# Frequently Asked Questions

## S&P Guarded Indices

### Company Background

1. **Who is S&P Dow Jones Indices?** S&P Dow Jones Indices (S&P DJI) is the largest global resource for essential index-based concepts, data and research, and it is home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than in products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes, helping to define the way investors measure and trade the markets.

2. **Who is S&P Global Sustainable1?** S&P Global Sustainable1 is a leader in carbon and environmental data and risk analysis and assesses risks relating to climate change, natural resource constraints and broader environmental, social and governance (ESG) factors.

### S&P Guarded Indices

3. **What are the S&P Guarded Indices?** The S&P Guarded Indices measure the performance of eligible securities from an underlying index, selected and weighted in an attempt to collectively enhance ESG profiles and reduce the carbon footprint with respect to the underlying index. The indices apply exclusions based on companies' involvement in specific business activities, performance concerning the principles of the United Nations Global Compact (UNGC) and involvement in relevant ESG controversies.

4. **What ESG datasets are used in the S&P Guarded Indices Methodology?** The indices use several climate, ESG and business involvement datasets, as shown in Exhibit 1.

**Exhibit 1: Datasets and Data Sources**

| Category | Dataset/Model | Data Source |
|---|---|---|
| Index Eligibility | Business Involvement Dataset | S&P Global Sustainable1 |
| | UNGC Scores | Sustainalytics |
| Constituent Weighting | Greenhouse Gas (GHG) Emissions and Emissions Disclosure Dataset | S&P Global Sustainable1 |
| | S&P Global ESG Scores | S&P Global Sustainable1 |

Source: S&P Dow Jones Indices LLC, S&P Global Sustainable1, Sustainalytics. Data as of October 2024. Table is provided for illustrative purposes.

5. **Why are these datasets used in the S&P Guarded Indices Methodology?** The purpose of the index methodology is to minimize the deviation in constituent index weights from their benchmark weights while satisfying multiple constraints, including those on carbon intensity, as well as S&P Global ESG Scores. The datasets help achieve that purpose and help manage the constraints. The constraints are defined using the datasets from the data sources noted in Exhibit 1.

   For more information on how the indices are calculated, see the index methodology.

6. **What indices are in the series?** As of Oct. 16, 2024, the indices available in this series are:

   - S&P 500 Guarded Index;
   - S&P World Guarded Index; and
   - S&P/TOPIX 150 Guarded Index.

7. **How are ESG controversies dealt with in the S&P Guarded Indices Methodology?** The S&P Global Media & Stakeholder Analysis (MSA) monitors ESG controversies, which include a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents and environmental disasters.

   The Index Committee reviews constituents that have been flagged by the S&P Global MSA to evaluate the potential impact of controversial company activities on the composition of the indices. In the event that the Index Committee decides to remove a company, that company would not be eligible for re-entry into the indices for one full calendar year, beginning with the subsequent rebalancing.[1]

8. **When are the indices rebalanced?** The indices are rebalanced semiannually, effective after the close of the last business day of April and October. The rebalancing reference date is the last trading day of the prior month.

[1] For more information on the approach used in S&P Global's MSA, see the S&P Global Media & Stakeholder Analysis Methodology.

As part of the rebalancing process, constituent stock weights are updated. Weights calculated as a result of the reference date data are implemented in the indices, using closing prices seven business days prior to the rebalancing effective date.

Additionally, the indices review index constituents for ongoing eligibility under the business activities criteria and remove, without replacement, all ineligible companies effective after the close of the last business day of July, October and January, using after the close of the last business day of the previous month as the reference date.

9. **How do the indices perform relative to their benchmarks?** Performance statistics are presented for all S&P DJI indices on their index factsheets, found at www.spglobal.com/spdji.

10. **If I subscribe to the S&P Guarded Indices, will I also receive the underlying ESG and climate datasets used in the S&P Guarded Indices Methodology?** No. Access to these datasets is available through direct licensing with the corresponding data source. Access to the S&P Global ESG Scores requires a separate data license. For further information, please contact your S&P DJI account representative or visit www.spglobal.com/spdji/en/contact-us.

    Access to other datasets used in the methodology requires direct licensing with each vendor.

## S&P Guarded Indices Methodology and Specific Concepts

### Index Eligibility

11. **What exclusions affect the indices?** The S&P Guarded Indices are affected by exclusions based on carbon emissions and S&P Global ESG Score coverage UNGC non-compliance and a further set of activity-based exclusions.

12. **What is included in the activity exclusions applied to the S&P Guarded Indices?** The S&P Guarded Indices exclude stocks involved in the following business activities.

    - Controversial weapons
    - Tobacco
    - Small arms
    - Military contracting
    - Coal
    - Thermal coal
    - Oil sands

    For more information on index eligibility criteria, see the S&P Guarded Indices Methodology.

## Index Optimization and Constraints

13. **What constraints are applied to the index to address liquidity and diversification?** The constituents of the S&P Guarded Indices are capped at 2% over or under the underlying index company weight. Additionally, a lower threshold constraint for minimum stock weight is applied to the index constituents.

    For more information on the specifics of these index constraints, see the S&P Guarded Indices Methodology.

14. **Why is optimization used to determine constituent weighting?** The S&P Guarded Indices target many specific outcomes as part of the overall index objective. Optimization is used to ensure objectives are met simultaneously and in the most efficient manner possible. The indices weight eligible constituents in a manner that minimizes active risk, while fulfilling objectives related to the following.

    - Index-level carbon intensity reduction relative to the benchmark
    - Index-level S&P Global ESG Score improvement relative to the benchmark
    - Ensuring diversification of active stock bets
    - Ensuring a level of absolute diversification
    - Liquidity control
    - Minimum stock threshold to ensure tradability

    For more information on the specifics of these index constraints, see the S&P Guarded Indices Methodology.

15. **What constraint is applied to ensure that S&P Guarded Indices have a higher ESG score relative to the benchmark?** The weighted average S&P Global ESG Score (waESG) of the S&P Guarded Indices must be at least 110% of the underlying index's waESG, after excluding stocks based on S&P Global ESG Scores.

16. **What constraint is applied to ensure that S&P Guarded Indices have a lower carbon intensity reduction relative to the benchmark?** Both the Scope 1 and 2 weighted average carbon intensity (WACI) and the Scope 1, 2 and 3 WACI must be less than or equal to 90% of the underlying index, after excluding stocks based on carbon emissions coverage.

    For more information on the specifics of how WACI is calculated, see the S&P Guarded Indices Methodology.

17. **What are Scope 3 emissions, and why are they classified into "downstream" or "upstream" categories?** Scope 1 emissions come from directly emitting sources that are owned or controlled by a company. For example, Scope 1 includes the emissions produced by the internal combustion engines of a trucking company's fleet.

Scope 2 emissions are from the consumption of purchased electricity, steam or other sources of energy generated upstream from a company's direct operations.

Scope 3 encompasses all other emissions associated with a company's operations that are not directly owned or controlled by the company. Therefore, Scope 3 emissions include several sources of upstream (indirect) emissions in the company's supply chain, as well as downstream from operations owned or controlled by the company (e.g., the emissions from the in-use phase of a company's products or services, such as the driving of a truck produced by an automobile manufacturer). By this definition, Scope 3 emissions typically contribute the largest quantity of a company's emissions footprint. Scope 3 emissions are classified into 15 distinct reporting categories,[2] as seen in Exhibit 2.

**Exhibit 2: Upstream and Downstream Scope 3 Emissions Categories**

| Upstream | Downstream |
|---|---|
| Purchased Goods and Services | Transportation and Distribution |
| Capital Goods | Processing of Sold Products |
| Fuel- and Energy-Related Activities | Use of Sold Products |
| Transportation and Distribution | End-of-Life Treatment of Sold Products |
| Waste Generated in Operations | Leased Assets |
| Business Travel | Franchises |
| Employee Commuting | Investments |
| Leased Assets | |

Source: S&P Dow Jones Indices LLC, Greenhouse Gas Protocol. Data as of October 2024. Table is provided for illustrative purposes.

18. **How are Scope 3 emissions used in the S&P Guarded Indices Methodology?** The S&P Guarded Indices use Scope 3 emissions data in the assessment and decarbonization of the index-level carbon intensity relative to the benchmark.

19. **What is S&P Global Sustainable1's Scope 3 dataset?** The S&P Guarded Indices Methodology uses S&P Global Sustainable1's Scope 3 emissions dataset, which includes upstream and downstream emissions. Upstream Scope 3 emissions are calculated using S&P Global Sustainable1's environmentally extended input-output (EEI-O) model, which estimates corporate environmental impacts across company operations and supply chain tiers. Downstream emissions are used as reported by companies, modeled by S&P Global Sustainable1, or a mix of both if not all relevant downstream Scope 3 categories are disclosed.

    Reported downstream Scope 3 data are used if verified, as stated in the company's CDP disclosures. Otherwise, relevant and undisclosed Scope 3 category emissions

[2] Greenhouse Gas Protocol, "Technical Guidance for Calculating Scope 3 Emissions," World Resources Institute & World Business Council for Sustainable Development, 2013.

data are modeled by S&P Global Sustainable1 using top-down or bottom-up approaches.

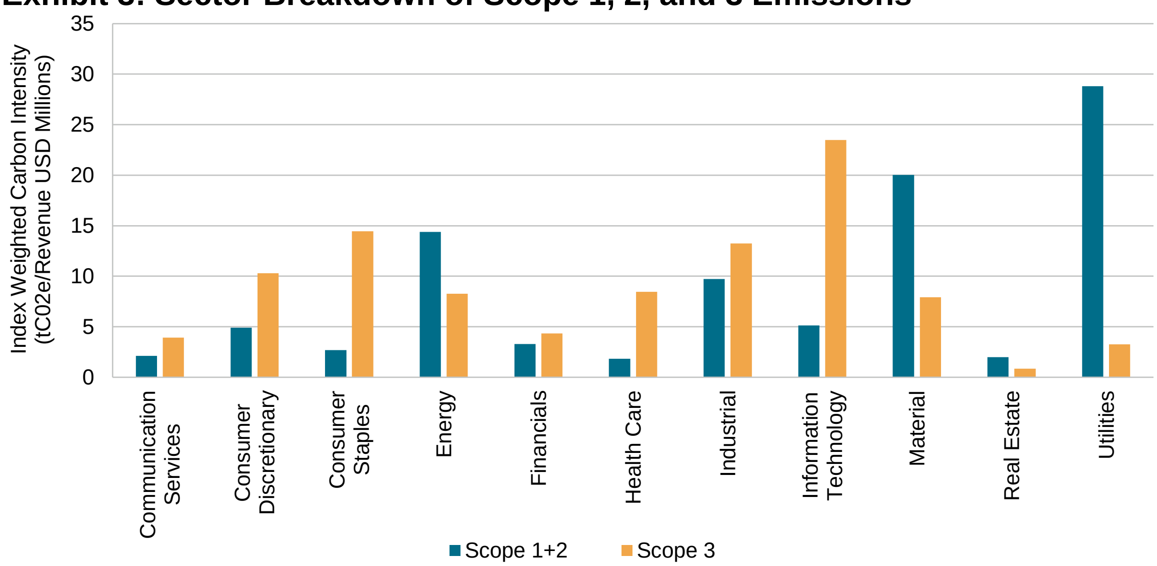
For its estimates, the top-down downstream Scope 3 emissions modeling approach uses the Scope 3 category and GICS sub-industry-specific emissions intensity factors, as well as the company's revenues. The bottom-up approach is a more sophisticated approach that leverages production data for emissions estimates in key sectors. For the Oil & Gas, Coal Extraction and Automotive (passenger) Trucost sectors, the categories of downstream transportation/distribution and use of sold products are particularly material, so S&P Global Sustainable1 uses production-based modeling approaches to estimate the downstream Scope 3 emissions of relevant companies when possible.

For more information on the S&P Global Sustainable1 Scope 3 emissions dataset, please complete the contact form.

20. **Why are Scope 3 emissions incorporated into the S&P Guarded Indices Methodology?** The S&P Guarded Indices use both upstream and downstream Scope 3 emissions data in the index design for the following reasons.

   – **To allow for the difference in sector ratios of carbon emissions between using Scopes 1 and 2 only and incorporating Scope 3 emissions:** For example, Exhibit 3 shows that in the S&P World Index, the Information Technology sector had one-fourth of the carbon intensity of the Materials sector when looking at only Scopes 1 and 2, but when Scope 3 is included, it overtook the Materials sector and became the second-highest-emitting sector after Utilities. Also, the inclusion of Scope 3 emissions allows for a better proxy for company carbon risks.

**Exhibit 3: Sector Breakdown of Scope 1, 2, and 3 Emissions**




Source: S&P Dow Jones Indices LLC, S&P Global Sustainable1. Analysis conducted with data from the S&P World universe. Data as of June 28, 2024. Chart is provided for illustrative purposes.

- **To allow for more direct comparability between companies:** If Scope 3 were to be included for only some sectors, those sectors would appear far worse from a climate perspective due to the selective incorporation of Scope 3 emissions.

21. **When is a company deemed to have disclosed GHG emissions?** A disclosed GHG emissions data status is achieved when S&P Global Sustainable1 identifies companies as having full or partial disclosure in their largest carbon emissions category (Scopes 1 or 2). For example, if a company's Scope 2 emissions are larger in absolute terms, the disclosure status of its Scope 2 emissions is used to define the company's overall disclosure status. Scope 3 is not currently included in this determination, since so few companies sufficiently comply with Scope 3 disclosure rules.

22. **What are the S&P Global ESG Scores, and how are they used in the S&P Guarded Indices?** The S&P Global ESG Scores are environmental, social and governance scores that robustly measure ESG risk and performance factors for corporations, with a focus on financial materiality. S&P Global Sustainable1 calculates these scores and derives them from their Corporate Sustainability Assessment (CSA). A company's CSA score is derived using either company-provided data, publicly available information or a combination thereof.

    For more information on S&P Global ESG Scores, please see the ESG Scores data page.

    For more information on the CSA, please see the Corporate Sustainability Assessment page.

23. **What are hard and soft constraints in the S&P Guarded Indices Methodology, and why is such a distinction made?** The index constraints are classified as either "hard" or "soft," and these are used to ensure various specific index outcomes as required by the methodology (see Exhibit 4). In the case that the index optimization guidelines are not met at a semiannual rebalance, soft index constraints can be partially relaxed to facilitate meeting the optimization's objective function. However, hard constraints are non-negotiable.

**Exhibit 4: Hard and Soft Index Constraints**

| Hard Constraints | Soft Constraints |
|---|---|
| Scope 1 and 2 WACI Target | Scope 1, 2 and 3 WACI Target |
| Weighted Average S&P Global ESG Score Target | Minimum Stock Weight Lower Threshold |
| Diversification Relative Stock Weight | |

Source: S&P Dow Jones Indices LLC. Data as of October 2024. Table is provided for illustrative purposes.

## Index Data and Licensing

24. **How much index history data is available?** The S&P 500 Guarded Index, S&P World Guarded Index and S&P TOPIX 150 Guarded Index were launched on Oct. 16, 2024. The first value date for the indices is April 30, 2019. Back-tested data is available for the index back to the first value date, while live performance data is available for each index from its launch date.

25. **How can I access the data for the S&P Guarded Indices?** S&P Guarded Indices data are calculated and delivered daily and available on S&P DJI's SPICE® platform or via daily Secured File Transfer Protocol (SFTP) scheduled data feeds, delivered using S&P DJI's Enterprise Data Xchange (EDX) platform.

26. **What is SPICE, and how can I access it?** SPICE is S&P DJI's web-based index and constituent data-delivery platform. SPICE provides subscribers with access to timely, comprehensive data, corporate action alerts and developments that affect index composition and weighting. Subscribers can customize and schedule reports to suit their respective investment criteria. For more information on SPICE, please see https://www.spice-indices.com/idp/#/.

27. **What does SFTP mean?** Secured File Transfer Protocol (SFTP) is a secured means of transferring data files on a Secure Shell (SSH) data stream. SFTP is a secure version of File Transfer Protocol (FTP) and is part of the SSH Protocol. This term is also known as SSH FTP.

28. **Do I need a license from S&P DJI in order to use the indices and their data?** Yes, in order to access, receive, use or distribute all index data or any related information, a subscription or license agreement with S&P DJI is required.

29. **Do I need a license from S&P DJI to use the indices in connection with financial products?** Yes, in order to use the indices in connection with a financial product or transaction, a license agreement with S&P DJI is required.

30. **How can I find out the constituents of these indices?** For information on the index constituents, please contact your S&P DJI account representative or visit www.spglobal.com/spdji/en/contact-us/.

31. **Where can I find more information about these indices?** More information on all available indices in this series can be found on the index pages.

    – S&P 500 Guarded Index
    – S&P World Guarded Index
    – S&P/TOPIX 150 Guarded Index

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