ISS ESG▷

ESG FUND RATING REPORT

METHODOLOGY

September 2024

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Introduction

Institutional and individual investors are increasingly interested in investing through a sustainability lens, but find it challenging to identify funds that align with their investment objectives and values. The ISS ESG Fund Rating enables investors to quickly and effectively evaluate the environmental, social and governance performance of equity and bond funds globally.

The purpose of this document is to give an overview of the methodology used to create the content presented in the ESG Fund Rating Report, including the calculations that support the ratings, infographics, data tables, and underlying data factors. The ESG Fund Rating Report pulls in datapoints from several ISS ESG research products and more detailed explanations for each research product are available in other methodology documents. Please contact your ESG Client Success Specialist for access to these documents.

A "Quick Start" user guide with information on accessing ESG Fund Rating content on the DataDesk platform is also available as a separate document.

ESG Fund Rating Report Overview

The ISS ESG Fund Rating Report and data factors provides clients with the ability to quickly and effectively evaluate the environmental, social, and governance (ESG) performance of funds. The reports highlight fund and peer performance across major ESG themes and are supported by numerous data factors suitable for research, screening, and analytics.

The standard report is approximately 10 pages in length, plus coverage and methodology information in the appendix. Report pages are organized thematically and are aligned with core ISS ESG research products to allow users to utilize the full report or focus on specific pages that align with specific ESG priorities or requirements.

The report design prioritizes clear, easy to understand infographics to communicate performance across key metrics, with the expectation that clients who require access to the underlying data for more sophisticated research or analysis will take advantage of the fund data factors in DataDesk.

Key Concepts

This section outlines some of the underlying concepts that form the cornerstones of the report, including Primary Data Resources, Update Cycles, Coverage Requirements, Report Preprocessing, and Calculation Types.

Primary Data Resources

The ESG Fund Rating Report aggregates content from existing ISS ESG research products, and summarizes fund performance based on the ESG performance of the underlying holdings. In particular, the ESG Rating product, which assesses the overall sustainability performance of companies and sovereigns, is used to determine the overall fund rating signals, including the relative ISS ESG Stars rating and the overall ESG Performance Score. In addition to the ESG Rating, the fund report draws in content from Governance QualityScore; Norm-Based Research; Controversial Weapons; Sector-Based Screening; Energy and Extractives; SDG Impact Rating; SDG Solutions Assessment; Carbon Emissions and Climate Change; and Voting Analytics.

In addition to the ESG research content, the ESG Fund Rating product requires basic information on the funds themselves, including data on fund holdings. The resource for this information is LSEG (formerly Refinitiv Lipper). The data provided to ISS ESG from LSEG includes both fund level data such as security identifiers, fund attributes, and fund value and performance, as well as holdings level data including issuer name, the weight of individual holdings in the fund, each holding's value, and the number of held shares.

Update Cycles

The ESG Fund Rating reports and data factors are updated monthly and represent a snapshot of the current ESG and fund data at the time of data generation.

However, it is important to note that the update cycles for underlying data inputs each have their own schedule. For example, ESG data is often gathered from resources that update on an annual basis, such as annual reports, sustainability reports, and proxy statements. Other data may be reported on a quarterly or monthly basis. ESG data derived from news media, including information that supports controversies research and the Norm-Based Research product, is received daily. For more information on the update cycles for specific data elements on ESG Fund Rating report pages, please refer to the product-specific methodology documentation for that theme.

Similarly, the LSEG data used in ESG Fund Rating contains data elements that may update on differing cycles. Certain fund metrics and fund attribute data is updated on a daily basis, including price and valuation metrics. Other data, including fund holdings data, may update on a monthly or quarterly basis or other cycle depending on fund disclosure frequency and regulatory requirements.

Coverage – Minimum Thresholds

All funds must have at least 65% of holdings by weight covered by ISS' ESG Rating. In addition to the initial ESG Rating threshold, a fund must meet the following requirements for inclusion in the ESG Fund Rating report coverage:

- A minimum of ten holdings in the fund;
- A minimum of 30 rated funds in the benchmark peer set;
- Fund and fund holdings data must be reported within 12 months; and
- The fund must not be in an excluded Lipper Global Classification peer set.

These requirements are intended to ensure that the ESG Fund Rating signal is meaningful, comparable, and up to date.

Coverage – Preprocessing

Fund preprocessing includes the steps in data and report generation that evaluate fund holdings to determine the suitability of holdings for inclusion in ESG Fund Rating data calculations and signals. The process also performs any currency conversions to return a uniform analysis currency (USD) and processes calculations for key fund metrics, such as fund analysis value, analysis weight, holdings weight, and any normalized data inputs.

During preprocessing a fund is evaluated to determine whether it holds funds. Any held funds are decomposed into its constituent holdings and the holdings, including weights, are aggregated to the parent fund's portfolio.

Report Page Generation

A standard ESG Fund Rating report is typically 10 pages long and includes individual pages for major ISS ESG research products, including Governance QualityScore; Norm-Based Research; Controversial Weapons; Sector-Based Screening; Energy and Extractives; SDG Impact Rating; Carbon Emissions and Climate Change; and Voting Analytics. However, not all ESG research products apply to all types of funds. For example, a fund composed of sovereign bonds would be covered under the ISS ESG Rating product, though content related to corporate governance and voting analytics would not apply to the holdings. Consequently, the ESG Fund Rating report is designed to omit any pages where data is not relevant to the fund. All reports will have, at a minimum, the overall fund rating page (page 1), and the ESG Rating page (page 2).

Calculation Types

ESG Fund Rating utilizes standardized calculation types to aggregate the ESG performance data for fund holdings into fund-level signals. The primary calculation types used in the ESG Fund Rating report include:

- Weighted Average
- Involvement
- Sum-If
- Count-If
- Percent
- Max-If and Min-If
- Mean and Median Value
- Rank
- Percentile
- Peer Average

Weighted Average: The weighted average calculation is the primary mechanism used for calculating values where there is a need to account for the differing weights of the underlying holdings. An example of a weighted average calculation in the ESG Fund Rating report is the overall ESG Performance Score value. Each holding with an ESG Rating has a numeric ESG Performance Score from 0 to 100, and those scores are first multiplied by the holding's weight before summing the results and dividing by total weight.

Involvement: The involvement factor type simply looks at the underlying holdings to see if any holding has involvement in a specific business activity. An Involvement factor may return a Boolean, i.e., a binary true/false signal, or a string describing the type of involvement. For example, the "Fossil Fuel - Involvement Tie" factor evaluates holdings for involvement in fossil fuels in a Production, Distribution, Exploration, or Services capacity, and if found the fund value for that factor returns the string "Production", "Distribution", "Exploration", and/or "Services" depending on the tie.

Sum-If and Count-If: The sum-if and count-if calculations are used extensively throughout the ESG Fund Rating report. These factors typically employ an initial test, usually based on involvement in a given issue, and then either sum the weight of holdings that meet the test or count the number of holdings or cases involved. Examples include "Fossil Fuel - Holdings Any Tie Percent by Weight" and "Fossil Fuel - Holdings Count by Any Involvement Tie".

Max-If, Min-If, Mean, and Median: The maximum-if and minimum-if functions, along with mean and median values are most commonly used in the ESG Fund Rating report in charts that illustrate the maximum and minimum values in a range, as well as a midpoint signal. For example, the "SDG Impact Rating Median and Range by Goal" chart identifies the best and worst SDG Impact scores among holdings per SDG goal, as well as the median score in the range.

Rank and Percentile: The rank and percentile calculation types are more uncommon in the ESG Fund Rating report; however, they are present on the first page where the fund's overall rank and percentile compared to peers is displayed alongside other primary scores. The rank function is also used to prioritize holdings in the various Top 5-type charts throughout the report.

Peer Average: Most report pages include at least one comparison between fund performance and the performance of funds in its peer set. Within the ISS ESG Fund Rating report a fund's peer set is defined by the Lipper Global Classification (LGC) system which seeks to "create homogeneous groups of funds with comparable investment objectives. Funds within one LGC sector invest in the same financial markets or specific segments of those markets but may adopt different investment strategies or styles to achieve their investment objectives."* The Peer Average calculation type typically begins with one of the foregoing calculation types to generate scores per fund, which are then averaged across the scores for the peer set. For example, each fund receives a weighted average ESG Performance Score value, then these scores are averaged across the peer set funds to create the Peer Set ESG Performance Score value.

The ESG Fund Rating report includes additional calculation types beyond the standard types described above, including the translation of ESG Performance Score values into the relative Stars rating. However, the reports and factor data are primarily derived based on the standard types.

* Lipper Global Classifications – Category Definitions, LSEG, 15 February 2019

Primary Ratings Signals and Methodology

The ESG Fund Rating report highlights three primary signals – the relative Stars rating, the absolute ESG Performance Score, and the Prime status and disqualifiers.

Every fund in the ESG Fund Rating coverage receives an overall relative 1- to 5-star rating. Funds that perform best from an ESG perspective relative to peers receive 5 stars, and funds on the bottom end of the scale receive one star. It is important to note that the Stars rating is a relative rating signal that compares the fund's performance against its peers, with the peer set defined by the Lipper Global Benchmark class.

The relative Stars rating is based on an absolute value – a weighted average of the ESG Performance Score values for the fund's holdings. The ESG Performance Score is the primary numeric signal (0 - 100) from the ISS ESG Corporate and Country Ratings, which look holistically at an issuer's or country's sustainability performance across a wide set of metrics and themes.

To convert from an absolute ESG Performance Score to the relative Stars rating, curved buckets are applied to the Performance Scores for funds in the peer set. The top 10% of funds in the peer set receive 5 stars; the next 20% receive four stars, the middle 40% get three stars; then again 20% and 10% to round out the 2- and 1-star funds. Guardrails are used to ensure that funds are not unduly rewarded or penalized on a relative basis if the peer set is primarily made up of leaders or laggards.

In practice, this means that all funds that have an ESG Performance Score at or above 50 will receive 4 or 5 stars, and all funds with a Performance Score below 25 will receive 2 or 1 stars. If guardrails are used in a peer set, then the buckets are adjusted proportionally.

In addition to the relative Stars rating and the absolute ESG Performance Score, the other major ESG Fund Rating signal is the fund's Prime status. Similar to the Prime status signal in the ESG Rating, the fund Prime status signal requires a fund to have an ESG Performance Score of at least 50 to be eligible for Prime. However, a fund must also pass a set of disqualifier tests. These tests include disqualifying a fund if it has:

- Any Norm-Based Research "Red" flagged holdings;
- 10% or more of fund holdings by weight with SDG Impact scores in Significant Negative Impact;
- A Relative Carbon Footprint of 150% or more compared to the peer set average;
- Any holdings with a "Red" assessment for Controversial Weapons; or
- 10% or more of fund holdings that have less than 90% support for the key voting proposals of Elect Director and Ratify EO Comp

If a fund fails any of these tests it is not considered "Prime", though it may still have high scores for the Stars rating and ESG Performance score.

ESG Fund Rating Report – Content by Page

The standard ESG Fund Rating report is approximately 10 pages in length, plus coverage and methodology information in the appendix. Report pages are organized thematically and are aligned with core ISS ESG research products to allow users to utilize the full report or focus on individual pages that address specific ESG priorities or requirements. The following pages of this methodology document provide an overview of the content, infographics, and data on each page of the ESG Fund Rating report.

To fit the presentation format defined by this document, each report page has been divided into its component sections, with an image of the page section presented first followed by explanatory notes on the key items in that section. However, within the ESG Fund Rating report pages are either generated in their entirety or omitted if the thematic content is not applicable to fund holdings.

Overall Rating Signals and Fund Information (Page 1)

The Overall Rating Signals and Fund Information page provides an overview of key fund performance signals as well as general information on the fund itself.

Fund Introduction and Primary Rating Signals
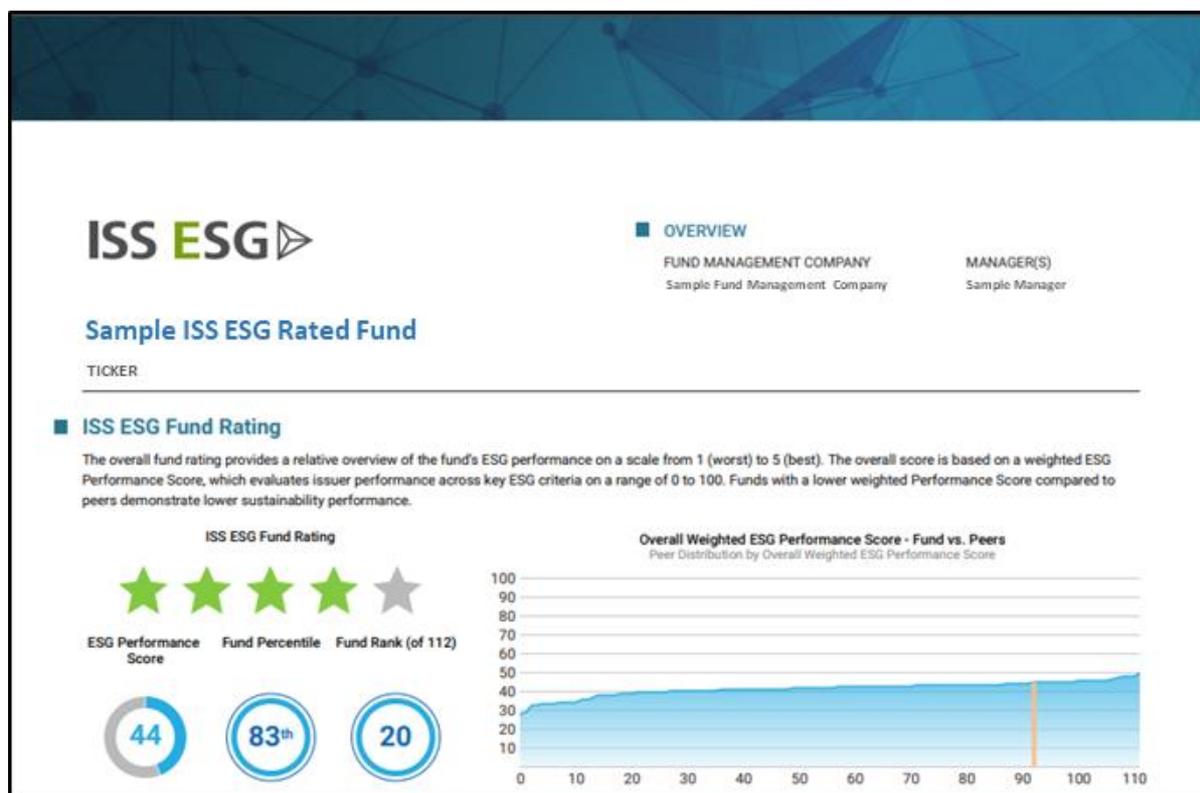
The upper portion of the Fund Introduction and Primary Rating Signals section provides basic introductory details, including fund name, ticker, and manager information as disclosed in the LSEG resource.

The heart of the Overall Rating Signals and Fund Information page is the presentation of the key rating signals in the center of the page. The primary ESG Fund Rating signal - the overall ESG fund Stars rating, is displayed prominently with a 1 to 5 stars graphic where the number of stars in green equates to the overall Stars rating. Below the Stars rating graphic is the primary absolute ESG performance value for the fund - the weighted average ESG Performance Score. Also included in the primary signals section is the fund's percentile compared to peers in its Lipper Global Classification set as well as the fund's rank in that same set.

The bar chart to the right of the primary signals reinforces the ESG Performance Score, fund percentile, and rank values by placing the fund's position within a visualization of the overall distribution of ESG Performance Score values for the peer set. In this chart the fund's position is marked by a vertical amber bar. The peer set is organized along the X axis by ESG Performance Score from low to high, with the count of funds in the peer set defining the range. The Y axis is the ESG Performance Score range from 0 – 100. In the example image the fund sits near the upper end of the peer set and the majority of peer funds score between 30 and 40, though there are distinct groups of leaders and laggards in the tails.

Fund Prime Status and Disqualifiers
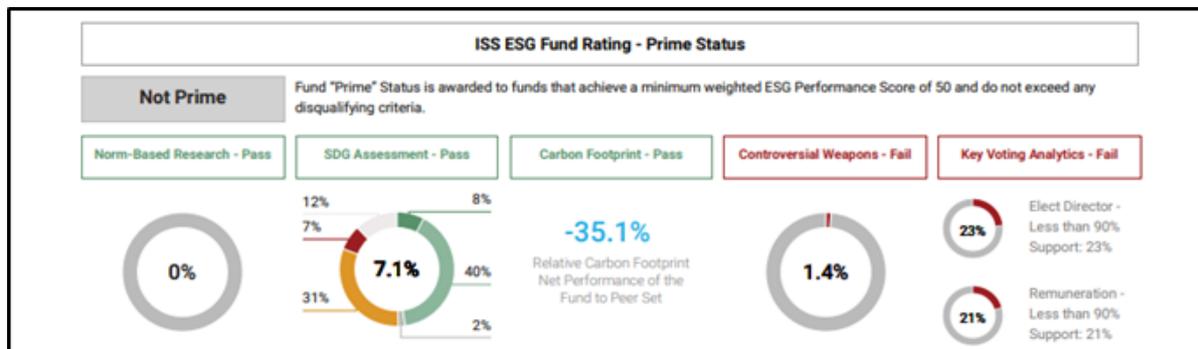
Prime Status

The ISS ESG Prime status section is found just below the primary overall ESG rating signals on the first page. The fund's overall Prime status is immediately apparent with the Prime or Not Prime graphic in the upper left. The fund in this example does not have the minimum ESG Performance Score of 50 to qualify for Prime status. In addition, the fund does not pass two of the five disqualifier thresholds, which can be seen in the Pass/Fail boxes for each theme.

Prime Disqualifiers

Norm-Based Research: The Norm-Based Research disqualifier fails a fund if it has any red flagged holdings. In the example image the fund does not have red flagged holdings so the donut chart is grey and presents a zero value. If red flagged holdings were present, the donut chart would signal the percent of the fund exposed based on the sum of weight using a red segment on the donut chart and by placing the corresponding value in the center.

SDG Impact: The SDG Impact disqualifier fails a fund if 10% or more of the fund's holdings by weight fall into the Significant Negative Impact category for the overall SDG Impact factor. In the example image only 7.1% of the fund lands in Significant Negative Impact so this fund passes this test, and the value is displayed in the center of the donut as well as in the red segment.

Relative Carbon Footprint: The carbon footprint disqualifier uses data from the Relative Carbon Footprint Net Percentage Difference factor. A fund fails this disqualifier if it is at or above 150% of the peer set average. This threshold translates into a negative 50 value as displayed on the report. If the displayed value is greater than negative 50 the fund passes the disqualifier. The fund in the example image has a value of negative 35.1 percent, which means that the fund's relative carbon footprint is worse than the average of its peers, but not to the point where it triggers the disqualifier threshold.

Controversial Weapons: The test for the Controversial Weapons disqualifier is set to zero tolerance. If a fund includes holdings with "Red" exposure to selected Controversial Weapons Research issues, the weight of the holdings with involvement is displayed as a numeric value in the center of the donut and in a red donut segment. The controversial weapons issues selected for this test are Antipersonnel Mines, Cluster Munitions, and Biological, Chemical, and Nuclear Weapons (Inside and Outside NPT). In the example image this fund has 1.4% of the fund by weight exposed to controversial weapons and, given the zero-tolerance threshold for this disqualifier, the fund fails the disqualifier as seen in the fail signal at the top of the infographic.

Key Voting Analytics: The Key Voting Analytics disqualifier is a bit more complicated than the other tests. For this disqualifier a fund is evaluated to determine if there are holdings that have received less than 90% support on two key votes; any elect director vote from the recent meeting as well as the vote to approve the remuneration report. A vote of less than 90% for these proposals at a company can be interpreted as a sign of discontent as these votes generally receive strong support. The disqualifier sums the weight of holdings that fall below the 90% support threshold on each key vote. However, a fund will only trigger the disqualifier if the sum of weight meets or exceeds 10% of the fund for both votes. In the example image, the fund does exceed the 10% threshold for both votes and therefore also fails this disqualifier.

Fund Overview
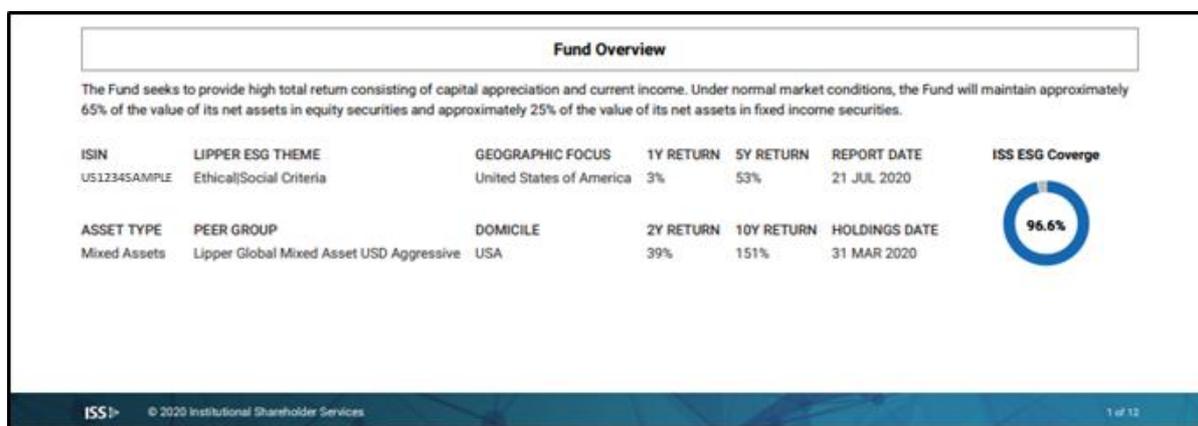
The Fund Overview section completes the first page of the ESG Rating Report by providing a selection of important fund overview metrics. These include the fund objective statement; an indicative ISIN; the asset type, such as equity, bond, mixed, etc.; a Lipper ESG Theme item that flags whether Lipper has identified the fund as having stated ESG requirements; the Lipper Global Classification peer group; the domicile and geographic focus of the fund; the 1, 3, and 5-year returns based on percentage growth; the date the report was generated as well as the date provided for the holdings information; and finally a small donut chart identifying the percent of holdings covered by the ESG Rating. All metrics except the Report Date and ISS ESG Coverage graphic are provided by LSEG. The Report Date identifies the date on which the ESG Fund Rating process generated the report. The ISS ESG Coverage item displays the percentage by weight of holdings covered by the ISS Rating product. Coverage of 65% by weight is the minimum threshold for an ESG Fund Rating report to generate.

ESG Rating (Page 2)

The ESG Rating page provides an overview of fund performance based on ISS' ESG Corporate Rating and Country Rating products. The ESG Corporate Rating delivers highly relevant, material and forward-looking assessments of companies' ESG performance drawing from a pool of over 700 indicators, of which approximately 90% are industry-specific. The ESG Country Rating generates rating signals using detailed information on the sustainability performance of all EU, OECD and BRICS countries, as well as major sovereign issuers from the Americas, Europe, Asia, Africa, and Oceania.

## Overall Weighted ESG Performance Score and Prime Status
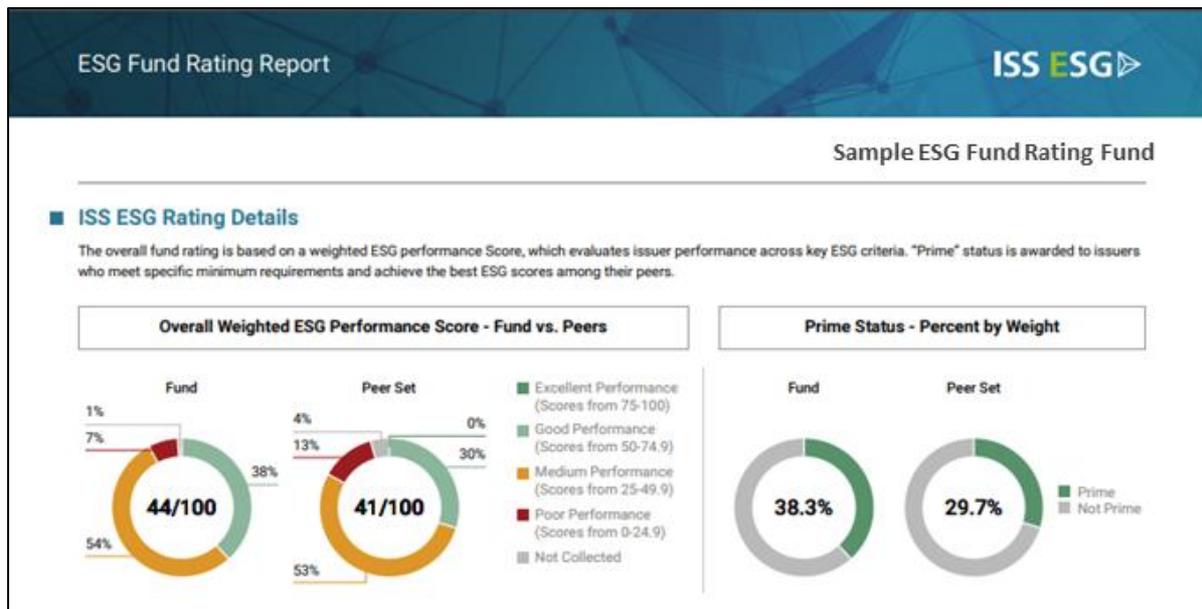
The ESG Rating signals, and the ESG Performance Score in particular, provide the key inputs in determining the overall fund rating and communicate the fund's sustainability performance.

The top of the page focuses on the distribution of ESG Performance score values among fund holdings by grouping the scores into bands denoting Excellent Performance, Good Performance, Medium Performance, and Poor Performance, plus Not Collected for fund weight outside of coverage. The fund's performance by category can be readily compared against the peer set by looking at the segment values in the donut charts, with each segment reflecting the weight of holdings in each category. The fund's overall weighted average ESG Performance Score is presented in the center of the donut and offers a comparison against the peer set average score. In the example image, the fund has a better weighted average ESG Performance Score – 44 versus 41, and 38% lands in the Good Performance segment.

The adjacent Prime Status – Percent by Weight chart highlights the percent of holdings by weight that have achieved Prime status in the fund and as an average across the fund's peer set. The actual value is presented in the center of each donut. The threshold for Prime status in the ESG Corporate and Country Ratings is an ESG Performance Score of 50 or greater, which is also the threshold for the Good Performance level. Thus, the Prime Status chart mirrors the sum of the adjacent Excellent Performance and Good Performance segments, though by simplifying the chart to focus only on Prime holdings this important signal is more clearly communicated.

Overall ESG Rating Grades by Percent of Aggregated Weight
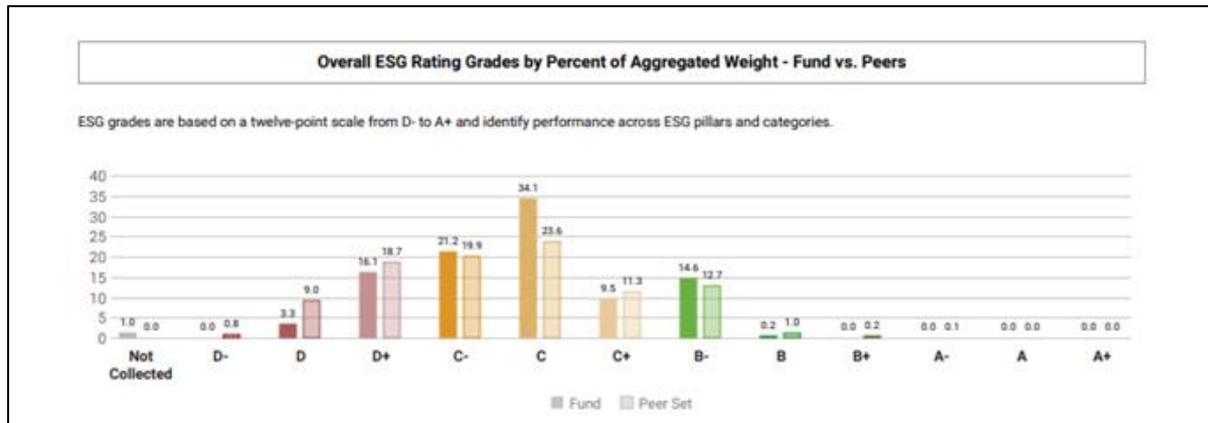
The Overall ESG Rating Grades by Percent of Aggregated Weight chart again uses a sum of weight calculation to illustrate fund performance, though in this chart the data is organized by the overall ESG Rating letter grade (D- to A+). At each grade the fund's performance is presented side by side with the peer set average instantly communicating both the distribution of grades as well as over- or under-performance when compared with peers. In the example image both the fund and the peer set have a distribution centered around C. Results by grade are a bit mixed. To the fund's credit, the fund has less of its weight than the peer average in the lower grades – D minus, D, and D plus. The fund does have more weight than peers in the middle values at C minus, C, and B minus. However, the fund lags slightly in the best grades. The distribution also demonstrates that this fund is more heavily concentrated in the middle grade levels as holdings are less present in the high and low grade levels than the peer average.

Weighted Rating Grade by ESG Pillar and ESG Ratings for Top Five Holdings

Weighted Rating Grade and Range by ESG Pillar

The Weighted Rating Grade and Range by ESG Pillar bar chart provides a side-by-side comparison of fund and peer performance within the environmental, social, and governance pillars using the numeric ESG Rating pillar factors. The top and bottom of each bar shows the maximum (best) and

minimum (worst) scores among holdings. The grey bars in the middle provide a weighted average score for the pillar. In the example image the fund performs best in the governance pillar. Not only is the governance score of "B" higher than that of its environmental and social scores, the score range as a whole is concentrated in the better scores. This fund's environmental and social pillar scores both land at "C". Looking at the fund compared to peer averages, this fund's scores are in line with the peer average, with a very slight outperformance in each pillar. As can be expected, the range of scores for the fund's holdings are not as broad in comparison with the maximum and minimum holdings value among the set of peer funds, which for this peer set basically covers the full scoring range in each pillar.

Top Five Holdings by Weight – Rating Scores and Prime Status

The Top Five Holdings by Weight – Rating Scores and Prime Status data table on the right simply selects the five largest fund holdings by weight and presents their scores for the key metrics drawn from the infographics on the page, including ESG Performance Score, Performance Category, Rating Grade, and Prime Status.

Governance QualityScore (Page 3)

Governance QualityScore provides a data-driven scoring solution designed to help evaluate a company's quality factors and assess governance risk across four categories: board structure; compensation and remuneration; shareholder rights; and audit and risk oversight.

Governance QualityScore Overview and Women on Board - Weighted Percent
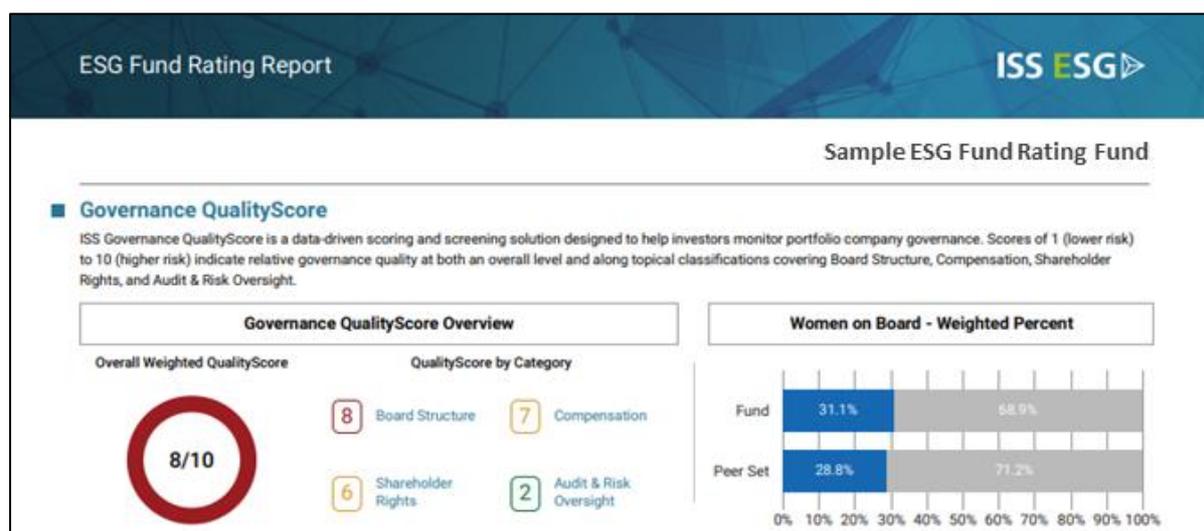
Governance QualityScore Overview

The Governance QualityScore page begins by communicating the fund's overall weighted Governance QualityScore value. This calculation is a little different from other weighted average factors in that an additional step is applied. The standard Governance QualityScore methodology generates raw values that are then sliced into deciles by market to arrive at the Governance

QualityScore number. For funds, a weighted average is applied to the QualityScore deciles for the fund's holdings, but then the fund's raw score is then ranked against peer set funds and converted into deciles. This extra step helps to better align the fund rating methodology with the methodology for corporate issuers. The resulting overall decile score is placed in the center of the circle and the circle's color reflects the red (scores 8 to 10), amber (4 to 7), green (1 to 3) signaling used in Governance QualityScore reports. The example report shows an overall Governance QualityScore of 8 inside a solid red circle. Adjacent to the overall score, there are the category scores for Board Structure, Compensation, Shareholder Rights, and Audit and Risk Oversight, which use the same methodology.

Women on Board – Weighted Percent

The top of the page also includes a stacked bar chart comparing the weighted percent of women on the board among fund holdings to the average value for the peer set. The example image indicates that this fund is basically aligned with the peer average with perhaps just a slight out-performance. The underlying data for this assessment is drawn from the Gender Diversity - Percentage of Women on Board factor.

Governance QualityScore Risk Level by Category
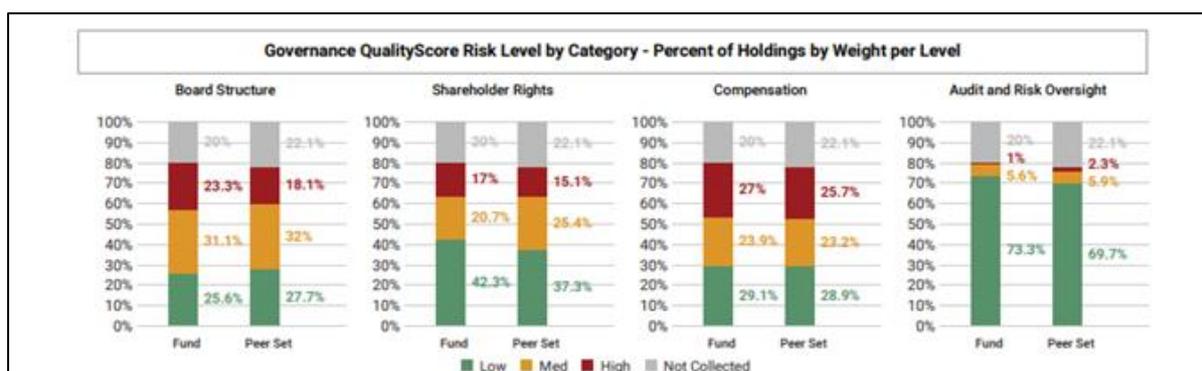
The middle section of the page assesses fund and peer set performance by Governance QualityScore category. Each stacked bar chart sums the weight of holdings based on their category-specific QualityScores. For example, all holdings with a Board Structure QualityScore of 8, 9, or 10 would contribute their weight to the red segment and value; holdings with scores of 4 to 7 would go into the amber segment; and scores of 3, 2, or 1 would fill out the green segment. The corresponding peer set bars start with the individual fund scores, then averages the scores among peer set funds. In the example image, the fund broadly tracks the peer set average in most categories, with some differentiation in specific segments.

Top Five Holdings with Poor Governance QualityScores

Top 5 Holdings with Poor Governance QualityScores					
Issuer Name	Fund Weight	Overall QualityScore	Board Score	Shareholder Rights Score	Compensation Score	Audit Score
Alphabet Inc.	2.44%	10	6	10	10	2
CME Group Inc.	1.5%	10	4	9	7	1
Facebook, Inc.	1.41%	10	6	10	10	5
Netflix, Inc.	1.36%	10	10	10	10	2
The Estee Lauder Companies, Inc.	1.18%	10	10	10	6	1
Total for Top 5	7.88%					

Following the categories section there is a data table presenting the top five holdings with poor Governance QualityScores along with the overall and category scores for the selected holdings. The table uses two tests to select and organize the holdings displayed – it first prioritizes holdings based on their overall Governance QualityScores starting with the worst performers, i.e., a company with a score of 10 would be selected before a 9 and so on, and then displays the selected companies based on the size of the holding in the fund. In the example fund there are at least five holdings with a score of 10 and they are presented in the order of their weight.

Key Governance QualityScore Factors – Fund Weight with Adverse Performance and Median Board Independence
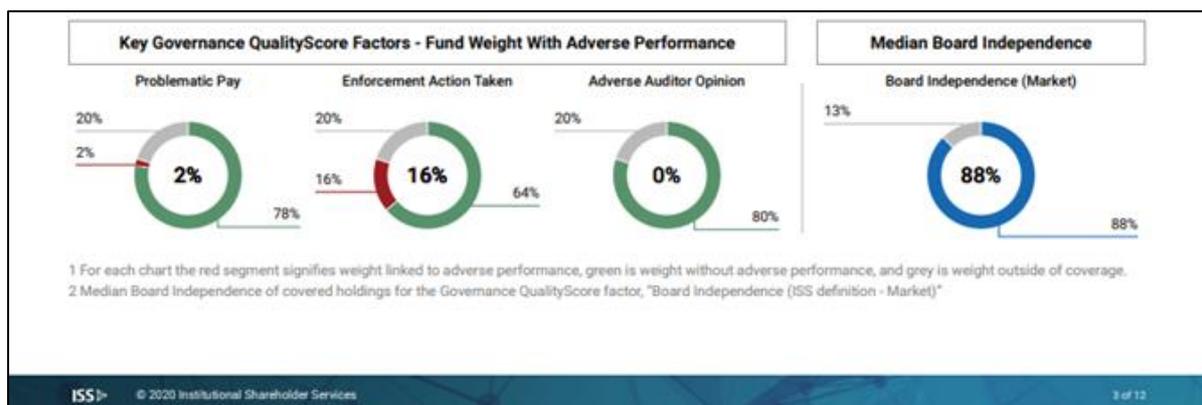
The lower section of the Governance QualityScore page is used to highlight fund performance across four key Governance QualityScore factors. The Problematic Pay chart is drawn from the "Problematic Pay Practice or Policy Identified by ISS" factor, with any of the "Yes" values for holdings contributing their weight to the red segment and the number in the center of the donut. Similarly, the Enforcement Action Taken item comes from the "Enforcement Action Taken Against Company In Past 2 Years" factor and follows the same methodology and report presentation, as does the Adverse Auditor Opinion factor that flags holdings with adverse or qualified opinions.

The last item on this page evaluates Board Independence. Since this factor does not have the same pronounced good versus bad dichotomy as the other factors, the color scheme is changed to a more neutral presentation using the blue segment and the number in the center to communicate the median board independence percentage among fund holdings and a grey segment for the remainder.

Norm-Based Research (Page 4)

The Norm-Based Research product assesses issuers' adherence to international norms on human rights, labor standards, environmental protection, and anti-corruption established in, among others, the UN Global Compact, the OECD Guidelines and the Sustainable Development Goals.

Fund Holdings – Worst Case Score and Overall Issuer Flags – Percent by Weight
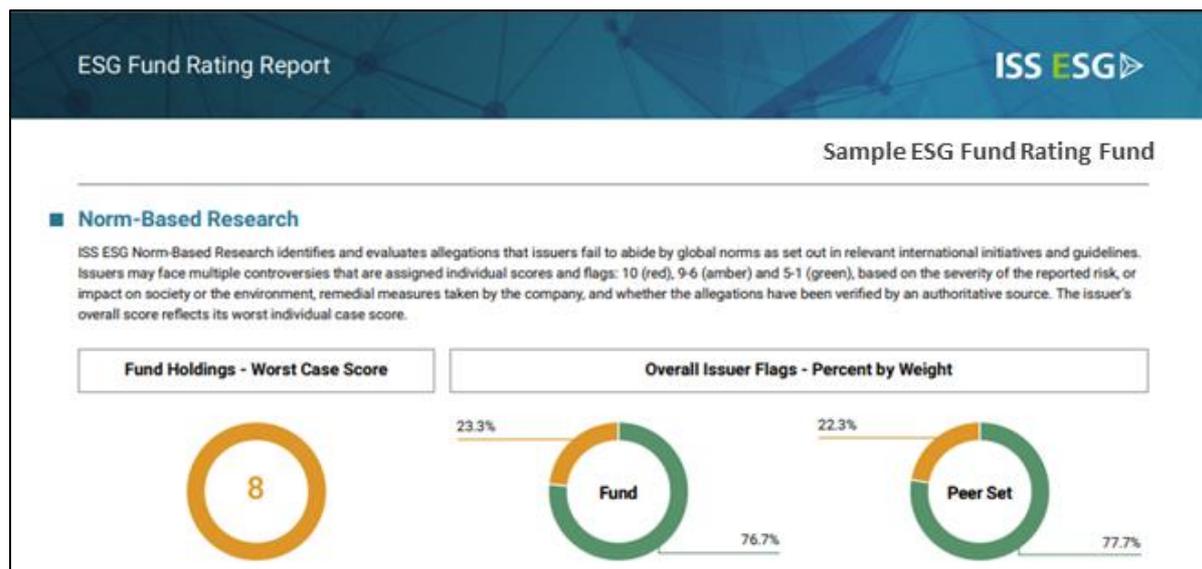
The top section of the Norm-Based Research (NBR) page evaluates fund exposure to violations of international normative standards of behavior. The primary signal for NBR is a 1 to 10 score complimented by a red, amber, or green flag. Stylistically it aligns with the Governance QualityScore scoring; however, the underlying methodology is completely different. While Governance QualityScore uses a decile approach to reach its 1 to 10 score, NBR is a standards-based methodology where each rung in the 1 to 10 scale represents increasingly elevated severity or impact. Moreover, the standard NBR product uses a worst-of approach, whereby a company's worst individual case score informs the top-level company score. The ESG Fund Rating methodology follows the same format, which means the overall fund rating NBR score and flag is taken from the worst score among fund holdings. The resulting overall score is placed in the center of a solid ring and the ring color reflects the associated flag color for that score. In the example image, this fund has an NBR overall score of 8 which results in an amber flag.

The donut charts to the right of the overall score communicate the percent of weight of holdings based on overall red, amber, and green flags. The peer set value is an average of the fund values within the peer group. In the example image, the fund does not have any red flag holdings and amber flagged holdings make up a bit less than a quarter of the scored holdings in the fund.

Red and Amber Flagged Issuers – Exposure by Score

Flag	Count of Holdings	Count of Cases	Percent of Holdings	Fund Weight by Holdings	Peer Set Avg. Weight by Holdings
10 (Red) Verified Failure	0	0	0.00%	● -	● 1.6
9 (Amber) Imminent Failure	0	0	0.00%	● -	● 0.3
8 (Amber) Alleged Failure	7	18	7.87%	● 11.0	● 13.5
7 (Amber) Verified Failure, Undergoing Remediation	4	6	4.49%	● 4.1	● 3.6
6 (Amber) Fragmentary Information	3	3	3.37%	● 5.6	● 3.3
Total	14	27	15.7%	● 20.7	● 22.3

Red and Amber Flagged Issuers - Fund vs. Peers

The middle section of the page provides more granular information on the presence of Red and Amber-level scores and flags among fund holdings. The upper table is organized by score level and for each of the red and amber score levels, scores 10 through 6, the table provide the count of holdings per score, the count of cases, the percent of holdings by count, the percent of holdings by weight, and the corresponding peer set average percent of holdings by weight. In the example image, the fund does not have any cases in the 10 and 9 score levels, though there is exposure at score level 8 and at lower levels.

Red and Amber Flagged Issuers – Exposure by UN Global Compact Pillar

UN Global Compact Pillar	Fund Weight by Holdings	Peer Set Avg. Weight by Holdings
Human Rights	● 12.1	● 11.7
Labour Rights	● 9.1	● 7.7
Environment	● 0.0	● 3.0
Anti-Corruption	● 9.0	● 8.1

Count of Red and Amber Cases by UN Global Compact Pillar
Weight of Red and Amber Cases by UN GC Pillar - Fund vs. Peers
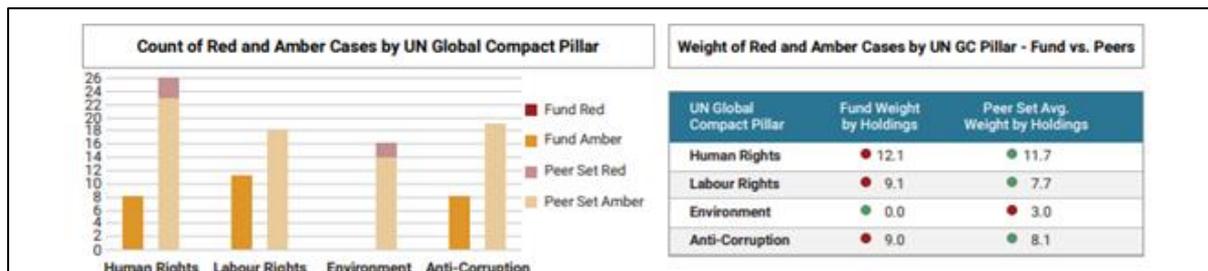
The UN Global Compact bar chart and data table also focus on fund exposure to Red and Amber cases; however, here the perspective is changed to organize the NBR data by UN Global Compact pillar. The UN Global Compact provides both a set of standards of expected behavior as well as a framework for categorizing the standards, including pillars for human rights, labour rights, environment, and anti-corruption. The count of red and amber cases by UNGC pillar has been presented as a stacked bar chart allowing for quick comparison between the fund and the peer set average values. The data table to the right provides the weight of holdings with Red and Amber cases by UN GC pillar. A green dot signifies a value that is lower, or better, than the corresponding metric. In the example image the fund appears to be doing comparatively better than the peer set average by count, with significantly less cases in each of the UN GC pillars. Based on weight though, the fund's exposure exceeds the peer set average in three of the four pillars.

Top Five Fund Holdings with Poor Norm-Based Research Scores

Top 5 Fund Holdings with Poor Norm-Based Research Scores					
Issuer Name	Fund Weight	Overall Issuer Flag	Overall Issuer Score	No. of Red Cases	No. of Amber Cases
Amazon.com, Inc.	2.87%	AMBER	8	0	6
Alphabet Inc.	2.44%	AMBER	8	0	3
CVS Health Corporation	1.45%	AMBER	8	0	1
Facebook, Inc.	1.41%	AMBER	8	0	6
The Goldman Sachs Group, Inc.	0.89%	AMBER	8	0	3
Total for Top 5	9.05%			0	19

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The table at the bottom of the NBR page identifies the top five fund holdings on the basis of poor Norm-Based Research scores. The holdings on the list are selected and ranked by worst overall NBR scores, then by the weight of the position in the fund. The information on the size of the position as well as the number of Red and Amber cases provide insight into the fund holdings that may be driving negative performance based on NBR standards, including NBR Red flags that would cause a fund to fail the NBR Prime status disqualifier.

Controversial Weapons, Sector-based Screening, and Energy and Extractives (Page 5)

The ESG Fund Rating report page for Controversial Weapons, Sector-based Screening, and Energy and Extractives research seeks to assemble a selection of the most common themes and data factors used for screening and evaluating exposure to controversial activities. ISS ESG's Controversial Weapons Research assesses companies' involvement in banned or controversial weapons, including anti-personnel mines, cluster munitions, and biological, chemical, and nuclear weapons. The Sector-based Screening product monitors involvement in a wide range of products and services such as alcohol, gambling, pornography, tobacco, military equipment and more. The Energy and Extractives research covers involvement in the extraction of fossil fuels, and the generation of power from fossil fuels, nuclear and renewable sources.

It is important to note that while there is a lot of information packed into this ESG Fund Rating report page, it is impossible to cover all of the Controversial Weapons, Sector-Based Screening, and Energy and Extractives topics in this report. ISS ESG has developed ESG Fund Screening data factors for additional screening topics. Please contact ISS ESG for more information on additional screening content.

Controversial Weapons
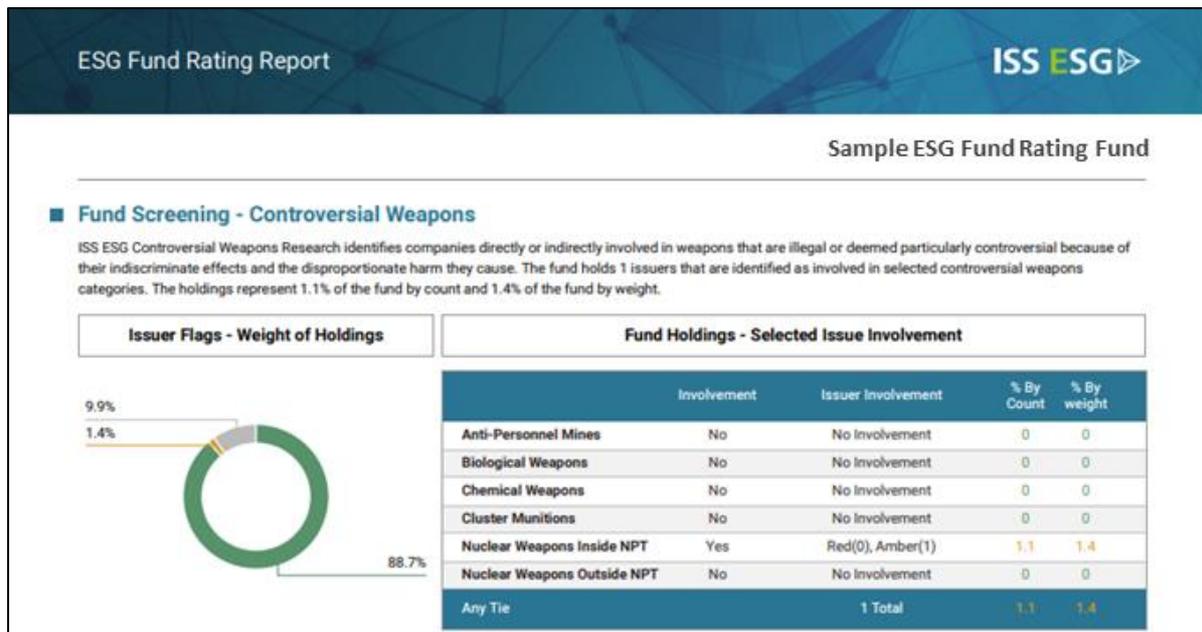
The Controversial Weapons section begins with introductory text that includes both a short explanatory note on the issue area as well as the primary exposure metrics for the category. In the example image the text communicates that the fund has one holding with involvement in controversial weapons, and that issuer represents 1.1% of the fund by count and 1.4% of the fund by weight. These exposure metrics are then echoed visually in the donut chart, which again highlights the weight of holdings with involvement in the selected issues. Within the Controversial Weapons Research product issuers with involvement are assigned Red, Amber, or Green assessments depending on the nature of involvement, and the donut chart will include red, amber, and green segments based on the weight of holdings with exposure at each level.

Adjacent to the donut chart is a data table that presents the exposure data at a more granular level. Each of the selected weapons systems is included as a row and for each system the table provides a quick Boolean yes/no indicator of involvement; the general nature of issuer involvement, including a count of Red and Amber assessments; and the percentages by count and weight for involvement in each area. In the example image it is clear this fund has exposure to nuclear weapons at the amber level and the involvement amounts to 1.1% percent of the fund using a percentage by count and 1.4% by weight. It is important to note that fund holdings can be involved in multiple issue areas on the table, thus the total at the bottom of the table is not a simple sum of the values above.

Sector-Based Screening
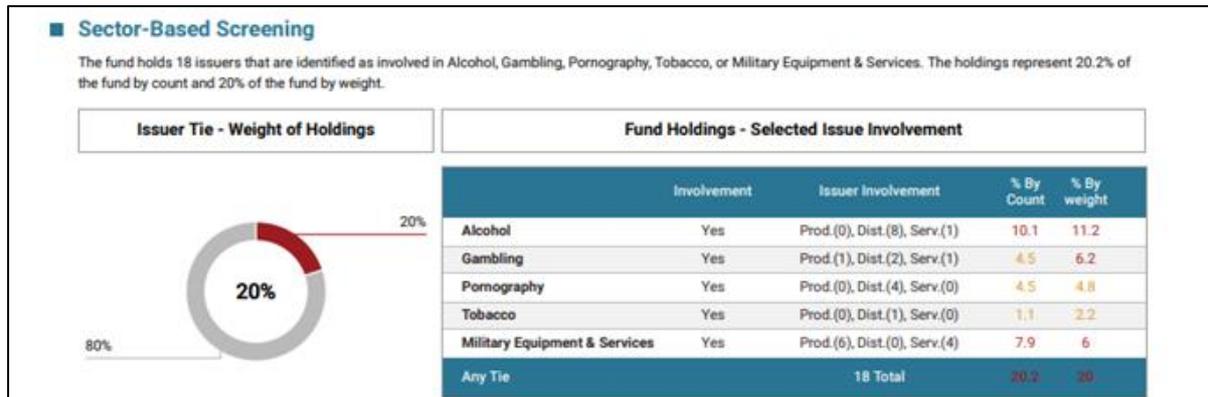
The Sector-Based Screening and Energy and Extractives sections follow the same basic pattern as the Controversial Weapons section. Each includes an introductory statement with the primary exposure metrics, followed by the more visual donut chart, and then the in-depth data table.

Within the Sector-Based Screening section the selected topics include alcohol, gambling, military equipment, pornography, and tobacco. In the example image, the fund shows broad exposure to the selected SBS issues – it is linked to all of the topics at varying levels of involvement. Also, the overall fund exposure is significant with about 20% of the fund involved, both by count and by weight. These metrics inform the values in the introductory text for the section as well as the donut chart where the percentage by weight for exposure is communicated in both the red segment and the value in the center of the donut.

To help quickly parse the results on the page the data table uses color cues to highlight values at common screening thresholds. If the values for percent exposure by count or weight are at five or greater the text is changed to red, if it is between one and five percent the text is amber, if between zero and one it is yellow, and if zero the text is green. Again, similar to the Controversial Weapons section, it is important to note that fund holdings can be involved in multiple issue areas on the table, thus the total at the bottom of the table is not a simple sum of the values above.

Energy and Extractives
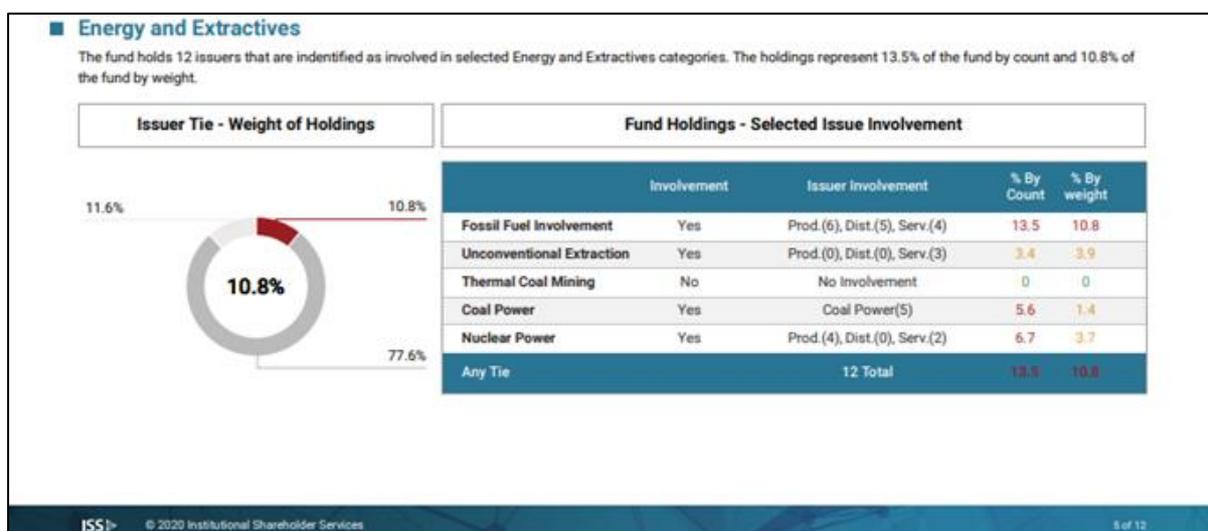
The Energy and Extractives section follows the same approach as the Controversial Weapons and SBS sections above. Within Energy and Extractives the selected topics are general involvement in fossil fuels; involvement in unconventional extraction techniques such as fracking and arctic drilling; coal mining and power production from thermal coal; and nuclear power. In the example image this fund demonstrates significant exposure to these topics with involvement in all of the selected issues except Thermal Coal Mining. By count of holdings the percentage of the fund involved is 13.5%, though this is reduced to 10.8% when looking at the percentage based on holdings' weight. Similar to the other sections, these values are presented in the introductory text for the section and the percentage by weight metrics inform the red segment and numeric values in the donut chart.

SDG Impact and Solutions (Page 6)

The ISS ESG SDG Impact Rating provides a holistic assessment of a company's positive or negative impact on the United Nations' Sustainable Development Goals based on three key pillars: Products and Services, Operations Management, and Controversies. The SDG Solutions Assessment product evaluates the positive or negative impact of a company's product and service portfolio on the SDG objectives.

### SDG Impact Rating Overall Average Rating and Segment Percent by Weight
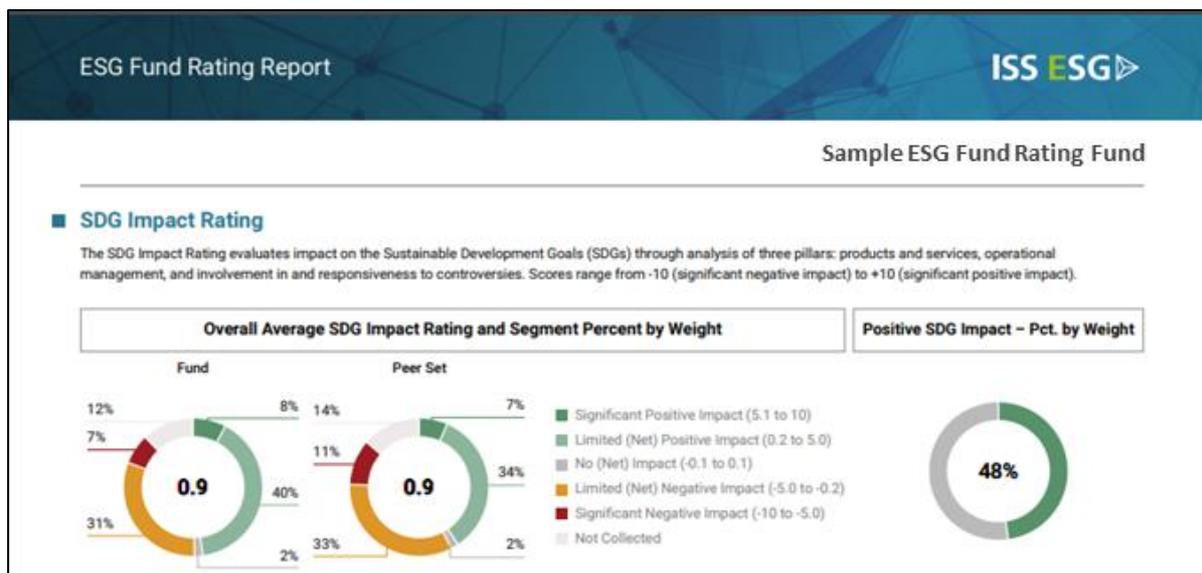
The SDG Impact and SDG Solutions Assessment research evaluates impact against SDG goals using a scoring range from -10, which means a significant negative impact, to +10 for significant positive impact.

At the top of the page there is a donut chart presenting the fund's overall SDG Impact performance based on the weight of holdings' scores per SDG Impact level, which includes Significant Positive Impact, Limited Positive Impact, No Net Impact, Limited Negative Impact, and Significant Negative Impact, plus a Not Collected segment for holdings weight outside of coverage. The center of the donut conveys the weighted average SDG Impact score. The adjacent peer set information allows for a quick assessment of the fund's over or underperformance against the average values for the peer

group. In the example image, this fund has the same overall weighted average SDG Impact Rating (0.9) and a broadly similar distribution of weight within the Impact performance categories.

The Positive SDG Impact – Pct. By Weight chart to the right presents the same data as the overall SDG Impact Rating chart for the fund, but by focusing on the fund's total positive SDG Impact weight – Significant Positive Impact plus Limited Positive Impact, this chart better highlights the extent to which the fund is invested in holdings with positive or negative impacts.

SDG Impact Rating Median and Range by Goal

SDG Impact Rating Median and Range by Goal	-10	-7.5	-5.0	-2.5	0	2.5	5.0	7.5	10	Median Score
No Poverty										0
Zero Hunger										0
Good Health and Well-being										1.2
Quality Education										0
Gender Equality										0.5
Clean Water and Sanitation										0
Affordable and Clean Energy										0
Decent Work and Economic Growth										-0.5
Industry, Innovation and Infrastructure										2.3
Reduced Inequality										2.4
Sustainable Cities and Communities										0
Responsible Consumption and Production										0.4
Climate Action										0.8
Life Below Water										0
Life on Land										0
Peace and Justice Strong Institutions										2.8
Partnerships to Achieve the Goal										2.5

The infographic in the middle of the page is a bit different from other charts in the report so far. As SDG Impact scores can have pronounced differences ranging from -10 to +10, this chart seeks to communicate for each SDG goal the highest individual holding score, the lowest individual holding score, and the median individual score. This approach helps communicate where the fund shows positive performance per goal, where there is problematic goal performance, as well as the extent to which scores are tightly clustered or spread across the full range. Looking at the first two rows in the example image, both have a median score at the zero position; however, the No Poverty range extends mostly on the positive side of the scale while Zero Hunger encompasses more of the scale and lands mostly on the negative side. The median score value is included in the column to the right, with positive scores in green text and negative scores in red.

SDG Solutions Assessment – Selected Social and Environmental Objectives per 1M USD Invested

SDG Solutions Assessment - Selected Social and Environmental Objectives per 1M USD Invested - Top 6 by Attributable Revenue								
	Fund - Attributable Revenues				Peer Set - Attributable Revenues			
Sustainability Objectives	Significant Contribution	Limited Contribution	Limited Obstruction	Significant Obstruction	Significant Contribution	Limited Contribution	Limited Obstruction	Significant Obstruction
Providing Basic Services	69,353	129,517	0	0	27,471	61,170	0	0
Mitigating Climate Change	5,774	37,476	45,494	1,994	3,128	41,001	87,542	49,327
Ensuring Health	34,473	10	49,181	2,580	37,854	402	31,663	8,813
Contributing to Sustainable Ene...	5,774	28,627	41,377	3,136	3,127	35,491	84,231	51,566
Combating Hunger and Malnutr...	5,479	11,529	25,319	23,852	4,165	6,674	11,362	19,477
Alleviating Poverty	19,039	13	0	0	9,535	98	660	0

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The SDG Solutions Assessment heat map at the bottom of the page is also a departure from infographics on preceding pages. It is important to note the transition from the SDG Impact product to the SDG Solutions Assessment product here. The SDG Solutions Assessment methodology focuses specifically on the impact of an issuer's product portfolio on the achievement of sustainability objectives.

While the heat map chart looks complicated, the chart is basically seeking to answer the question: for every million dollars invested in the fund, how does that investment play out in terms of allocations to specific SDG Assessment objectives, and the performance levels within each objective? Space constraints prevent the report from showing all objectives, so the report selects six objectives to display based on the amount of the hypothetical 1 million investment flowing to that objective. In the grid, only the positive and negative levels are displayed (omitting the No Net Impact level). The color shading per column simply assigns a color range to each column – dark green for Significant Contribution, light green for Limited Contribution, amber for Limited Obstruction, and red for Significant Obstruction – and then fills the lowest value in the column with the lightest shade in the color range and fills the largest value with the most saturated color. The peer set values reflect the average allocations per goal and level among funds in the same Lipper Global Classification group.

In the first row of the example image, Providing Basic Services, it is clear that that while both the fund and the peer set average focus allocation on the positive SDG Assessment levels, the fund allocates more of its hypothetical million-dollar investment in this goal than the peer set average. Both the fund and peer set have significant allocations in the next goal – Mitigating Climate Change, and while the allocations on the positive side are roughly similar, on the negative side the peer set average values have larger allocations. For users interested in better understanding the impacts of investments on SDG objectives, this chart, along with the full set of underlying data factors, provides insight into a fund's direct and relative performance.

Carbon and Climate (Page 7)

ISS ESG Climate Solutions provides a comprehensive suite of data and analytics designed to help understand, measure, and act on climate-related risks. The ESG Fund Rating report highlights data from two key lenses; Scenario Analysis which provides an assessment of a fund's alignment with two

of the climate scenarios provided by the International Energy Agency (IEA) in their report World Energy Outlook 2021, i.e., the Sustainable Development Scenario (SDS) and the Stated Policy Scenario (STEPS), and Carbon Metrics which communicates fund performance based on carbon emissions, normalized emissions intensity metrics, and the Carbon Risk Rating score.

Fund Emission Pathway and Climate Scenarios
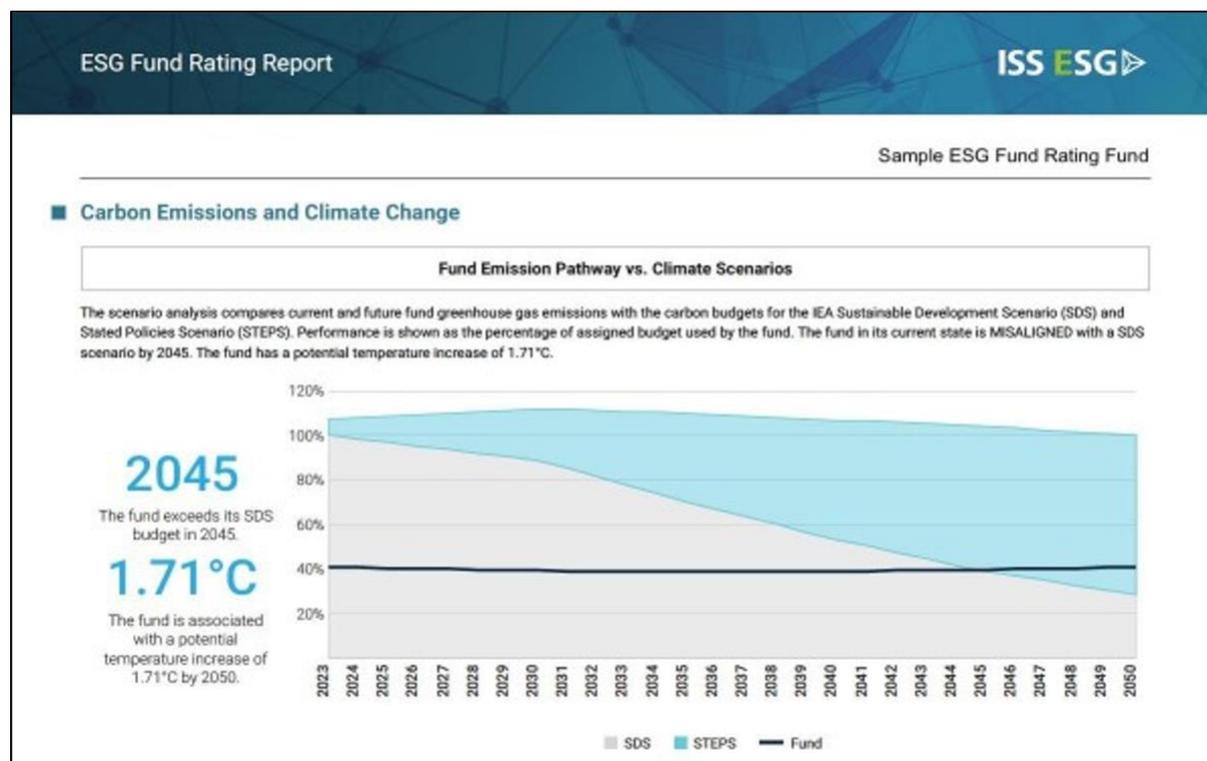
The Scenario Analysis section at the top of the page evaluates fund alignment with carbon emissions budget limits based on forecasted SDS and STEPS temperature change scenarios. The analysis begins with a calculation to determine owned emissions at the holding level which is then aggregated to determine the fund's total owned emissions. Owned emissions refers to the portion of an issuer's emissions that is owned by the fund based on the fund's percentage of ownership of that issuer. For example, if a fund owns five percent of a company, then the fund owns five percent of the company's emissions. The ownership calculation is then repeated across carbon budget values to determine the fund's total owned carbon budget for each of the scenarios. Then for each year through 2050 the owned emissions value is compared to the owned emissions budget value to determine if the fund is staying within the budget limits or whether those limits are exceeded. The ESG Fund Rating report states in large text the estimated temperature performance of the fund at the end of the analyzed period, and the year the emissions of the fund exceed the allocated carbon budget. The adjacent line chart plots the annual values for the fund as well as the SDS and STEPS scenarios to visually highlight fund performance against the scenarios over time. In the example image the fund is currently aligned with the SDS scenario; however, it starts to exceed that scenario's budget in 2045 unless there are modifications to the climate performance of the fund's holdings.

Carbon Metrics

Carbon Metrics - Fund vs. Peers						
Disclosure Number/Weight	**Emission Exposure** tCO_2e		**Relative Emission Exposure** tCO_2e/Mio USD Revenue			**Climate Performance** Weighted Avg
Share of Disclosing Holdings	Scope 1 & 2	Incl. Scope 3	Relative Carbon Footprint	Carbon Intensity	Weighted Avg Carbon Intensity	Carbon Risk Rating[1]
Fund	92% / 94.7%	582	2,093	68.73	256.40	272.61	38
Peer Set	74.4% / 80.9%	162,851	693,461	100.02	225.12	282.05	33
Net Performance	-23.6 p.p. /-17 p.p.	99.6%	99.7%	31.3%	-13.9%	3.3%	-

The Carbon Metrics section in the middle of the report looks at emissions performance from a variety of angles, as each angle offers a different perspective. The first column, share of disclosed holdings, simply provides insight into the amount of the fund with disclosed emissions data. The next two columns look at owned emissions for Scopes 1 & 2 and Scopes 1, 2 & 3 without any additional normalization.

The three relative emission exposure columns normalize emissions values through different metrics, which helps to create an equivalent comparison of issuers, and funds, of dissimilar sizes. The Relative Carbon Footprint metric, which is used as a Prime status disqualifier, divides owned emissions by the overall value of the fund. Carbon Intensity divides owned emissions by total revenues for the holdings. And the Weighted Average Carbon Intensity factor applies a weighted average to holdings' emissions intensity to determine the fund's Weighted Average Carbon Intensity value. While the differences in the calculations are subtle, they can each be used to illuminate funds that are emissions performance outliers.

The last column in the chart is a weighted average Carbon Risk Rating (CRR) score. For corporate issuers, the Carbon Risk Rating model looks at overall carbon assessment based on over 100 industry-specific indicators and a carbon risk classification at the industry and sub-industry levels. For sovereigns, the Country Carbon Risk Rating evaluates the effectiveness of a country's government in implementing policies aimed at reducing greenhouse gas emissions by state, corporate, and private actors, and in adapting to a changed climate by reducing its vulnerability to climate risks. This value simply applies a weighted average to the holdings' CRR scores to determine the fund-level weighted CRR score.

In addition to the fund performance data in the first row, peer average values are provided in the second row to allow for a quick comparison between the fund and its peer group. The third row, net performance, compares the fund value to the peer set average value to identify areas of over- or under-performance.

Top Five Contributors to Fund Emissions

Top Five Contributors to Fund Emissions

Issuer Name	Contribution to Fund Emission Exposure (%)	Fund Weight (%)	Climate Reporting Quality	Carbon Risk Rating
Nucor Corporation	29.08%	0.76%	Non-reporting	● Medium Performer
International Paper Company	10.97%	1.39%	Moderate	● Medium Performer
Linde Plc	10.95%	2.16%	Strong	● Medium Performer
NextEra Energy, Inc.	9.04%	2.29%	Moderate	● Outperformer
The Williams Companies, Inc.	8.67%	2.21%	Moderate	● Laggard
Total for Top 5	68.70%	8.81%		

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The last item on the Climate page is the Top Five Contributors to Fund Emissions table, which like other top five tables, offers a prioritized ranking of selected fund holdings. In this table the key metric driving inclusion on the list is the holding's contribution to the overall fund emission exposure based on the holding's owned emissions as a percentage of total owned emissions. Along with the Contribution to Fund Emissions Exposure value, the table identifies each holding's weight in the fund, an assessment of its climate reporting quality, and the holding's Carbon Risk Rating performance category.

Voting Analytics: Fund Holdings (Pages 8 and 9)

The final three pages in the ESG Fund Rating report all relate to Voting Analytics. The first two Voting Analytics pages look at the Management and Shareholder proposals and vote results across companies within fund holdings. The third Voting Analytics page, Fund Voting Activity, uses N-PX filings and similar disclosed data, where available, to explore how the fund votes its shares in its held companies.

Selected Key Management Proposals

The first page of the Voting Analytics section is divided into two tables. The upper table focuses on key management proposals. The lower table covers a selection of shareholder proposals, including proposals related to ESG topics. Looking more closely at the upper Management table, each row highlights a specific proposal type or category, including votes to elect directors, accept reports, approve compensation, and so on. For each proposal type, the table provides the total number of voted proposals across holdings; a count of the number of votes that have failed; the median "For" vote; a count of votes where support came in below 90%; as well as the fund weight of holdings where votes landed below the 90% threshold. The 90% support threshold is a useful benchmark given that for these relatively standard management proposals the "For" vote typically is between 90 and 100%. Votes that fail or that demonstrate less than 90% support may highlight controversy, under-performance, or other problematic considerations for those holdings, as well as for overall fund performance. On the report any of the count or weight values for less than 90% support are printed in red adding further visibility to the data.

Selected Shareholder ESG Proposals

Selected Shareholder ESG Proposals - Recent-Year Voted Proposals with Results

Proposal	Total Voted Proposals	Count of Votes Passed	Lowest "For" Vote	Median "For" Vote	Highest "For" Vote
Adopt or Amend Proxy Access Right	23	7	24.9%	42.6%	86.8%
Provide Right to Act by Written Consent	12	3	13.6%	41.6%	61.9%
Report on Sustainability	5	0	8.9%	23.2%	29.2%
Board Diversity	7	0	1%	1.7%	2.7%
Report on Climate Change	3	0	8.8%	18.8%	29.8%
GHG Emissions	7	0	7.1%	15.7%	29.4%
Political Lobbying Disclosure	15	0	8.8%	26.4%	47%
Improve Human Rights Standards or Policies	6	0	3%	7.4%	40.6%

1 Individual holdings may have more than one Elect Director proposal. All data is per Director proposal, except "Fund Weight for Votes Below 90%" which is based on any holding with one or more Director proposal(s) below the 90% threshold.

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The "Selected Shareholder ESG Proposals" table presents similar information; however, the metrics are somewhat flipped in that proposals that gather significant support are highlighted. ESG proposals, and shareholder proposals in general, typically have lower support, especially when a new ESG concept is emerging. Like the management table, the shareholder table provides a selection of key proposal types. Here the columns include data on the total number of voted proposals by type; a count of the proposals that passed; and the lowest, highest, and median "For" vote percentages. In the "For" vote columns, any value that exceeds 50% support is printed in green to highlight notable support. In the example image, this fund has been involved with quite a number of recent ESG-related proposals across all proposal categories, many of which have gathered significant support from shareholders.

## Top Fund Holdings by Weight – Key Management, Shareholder, and ESG Votes

The table on the following page, Top Fund Holdings by Weight – Key Management, Shareholder, and ESG Votes, prioritizes holdings based on the weight of the holding in the fund. Once the displayed holdings are selected, voting data is gathered for each holding, including the date of the most recent meeting as well as up to two proposals from each of the following categories: management proposals, shareholder proposals addressing general topics, and ESG-specific proposals. This means that each selected holding may have up to six proposal rows, though it is common for holdings to not have proposals in all categories, especially ESG. Each proposal row identifies whether the proposal is a management or shareholder proposal; the methodology for calculating the Base "For" (support) total; that base "For" support value; as well as whether the proposal passed or failed the vote.

Voting Analytics: Fund Voting Activity (Page 10)

The Fund Voting Activity page uses N-PX filings and similar disclosed data, where available, to explore how the fund votes its shares in its held companies. It is important to note that this information is more readily available in certain markets, in particular the U.S., so this page is unlikely to generate in the report for funds where fund voting data is not disclosed.

Fund Management – Voting Overview
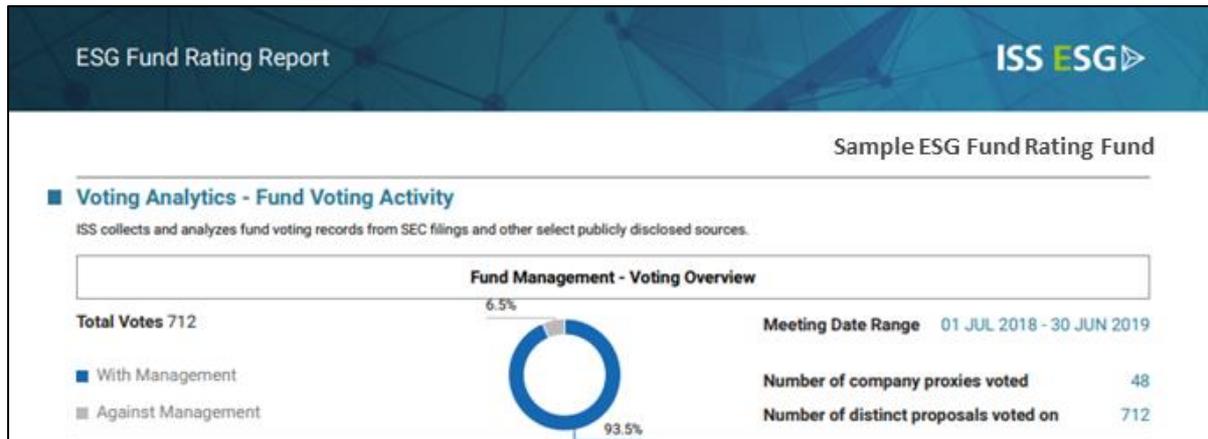
The Voting Overview section at the top of the page provides basic information on the meeting date range from which data is drawn; the total number of proxies and proposals voted; and the number and percentage of votes with or against management. The donut chart in the middle of this section communicates the percentage of votes with management in the blue segment and the percentage of votes against management in the grey segment.

Proposals by Category

Category	No. of Votes	Avg. Percent For	Avg. with Management	Category	No. of Votes	Avg. Percent For	Avg. with Management
Director Election	463	73.2%	73.2%	Routine Business	4	75.0%	75.0%
Director Related	16	85.7%	42.9%	Non-Routine Business	2	100.0%	0.0%
Company Articles	1	100.0%	100.0%	Takeover Related	4	100.0%	100.0%
Compensation	70	83.0%	70.5%	Corporate Governance	6	100.0%	0.0%
Capitalization	12	90.0%	90.0%	Social	62	93.8%	5.3%
Audit Related	48	98.9%	98.9%	Environmental	9	95.0%	0.0%
Mutual Funds	-	-	-	E&S Blended	14	75.0%	25.0%
Strategic Transactions	-	-	-				

Just below the Voting Overview section is the Proposals by Category table that breaks out the voting data at a more granular level by proposal category. The data columns identify the number of votes in each category as well as the average percentage of "For" votes and voting with management.

Environmental and Social Shareholder Proposals by Topic Group
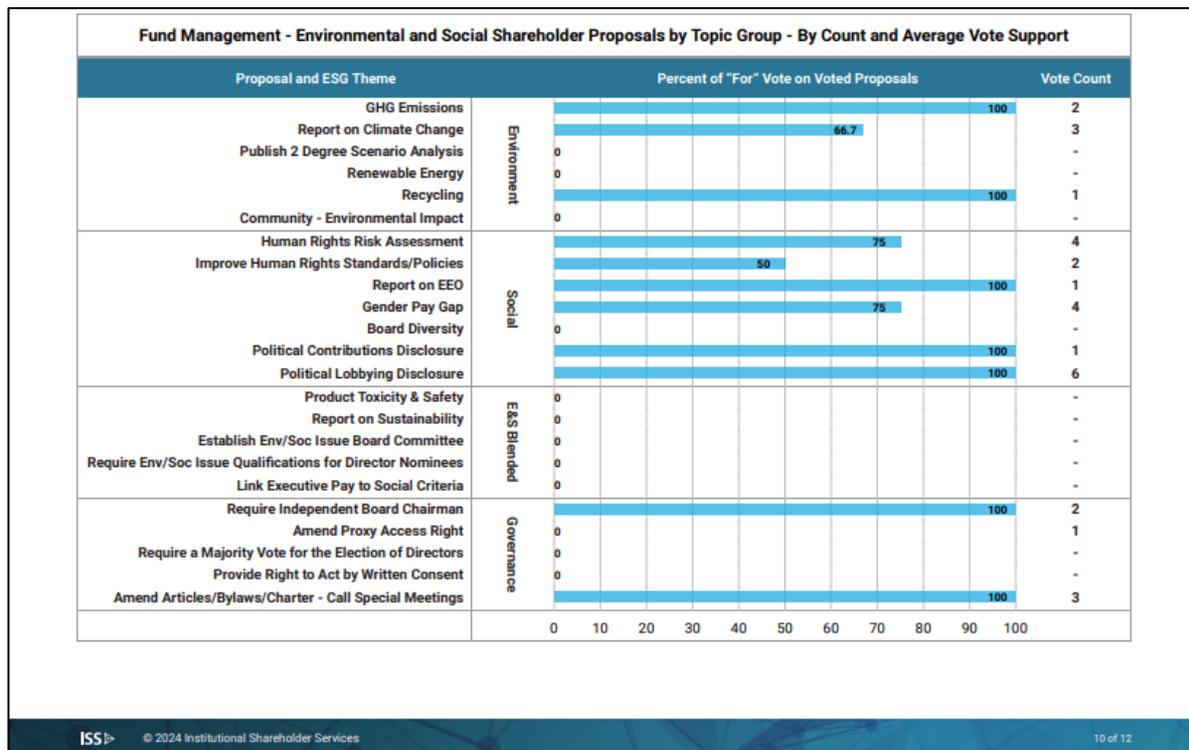
The Environment and Social Shareholder Proposals by Topic Group table dives another level deeper into a selection of E, S, and G-related proposal types. This table groups proposals by Environment, Social, E&S Blended, and Governance categories. The length of the blue bars and the associated data value identify the average support by the fund for voted proposals in the proposal type. The Vote Count column on the right side of the table provides the count of voted proposals per type. Taken together it is possible to quickly see which proposal types are generating the most voted proposals as well as whether the fund has supported or opposed proposals of that type. In the example image, it is apparent that the fund not only has voted on a number of social shareholder proposals, but that the fund tends to vote in support of the proposals. The Gender Pay Gap row in the middle of the chart indicates that there have been four votes during the period and the fund has supported three of them, 75%.

Coverage, Methodology, and Disclaimer

The two pages at the end of the report offer additional information on ISS' research coverage by theme; brief notes on key methodology items; as well as a standard report disclaimer.

Notes on Coverage

ESG Fund Rating Report

ISS ESG▷

Sample ESG Fund Rating Fund

■ Appendix: Notes on Coverage

ISS requires a minimum of 65% coverage of fund holdings by weight to receive an overall fund rating score and fund rating report. For the overall rating, coverage is based on holdings with an active ISS ESG corporate rating and/or sovereign rating signal. Within each report section, coverage may vary depending on thematic and product considerations. In the charts below, an indicator factor is used to determine coverage for each report section.

Fund Report Section	Coverage - Percent of Fund Holdings
Overall Fund Rating	
ESG Rating	96.5
Sector-Based Screening	
SBS Issue Areas and Medical Ethics	100.0
Military Equipment and Weapons	100.0
Controversial Weapons	97.7
Energy and Extractives	100.0
Other Report Sections	
Norm-Based Research	97.7
SDG Solutions Score	96.5
Carbon and Climate	97.7
Corporate Governance	77.9
Voting Analytics	75.6

The coverage table provides information on the percentage of the fund covered by ISS ESG research products across ESG Fund Rating report sections. To calculate the coverage value a representative factor from each of the thematic pages is selected and the report calculates the total weight of fund holdings with values for that factor. For example, the Norm-Based Research Overall Flag factor is used to determine the weight of holdings within coverage on the Norm-Based Research page.

Notes on Methodology

■ **Appendix: Notes on Methodology and Related Items**

The ISS ESG Fund Ratings solution provides investors with the data and analysis needed to understand the environmental, social, and governance performance of funds, as well as a fund's performance relative to peers.

The ESG Fund Rating report is intended to provide an overview of fund performance across major ESG themes and is organized to align with key ISS ESG product categories and analytics. The data factors that support this report – over 700, as well as additional fund data factors for other ESG topics, can be found on the DataDesk platform.

All ISS ESG research solutions have extensive documentation and product guides. The following methodology notes provide brief details on important aspects of ESG Fund Ratings coverage, criteria, and calculations specific to the report. Please refer to the ESG Fund Ratings guide and product-specific methodology documents for further information on research processes, sources, analysis, and related details.

Fund and Holdings Data: Data on the fund, fund holdings, and fund peers, including weights, values, and identifiers is provided by Refinitiv Lipper. The Lipper Global Classification (LGC) system is used to define the comparative peer set for relevant calculations.

Fund Inclusion Criteria: All funds must meet minimum criteria for inclusion in the ESG Fund Rating coverage to ensure ratings are meaningful and comparable. These criteria include: a minimum of 65% of holdings by weight covered by ESG Ratings; a minimum of ten long holdings within the fund; a minimum of 30 rated peers in the LGC set; a minimum of 0.1 deviation in ESG Performance score values among funds in the peer set; and a fund holdings update date within one year.

Position Inclusion Criteria: The ESG Fund Rating assessment includes net long fund holdings when calculating coverage, weight, and performance metrics.

Page and ESG Product Alignment: Individual report pages highlight primary signals from key ISS ESG research products. In sequence, cited research products include ESG Ratings; Governance QualityScore; Norm-Based Research; Controversial Weapons Research; Sector-Based Screening; Energy and Extractives Research; SDG Impact Rating; Climate Impact and Scenario Analysis; and Voting Analytics. In limited instances fund composition may result in the omission of individual pages where content is not relevant; for example, the Governance QualityScore page focused on corporate governance would not generate for a fund composed entirely of sovereigns.

Relative Rating and Absolute Score: ESG Fund Rating includes both a relative 1 to 5 "Star" rating to easily compare fund performance to peers and an absolute 0 to 100 weighted average ESG Performance Score to quickly measure overall sustainability performance on an absolute basis. The ESG Performance Score value is used to determine the relative rating, with the top 10% of funds in the LGC peer set receiving 5 stars; the next 20% receiving four stars; the middle 40% receiving three stars; the next 20% receiving two stars; and the bottom 10% receiving 1 star. It is important to note that guardrails are applied to the relative scoring calculation to ensure alignment with absolute ESG Performance Score values within peer sets where performance is concentrated in the leader or laggard categories. All funds with an ESG Performance Score above 50 will receive 4- or 5-Star ratings and all funds with a score less than 25 will receive 1- or 2-Star ratings, with the remaining allocations adjusted proportionally.

Prime Status: The ISS ESG Fund Rating awards "Prime" status to funds that meet or exceed sustainability performance requirements to recognize sustainability leaders. Prime status is awarded to funds that have a minimum weighted ESG Performance Score of 50 and do not exceed any thresholds for disqualifying criteria. Disqualifying criteria include: any "Red"-flagged holding based on Norm-Based Research, which identifies issuers with a link to violations of international standards; weight at or above 10% of holdings with "Significant Negative Impact" based on SDG Impact performance; a relative carbon footprint that exceeds the peer average by 150% or more; any holdings with involvement in Controversial Weapons; or weight at or above 10% of holdings demonstrating significant weakness (<90% "For" votes) on key Elect Director and Approve Remuneration Report proposals.

Contact: For additional information on the content contained in this report or for access to ISS ESG Fund Rating data and documentation, please contact the ISS Help Center at https://issgovernance.service-now.com/csp.

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The Methodology notes in the ESG Fund Rating report provide a brief introduction to the key concepts, such as fund inclusion in product coverage and the methodology behind the primary rating signals, including the Stars rating, the ESG Performance Score, and the Prime signal.

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