

# Nasdaq Future Global Sustainability Leaders Index Methodology

## Index Description

An increasing number of Australian investors are seeking a passively managed portfolio of global stocks which takes account of key environmental, social and governance (ESG) concerns. Furthermore, responsible investors are looking to avoid exposure to the fossil fuel industry and climate change risk, and instead are actively seeking investment in those companies considered to be climate leaders.

The Nasdaq Future Global Sustainability Leaders Index is an opportunity for responsible investors in Australia to access a genuinely fossil fuel free and ESG screened passive global investment portfolio.

## Index Calculation

The Nasdaq Future Sustainability Global Leaders Index is a float adjusted modified market cap weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price<sup>1</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for reporting purposes. The Index began on November 23, 2016 at a base value of 1000.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

(Market Value after Adjustments/Market Value before Adjustments) X Divisor before Adjustments

Three versions of the Index are calculated in AUD:

- The price return index (Nasdaq: NQFGSL) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: NQFGSLT) reinvests cash dividends on the ex-date.
- The net total return index (Nasdaq: NQFGSLN) reinvests cash dividends on the ex-date based on an Index security's country of incorporation withholding rate.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated during the trading day and are disseminated once per second, five (5) days a week, Monday through Friday, starting by the earliest time zone Asia/Tokyo and close by the latest time zone America/New York.

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used.

## Eligibility

Index eligibility is limited to specific security types only. The security types eligible for the index include common stocks, ordinary shares, depositary receipts, shares of beneficial interest and REITs.

## Eligibility Criteria

To be eligible for inclusion in the index, a security must meet the following criteria:

- be a member of the Nasdaq Developed Markets Index (NQDM), excluding those listed on an exchange in Australia;
- have a market capitalization of at least \$2 billion USD;
- have a three-month average daily dollar trading volume of at least \$1 million USD;
- have been identified by the Responsible Investment Committee<sup>2</sup> as a “climate leader,” being a company that has a carbon efficiency that places it in the top one-third of companies in its industry (where carbon efficiency is based on the greenhouse gas emissions from a company’s operations, fuel use and supply chain, divided by its annual revenues) or is otherwise a superior performer on Scope 4 carbon emissions (also known as “avoided emissions”);
- have been identified by the Responsible Investment Committee as having passed certain eligibility screens designed to exclude companies that have direct or significant exposure to the fossil fuel industry or that are engaged in other activities deemed inconsistent with responsible investment considerations (as further outlined below);
- one security per issuer is permitted<sup>3</sup>;
- may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible; and
- may not be issued by an issuer currently in bankruptcy proceedings.

### *Responsible investment screening exclusions<sup>4</sup>*

| Industry/Activity    | Exposure Limit Guidelines (% of total revenue) | Explanatory notes  |
|----------------------|--|--|
| Fossil Fuel - direct | 0%   | Companies which have fossil fuel reserves, fossil fuel infrastructure, or are involved in the mining, extraction, or burning of fossil fuels |

<sup>2</sup> The Responsible Investment Committee is an external advisory committee responsible for determining the list of securities that pass the “Climate Leader” and responsible investment screens outlined above.

<sup>3</sup> If an issuer has multiple securities, the security with the highest dollar trading volume will be selected for possible inclusion into the Index.

<sup>4</sup> Screening is generally applied only to the relevant company itself and its subsidiaries. Minority holdings (less than 50% ownership) are generally not considered for screening purposes.

|                                      |  |   |
|--------------------------------------|--|---|
| Fossil Fuel - indirect               | <p>5% for products and services</p> <p>Exclude the largest global financiers of fossil fuels, and financiers of significant fossil fuel infrastructure</p> | <p>Companies which provide products, services or finance which is specific to and significant for the fossil fuel industry, as well as companies with very high use of fossil fuels*</p> <p>* except where more than 50% of company revenue is derived from renewable energy, resource efficiency, environmental solutions or energy efficiency products and services</p> |
| Gambling                             | <p>0% for casinos, manufacture of gaming products, and poker machine operations</p> <p>5% for distribution of gambling products</p>                        |   |
| Tobacco                              | <p>0% for production or manufacture</p> <p>5% for sale of tobacco products</p>   |   |
| Uranium and Nuclear Energy           | <p>0% for uranium mining and nuclear energy</p> <p>5% for products and services to nuclear energy</p>  |   |
| Armaments and Militarism             | <p>0% for manufacture of armaments and weapons</p> <p>5% for specific and significant services to military and armaments manufacture</p>                   |   |
| Destruction of Valuable Environments | 0%   | Companies which have direct negative impact on recognised World Heritage and High Conservation areas  |
| Animal Cruelty                       | 0%   | Companies involved in live animal export, animal testing for cosmetic purposes, factory farming, or controversial animal products (ivory, foie gras etc.)   |
| Chemicals of Concern                 | 0%   | Companies which produce or use chemicals of concern recognised by UN Environmental Programs, or controversial agricultural chemicals  |

|  |  |   |
|--|--|---|
| Mandatory Detention of Asylum Seekers and for-profit prisons | 0%   | Companies which operate detention centres or for-profit prisons   |
| Alcohol  | 5% for production<br>20% for sale of alcohol                           |   |
| Junk Foods   | 33%  | Companies which produce or sell junk foods  |
| Pornography  | 0% for production of pornography<br>5% for distribution of pornography | Companies which produce or sell pornography   |
| Human and Labour Rights                                      | n/a  | Evidence of human rights violations including child labour, forced labour, sweatshops, bribery and corruption |
| Board Diversity  | n/a  | No women on board of directors  |
| Payday lending   | 0%   |   |

A company exposed to significant ESG-related reputational risk or controversy may also be excluded where the Responsible Investment Committee considers that its inclusion would be inconsistent with the values of the Index.

### Index Evaluation

The Index is evaluated annually in May. At each evaluation, the Responsible Investment Committee will provide Nasdaq with a list of globally sustainable companies as they have identified. The securities ranked 1-200 by market capitalization are selected. If less than 5 of the 200 securities are Climate Leaders based on Scope 4 carbon avoidance then Scope 4 Climate Leader companies will replace the companies with the lowest market capitalization in the index until 5 stocks are Scope 4 Climate Leaders or until there are no additional Scope 4 Climate Leaders to add to the Index. Security additions and deletions are made effective after the close of trading on the third Friday in May.

In order to mitigate turnover in the Index, the following buffer rules are applied:

- A current component in the Index which falls outside the top 200 securities by market capitalization will be retained provided it is ranked within the top 230 securities by market capitalization and provided it satisfies the other eligibility criteria;
- A current component in the Index whose carbon efficiency falls below the top one-third of companies in its industry will be retained in the Index provided it has a carbon efficiency that places it within the top 40% of companies in its industry and provided it satisfies the other Index eligibility criteria.

Additionally, if at any time during the year other than the Evaluation, an Index Security undergoes a fundamental alteration such as, but not limited to, its issuer filing for bankruptcy proceedings, switching its listing to an ineligible listing venue, or if it undergoes major corporate actions such as merger & acquisition (M&A) activity that would make the Index Security ineligible for inclusion in the Index, the security is removed from the Index and is not replaced. Ordinarily, a security is removed from the Index at its Last Sale Price. If, however, at the time

of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, at Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

## **Index Maintenance**

Index Share changes are not made during the quarter however changes arising from stock dividends and stock splits are made to the Index on the evening prior to the effective date of such corporate action.

A special cash dividend announced by the listing exchange will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A corresponding adjustment will be made to the Index Shares of the security such that the weight of the Index Security will not change as a result of the action. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

In the interim periods between scheduled index reconstitution and rebalancing events, individual Index securities may be subject to a variety of corporate actions and events that require maintenance and adjustments to the Index. Specific treatment of each type of corporate action or event is described in **Nasdaq Corporate Actions and Events Manual – Equities**, which is incorporated herein by reference.

In certain cases, corporate actions and events are handled according to the weighting scheme or other index construction techniques employed. Wherever alternate methods are described, the Index will follow the "Non-Market Cap Corporate Action Method."

## **Index Rebalancing**

The Index employs a modified market capitalization weighting methodology.

Under the methodology, each security is assigned its market capitalization weight such that:

1. no single security can have a weight of more than 4.0% in the Index; and
2. the aggregate Industry Weights of the Index cannot exceed the corresponding Industry Weight of the NQDM Index by more than three percentage points. Industry classification is determined according to the Industry Classification Benchmark (ICB), a product of FTSE International Limited that is used under license.

At each May evaluation, the Index is rebalanced such that the maximum weight of any single security does not exceed 4.0% of the Index. The excess weight of any capped security is distributed proportionally across the remaining securities in the Index. If, after this process, any Industry exceeds the benchmark Industry weight by more than three percentage points, that Industry is capped at the benchmark Industry weight plus three percentage points. The excess weight is distributed proportionally among the Industries that were not capped and to securities that were not already capped at 4.0%.

The modified market capitalization weighting methodology is applied to each Index Security using the Last Sale Price of the security at the close of trading on the last trading day in March. Index Shares are then calculated multiplying the weight of the security derived above by the new market value of the Index and dividing the modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after the close of trading

on the third Friday in May.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

**Methodology Change Log**

| Effective Date | Methodology Section  | Description or Summary of Changes                       |
|----------------|--|---|
| May 23, 2022   | Eligibility criteria:<br>Responsible Investment<br>Screening | The Alcohol production screen<br>changed from 20% to 5% |

May 2022