

Sustainability

Water Risk Rating

Methodology & Research Process

July 2026

Version 1.0

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

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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 Water Risk Rating 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**”.

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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 description of the risks covered, where the ESG rating is assessing risks; - a description of the impacts covered, where the ESG rating is assessing impacts; - information on how the risk and impact materiality are taken into account according to the double materiality principle, where applicable; - 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 description of what is covered under the E, S or G factors and which factors are aggregated, where applicable; - a description of the specific issues that the ESG rating covers.	Please refer to: Methodological Foundations
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 Water Risk Rating as it is not an aggregated rating.

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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: Water Risk Management Performance Score
ANNEX III.1.o	Article 3(3)	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: - 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; - specify whether the ESG rating is assessing alignment of commitments against the objectives of the agreements referred to in point (a).	Please refer to: Methodological Foundations
ANNEX III.1.p	Article 3(4)		

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: - the title of the rating methodology used; - a description of the types of rated items in relation to which the methodology referred to in point (a) applies; - the time horizon over which the ESG rating is considered valid, where applicable - 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; - a description of the defined ranking system of rating categories used, with reference to: - the meaning of each rating category for absolute and relative values and how the ranking system should be interpreted; - 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. - 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 B – Version Control Points b) to e) - b): Introduction - c): Update Cycles d) Appendix A: Relevant Supporting Models and Key Rating Assumptions, Quality Assurance e) Water Risk Exposure Classification, Water Risk Management Performance Score
ANNEX III.1.b	Article 4(2)	ESG rating providers shall disclose the industry classification used. ESG rating providers shall provide:	Please refer to:

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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.	Risk Management Score
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 of Information - Overview of Data Processes: Data Collection - Estimation of Input Data: Use of Estimated Data - Frequency of Data Updates: Update Cycles - Engagement with rated items or issuers of rated items is not part of the Water Risk Rating 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: Methodological Foundations
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.	Please refer to: Sources of Information

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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

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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

Water Risk Rating Objective

The ISS STOXX Water Risk Rating enables investors to assess water risks in their portfolios by providing a holistic, forward-looking, assessment of a company's overall freshwater-related risks. The solution provides an opinion on the **extent to which a company mitigates freshwater-related risks based on its specific baseline risk exposure**. The content of the topics covered by the Water Risk Rating correspond to the ESRS E3 Water and marine resources topics from the sustainability reporting standards developed pursuant to Article 29b of Directive 2013/34/EU.

For each company within the ISS STOXX Corporate Rating universe, the Water Risk Rating provides an aggregated score indicating a company's overall management of water-related risks, using company-specific exposure as a baseline (Water Risk Exposure Classification) from which a company can take steps to mitigate freshwater-related risks (Water Risk Management Performance Score).

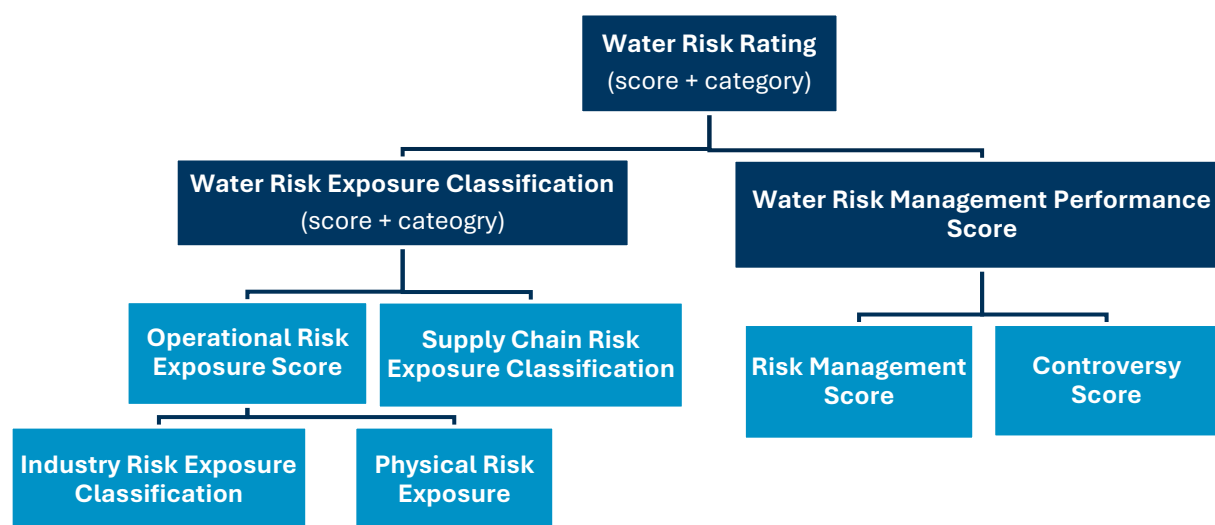
The Water Risk Rating incorporates risks posed by freshwater-related issues to the company's business model (such as water stress or water dependency), as well as sustainability risks linked to potential adverse impacts of corporate behavior on water (e.g., high freshwater consumption or freshwater pollution).

As a result, the Water Risk Rating provides 11 distinct data points per company (see factor dictionary in annex), Figure 1, allowing for granular insights and assessments.

Materiality

The Water Risk Rating captures double materiality by assessing both freshwater risks (e.g., exposure to water stress and dependency) and the impacts of a company's activities on water resources (e.g., consumption and pollution). By combining baseline exposure with management performance, it provides a forward-looking view of a company's ability to mitigate water-related risks while limiting its environmental impact.

Figure 1: Overview of ISS STOXX Water Risk Rating elements and 11 distinct data points



Methodology

Methodological Foundations

The Water Risk Rating is calculated by combining water stress levels from different river basins and scaling them up to the country level, using weights based on geographic distribution. The methodology applies population and night-time light data for this purpose, consistent with established approaches used in disaster risk modelling, exposure assessment, and spatial economic analysis to reflect the geographical distribution of human and economic activity.

The methodology is also informed by the underlying data from international normative frameworks, including the [United Nations \(UN\) Global Compact Principles](#), the [Organisation for Economic Co-operation and Development \(OECD\) Guidelines for Multinational Enterprises on Responsible Business Conduct](#), and the [UN Sustainable Development Goals \(SDGs\)](#), as well as mandatory and voluntary disclosure standards such as the IFRS Sustainability Disclosure Standards (IFRS S1 and IFRS S2) issued by the International Sustainability Standards Board (ISSB), the Sustainability Accounting Standards Board (SASB) Standards (now part of the ISSB), and the European Sustainability Reporting Standards (ESRS) developed under the scope of the European Union's Corporate Sustainability Reporting Directive (CSRD). Many of these frameworks are – to varying degrees – also based on scientific evidence.

In addition, the performance expectations and assessments of the underlying datasets are grounded in the aforementioned international agreements, norms, and regulatory frameworks and to an extent measure alignment with the objectives of these frameworks, including the Paris Agreement, across company policies, actions, and targets. However, the Water Risk Rating does not consider, nor does it assess the alignment of commitments against, the targets, and objectives of any agreements.

Methodology Review

The Water Risk Rating methodology is subject to periodic reviews and updates that are overseen by ISS STOXX's Sustainability [Methodology Review Board](#) which comprises experienced methodology and research leaders across jurisdictions. Reviews consider factors including regulatory developments, existing and emerging disclosure standards, increasing stakeholder expectations, academic research, and industry and technological developments. Relevant upcoming methodology changes are communicated to clients on a quarterly basis.

The solution's underlying methodology is considered valid until an update is carried out. Triggers of methodology update include updates from input data sources, methodology developments of upstream solutions, and feedback from internal and external stakeholders.

Assessment and Scoring Approach

ISS STOXX's Water Risk Rating (WRR) provides a holistic assessment of companies' overall freshwater-related risks. For this assessment, a company-specific baseline, Water Risk Exposure Classification (WREC), is defined. The Water Risk Management Performance Score (WRMPS) measures to what extent the company addresses and mitigates risks stemming from adverse impacts of its business model on water. The assessment combines information on various types of risks to arrive at plausible conclusions. It does not capture risk management regarding financial or reputational risks.

The Water Risk Exposure Classification considers risks posed to a company's business model based on the geographical footprint of its own operations; the stronger a company's presence in areas with high levels of water stress, the higher its physical freshwater-related risk exposures. It also considers risks stemming from the industry-specific nature of its own operations and supply chain; the more dependent business models and their supply chains are on water and the higher their potential adverse impacts on freshwater quality and quantity, the higher their industry and supply chain risk exposure classifications.

Hence, the WRR is based on two complementary elements, Figure 2:

- **Water Risk Exposure Classification (WREC):** a classification of a company's individual exposure to freshwater-related risks based on its industry assignment, geographical footprint of own operations, and industry classification regarding supply chain risks
- **Water Risk Management Performance Score (WRMPS):** a metric for the current water-related operational performance of a company, taking into account its risk management practices along the value chain as well as its potential involvement in controversies

Water Risk Exposure Classification (WREC)

For the calculation of the WREC, the first step is to determine a company's own operational risk exposure, by combining the company's industry risk assignment with an estimated physical risk exposure based on geographical footprint. In a second step, the operational risk exposure is combined with the supply chain risk

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assignment that is made on an industry level. The rationales and calculation steps for the different elements are explained in further detail below.

Industry Risk Exposure Classification

A company's own operations give a first indication of its baseline water-related risk exposure. To put into context, the operations of companies in the Chemicals industry have a higher exposure to freshwater-related risks, such as effluences in wastewater leading to freshwater pollution or high freshwater needs during production, than the operations of companies in the Media industry, where freshwater consumption as well as effluents and discharges of contaminants into wastewater streams are comparatively low.

The Industry Risk Exposure Classification provides an industry classification via three distinct categories (high, medium, low) based on qualitative research and incorporating the following inputs and sources:

- Weight, materiality and applicability of freshwater-related indicators in the Corporate Rating,
- CEO Water Mandate - [Corporate Water Disclosure Guideline](#) (High Priority Sectors),
- [CDP Water Impact Index](#) (combining supply chain, operations and product use perspective)
- Consultation of in-house Water and Industry Experts (e.g., aligning classifications for similar/cluster industries)

The higher the dependency of a business model on water and the higher potential adverse impacts on freshwater quality and quantity, the higher the industry risk exposure classification, Table 1.

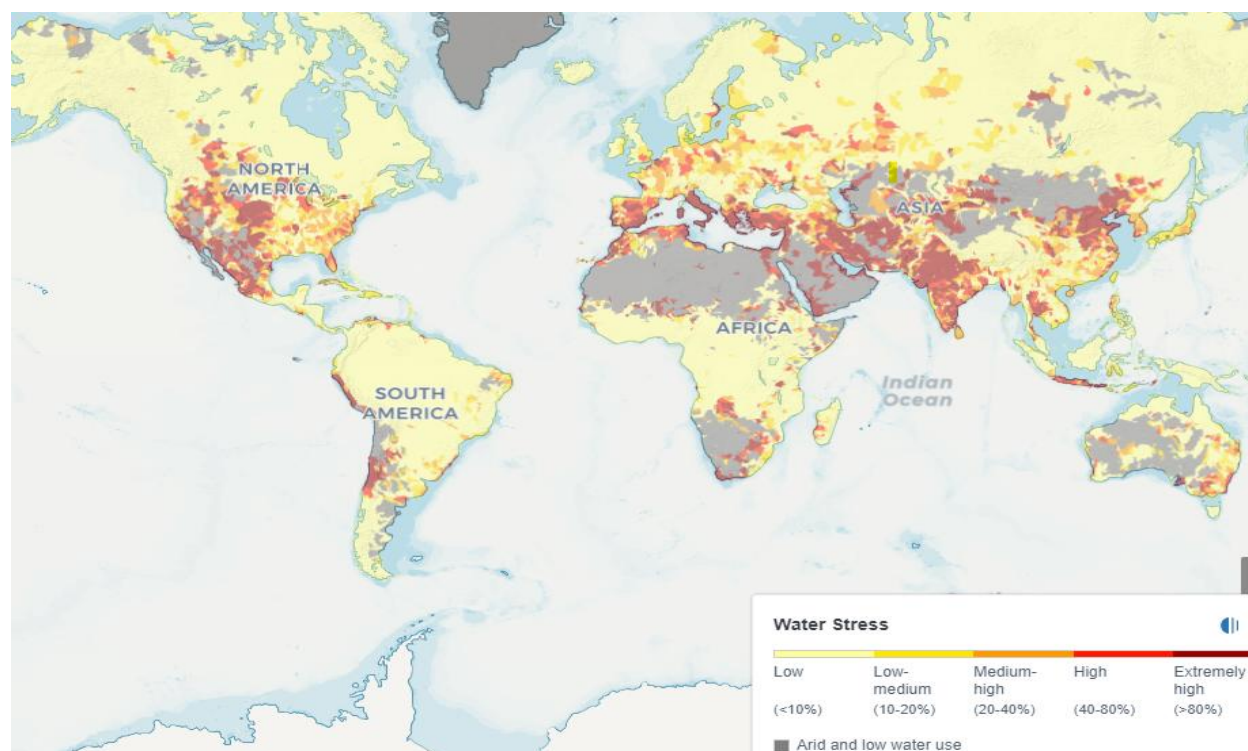
Table 1: Examples of Industry Risk Exposure Classification for varying ISS STOXX industries

ISS STOXX RATING INDUSTRY	INDUSTRY RISK EXPOSURE CLASSIFICATION
Asset Management & Brokerage	low
Chemicals	high
Electronic Devices & Appliances	medium
Media	low

Physical Risk Exposure Score

The Physical Risk Exposure Score yields information on company-specific geo-based water risks, measured by pairing information on a company's geographical footprint, e.g., where it has its own production facilities or generates revenue, with data on baseline water stress from the WRI Aqueduct Water Risk Atlas (data available for use under [Creative Commons Attribution International 4.0 License](#)), Figure 5. The stronger a company's presence is in areas with high levels of water stress, the higher its physical freshwater-related risk exposure. The Physical Risk Exposure Score provides a company-specific score on an absolute scale from 1.0 to 4.0 (1.0= high risk, 4.0 = low risk).

Figure 2: WRI Aqueduct Atlas, accessed on [30/10/2023], Source: WRI



The aim is to identify companies predominantly active in regions with high levels of water stress, and therefore, particularly exposed to physical water-related risks. The WRI Aqueduct defines baseline water stress as “the ratio of total water withdrawals to available renewable surface and groundwater supplies”. More specifically, “Water withdrawals” as per the WRI includes “domestic, industrial, irrigation, and livestock consumptive and non-consumptive uses [while] available renewable water supplies include the impact of upstream consumptive water users and large dams on downstream water availability.”¹

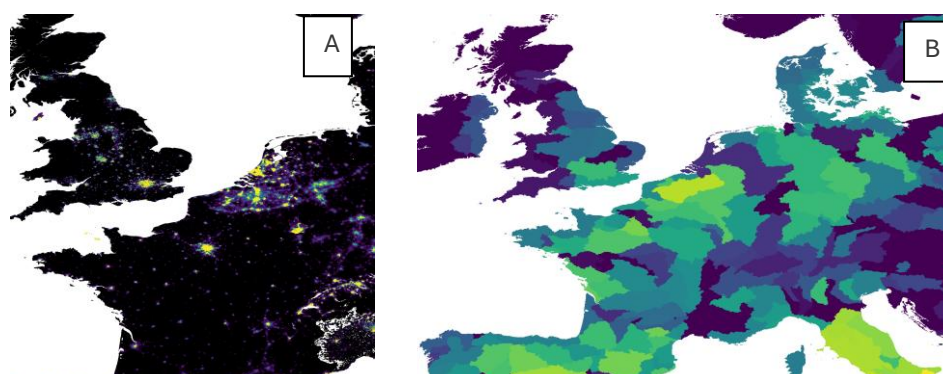
As a first step, ISS STOXX estimates a country’s score by computing a weighted average of the WRI’s water stress intensity over that country, based on a combination of satellite nightlight intensity² and population data (LitPop³), Figure 6. In other words, water stress intensity in densely populated regions with high nightlight intensity, a proxy for infrastructure, will count more towards the country’s score. On the other hand, unpopulated areas, or those with no signs of infrastructure, will count less towards the country’s score. Considering population and infrastructure density ensures the critical consideration of regional differences in economic activity, thus a more accurate estimate of the level of water stress for a country.

¹ Source: Hofste, R., S. Kuzma, S. Walker, E.H. Sutanudjaja, et. al. 2019. “Aqueduct 3.0: Updated Decision- Relevant Global Water Risk Indicators.” Technical Note. Washington, DC: World Resources Institute. Available online at: <https://www.wri.org/publication/aqueduct-30>.

² <https://blackmarble.gsfc.nasa.gov/>

³ Source: LitPo: Global Exposure Data for Disaster Risk Assessment, accessed on [30/10/2023], <https://www.research-collection.ethz.ch/handle/20.500.11850/331316>

Figure 3: A. Night-time light intensity (NASA Blackmarble) & B. water stress per river basin



The second step involves leveraging issuers' geographical activity profiles with the country scores mentioned above to estimate a company score, reflecting the company's water risk exposure. A company's geographical profile is retrieved using available information on its corporate structure including its financials, operations, and revenues.

The ISS STOXX analysis uses the following geographical and financial factors found on a company's balance sheet:

- Property, Plants & Equipment (PP&E) fraction per country – total value of a company's fixed assets such as buildings, machinery, or land per segment
- Revenue (SALES) fraction per country

The most relevant proxy for a company's operations is the PP&E fraction per country, as it indicates the fractional value of tangible assets necessary for operating in each country. Companies report PP&E at different levels of geographic detail. ISS STOXX has compiled the distribution of PP&E per country for >52,000 issuers.

If available, the PP&E fraction is given priority to compute the company score. However, in some cases, the PP&E fraction per country does not cover 100% of a company's asset value. In such cases, the revenue fraction per country is used as a proxy for the remaining portion.

Examples

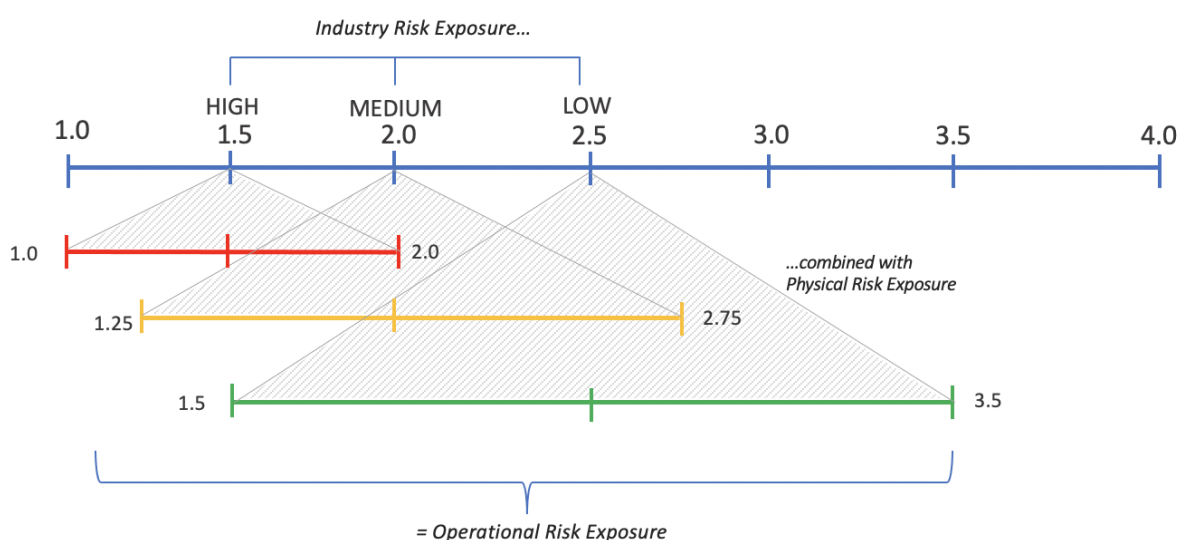
- Company A: The PP&E fraction is US = 0.6, FR = 0.4. In this case, full coverage of a company's asset value is provided.
 - ⇒ The Physical Risk Score is calculated based on the country scores for the United States and France, factored in with the proportions of 0.6 and 0.4 respectively.
- Company B: The PP&E fraction is US = 0.5, FR = 0.1. In this case, 0.4 of a company's asset value is not accounted for $(1 - (0.5 + 0.1))$. The revenue fraction for this company is US = 0.2, FR = 0.2, IT = 0.3, ES = 0.1.
 - ⇒ The Physical Risk Score is calculated based on the country scores for the United States and France, factored in with the proportions of 0.5 and 0.1. The remaining fraction is filled up using the proportional revenue fractions for Italy and Spain, 0.3 and 0.1.

In some cases, the Physical Risk Exposure Score cannot be determined for a company due to a lack of PP&E/revenue fraction data, or because the assets are exclusively located in areas which are not covered by the WRI or LitPop (e.g., very small islands). In these cases, no values are assigned to the Physical Risk Exposure Score.

Operational Risk Exposure Score

The Operational Risk Exposure Score delivers a combination of Industry Risk Exposure Classification, which reflects the nature of own operations, with the company-specific Physical Risk Exposure Score based on the geographical footprint, allowing for cross-industrial comparisons. It provides a granular score on an absolute scale from 1.0 to 4.0 (1.0 = high risk, 4.0 = low risk), Figure 7.

Figure 4: ISS STOXX Water Risk Rating Operational Risk Exposure Scores and scale



For the calculation, the Industry Risk Exposure Classification (high, medium, low) determines the absolute range in which the company-specific Physical Risk Exposure Score is assessed. The lower the industry-specific baseline risk exposure, the stronger the influence of the geographical footprint of operations on the overall Operational Risk Exposure Score. This means, the higher the Industry Risk Exposure Classification, in other words the closer to 1.0, the narrower the range of the scale of the Operational Risk Exposure Score. This calculation logic allows to account for the varying influence the geographical footprint of operations has on overall Operational Risk Exposure Score across industries:

- Companies from high-risk industries are still subject to comparatively high water-related risks even if only operational in areas with low levels of water stress
- For companies from low-risk industries, the geographical footprint of operations becomes more decisive for their overall Operational Risk Exposure Score

This logic also allows peer-comparisons. Companies with significant activities in areas with high levels of water stress have a higher overall water-related Operational Risk Exposure Score compared to their industry peers.

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Companies without or with limited activities in areas with high levels of water stress have a lower overall Operational Risk Exposure Score compared to their industry peers.

Examples

Company A: IT Consulting & Other Services company in Norway and Sweden

- Industry Risk Exposure Classification: *low risk*, e.g., range of operational risk exposure score between 1.5 to 3.5
 - Physical Risk Exposure Score : 3.97 e.g., *negligible risk* (based on activity profile)
- ⇒ Operational Risk Exposure Score: 3.48

Company B: Telecommunication company in Mexico

- Industry Risk Exposure Classification: *low risk*, e.g., range of operational risk exposure score between 1.5 to 3.5
 - Physical Risk Exposure Score: 1.69, e.g., *high risk* (based on activity profile)
- ⇒ Operation Risk Exposure Score: 1.96

Company C: Chemicals company mainly active in South Korea (+ China, Germany)

- Industry Risk Exposure Classification: *high risk*, e.g., range of operational risk exposure score between 1.0 and 2.0
 - Physical Risk exposure Score: 2.49 e.g., *medium risk* (based on activity profile)
- ⇒ Operational Risk Exposure Score: 1.5

For companies for which a Physical Risk Exposure cannot be determined, the Operational Risk Exposure Score equals the Industry Risk Exposure.

Supply Chain Risk Exposure Classification

In several industries, water-related risks are shifted and/or more prevalent in the supply chain than in its own operations. The more dependent supply chains are on water, and the higher potential adverse impacts on freshwater quality and quantity within supply chains, the higher the Supply Chain Risk Exposure Classification. To reflect the different exposure levels to freshwater-related risks through sourcing (regarding freshwater consumption and freshwater pollution), ISS STOXX has defined a Supply Chain Risk Exposure Classification by industry, providing for three distinct categories (high, medium, low), Table 2.

Similar to the Industry Risk Exposure Classification, the classification is based on qualitative research, e.g., considering and combining the inputs from the materiality of freshwater across industries in the Corporate Rating, consultation of in-house Water and Industry Experts, as well as external studies such as the CDP Water Impact Index and the CEO Water Mandate.

Table 2: Examples of Supply Chain Risk Exposure Classification for varying ISS STOXX industries

ISS STOXX RATING INDUSTRY	SUPPLY CHAIN RISK EXPOSURE CLASSIFICATION
Asset Management & Brokerage	low
Chemicals	high
Electronic Devices & Appliances	high
Media	medium

For the final step in the calculation of the Water Risk Exposure Classification, each of the three categories of the Supply Chain Exposure is assigned a factor x:

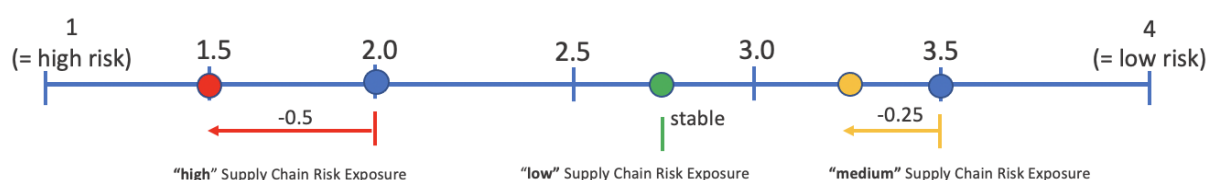
- Supply Chain Risk Exposure Classification: *High* : $x = 0.5$
- Supply Chain Risk Exposure Classification: *Medium* : $x = 0.25$
- Supply Chain Risk Exposure Classification: *Low* : $x = 0$

The **Water Risk Exposure Classification** is then derived by applying a basic subtraction:

$$WREC = \text{Operational Risk Exposure Score} - \text{factor } x$$

This means the higher the supply chain-related risks, the stronger their influence on the WREC. As an example, a company with an Operational Risk Exposure Score of 2.0 and a *high* Supply Chain Risk Exposure Classification receives a WREC of 1.5 ($2.0 - 0.5$), whereas the WREC of a company with an Operational Risk Exposure Score of 3.5 and a *medium* Supply Chain Risk Exposure Classification is 3.25 ($3.5 - 0.25$), Figure 8. The WREC for a company from an industry with a *low* Supply Chain Risk Exposure Classification is fully determined by its Operational Risk Exposure Score ($2.75 - 0$).

Figure 5: Combination of Operational Risk Exposure Score and Supply Chain Risk Exposure Classification



Water Risk Management Performance Score (WRMPS)

The Water Risk Management Performance Score (WRMPS) measures to what extent a company manages to mitigate risks stemming from adverse impacts of its business model on water. It evaluates the current freshwater-related performance of a company, taking into account its risk management practices along the value chain (Risk Management Score), as well as its potential involvement in controversies (Controversy Score). It does not capture risk management regarding financial or reputational risks. The rationale and calculation steps are explained in further detail below.

The WRMPS is available as a granular score per company on an absolute scale from 1.0 to 4.0 (1.0 = high risk, 4.0 = low risk).

Risk Management Score

The Risk Management Score captures a company's freshwater-related performance along the value chain based on standard and industry-specific indicators from the Corporate Rating, including quantitative indicators (e.g., current intensity and trend of freshwater consumption) and qualitative indicators (e.g., freshwater reduction targets, measures to mitigate negative externalities etc.).

For each company, a certain subset of these indicators is applicable depending on its industry, based on our proprietary Corporate Rating industry classification, and its specific business activities (typically 0 to 12) indicators see Table 3. The relative weighting of the selected indicators in the WRR is identical to their relative weights in the Corporate Rating, which are determined based on an industry-specific materiality assessment. This assessment takes into account the industry's particular exposure to negative externalities, and it is adjusted to individual companies' business models.

Table 3: List providing examples of freshwater-related ISS STOXX Corporate Rating Indicators

FOOD PRODUCTS	LEISURE
Identification of activities in regions with high levels of water stress	Identification of activities in regions with high levels of water stress
Freshwater use inventories	Freshwater use inventories
Freshwater use reduction targets and action plans	Freshwater use reduction targets and action plans
Freshwater use intensity	Freshwater use intensity
Monitoring and mitigation of impacts on freshwater resources	-
Position on water conservation in agricultural production along the value chain	-
Measures to ensure water conservation in agricultural production along the value chain	-
COD emission intensity	-
-	Water use minimization of buildings

The resulting Risk Management Score demonstrates how well the company is tackling water-related challenges on an absolute scale from 1.0 to 4.0 (1.0 = poor risk management, 4.0 = excellent risk management).

No Risk Management Score is available for some companies whose freshwater risks are deemed non-material from a sustainability perspective and thus no data is collected, e.g. SMEs in the Mortgages & Public Sector Finance industry.

Controversy Score

Leveraging ISS STOXX's Norm-Based Research (NBR), the Controversy Score accounts for situations in which companies may act in conflict with established norms on responsible business conduct and through their actions may impede or obstruct SDG 6 Clean Water and Sanitation set under the SDG framework.

A negative score is derived based on the NBR signal and score (Red, Amber, Green) and whether remediation measures have been adopted by the company to address and mitigate the negative impacts generated through the controversial behavior, Table 4. Scores range on an absolute scale from 0 (no controversies) to -10 (involvement in multiple controversies). If a company is involved in more than 1 controversy, the Controversy Score will be derived from the addition of the negative controversy scores, up to a minimum of -10.

WATER RISK RATING

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Table 4: ISS STOXX NBR signal and score used for Water Risk Rating Controversy Score

NBR SIGNAL AND SCORE		REMEDIATION FACTOR	CONTROVERSY SCORE
RED	10	4 – No measures announced	-8
		3 – Commitment expressed	-8
		2 – Measures initiated	-7
AMBER	9	4 – No measures announced	-4
		3 – Commitment expressed	-4
		2 – Measures initiated	-3
		1 – Credible measures adopted	-2
	8	4 – No measures announced	-4
		3 – Commitment expressed	-4
		2 – Measures initiated	-3
		1 – Credible measures adopted	-2
	7	2 – Measures initiated	-3
		1 – Credible measures adopted	-2
	6	4 – No measures announced	-2
		3 – Commitment expressed	-2
		2 – Measures initiated	-2
		1 – Credible measures adopted	-1
GREEN	5	with moderate severity signal	-1

The **Water Risk Management Performance Score** measures to what extent a company manages to mitigate its risks stemming from adverse impacts of its business model on water and is derived by combining the Risk Management Score and the Controversy Score via a downgrading mechanism. Depending on the Controversy Score, a relative weight is determined with which a score of 1 (as indication of poor risk management) is factored in. The lower the Controversy Score, the higher the impact, Table 5.

Table 5: Impact of Controversy Score on Water Risk Management Performance Score (WRMPS)

CONTROVERSY SCORE	RELATIVE WEIGHT WITHIN WRMPS	IMPACT ON WRMPS (RISK MANAGEMENT SCORE ASSUMED 4.00)
0	0%	4.00
-1, -2	20%	3.40
-3, -4, -5, -6	50%	2.50
-7, -8, -9, -10	80%	1.60

To give an example, a fictitious company has a Risk Management Score of 2.8, e.g., demonstrates measures to manage its freshwater-related risks. Yet, the company is involved in two major controversies regarding water contamination, e.g., it has a Controversy Score of -7. In this case the Water Risk Management Performance Score is 1.36, as the result of a 80% downgrade of the Risk Management Score ($1 * 0.8 + 2.8 * (1 - 0.8)$), Table 5.

Water Risk Rating Calculation

The Water Risk Rating provides an aggregated score indicating a company’s overall freshwater-related risks, using company-specific exposure as the baseline (Water Risk Exposure Classification) from which a company can take steps to mitigate freshwater-related risks (Water Risk Management Performance Score). The final WRR score is calculated as the sum of the WREC and WRMPS:

$$WRR_{scale1-4} = WREC + f * (WRMPS - 1)$$

with $f = 0.5$

if more than 1 indicator is used to determine the Risk Management Score

with $f = 0.25$

if 1 indicator is used to determine the Risk Management Score*

Resulting in a final score (scale from 0-100):

$$WRR = (WRR_{scale1-4} - 1) * 100/3$$

The scaling factor f is chosen so that companies with the highest risk levels (e.g., WREC = 1) are able to achieve a WRR = 50 at most, meaning a significant amount of risk remains and cannot be further mitigated unless the company shifts its business model and/or location. Starting from WREC = 2.5, companies are able to achieve a WRR = 100 in cases where the WRMPS is sufficiently high and more than one indicator is used to determine the Risk Management Score.

For companies for which no WRMPS is provided as the management of freshwater-related risks is considered non-material (no Risk Management Score), the WRR is determined by the WREC.

**This is to limit the maximum impact of the Risk Management Score on the WRR by +25 (e.g., one category change from the exposure baseline) for companies that are assessed against one freshwater-related indicator (e.g., freshwater intensity) only.*

Rating Outputs and Signals

Water Risk Rating (WRR)

The Water Risk Rating runs on an absolute scale from 0 to 100, ranging from significant unaddressed risks to negligible and/or well-managed risks (Figure 3). Accordingly, it enables the categorization of companies into four groups.

Figure 6: ISS STOXX Water Risk Rating scale and their respective risk categories

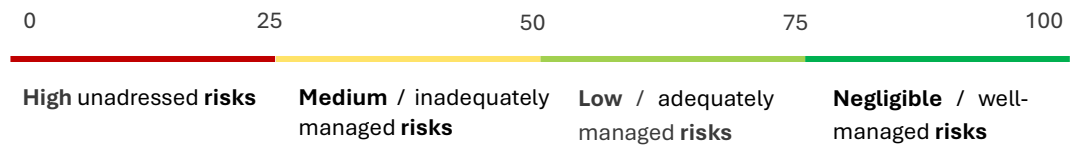
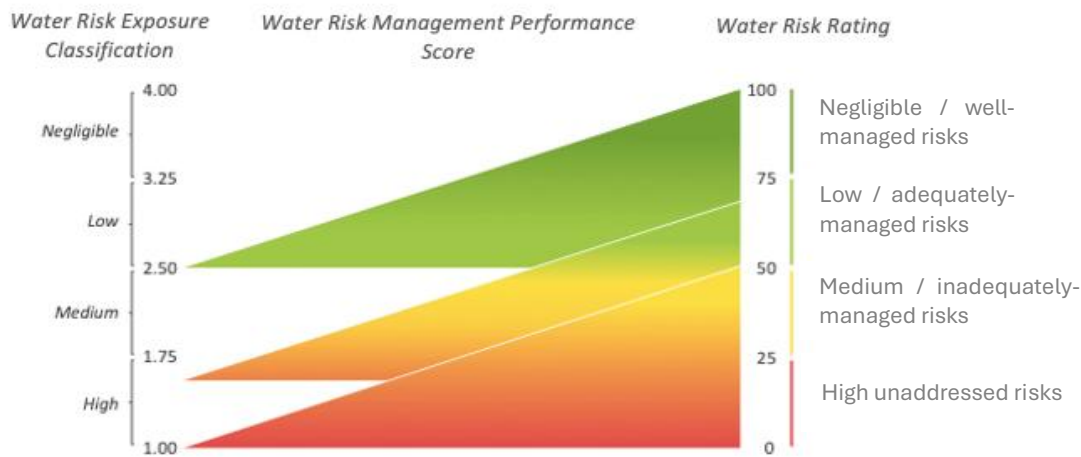


Figure 7: Scheme for the Water Risk Rating, calculated from a baseline risk classification, illustrating the possible outcomes for the Water Risk Rating for the whole range of Water Risk Management Performance Scores



Water Risk Exposure Classification (WREC)

The Water Risk Exposure Classification (WREC) assesses a company’s exposure to freshwater-related risks based on three input factors: industry risk exposure classification, physical risk exposure score, and supply chain risk exposure classification.

The WREC is available as a granular score per company on an absolute scale from 1.0 to 4.0 (1.0 = high risk, 4.0 = low risk) with a respective category (high, medium, low, negligible), Figure 4.

Figure 8: ISS STOXX Water Risk Exposure Classification (WREC) scale



Industry Risk Exposure Classification

A company’s direct operations provide an initial indication of its water-related risk exposure, which varies significantly by industry. The Water Risk Rating classifies this exposure into three categories (High, Medium, and Low) based on qualitative analysis of water use, pollution potential, and operational dependency.

Figure 9: ISS STOXX Water Risk Exposure Classification (WREC) scale



Supply Chain Risk Exposure Classification

Water-related risks are often more significant within supply chains than in a company’s own operations, particularly in industries that rely heavily on water-intensive inputs and processes. Where supply chains have high dependence on freshwater or contribute to substantial water consumption and pollution, the exposure to water-related risks increases accordingly. To capture these differences, ISS STOXX classifies industries into three categories (High, Medium, and Low) based on the level of freshwater-related risks embedded in their sourcing activities.

Figure 10: ISS STOXX Water Risk Exposure Classification (WREC) scale



Additional Score: Product and Services Score

In addition to the factors directly feeding into the Water Risk Rating, the dataset includes one additional factor taken from the **ISS STOXX SDG Solutions Assessment (SDGA)** which allows investors to flag companies based on the overall impact of their product and services portfolio toward the achievement of the sustainability objective “Conserving Water”.

The SDG Solutions Assessment measures the positive and negative sustainability impacts of companies’ product portfolios, following a thematic approach using the United Nations (UN) SDGs as a reference framework. Sustainability objective scores are calculated by multiplying the (estimated) net sales shares generated with relevant products/services with numeric scores assigned to them, based on a proprietary classification of products and services into five categories. The objective scores range on an absolute scale from -10.0 (e.g., 100% of net sales are generated with products/services classified as having a significant obstructing impact) to 10.0 (e.g., 100% of net sales are generated with products/services classified as having a significant contributing impact) with an underlying classification into five broad categories, Figure9.

Figure 11: ISS STOXX SDG Solutions Assessment Sustainability objective scores and classifications



To determine the overall impact of a given product or service category with regards to a certain sustainability objective, a rules-based decision process has been implemented. The fundamental questions are:

1. Whether a certain product or service by its intended purpose (or main impact) contributes to or obstructs the achievement of this specific sustainability objective
2. Whether this product or service has additional, directly attributable side effects that are so clearly positive or negative from this objective’s perspective that they cannot be ignored in its evaluation.

The sustainability objective “Conserving Water” is defined to ensure that freshwater, including surface water, groundwater, municipal supply and rainwater, is accessible and available in sufficient quantity and quality in natural ecosystems. Social aspects (accessibility, sanitation & hygiene) are not considered. Based on this in-house understanding as well as further detailed requirements, a proprietary classification of products and services into five categories is applied, ranging from significant contribution to significant obstruction. Relevant (contributing) products include water-saving technology, water services, or products certified to a relevant water-efficiency standard. Examples for products or services with negative effects on water quantity or quality include conventional red meat products, conventional fertilizers or fracking and oil sands.

Research Process

Data Collection

The Water Risk Rating builds on (1) data collected as part of the Corporate Rating, SDG Solutions Assessment (SDGA), and Norms-Based Research (NBR); and (2) a proprietary methodology for determining companies’ risk based on industry, physical, operational, and supply chain risk exposure, and controversies.

The collection and analysis of data leveraged by the Water Risk Rating is exclusively conducted in-house by trained and specialized analysts who adhere to comprehensive evaluation guidelines for assessments. The Carbon Risk Rating is largely derived from the Corporate Rating, SDG Solutions Assessment, and Norm-Based Research.

Sources of Information

The following sources of information are leveraged by the Water Risk Rating. Some of the data sources used may contain information including sustainability statements required under the EU Directive 2013/34/EU or information required under Regulation (EU) 2019/2088:

- To determine the physical risk exposure in the Water Risk Exposure Classification (WREC), data from the WRI Aqueduct Water Risk Atlas (data available for use under [Creative Commons Attribution International 4.0 License](#)) is used.
- The data for the Water Risk Management Performance Score (WRMPS) (Corporate Rating) are primarily sourced from publicly available information, including a company’s own disclosure and reporting, proxy statements, media sources (both international and local), governmental and international institutions, recognized international or local non-governmental organizations, and databases such as the CDP.
- For the Controversy score (NBR) near-real-time data is collected from tens of thousands of traditional media, social media, and stakeholder publications globally through a combination of AI and manually set filters and is processed by a team of dedicated news analysts.
- The main sources for the Products and Services Score (SDGA) (additional factor) are companies’ public disclosures, specifically their most recent annual report and segment reporting. Further relevant information on products and services is taken from companies’ websites or other documents

such as Sustainability Reports or Investor Presentations, allowing for a realistic picture of a company's product portfolio and its sustainability impacts. The analysts use internal estimation logic to estimate the revenue share for a given product or service.

Use of Estimated Data

The Water Risk Rating relies upon estimated data in some areas:

- For the SDG Solutions Assessment, approximately 90% of data is estimated. Analysts are provided with clear guidance to ensure that estimated figures are based on reasonable assumptions with medium to high certainty.
- Water Risk Management Performance Score (WRMPS) is derived from Corporate Rating indicators. For those quantitative indicators that are based on percentage assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance on how and in what instances estimations may be made. No estimations are made regarding absolute quantitative data (such as consumption data or intensities).

Update Cycles

The assessment outputs of the Water Risk Rating are updated on a continuous basis, as most components of the solution receive real-time updates through the respective internal sources from which they are derived:

- Data for the Water Risk Exposure Classification is reviewed and updated on a yearly basis.
- Data for the Water Risk Management Performance Score is updated on an annual basis, integrating the latest annual and/or segment reporting. In addition, event-driven updates are conducted, e.g., in case prominent business segments are sold or in case of mergers or large acquisitions, to integrate newest developments and possible changes in company sales.
- Data for the Controversy Score is updated continuously, based on relevant events, qualitative research, and ongoing news screenings. SDG tags, linking individual controversies to specific SDGs, are automatically assigned during the initial assessment of a controversy, based on NBR's core sustainability Keywords, or may be assigned conditionally, depending on the specific circumstances of a controversy.
- As annual updates of Corporate Ratings, as well as NBR controversy assessments, are conducted on a rolling basis for the individual issuers, the Water Risk Rating and underlying scores and categories provided in the dataset may change daily.
- The Water Risk Rating of an issuer is considered valid between the current assessment and the next scheduled or ad-hoc update.

Limitations

ISS STOXX's Water Risk Rating's methodology and data may be subject to certain limitations both inherently and due to limitations pertaining to the underlying datasets. Further information on limitations of the underlying datasets can be found in the respective [methodology disclosures](#). The below summarizes such limitations as well as the action taken to address these:

Limitations in Availability or Consistency of Data Sources

- The Water Risk Rating uses LitPop and WRI Aqueduct datasets for informing the rating. Both of these datasets rely on multiple underlying datasets which are sourced from different providers, years and methodologies. This might create some inconsistencies in the spatial resolution output.
- The Water Risk Rating is primarily based on publicly disclosed information collected through the ISS STOXX datasets such as the Corporate Rating, Norm-Based Research, and the SDG Solutions Assessment. As such, issuers often disclose information using different formats, definitions, and levels of detail. This lack of standardization in the breadth and depth of disclosures poses a certain risk of interpretation errors and requires additional effort to vet data collection and assessment. Data collection manuals guide analysts for these datasets in capturing data in an as consistent manner as possible.

Limitations in the Completeness, Timeliness, and Accuracy of Information

- Data collection for the aforementioned ISS STOXX datasets is inherently constrained by the quality, completeness, and accessibility of public sources. Public disclosures can be outdated, delayed, selectively detailed, spread across multiple documents, or released at different times, potentially leading to discrepancies in data collection.
- Additionally, many companies may disclose sustainability-related information at around the same time in a year. This may pose challenges in terms of timely data collection and processing. Several measures are applied within the aforementioned datasets to increase efficiency of data collection and processing, while ensuring a high level of data quality, such as specialization of data collection teams, standardization of processes and quality checks.

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

- The data source LitPop is fundamentally a proxy approach, assuming that light intensity and population density correlate with economic asset distribution. This assumption does not consistently hold across sectors or regions, particularly for capital-intensive but low-population areas.
- WRI's Aqueduct data relies heavily on modeled relationships, normalized scoring systems, and composite indicators that aggregate multiple risk dimensions into single metrics. These approaches involve assumptions about hydrological behavior, water demand, and governance conditions, and often use proxy variables where direct measurements are unavailable.

- As described in [Use of Estimated Data](#), assessments in the underlying datasets may rely on estimations based on robust evidence in certain situations. While estimation rules have been defined to ensure reproducibility of assessments, estimations are inherently subject to a certain level of uncertainty. In addition to standardization of rules how analyst arrive at estimations, ISS STOXX offers companies the opportunity to review and verify estimated data as part of company outreach processes of the Corporate Rating.
- As described in [Sources of Information](#), NBR assessments leverage AI-supported news screening which relies on predefined taxonomies, filters, and classification models that incorporate methodological assumptions. The news screening may also be constrained by language coverage as well as regional limitations related to freedom of the press. Additionally, where company disclosures concerning a specific controversy are limited, Norm-Based Research experts may rely on proxy indicators for responsible business conduct, such as corporate policies, codes of conduct, or public sustainability commitments. Norm-Based Research does not use estimated data and is initiated only in response to stakeholder allegations, which serve as the sole trigger for investigation. Limitations arising from the use of assumptions and proxy reference points are addressed through documented processes, multi-source data collection, expert analyst review, and ongoing monitoring, supporting consistent Norm-Based Research outputs.

Quality Assurance

Water Risk Rating integrates research from the Corporate Rating, Norms-Based Research, geoPPE as well as external data from the WRI Aqueduct. Each underlying internal product follows a proprietary methodology, which is reviewed periodically. All data is verified according to general ISS STOXX's sustainability research processes and guidelines.

Corporate Rating: Regarding the Risk Management Score

- Companies are assigned to industries based on a proprietary classification of the Corporate Rating,
- Detailed internal assessment guidelines to assure the comparability of assessments across companies exist and are accessible to all analysts, and
- Regular checks of thematic fit of indicators for freshwater as well as of an industry's water risk profile (industry and supply chain) are conducted.
- Ratings are systematically proofread by experienced analysts who are intimately familiar with the Corporate Rating methodology and assessment rules, and
- All analysts undergo a rigorous training program.
- Furthermore, all companies are given the opportunity to comment on their assessment and provide additional information and feedback during regular updates of the Corporate Rating.

Norm-Based Research: Regarding the Controversy Score

- Accuracy and comprehensiveness of information obtained through a robust validation process involving engagement with issuers and/or key stakeholders is assessed by analysts trained on specific controversy topics, and
- Assessments are drafted by thematic experts and undergo rigorous peer review.

APPENDIX

Appendix A: Relevant Supporting Models and Key Rating Assumptions

Models

- **Water Risk Rating aggregation and scoring model:** The rating is constructed from a company-specific baseline exposure classification and a management performance component, producing an aggregated freshwater-risk view.
- **Water Risk Exposure Classification (WREC) model:** WREC is derived from three inputs: industry risk exposure (based on qualitative research and specified inputs), physical risk exposure (based on geographic footprint information with baseline water stress data and company-reported PP&E), and supply chain risk exposure (based on qualitative research and specified inputs), expressed on a 1.0–4.0 scale with related categories.
- **Water Risk Management Performance Score (WRMPS) model:** WRMPS evaluates water-risk management performance derived from the Risk Management Score (based on Corporate Rating indicators) and the Controversy Score (based on NBR case signals/scores and remediation statuses).

Assumptions

- **Baseline-plus-mitigation construct:** Company exposure is treated as the baseline from which mitigation performance is assessed.
- **PP&E fraction priority:** Where PP&E does not cover full asset value, remaining portions are proxied using revenue fractions.
- **No physical risk value where data coverage is insufficient:** Physical exposure may be unassigned where PP&E/revenue data are lacking or where WRI/LitPop coverage is absent.
- **Scaling factor (f) depends on indicator count:** The influence of WRMPS on WRR is moderated by $f = 0.5$ (≥ 2 indicators) vs $f = 0.25$ (1 indicator).

Appendix B: Version Control

Name of Methodology: Water Risk Rating

VERSION	DATE	DETAILS
1.0	July 2026	Publication of the Water Risk Rating Methodology and Research Process document 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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