S&P Dow Jones Indices

A Division of S&P Global

Higher Conviction Sustainability:
The S&P 500® ESG Elite Index

Contributors

María Sánchez
Director
Sustainability Index Product Management
Latin America
maria.sanchez@spglobal.com

Aran Spivey
Analyst
Sustainability Indices
aran.spivey@spglobal.com

Executive Summary

Over recent years, investors and asset managers have broadened their approach to sustainability, in line with the proliferation of expectations from institutional investors, governments and the wider public. One such way in which this expansion has occurred in recent years is through the strengthening of conviction on sustainable index products. While screened approaches[1] represent one established approach to sustainable indexing, we have more recently seen the growth in attention to ESG scores and stricter business activity thresholds. This is one way in which market participants can ensure that they are investing in companies with strong ESG performance, avoiding those involved in controversial business activities, while still maintaining diversified sector exposure.

In order to respond to this changing investor demand, S&P Dow Jones Indices (S&P DJI) launched the S&P 500 ESG Elite Index in December 2020. This index series is designed to measure the performance of companies that meet strict sustainability criteria, while maintaining similar overall sector weights as its benchmark.

S&P DJI ESG Scores

The demand for quality data to support investment strategies is particularly pertinent with regard to sustainability.

S&P Global provides the data that powers the globally recognized Dow Jones Sustainability Indices (DJSI), S&P 500® ESG Index and

[1] See the PRI's guide to screening approaches, available here: https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-screening/5834.article

the S&P 500 ESG Elite Index, among others. Each year, S&P Global conducts the Corporate Sustainability Assessment (CSA), an ESG analysis of over 17,000 companies. The CSA has produced one of the world's most comprehensive databases of financially material sustainability information and serves as the basis for the scores that govern S&P DJI's ESG indices.

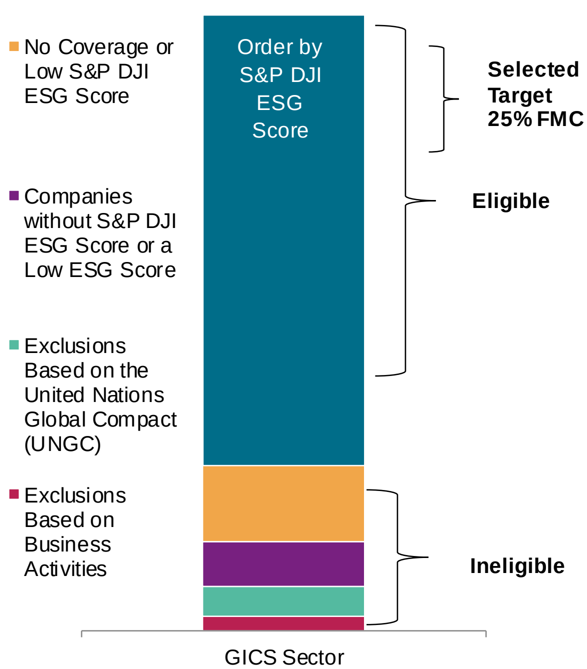
The S&P DJI ESG Scores are environmental, social and governance scores that robustly measure ESG risk and performance factors for corporations, with a focus on financial materiality.

Index Mechanics

The S&P 500 ESG Elite Index utilizes S&P DJI's well-established ESG indexing approach of excluding, sorting, selecting and subsequently weighting companies within an index.

First, the eligible universe is established. For the S&P 500 ESG Elite Index, the underlying benchmark is the S&P 500 ESG Index. Exclusions based on business activities are then applied. These exclusions are intended to align with high-conviction objectives by avoiding companies involved in a number of controversial business activities including oil & gas, alcohol, nuclear power and palm oil.[2]

Exhibit 1: S&P 500 ESG Elite Index Construction



1) Exclude:

- Exclusions based on business activities
- Exclusions based on the UNGC
- Companies without S&P DJI ESG Score or a low ESG score

2) Components Selection:

- Sort companies by their S&P DJI ESG Score within their industry group
- Target 25% of float-adjusted market cap

3) Weight:

- The index is weighted according to float-adjusted market cap, subject to 5% company cap

Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

[2] Full details of all index exclusions are available within the S&P ESG Elite Indices Methodology.

The index also incorporates exclusions based on the United Nations Global Compact (UNGC) principles. Companies who cause, contribute to or are linked to violations of the UNGC principles are deemed either non-compliant or on the “watchlist.” Those deemed the former are ineligible for index inclusion, while those on the “watchlist” are at risk of becoming ineligible.

In terms of exclusions, the index incorporates a stringent ESG scoring approach. Companies with S&P DJI ESG Scores that fall within the bottom 50% of their respective GICS® industry group are excluded. If a company does not have an S&P DJI ESG Score, it is not eligible for inclusion in the index.

On an ongoing basis, the index incorporates a controversies filter. The relevant Index Committee reviews the analysis of ESG risk incidents and controversial activities across a range of issues including corruption, human rights and environmental incidents, and if a controversy is deemed significant enough, a company may be removed from the index. Should this happen, the company will be ineligible for re-entry into the index for one calendar year.

The remaining pool of eligible companies from the benchmark are ordered by ESG score within their sectors. The top-ranked companies are selected targeting 25% of the respective market cap in each of the sectors in the underlying index, as follows:

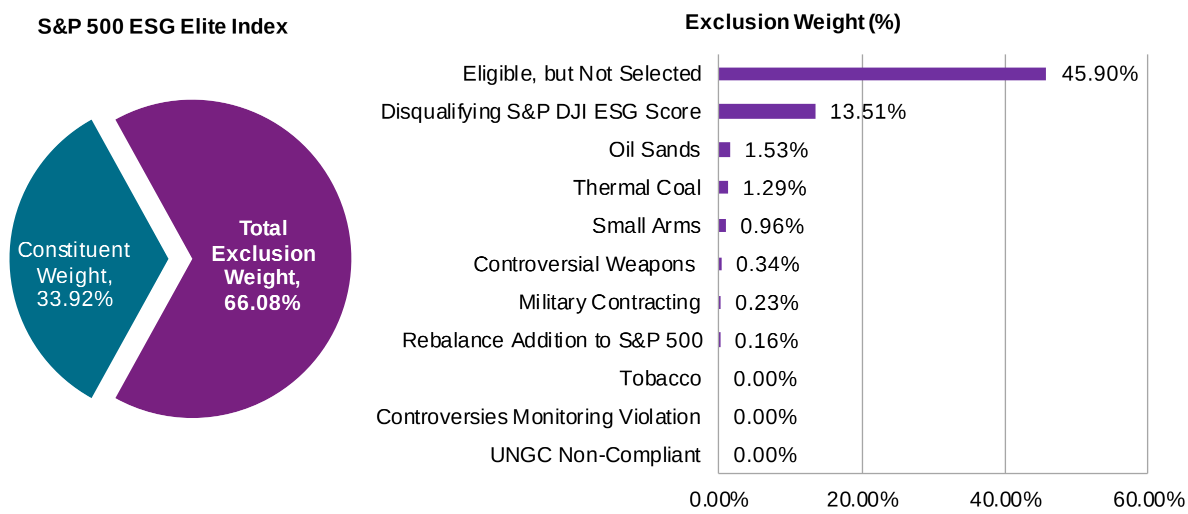
- Companies are selected by ESG score until 17.5% of the sector’s FMC is reached.
- Any incumbent companies who are ranked between 17.5% and 32.5% are also selected, providing that this brings the GICS weight closer to 25%.
- Finally, companies within the index are also subject to a 5% weight cap.

Constituents are reviewed on a quarterly basis, as per business activity and UNGC criteria, and companies determined to be ineligible are removed from the index, effective after the close of the last business day of July, October and January. The index does an annual reconstitution in April, with new additions, deletions and reweighting as appropriate.

As with all S&P DJI indices, the index is maintained by an Index Committee, whose role is to ensure that the methodology is being applied consistently, and to review the methodology and open up relevant market consultations where necessary.

As per this methodology, as of the rebalance on April 29, 2022, the index was comprised of 97 constituents out of 504 from the benchmark index, the S&P 500, representing 33.92% of its weight. The most impactful ESG eligibility criterion, in terms of weight, was a disqualifying S&P DJI ESG Score.

Exhibit 2: S&P 500 ESG Elite Index Composition

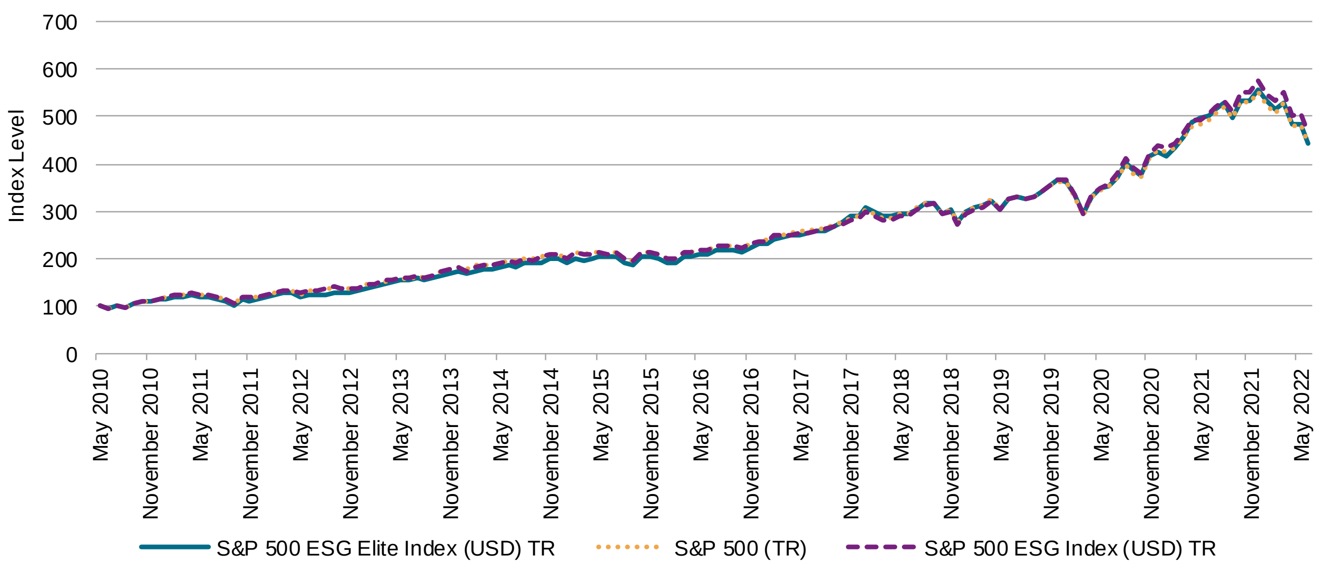


Source: S&P Dow Jones Indices LLC. Data as of April 29, 2022. Chart is provided for illustrative purposes.

Performance of the S&P 500 ESG Elite Index

The S&P 500 ESG Elite Index is a best-in-class strategy that is designed to measure the performance of securities meeting strict sustainability criteria, enhancing allocation to companies with improved sustainability characteristics. Historically, this design has provided similar performance to the benchmark.

Exhibit 3: Performance Comparison



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Past performance is no guarantee of future results. Index performance based on total return in USD. The S&P 500 ESG Elite Index was launched Dec. 31, 2020. The S&P 500 ESG Index was launched Jan. 28, 2019. All data prior to index launch date is back-tested hypothetical data. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Historically, the returns of this index, as compared to both the S&P 500 and the S&P 500 ESG have been similar, as the risk-adjusted performance metrics over a 1-, 3-, and 5-year time horizon demonstrate. There has also been a 10-year historical outperformance as compared with the aforementioned indices.

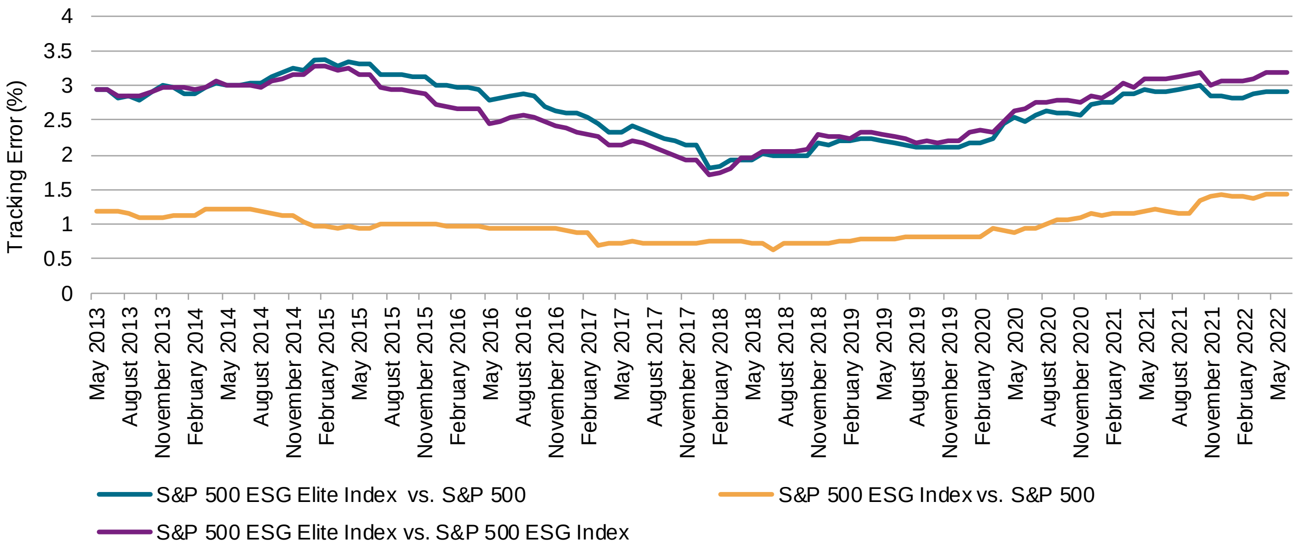
Exhibit 4: Risk/Performance Profiles

Category	S&P 500 (TR)	S&P 500 ESG Index (USD) TR	S&P 500 ESG Elite Index (USD) TR
Annualized Total Return (%)			
1-Year	-10.62	-8.37	-12.15
3-Year	10.60	12.63	10.91
5-Year	11.31	12.73	11.69
10-Year	12.96	13.42	13.66
Annualized Risk (%)			
3-Year	18.64	18.67	18.45
5-Year	16.95	16.89	16.92
10-Year	13.70	13.68	13.84
Annualized Risk-Adjusted Return (%)			
3-Year	0.57	0.68	0.59
5-Year	0.67	0.75	0.69
10-Year	0.95	0.98	0.99
Annualized Tracking Error (%)			
1-Year	-	1.46	3.41
3-Year	-	1.44	2.96
5-Year	-	1.24	2.69
10-Year	-	1.10	2.74

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Past performance is no guarantee of future results. Index performance based on total return in USD. The S&P 500 ESG Elite Index was launched Dec. 31, 2020. The S&P 500 ESG Index was launched Jan. 28, 2019. All data prior to index launch date is back-tested hypothetical data. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

However, being more restrictive in the eligibility criteria and in the selection process comes with some trade-offs. One of them is tracking error; when compared to the underlying S&P 500 ESG Index, the S&P 500 ESG Elite Index has had a slightly higher tracking error, historically.

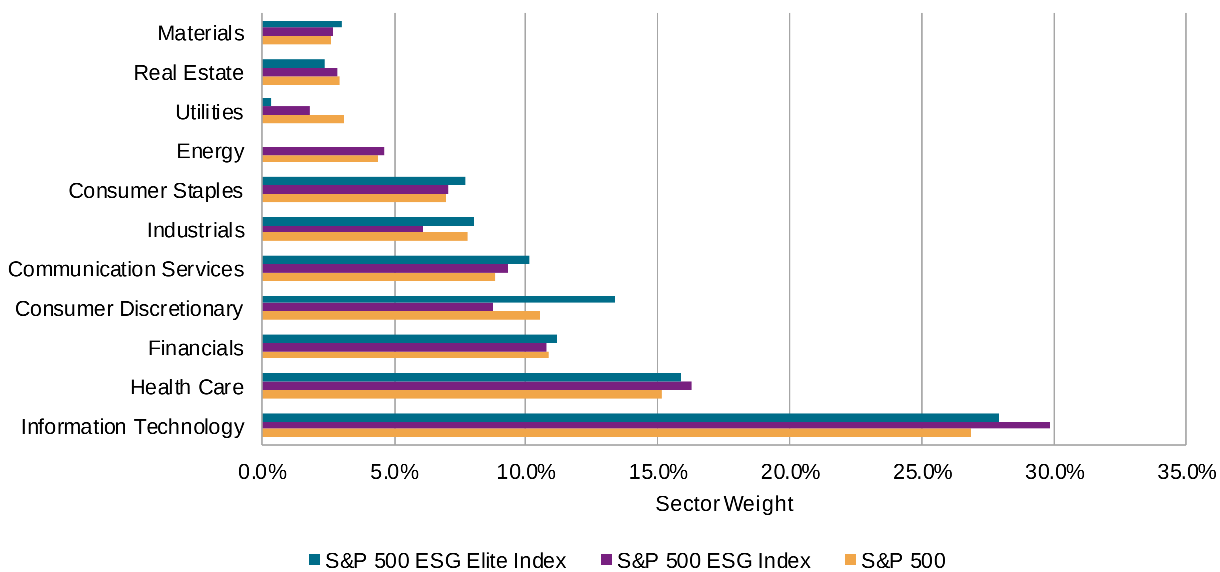
Exhibit 5: Trailing 36-Month Annualized Tracking Error Comparison



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Past performance is no guarantee of future results. Index performance based on total return in USD. The S&P 500 ESG Elite Index was launched Dec. 31, 2020. The S&P 500 ESG Index was launched Jan. 28, 2019. All data prior to index launch date is back-tested hypothetical data. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

While sector neutrality is sought by seeking to track the same percentage of FMC within each sector, achieving this neutrality becomes more difficult because the S&P 500 ESG Elite Index has a narrower eligible universe. For instance, following the most recent rebalance, there is no representation of the Energy sector due to business activity exclusions.

Exhibit 6: Sector Breakdown



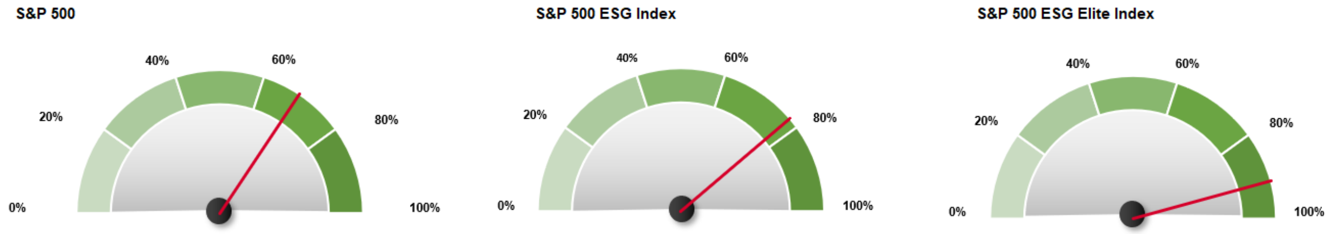
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Chart is provided for illustrative purposes.

S&P DJI ESG Score Improvement

The aim of excluding certain companies involved in less sustainable business activities and controversies and selecting companies with higher S&P DJI ESG Scores is to ensure a better sustainability footprint at the index level. But how is this measured?

One way is to look at the S&P DJI ESG Score improvement at the index level. The S&P 500 ESG Elite Index achieved a 22.54% increase in its aggregate S&P DJI ESG Score as of the 2022 rebalance, while the S&P 500 ESG Index increased 8.51% compared to the S&P 500.

Exhibit 7: Index Level S&P DJI ESG Score



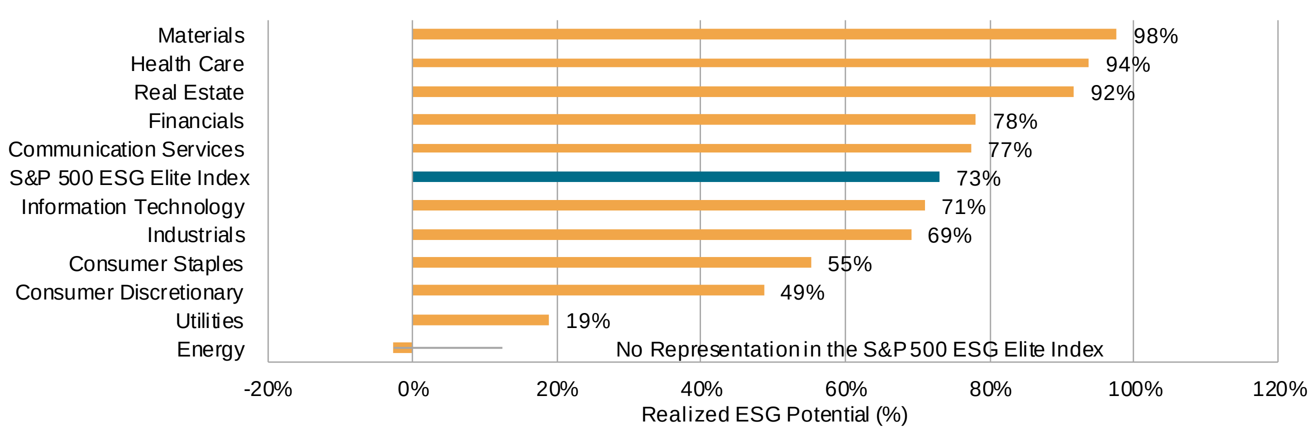
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Charts are provided for illustrative purposes.

Realized ESG Potential

Another useful metric is the “realized ESG potential” of the index. This depicts how much of an S&P DJI ESG Score improvement was achieved by the S&P 500 ESG Elite Index, relative to the maximum possible improvement that could have been attained by investing solely in the single highest-ranked S&P DJI ESG Score company of the S&P 500.

According to this measure, the S&P 500 ESG Elite Index has realized more than 73% of the ESG potential of the S&P 500, representing a meaningful boost, while the realized ESG potential across sectors demonstrates several of them achieved a much bigger boost in sustainability profile than the index achieved overall.

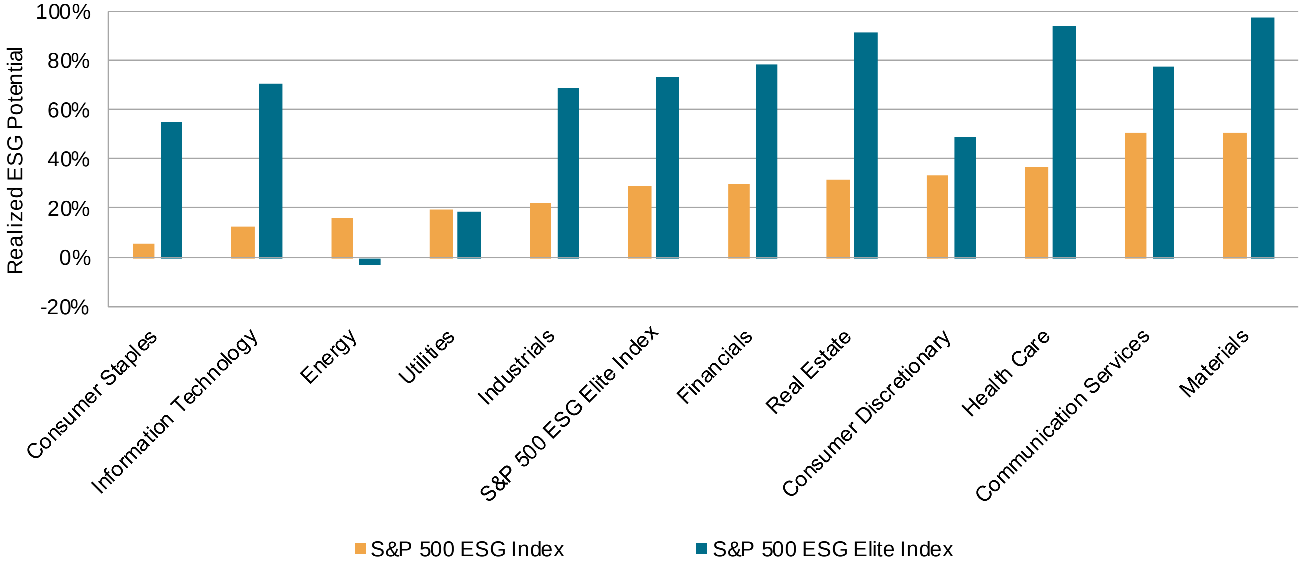
Exhibit 8: Realized ESG Potential of the S&P 500 ESG Elite Index versus the S&P 500



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Chart is provided for illustrative purposes.

When comparing the realized ESG potential of the S&P 500 ESG Elite Index with that of the S&P 500 ESG Index, there is a noticeable benefit of being more selective, despite the aforementioned tradeoffs in respect of tracking error and sector neutrality.

Exhibit 9: Realized ESG Potential of the S&P 500 ESG Elite Index versus the Benchmark



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Chart is provided for illustrative purposes.

Another way to assess the S&P 500 ESG Elite Index is to understand real-world benefits represented by the enhanced sustainability profile. These metrics are calculated using the most granular question-level data in S&P Global's CSA. The S&P Global CSA uses a consistent, rules-based methodology to convert an average of 1,000 data points per company into a S&P Global ESG Score. The 61 industry-specific questionnaires each contain approximately 100-130 questions covering 23 different key themes across the economic, social and environmental dimensions.

Exhibit 10: Some Examples of S&P 500 ESG Elite Index Benefits

Enivormental

18%
higher exposure to companies which publicly reported quantitative Environmental indicators covering the last fiscal year and have received an external assurance in relation to their environmental reporting.

12%
higher exposure to companies that have climate-related issues integrated into over-all risk management, identified climate change risks and opportunities, report on emission reduction activities, provide low-carbon products and/or enable a third party to avoid GHG emissions (avoided emissions), targets and initiatives place to reduce the emissions, provide incentives for achieving targets in relation to management of climate change issues.

11%
higher exposure to companies that publicly report their Scope 1 & 2 CO2e emissions, water consumption, waste, and energy consumption data.

Social

15%
higher exposure to companies that have a policy in place for it's commitment to respect human rights in accordance with the UN Guiding Principles on Business and Human Rights or other internationally accepted standards, assessed the potential human rights issues in its business activities, developed a due diligence process to proactively identify and assess potential impacts and risks relating to respecting human rights and publicly report on human rights mitigation and remediation actions.

15%
higher exposure to companies that disclose the type and coverage of the individual performance appraisals used for individual performance-related compensation, provide long-term incentives (tied to an employee's performance) for employees below the senior management level (more than two management levels away from the CEO) and have a percentage of actively engaged employees and have implemented a recognized and scaled approach to measuring actively engaged employees, including the breakdown of results based on gender.

12%
higher exposure to companies have a public group-wide non-discrimination and anti-harassment policy and that monitor and disclose female representation across their organization, as well as a breakdown of workforce based on other minority group(s), e.g., age, nationality, disability, etc. and results of gender pay gap or equal pay assessment.

Governance

21%
higher exposure to companies that have conducted a materiality analysis to identify the most important material issues (Environmental, Social, or Governance) for their performance including business strategies, initiatives or products that address these issues and long-term targets or metrics to measure their progress on these issues in a systematic way.

19%
higher exposure to companies that promote and enhance an effective risk culture throughout their organizations, have identified long-term emerging risks having significant impact on business in future, have taken mitigating actions considering these risks and that perform sensitivity analysis and stress testing on a group level including risks related to climate change and water availability and/or quality.

13%
higher exposure to companies having adopted open innovation approaches based on opensource initiatives and have introduced process innovations, which substantially contributed to a reduction of the cost of production and that disclose the impact of product innovations on sales and profit.

Source: S&P Dow Jones Indices LLC. These are just a few examples of the numerous ways in which the S&P 500 ESG Elite Index offers enhanced ESG representation. Increased index exposure to each ESG theme in the metrics above are calculated using the question-level data in S&P Global's CSA (2021 methodology year). These metrics are calculated using index data as of June 30, 2022, as the percentage difference between the performance of the S&P 500 ESG Elite Index and the S&P 500 constituents across these metrics, on a weighted average basis. Chart is provided for illustrative purposes.

Conclusion

Sustainability is not a one-size-fits-all framework for investors, and it is important that variety remains on the menu. Higher conviction ESG is an important option for investors who prioritize stronger sustainability outcomes, such as exposure to companies with robust environmental reporting, as well as companies with better diversity and inclusion policies and monitoring of representation. Ultimately, the S&P 500 ESG Elite Index truly represents a best-in-class approach to sustainable indexing from an ESG score perspective, applying S&P DJI's well regarded methodology with stricter ESG criteria and selection rules, while maintaining diversified sector exposure.

Performance Disclosure/Back-Tested Data

The S&P 500 ESG Elite Index was launched December 21, 2022. The S&P 500 ESG Index was launched January 28, 2019. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Complete index methodology details are available at www.spdji.com. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).

General Disclaimer

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ESG Indices Disclaimer

S&P DJI provides indices that seek to select, exclude, and/or weight index constituents based on, but not limited to, certain environmental, social or governance (ESG) indicators, or a combination of those indicators, including the following: environmental indicators (including the efficient use of natural resources, the production of waste, greenhouse gas emissions, or impact on biodiversity); social indicators (such as, inequality and investment in human capital); governance indictors (such as sound management structures, employee relations, remuneration of staff, tax compliance, respect for human rights, anti-corruption and anti-bribery matters), specific sustainability or values-related company involvement indicators (for example, production/distribution of controversial weapons, tobacco products, or thermal coal), or controversies monitoring (including research of media outlets to identify companies involved in ESG-related incidents).

S&P DJI ESG indices use ESG metrics and scores in the selection and/or weighting of index constituents. ESG scores or ratings seek to measure or evaluate a company's, or an asset's, performance with respect to environmental, social and corporate governance issues.

The ESG scores, ratings, and other data used in S&P DJI ESG indices is supplied directly or indirectly by third parties (note these parties can be independent affiliates of S&P Global or unaffiliated entities) so an S&P DJI ESG index's ability to reflect ESG factors depends on these third parties' data accuracy and availability.

ESG scores, ratings, and other data may be reported (meaning that the data is provided as disclosed by companies, or an asset, or as made publicly available), modelled (meaning that the data is derived using a proprietary modelling process with only proxies used in the creation of the data), or reported and modelled (meaning that the data is either a mix of reported and modelled data or is derived from the vendor using reported data /information in a proprietary scoring or determination process).

ESG scores, ratings, and other data, whether from an external and/or internal source, is based on a qualitative and judgmental assessment, especially in the absence of well-defined market standards, and due to the existence of multiple approaches and methodologies to assess ESG factors and considerations. An element of subjectivity and discretion is therefore inherent in any ESG score, rating, or other data and different ESG scoring, rating, and/or data sources may use different ESG assessment or estimation methodologies. Different persons (including ESG data ratings, or scoring providers, index administrators or users) may arrive at different conclusions regarding the sustainability or impact of a particular company, asset, or index.

Where an index uses ESG scores, ratings or other data supplied directly or indirectly by third parties, S&P DJI does not accept responsibility for the accuracy of completeness of such ESG scores, ratings, or data. No single clear, definitive test or framework (legal, regulatory, or otherwise) exists to determine 'ESG', 'sustainable', 'good governance', 'no adverse environmental, social and/or other impacts', or other equivalently labelled objectives. In the absence of well-defined market standards and due to the existence of multitude approaches, the exercise of judgment is necessary. Accordingly, different persons may classify the same investment, product and/or strategy differently regarding 'ESG', 'sustainable', 'good governance', 'no adverse environmental, social and/or other impacts', or other equivalently labelled objectives. Furthermore, the legal and/or market position on what constitutes an 'ESG', 'sustainable', 'good governance', 'no adverse environmental, social and/or other impacts', or other equivalently labelled objectives may change over time, especially as further regulatory or industry rules and guidance are issued and the ESG sustainable finance framework becomes more sophisticated.

Prospective users of an S&P DJI ESG Index are encouraged to read the relevant index methodology and related disclosures carefully to determine whether the index is suitable for their potential use case or investment objective.