emphasis on increasing ambition (where targets are reviewed every five years). Accordingly, the Net Zero solution assesses alignment of issuer commitments against the objectives of the Paris Agreement.

In addition, emissions trajectories and forward-looking benchmarks used in the analysis are informed by the Net Zero Emissions (NZE) scenario and the International Energy Agency (IEA), which defines the rate and scale of emissions reductions required to reach net zero by 2050.

Relevant frameworks based on scientific evidence are regularly reviewed for potential incorporation into the methodology.

Relevant scientific evidence is identified through ongoing assessment of developments publicly available frameworks (ex. NZIF), review of publicly available net zero climate scenario (ex. IEA), and methodological best practice as part of the annual methodology review and update process.

Industry Classifications

The Net Zero solution applies the Global Industry Classification Standard (GICS) 2023 Version to group issuers by industry for the calculation and interpretation of sector-relative metrics, including sector-percentile relative scores, sector-relative change metrics, and resilience assessments.

The Global Industry Classification Standard (GICS) is developed and maintained by MSCI and S&P Dow Jones Indices. The classification is applied at the GICS sector level, as relevant for the calculation of sector-based distributions and comparisons within the methodology.

Assessment Process

Data Collection

The Environmental & Social Raw Data is manually collected from publicly available company disclosures including public filings, annual reports, sustainability and CSR reports, climate reports, integrated reports,

[4] Overview of ISS STOXX's products and their methodologies here.

public company policies, and information on company websites. Both reported quantitative and qualitative data are collected. No estimates are made at this stage.

Research (Assessment, Results, Deliverables)

Net Zero data is provided via the proprietary DataDesk platform.

The portfolio analytics tool on DataDesk platform enables investors to assess the climate impact of their portfolios. For public equity and fixed income strategies, the CIR is generated using factors available on DataDesk and includes Net Zero data.

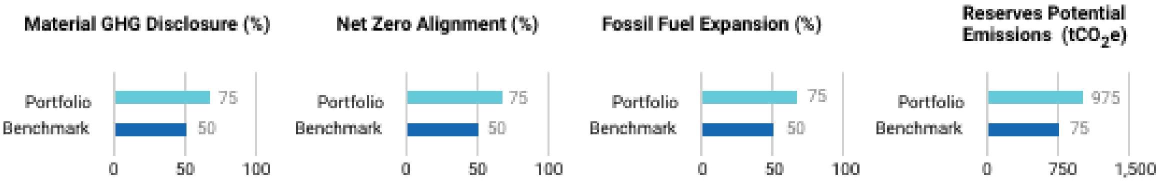
It is also possible for clients to directly receive these data factors as part of standardized and custom data feeds via multiple modes of delivery.

Net Zero Analysis Pages

Net Zero analysis page 1 of 2

The first page of the Net Zero Analysis contains information on material GHG disclosure, Net Zero alignment status, fossil fuel expansion, potential emissions from reserves, estimated emissions projections, and target setting levels.

Figure 2: Net Zero Analysis Outputs – Climate Impact Report



The four widgets at the top of the first page of the Net Zero Analysis provide an overview of:

- **Material GHG Disclosure (%)**: The graph shows the percentage weight of issuers in the portfolio and benchmark reporting material emissions data.

- **Net Zero Alignment (%)**: The graph shows the percentage weight of Net Zero "Aligning" issuers in the portfolio.

- **Fossil Fuel Expansion (%)**: The graph shows the percentage weight of issuers that have expanded fossil fuel assets in the previous fiscal year. The factor identifies issuers currently engaged in the expansion or development of fossil fuel projects, or those that have declared plans to do so in the near future. Fossil fuel projects incorporate oil, gas, and coal extraction operations, as well as energy generation assets powered by fossil fuels, and infrastructure which is critical for the fossil fuel industry (e.g., pipelines and terminals). The International Energy Agency (IEA) states in their Net Zero 2050 scenario (NZE), that "there is no need for investment in new fossil fuel supply"[5]. The scenario expects a sharp decline in fossil fuel demand. The graph in the Climate Impact Report is built around a binary Yes/No metric. For additional factors on issuers' Green/Brown expansion, specific projects, fuels, dedicated CAPEX, and other metrics, please see the Net Zero Data dictionary (available to clients).

- **Reserves Potential Emissions (tCO2e)**: The graph shows the potential future emissions from fossil fuel reserves expressed in gigatonnes of carbon dioxide equivalent (GtCO2e). The factor covers Proven (P1[6]) oil, gas, and coal reserves as of the latest reporting year.

The next two tables show the relative carbon footprint, the weighted average carbon intensity (WACI) and the absolute emissions for Scope 1, Scope 2, and Scope 3 for the reporting year, 2025, 2030, and 2050 for the portfolio, the benchmark, and NZE trajectory. For more information on how the relative carbon footprint, the WACI, and the absolute emissions are calculated please read the Climate Impact Report: Methodology. The methodologies for the NZE trajectory and estimated emissions projections are provided in Appendix B.

Figure 3: Relative Carbon Footprint (Scope 1, 2 & 3) – Climate Impact Report

	Relative Carbon Footprint Scope 1				Relative Carbon Footprint Scope 2				Relative Carbon Footprint Scope 3			
	2023	2025	2030	2050	2023	2025	2030	2050	2023	2025	2030	2050
Portfolio	**720.39**	827.5	952.47	1.8 k	**55.17**	64	72.47	137.99	**3.88 k**	4.1 k	4.63 k	8.44 k
NZE Trajectory	-	599.86	449.21	0	-	45.94	34.4	0	-	3.23 k	2.42 k	0
Benchmark	**52.83**	55.8	64.99	130.65	**10.25**	13.56	16.02	36.53	**783.89**	857.83	987.7	1.95 k

Figure 4: WACI and Absolute Emissions (Scope 1, 2 & 3) – Climate Impact Report

	Weighted Average Carbon Intensity (Scope 1, 2 & 3)				Absolute Emissions (Scope 1, 2 & 3)			
	2023	2025	2030	2050	2023	2025	2030	2050
Portfolio	**5.31 k**	6.88 k	7.76 k	14.16 k	**8.5 k**	9.12 k	10.32 k	18.97 k
NZE Trajectory	-	4.42 k	3.31 k	0	-	7.08 k	5.3 k	0
Benchmark	**961.61**	1.42 k	1.55 k	2.88 k	**1.55 k**	1.69 k	1.95 k	3.87 k

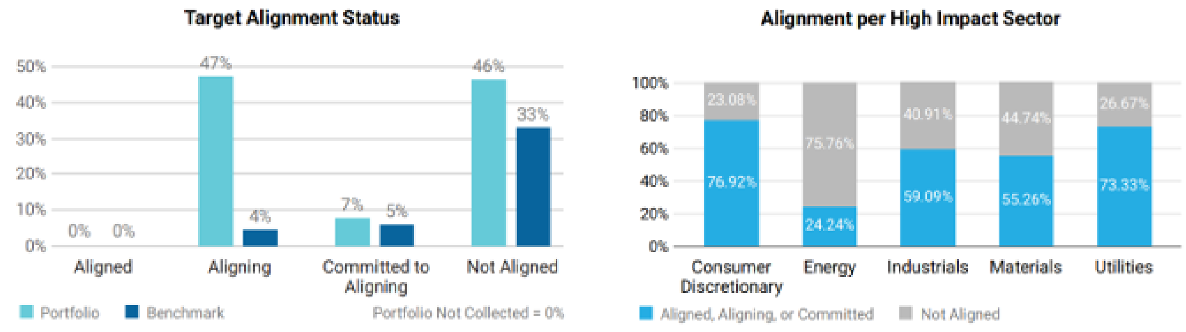
The Target Alignment Status graph Figure 3 and Figure 4 shows the alignment status by weight (%) of the portfolio and benchmark.

The Alignment per High Impact Sector graph shows the alignment status by weight (%) of the portfolio and benchmark for high impact sectors. The blue segments indicate holdings that are either **Committed to Aligning**, **Aligning,** or **Aligned** in the sector. The grey segment indicates holdings that are **Not Aligned**.

[5] https://www.iea.org/reports/net-zero-by-2050

[6] Proven reserves are estimated quantities of mineral deposits, at a specific date, as analysis of geologic engineering data demonstrates with reasonable certainty to be recoverable in the future under the same economic and operational conditions. Source: OECD.

Figure 5: Alignment Status – Climate Impact Report



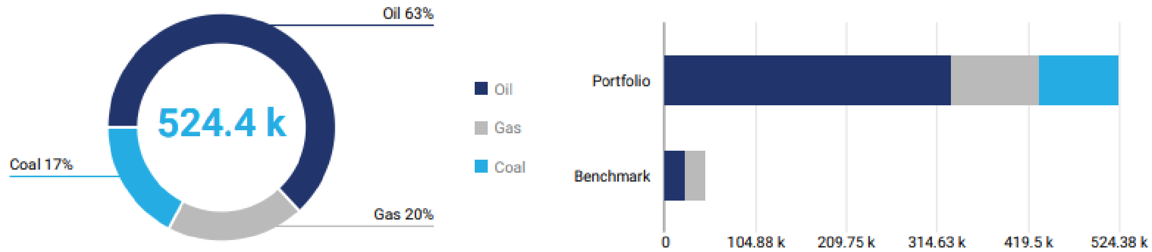
Net Zero analysis page 2 of 2

The second page of the Net Zero Analysis contains information on revenue from fossil fuels and climate change mitigating activities, and the bottom five issuers by alignment status.

Figure 6 shows the revenue linked to fossil fuel extraction for the portfolio and the benchmark. The share of revenue derived from exposure to fossil fuels, a major contributor to climate change, is a widely used quantitative metric to measure an issuer's involvement in this area. This allows investors to capture involvement for issuers beyond industry sector classification.

Figure 6: Revenue from Fossil Fuels- Climate Impact Report

The portfolio has 524.4 k USD revenue linked to fossil fuels, which account for 31% of total portfolio revenue. Of the revenue from fossil fuels, 63% is attributed to oil, 20% to gas, and 17% to coal. The portfolio's revenue exposure exceeds the benchmark by a net difference of 1,044%.



The data covers involvement in, and revenues derived from, the following fossil fuel-related activities.

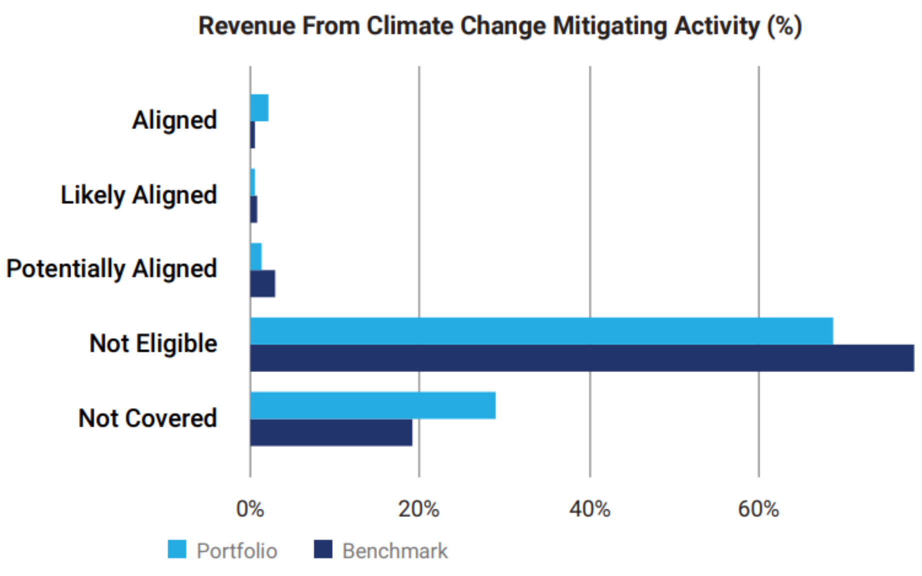
- Coal Extraction / Mining
    - Thermal Coal Mining
    - Metallurgical Coal Mining
- Coal Power Generation
- Coal Refining & Processing
- Oil Extraction

- Oil Power Generation
- Oil Refining & Processing
- Natural Gas Extraction
- Natural Gas Power Generation
- Natural Gas Refining & Processing
- Fossil Fuel Exploration
- Coal Mining Exploration
- Fossil Fuel Distribution
- Fossil Fuel Services
- Coal Mining Services

The data covers the latest fiscal year. If issuer reporting has not been updated, older reported data may be used.

Figure 7 shows the percentage revenue linked to climate change mitigating activities for the portfolio and the benchmark as defined by the EU Taxonomy Regulation. The EU Taxonomy defines climate change mitigating activities as those which are linked to the avoidance, reduction, or removal of GHGs from the atmosphere.

Figure 7: Revenue from Climate Change Mitigation Activities (EU Taxonomy) – Climate Impact Report



EU Taxonomy "Aligned" revenues are derived from directly reported data and have passed the substantial contribution, do no significant harm, and minimum social safeguards assessments. "Likely Aligned" revenues have the same criteria; however, the data is estimated based on the proxy / modelled assessment. "Potentially Aligned" revenues also use estimated data and have only passed the substantial contribution assessment. Revenues from economic activities outside of climate change mitigation are considered "Not Eligible". Where there is a lack of data to make an assessment, revenues are categorized as "Not Covered".

The Taxonomy Regulation categorizes eligible activities as 'green', 'enabling' or 'transition':

- **Green activities**: "Activities that in and of themselves contribute substantially to one of the six environmental objectives."
- **Transition activities**: "Activities for which there are no technologically and economically feasible low-carbon alternatives, but that support the transition to a climate-neutral economy in a manner that is consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels; for example, by phasing out greenhouse gas emissions."
- **Enabling activities**: "Activities that enable a substantial contribution to one or more of the objectives in other sectors of the economy."

There are ca. 147 activities included in the analysis. For a full list of the activities please see the EU Taxonomy Methodology.

Table 4: Bottom Five Issuers by Net Zero Target Alignment and Weight

Issuer Name	Portfolio Weight	GICS Sector	Mitigation Revenue	Net Zero Alignment	Fossil Fuel Expansion
	0.68%	Materials	11.1%	Not aligned	No
	0.68%	Industrials	0.75%	Not aligned	No
	0.68%	Energy	0.54%	Not aligned	Yes
	0.68%	Consumer Staples	0%	Not aligned	No
	0.68%	Energy	0%	Not aligned	Yes

The table shows the bottom five issuers by Net Zero Target Alignment status and weight. For example, the first selection criterion is target alignment, thus, the bottom five will be the issuers with the lowest level of alignment, e.g., Not Aligned. The second criterion is weight. If all holdings in the portfolio have the same Alignment status, the companies with the highest weight are selected. In addition, the issuer's mitigation revenue and fossil fuel expansion involvement are shown.

Update Cycle

The Environmental & Social Raw Data is updated annually, and the update cycle is determined by the issuers' annual reports and sustainability reports. The turnaround time for data availability is three months after the publication of the company's report(s).

The scenarios used for the forward-looking projections to compare issuers' trajectories versus the net zero scenario have been last updated in Q4 2025 and will remain static going forward until the report is updated with the new scenario alignment methodology. This does not impact the alignment status.

The output of the Net Zero solution, as well as the underlying E&S raw data, is considered valid until the next scheduled update.

Additional datasets, such as the EUT Taxonomy and E&E update annually

EU Taxonomy Solution

ISS STOXX EU Taxonomy Solution is updated on the following basis:

For directly reported data, the update is annually, typically within 2-3 months of release of annual or sustainability reports.

For modeled data, taxonomy results are calculated daily based on the most current data within the input data sets, using the most recent fiscal year information available. The update cycle for the underlying data sets can vary, but most are updated annually as well as on an ad-hoc basis in case of relevant events. ISS STOXX aims at updating the underlying assessments as soon as possible, after the company has published its annual reports. The updated data flows directly into the EU Taxonomy Alignment Solution on DataDesk.

Energy and Extractive Solutions

Energy & Extractives assessments are updated annually as well as on an ad-hoc basis in case of relevant corporate actions (e.g., mergers, acquisitions).

The data on DataDesk, that also feeds the Climate Impact Report, is updated daily.

Limitations

The Net Zero solution's methodology and data may be subject to certain limitations. The solution is a forward-looking assessment framework based on defined alignment criteria derived from the Net Zero Investment Framework (NZIF). The alignment assessment relies on a rules-based evaluation of issuer disclosures, targets, and decarbonization strategies against qualitative and quantitative criteria. A conservative approach has been applied to the alignment assessment, whereby no issuer is currently classified as fully "Aligned" with Net Zero, due to current limitations in corporate disclosure, policy visibility, and technological certainty. In addition, certain NZIF criteria and supplementary indicators are not incorporated directly into the alignment score due to data availability or quality constraints but are instead provided as contextual indicators. The below further outlines such limitations as well as the action taken to address these:

Limitation in Availability or Consistency of Data Sources

- The Net Zero solution is based primarily on publicly disclosed information collected through the Environmental & Social Raw Data and other ISS STOXX datasets. Data availability varies by issuer, sector, scope, and reporting practice. While Net Zero alignment status is based exclusively on reported data, additional indicators incorporated into the solution may rely on a combination of reported and estimated data. Differences in disclosure practices across issuers and regions may limit consistency and comparability of inputs used in the assessment.

Limitations in the Completeness, Timeliness, and Accuracy of Information

- Issuer data is collected from publicly available disclosures such as annual reports, sustainability reports, and other corporate publications, which are updated on an annual reporting cycle. As a result, the Net Zero dataset may reflect reporting lags, and the most recent issuer actions or disclosures may not yet be incorporated at the time of analysis. Where issuers are identified as late reporters, previously disclosed data may be used to maintain continuity in the assessment. The completeness and accuracy of the analysis are dependent on the quality, scope coverage, and clarity of issuer disclosures.

- Multiple datasets whilst being updated annually, will not necessarily overlap in the timing of the annual update for a given issuer. Therefore, some time lag in data changes may be observed.

Limitations in the use of Assumptions, Proxy Reference Points, and Data Estimation

- In cases where reported data is incomplete, unavailable, or of insufficient quality, **estimated values or proxy indicators** are used, as described in the projections and sources sections.

- **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 the emissions limitations at issuer level, the alignment status of issuers will be impacted.

- **Emissions projections** rely on historical emissions intensity trends and standardized assumptions, including expected revenue growth and scenario-based trajectories informed by IEA pathways. Scope 3 emissions projections are derived using proportional relationships with Scope 1 and 2 emissions. These assumptions and estimation approaches are applied consistently across the universe to ensure coverage but may introduce uncertainty at the issuer level.

- **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.

Quality Assurance

The process for quality assurance and data verification consists of:

- **Quality Assurance**: Data is subject to validation rules at entry level. Mutually dependent datapoints are subject to derivation rules to confirm concordance. Quantitative data is coupled with diagnostic tools that flag potentially significant deviations.

- **Data Verification:** Experienced analysts spanning different teams review the accuracy of the collected data with pre & post publication checks.
- **Data Reviews**: Additional, stratified sample reviews of data are performed on a monthly basis by net zero topic experts. Stratification is implemented based on market cap or sectors.

Methodology Review Process

The Net Zero methodology is reviewed on an annual basis and is also subject to periodic reviews and updates. These are overseen by experienced methodology and research leaders who continuously monitor market evolution by reviewing relevant frameworks or regulations in order to align the methodology with market requirements.

The solution's underlying methodology is considered valid until an update is carried out and applied.

APPENDIX

Appendix A: Example Alignment Status

ALIGNMENT STATUS	MATERIAL GHG DISCLOSURE	2050 NZ TARGET	INTERIM TARGET	DECARBONIZATION STRATEGY	OUTPUT
Aligned	Not Applicable	Not Applicable	Not Applicable	Not Applicable	No issuer is currently considered Aligned.
Aligning	Yes	Yes	Yes	Yes	The issuer is reporting relevant emissions for target setting. The issuer has a NZ target for 2050 covering relevant emissions. The issuer has an interim target. The issuer has a decarbonization strategy.
Committed to Aligning	Yes	Yes	No	No	The issuer is reporting relevant emissions for target setting. The issuer has a NZ target for 2050 covering relevant emissions.
Not Aligned	Yes	No	No	No	The issuer is reporting relevant emissions for target setting. The issuer has no Net Zero targets for 2050, interim targets or decarbonization strategy.

ALIGNMENT STATUS	MATERIAL GHG DISCLOSURE	2050 NZ TARGET	INTERIM TARGET	DECARBONIZATION STRATEGY	OUTPUT
Not Aligned	No	No	No	No	The issuer is not reporting relevant emissions for target setting. The issuer has no Net Zero targets for 2050, interim targets or decarbonization strategy.
Not Aligned	No	Not Collected	Not Collected	Not Collected	The issuer is not reporting relevant emissions for target setting. Any potential communication around Net Zero ambition or targets is currently Not Collected.
Not Collected	Yes	Not Collected	Not Collected	Not Collected	The issuer is reporting relevant emissions for target setting. Net Zero targets and other metrics are currently Not Collected.
Not Collected	Not Collected	Not Collected	Not Collected	Not Collected	Issuer data has not been collected.

Appendix B: Net Zero Emissions Trajectory and Projected Emissions

Net Zero Emissions Trajectory

The NZE trajectory shows how the metrics would develop if they followed the trajectory set out for the world economy in the IEA NZE scenario. In the NZE, the IEA presents the necessary rate of decarbonization to reach Net Zero by 2050. For example, the decarbonization rates for 2021-2025, 2021-2030, and 2021-2050 need to be ca. 17%, 38%, and 100%, respectively[7]. The base year 2024 is used in the report in 2025, referring to the reporting year 2024 i.e., emissions that occurred in the operational year 2023.

For example, in the table below there is a portfolio trajectory and an NZE trajectory. The portfolio trajectory shows how the portfolio emissions would develop in a business-as-usual scenario based on the methodology for emissions projections. The NZE trajectory shows how the portfolio emissions would develop if they followed the trajectory put forth by the IEA. The NZE trajectory can be used to understand the degree to which portfolio emissions need to be reduced to reach Net Zero under the NZE.

Example:

	2021	2030
Portfolio Trajectory	1000	2000
Portfolio Trajectory %	*100%*	*+100%*
NZE Trajectory	1000	620
NZE Trajectory %	*100%*	*-38%*

Projections

Projected emissions are calculated by estimating future emissions based on past performance. To estimate emissions the following steps are taken.

Estimation Steps – Scope 1 and 2

To estimate the expected emissions on a company level, company-specific data is used from the internal database.

If the company reports its emissions, reported data is used. If reported emissions are not available or if reported emissions are of inferior quality, estimated numbers are used[8].

Emission trajectories based on emission intensity per revenue (tCO_2e/Revenue) is calculated for Scope 1 and Scope 2.

[7] As of World Energy Outlook 2022
[8] See ISS STOXX Methodology Document: Carbon footprint assessment of fixed income & equity portfolios.

The calculated trajectories consider a six-year historic emissions intensity trend. For example, for the reporting year 2024, the trajectories are based on the emissions data for 2023, 2022, 2021, 2020, 2019 and 2018.

To normalize outliers, a "bucket" system is used to allocate company trajectories. Each company has three trajectory options available based on the subsector in which it operates. The buckets are based on scenarios provided by the International Energy Agency (IEA) in the World Energy Outlook (WEO). For example, if the scenarios used are the SDS, STEPS, and APS scenarios, a company with a trajectory below SDS will be put in the SDS bucket, a company with a trajectory between SDS and STEPS will be placed in the STEPS bucket, and so forth.

Absolute Emissions

To estimate absolute emissions, the intensities are multiplied with the expected company revenue.

Company revenue growth is calculated with the expectation that it will grow at the same rate as the world GDP in the IEA NZE at a rate of 3% per year[9].

Example Calculations

Scope 1 Emission Intensity Calculation

SCOPE 1 TRAJECTORY (%)	2023 EMISSION INTENSITY (TCO_2E/1000 USD)	2025 PROJECTED INTENSITY (TCO_2E/1000 USD)	2050 PROJECTED INTENSITY (TCO_2E/1000 USD)
1%	1,000	1,020	1,308
Trajectory	Reporting Year	*Reporting Year + Expected Trajectory x Yearly Difference (2 yrs.)*	*Reporting Year + Expected Trajectory x Yearly Difference (27 yrs.)*

Revenue Projection Calculation

EXPECTED REVENUE GROWTH	2023 REVENUE	2025 PROJECTED REVENUE	2050 PROJECTED REVENUE
3%	1,000,000	1,060,900	2,221,289
Trajectory	Reporting Year	*Reporting Year + Expected Growth x Yearly Difference (2 yrs.)*	*Reporting Year + Expected Growth x Yearly Difference (27 yrs.)*

Scope 1 Absolute Emission Projection

	2023	2025	2050
Emission Intensity	1,000	1,020	1,308
Revenue	1,000,000	1,060,900	2,221,289
Absolute Emissions	1,000,000	1,082,224	2,905,910

[9] As of World Energy Outlook 2021

Scope 3 Projections

Projected Scope 3 emissions are scaled based on the ratio between the sum of scope 1 and 2 emissions, and scope 3 emissions. For example, if the ratio between the two values in year one is 2, the scope 3 emissions will change in tandem with the projected scope 1 and 2 emissions. See table below for an example.

Example Scope 3 Ratio

SCOPE 1 & 2 2023 INTENSITY (TCO_2E/1000 USD)	SCOPE 3 2023 INTENSITY (TCO_2E/1000 USD)	SCOPE 1&2 TO SCOPE 3 RATIO (TCO_2E/1000 USD)	SCOPE 1&2 2025 INTENSITY (TCO_2E/1000 USD)	SCOPE 3 2025 INTENSITY (TCO_2E/1000 USD)
1,000	2,000	2	2,000	4,000

Appendix C: Relevant Supporting Models and Key Rating Assumptions

Models

- **Net Zero alignment determination model**: Applies a rules-based assessment to determine issuer Alignment Status using defined criteria based on issuer disclosures, targets and strategy.
- **Emissions database modelling**: Models emissions for issuers that do not disclose emissions and for issuers with low trust metric (per internal analysis).
- **Forward-looking emissions projection model (Scopes 1, 2, & 3)**: Projects future emissions based on historic emissions intensity trends, using issuer-level data; uses reported data if available, estimated if unavailable/low quality.
- **Revenue projection model**: Projects revenues using a standard growth assumption and multiplies intensity by projected revenue to estimate absolute emissions.
- **Scenario benchmarking model (NZE trajectory)**: Benchmarks portfolio/issuer trajectories against the IEA Net Zero Emissions (NZE) scenario pathway to 2050.

Assumptions

- **Conservative cap: no issuer classified "Aligned"**: The methodology currently assumes it is not possible to identify issuers as fully "Aligned"; maximum status is "Aligning.".
- **Late reporter assumption (carry-forward)**: If an issuer historically reports but has not reported yet this year, the prior year's data is used to avoid changes caused by reporting lag.

- **Projection assumptions: intensity trends and standardized inputs**: Projections rely on historical emissions intensity trends and standardized assumptions including revenue growth and scenario-based trajectories.

Appendix D: Version Control

VERSION	DATE	DETAILS
1.0	November 2021	Initial Version
1.1	March 2022	Addition of Appendix 'Example Alignment Status'
1.2	February 2024	Documentation of added factors to the data set: EU taxonomy CAPEX related factors
2.0	May 2025	Document review and update Documentation of new added factors to the data set: Decarbonization levers, Offsets, and Just transition.
2.1	October 2025	Publication of the Net Zero Methodology and Research Process document Document review and update
2.2	March 2026	Document review and update
3.0	July 2026	Inclusion of the Public Disclosure on the Methodology, Models, and Key Rating Assumptions Used in ESG Rating Activities (as defined by the Regulation (EU) 2024/3005)

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ISS STOXX delivers world-class research, data, and technology solutions that empower capital market participants to pursue their visions with confidence. Our expertise spans indices, corporate governance, sustainability, cyber risk, and fund intelligence, giving clients the tools they need to uncover opportunities, manage risks, and navigate evolving regulations. We are made up of 4,000 professionals operating across 20 countries and serving approximately 5,000 clients, including many of the world's leading institutional investors. Our scale and reach give us deep market knowledge, while our innovative methodologies allow us to offer our clients tailored insights that drive impact and success.

ISS STOXX Sustainability enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, our Sustainability solutions cover corporate and country research and ratings enabling its clients to identify material social and environmental risks and opportunities. Sustainability solutions are provided by Institutional Shareholder Services Inc., an investment adviser registered under the U.S. Investment Advisers Act of 1940.