Sustainability

RESEARCH METHODOLOGY

Overview

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Contents

Methodology Overview & Oversight

The landscape of sustainability risks, impacts and opportunities, and sustainable investment strategies, as well as framing conditions, including regulation, voluntary standards, scientific, and technical developments are highly dynamic and require an agile forward-looking 'first mover' approach to data collection, methodology, and product development. This is in order to best serve investors with highly innovative and versatile data and solutions to successfully realize their individual sustainable investment strategies and objectives, and to assist with compliance with regulatory mandates.

Within ISS STOXX, a dedicated Sustainability Research Methodology team with the mission and mandate to stay abreast of trends, developments, and existing and emerging client and prospect needs, exists. The Methodology team works closely with product and research teams, a team that focuses on public affairs, and additional stakeholders to initiate, develop, and agree upon proposed and required methodology developments and enhancements.

To ensure a robust and consistent methodology development process and structure, an internal Sustainability Methodology Review Board (MRB), consisting of experienced methodology and research leaders, has been established by ISS STOXX. The MRB guide, steer, and vet the methodology development strategy and process, setting and agreeing upon overall objectives and strategic targets, clarifying, reviewing, and reassessing priorities, as well as initiating and confirming specific new methodology developments or adjustments.

Finally, the Methodology team coordinates quarterly Methodology Updates communication to ISS STOXX's clients to inform them of upcoming enhancements to the research methodology underlying ISS STOXX's offerings. The updates include detailed change log files, where relevant. These quarterly communications are also complemented by communications to clients when significant methodological, product, and/or data platform developments occur.

How ISS STOXX's Methodology Aligns with Globally Accepted Frameworks

A wealth of sustainability frameworks has been developed through comprehensive multi-stakeholder consultations over the past two decades. These frameworks reflect widely shared expectations and serve as an indication of the direction and scope of prospective regulatory measures. They therefore provide valuable guidance for sustainability reporting that ensures comparability and is decision-useful for institutional investors.

ISS STOXX sustainability data and research are comprehensively and systematically mapped to recognized disclosure and performance standards. It is used by institutional investors to align investment and stewardship decisions with established frameworks and report against such frameworks. Of particular note in this context are the complementary materiality and disclosure approaches developed by

- The IFRS Foundation's Sustainability Accounting Standards Board (SASB) and the International Sustainability Standards Board (ISSB),

- The Global Reporting Initiative (GRI)
- The recommendations for financial risk disclosures initially developed by the Task Force on Climate-related Financial Disclosures (TCFD) and now further developed by IFRS (IFRS S2)
- The Corporate Sustainability Reporting Directive (CSRD)

ISS STOXX has developed a specific suite of solutions based on business-relevant targets under the United Nations Sustainable Development Goals (SDGs), the most widely recognized and comprehensive framework for assessing the real-world impact of business activities, or environmental and social materiality.

Lastly, ISS STOXX has tailored a set of solutions enabling investors to comply with the EU Sustainable Finance Regulation, including but not limited to EU Taxonomy Alignment, Sustainable Finance Disclosure Directive (SFDR) and Principle Adverse Impacts (PAI), SFDR Article 8 and 9, and ESMA fund naming rules.

Quality Program

ISS STOXX strives to provide its clients with high quality and reliable sustainability research. To this end, the ISS STOXX sustainability research team works towards continuously improving research processes and has put in place safeguards designed to achieve accuracy and reliability. These efforts are led by a dedicated Quality Management & Assurance team.

Sustainability analysts undergo extensive training at the time of onboarding on ISS STOXX's methodologies, as well as their research processes and techniques. In addition, many analysts draw on knowledge gained through higher education as well as prior work and/or industry experiences. Additionally, ISS STOXX continuously provides its employees with various forms of market education and training to help ensure that research and analyses are in line with market requirements, investor expectations, and ISS STOXX's own methodologies and processes.

The research and assessments conducted by ISS STOXX's analysts are used to form a broad suite of products and solutions intended to meet the varying needs of the investor community and are continuously enhanced and broadened as new needs and uses occur.

The quality program of ISS STOXX's sustainability research is governed by the principles of:

- Independence
- Comparability
- Completeness
- Timeliness
- Transparency

Independence

It is essential that ISS STOXX is *independent* in order to satisfy the market need for reliable and impartial assessments and data. As a unit within ISS, ISS STOXX Sustainability, like all services offered for the institutional investor community by ISS, is separated by a "firewall" from ISS Corporate Solutions, Inc. (ICS), ISS' wholly owned subsidiary which offers services to corporate issuers. The firewall serves to mitigate potential conflicts of interest between these distinct businesses. An ISS-wide compliance department monitors the separation between ISS and ICS, and implements policies and procedures designed to mitigate or manage potential conflicts of interest within ISS. Moreover, the provisions of ISS' Code of Ethics provide that an analyst shall not evaluate a company or a matter in which they have a personal interest (or that such an interest must be disclosed). Comprehensive information on ISS's approach can be found on ISS STOXX's Compliance website.

Comparability

ISS STOXX's sustainability products enable investors to compare issuers across a variety of signals, including, depending on the particular product offering, performance against sustainability criteria, transparency, corporate malpractice, and revenue generation. *Comparability* is secured by assessing all issuers based on clearly defined evaluation rules to ensure that comparable cases are assessed alike. The evaluation rules are monitored and developed by dedicated analysts with thematic responsibility as well as the Global Methodology team, and by extension ISS STOXX's Sustainability Methodology Review Board, which serves to reduce subjectivity in data collection and assessment.

Application of these rules is achieved through quality assurance processes. All assessments are based on data that is procured through rigorous and clearly documented data collection processes and are generally reviewed by peers. Certain high-level assessment signals and scores also require a multi-layer sign-off process where key information is verified by senior members of the research team. Furthermore, dedicated analysts in sustainability research continuously work on identifying and eliminating potential error sources and conduct targeted analyses to monitor data quality.

Completeness

Investors need *complete* information for decision-making purposes. ISS STOXX's sustainability research strives to consider all material sustainability aspects and information when assessing an issuer to deliver complete data to users. ISS STOXX's sustainability data and analysis are primarily sourced from publicly available information, including a company's own disclosure and reporting as well as subscription databases such as the CDP. ISS STOXX does not accept material non-public information (meaning information that a reasonable investor would consider important in making an investment decision or information that is likely to have a substantial effect on the price of a company's securities) and information that is not made available outside of the company to a wider public. Data from alternative sources (reputable media sources, NGOs, government and inter-government agencies) triggers and feeds into in-depth analysis under ISS STOXX's Norm-Based Research which in turn feeds into ISS STOXX's Corporate Rating. Additionally, for many data sets, the research team conducts fact-finding dialogue with companies to provide supplementary detail, data validation, and confirmation. The feedback process with companies takes place on a cyclical basis, as well as in particular cases during event-driven updates. Information shared by companies is reviewed, discussed with the subject company if necessary, and assessed according to ISS STOXX evaluation guidelines. ISS STOXX also consults from time to time with experts and field specialists to cross-check information and deepen the understanding of benchmark corporate practices.

Timeliness

To ensure that ISS STOXX's sustainability research incorporates complete information, material new information needs to be integrated in a *timely* manner. To this end, ISS STOXX applies a staged refresh procedure: scheduled annual updates are complemented by ad hoc updates triggered by significant events, including but not limited to, corporate actions (e.g., mergers, major spin-offs, and acquisitions) as well as new or evolving sustainability controversies. Thus, ISS STOXX aims to ensure that information which materially affects ISS STOXX's scores and signals is integrated into the assessments ahead of scheduled updates.

<u>Transparency</u>

ISS STOXX clearly and *transparently* communicates with both the users of the research products as well as with the assessed entities. Clients receive detailed information on the underlying methodologies used for particular ISS STOXX offerings and can view granular data that underline the scores and signals. Clients also have access to analysts to inquire about assessments or evaluation approaches in detail. For certain solutions which incorporate corporate issuer engagement, issuers are informed that ISS STOXX conducts research on them. Furthermore, for particular types of research, issuers are provided with draft reports prior to the publication of research results and the opportunity to review for factual accuracy and provide feedback. ISS STOXX makes available to covered companies a final version of their respective Corporate Rating, free of charge.

Corporate issuers can also actively engage with ISS STOXX analysts during company outreaches within the boundaries of our independence rules.

ISS STOXX aims to continue to increase transparency towards the general public and interested parties regarding the work that it does. The information made public on this website is part of this initiative.

Data Collection, Verification & Update Procedures

Public corporate disclosure accounts for a significant share of processed sustainability data. The following corporate disclosures are systematically reviewed by ISS STOXX:

- Online reporting and corporate filings (Annual reports, Sustainability reports, Integrated reports)
- Company policies
- Company sustainability disclosures to national authorities (e.g. modern slavery statement required under Section 54 of the United Kingdom Modern Slavery Act 2015; human rights due diligence plan required under French Duty of Vigilance Law) or recognized initiatives (e.g. environmental disclosures to the CDP and the Science Based Targets initiative).

In addition to corporate disclosures, ISS STOXX collects information from a range of alternative sustainability data sources, including the following: media sources (international, local), social media, NGOs, government agencies, inter-governmental agencies. Alternative data provides counterbalance to corporate disclosure, enabling an additional overlay for corporate analysis. Stakeholder-driven alternative data is widely considered an important early warning signal.

ISS STOXX is committed to providing fact-based, objective, and well-researched ratings and assessments to investor clients through the use of such sources. Accordingly, the ISS STOXX sustainability research team prioritizes the appropriate identification, evaluation, and application of sources, regardless of origination. According to internal source management guidelines, source information is comprehensively documented and for certain datasets, is also shared with clients. In particular, alternative sustainability data sources are evaluated against a range of criteria, including accuracy, credibility, objectivity, and source triangulation, to support the production of high-quality research.

Verification by companies is a central step in our data collection process. ISS STOXX provides access to key sustainability research reports in the Governance Analytics platform of ISS' wholly-owned subsidiary ISS Corporate Solutions, Inc. ("ISS-Corporate"). Separately, ISS STOXX submits, on a voluntary basis, certain full draft reports for the Corporate Rating, Norm-Based Research, and Controversial Weapons Research for issuer review.

ISS STOXX generally relies on publicly available information for its research offerings. As mentioned above, ISS STOXX does not accept, use or incorporate in its research offerings any material non-public information (meaning, generally, information that a reasonable investor would consider important in making an investment decision or information that is likely to have a substantial effect on the price of a company's securities) or information that is not made available outside of the company to a wider public. To the extent that any research offerings as described on this website may involve dialogue with the subject companies, those companies are instructed not to provide to ISS STOXX, and are made aware that ISS STOXX will not consider, any non-public information. For further information, please refer to the Non-Public Information Framework.

A staged refresh procedure is applied to ensure that its data, assessments, scores and ratings are up to date. Scheduled annual updates are complemented by ad hoc updates triggered by significant events, including but not limited to, corporate actions (e.g. mergers, major spin-offs, acquisitions) and new or evolving sustainability controversies.

Limitations to Methodologies & Data

ISS STOXX provides investors with comprehensive data and assessments on covered entities' performance relating to a broad range of environmental, social, and governance matters. Building on over 30 years of experience in the field of sustainability research, Sustainability Solution has developed robust methodologies that form the foundation of ISS STOXX's output. ISS STOXX's methodologies and data may be subject to certain limitations. The below outlines such limitations as well as the actions taken by ISS STOXX to address these.

Limited Availability of Data

In assessing the sustainability performance of covered entities, a broad range of data is relied on, a significant degree of which is sourced directly from covered entities. Overall, covered entities' reporting on sustainability matters is increasing in terms of the amount, thematic scope, and consistency of reported data. Nonetheless, in some cases, availability of reported data is limited, and even where reported data is available, it is not always consistent and reliable. To mitigate these limitations, a variety of alternative data is leveraged including media sources, recognized international or local non-governmental organizations, government agencies, and intergovernmental agencies, among others. ISS STOXX may also build on estimated and/or modelled data in the absence of reliable reported data (and for more detail we refer you to the stand-alone methodology descriptions for each product). Moreover, ISS STOXX's research leverages contextual information, including whether the entity operates in countries with high legal and factual standards related to the topic in question, and various ISS STOXX research products apply the concept of proportionality, whereby the assessment requirements are adjusted depending on company size and risk exposure. Finally, thorough checks of the reliability, accuracy, and robustness of reported information are built into ISS STOXX's research processes, designed to ensure the validity of assessments based on such data.

Time Lag in Data and Assessment Results

ISS STOXX's research relies, to a significant degree, on self-reported information from covered entities. Typically, covered entities report annually for the previous fiscal year, meaning the information provided has a significant time lag. An additional time lag may arise from the point in time when information is published by the covered entity to the point in time when such data has been collected and processed by ISS STOXX. To provide investors with the most up-to-date data, ISS STOXX strives to align its updates with corporate reporting cycles as much as possible. Moreover, alternative data is also relied on, such as media reports, which are closer to real-time and are integrated on an ad-hoc basis. In addition, many of research solutions take a forward-looking approach reflecting the momentum of sustainability performance and qualitatively assessing strategies, targets, and action plans for future-oriented assessments.

Uncertainty About Future Performance (Execution Risk)

ISS STOXX's research aims to not only assess past performance but provides forward-looking assessments to the extent possible. Future-oriented assessments inherently bear a degree of uncertainty, in part because stated commitments or strategies may not materialize as anticipated. Robust methodologies are applied in an effort to evaluate the credibility of commitments on future performance by covered entities, factoring in relevant information on the comprehensiveness of action plans, existing progress towards commitments, external verification of such commitments, as well as any evidence or track record of controversial action.

Limited Coverage

ISS STOXX's research covers a broad and global, but not unlimited, universe of entities based on market demand. Individual users of ISS STOXX's data may thus experience certain coverage gaps which can, to some extent, influence their ability to leverage ISS STOXX's research and data in their investment activities. To allow investors to gain a more comprehensive picture, ISS STOXX regularly expands its research coverage in line with market demands.

Moreover, ISS STOXX provides research results not only for covered entities but often also assigns such outcomes to associated issuers (such as subsidiaries and other affiliates). In assigning research outcomes to associated issuers, ISS STOXX follows stringent assignment rules to ensure that results are meaningful for all issuers to which they are assigned.

sales@iss-stoxx.com
iss-stoxx.com

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.

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