

S&P Paris-Aligned & Climate Transition (PACT) Indices Consultation on Eligibility Requirements and Constraints – Results

AMSTERDAM, FEBRUARY 25, 2022: S&P Dow Jones Indices (“S&P DJI”) has conducted a consultation with market participants on potential changes to the S&P Paris-Aligned & Climate Transition (PACT™) Indices, S&P 500 Net Zero 2050 Paris-Aligned Sustainability Screened Index, and Dow Jones Brookfield Global Infrastructure Net Zero 2050 Climate Transition ESG Index.

S&P DJI will make changes to the eligibility requirements and optimization constraints used in these indices. The changes are detailed below.

INDEX CONSTRUCTION CONSTRAINTS

S&P DJI will change the Diversification Relative Weight and Absolute Max Weight constraints from stock level to company level constraints as detailed in the table below. These changes are designed to prevent companies with multiple share classes from being unrepresentatively over/underweighted in the index as a result of the individual classes being considered separately.

Impacted Indices	Change	Methodology	
		Previous	Updated
S&P Paris-Aligned & Climate Transition (PACT) Indices	Diversification Relative Stock Weight	± 2% from underlying index stock weight	± 2% from underlying index company weight
	Diversification Absolute Max Stock Weight	≤ max(5%, underlying stock weight)	≤ max(5%, underlying company weight)
S&P 500 Net Zero 2050 Paris-Aligned Sustainability Screened Index	Diversification Relative Stock Weight	± 2% from underlying index stock weight	± 2% from underlying index company weight
	Diversification Absolute Max Stock Weight	≤ 20 x stock weight in underlying index	≤ 20 x company weight in underlying index

Please note that the methodology of the Dow Jones Brookfield Global Infrastructure Net Zero 2050 Climate Transition Index already reflects company level constraints. Therefore, these changes are not applicable to it.

PHYSICAL RISK CONSTRAINT

S&P DJI will change the Physical Risk Max Weight constraint from a fixed constant of -0.5 to a relative value. This is to ensure that the impact of this constraint remains in line with the index objective related to changes to the climate modelling data sets and hazard models used by Trucost to calculate a company’s physical risk score. In addition, the change will also modify the constraint so that it is applied at the company level instead of the stock level to ensure consistency of approach for companies with multiple share classes. The formula for the Physical Risk Max Stock Weight is as follows:

$$\leq A_i * Parent Weight_i$$

where:

$$A_i = \rho * \frac{PR_i - 100}{PR_i - 10}$$

PR_i = is the Physical Risk score of the company i

(This constraint is only applied to companies with a PR such that $A_i \leq 4$ and a Physical Risk Score higher than 10)

The table below summarizes the change.

Impacted Indices	Change	Methodology	
		Previous	Updated
S&P Paris-Aligned & Climate Transition (PACT) Indices ¹	Physical Risk Max Stock Weight	$\rho = -0.5$ Constraint is applied at the stock level	$\rho = \frac{\text{Physical Risk Score 95th percentile} - 10}{\text{Physical Risk Score 95th percentile} - 100}$
S&P 500 Net Zero 2050 Paris-Aligned Sustainability Screened Index			Constraint is applied at the company level

Please note that the methodology of the Dow Jones Brookfield Global Infrastructure Net Zero 2050 Climate Transition Index already reflects this methodology change. Therefore, this change is not applicable to it.

EXCLUSIONS BASED ON BUSINESS ACTIVITIES

S&P DJI will increase the level of involvement threshold for Alcoholic Beverages: Production and for Military Contracting: Weapon Related Products and/or Services in the S&P Net Zero 2050 Paris-Aligned Indices as detailed in the table below. These changes were proposed following feedback that the current exclusions were potentially too restrictive.

Impacted Indices	Change	Methodology	
		Previous	Updated
S&P Paris-Aligned & Climate Transition (PACT) Indices:	Alcoholic Beverages: Production	level of involvement threshold: >0%	level of involvement threshold: ≥5%
	Military Contracting: Weapon Related Products and/or Services	level of involvement threshold: >0%	level of involvement threshold: ≥5%
S&P Net Zero 2050 Paris-Aligned Indices Only			

Please note that the methodologies of the S&P 500 Net Zero 2050 Paris-Aligned Sustainability Screened Index and Dow Jones Brookfield Global Infrastructure Net Zero 2050 Climate Transition Index do not reflect these categories of exclusion. Therefore, these changes are not applicable to them.

OBJECTIVE FUNCTION

S&P DJI will amend the objective function used for constituent weighting in order to reduce deviations of country and sector level weights in comparison to the parent weights. This change will be applied to all indices covered by this consultation (i.e. the S&P Paris-Aligned & Climate Transition (PACT) Indices, S&P 500 Net Zero 2050 Paris-Aligned Sustainability Screened Index, and Dow Jones Brookfield Global Infrastructure Net Zero 2050 Climate Transition ESG Index). The table on the following page summarizes the change.

¹ The S&P UK Net Zero 2050 Climate Transition ESG Index and S&P UK Net Zero 2050 Paris Aligned ESG Index already reflect the updated methodology, applied at the stock level. For these indices, the constraint will be changed only so that it is applied at the company level.

Methodology	Objective Function
Previous	Minimize $\left(\sum \frac{(Parent\ Weight_i - Optimized\ Weight_i)^2}{Parent\ Weight_i} \right)$
Updated	Minimize $\left(\frac{1}{n} \sum \left[\frac{(Optimized\ Weight_i - Parent\ Weight_i)^2}{Parent\ Weight_i} \right] \right)$ $+ \frac{1}{k} \sum \left[\frac{(Optimized\ Sector\ Weight_i - Parent\ Sector\ Weight_i)^2}{Parent\ Sector\ Weight_i} \right]$ $+ \frac{1}{m} \sum \left[\frac{(Optimized\ Country\ Weight_i - Parent\ Country\ Weight_i)^2}{Parent\ Country\ Weight_i} \right]$

IMPLEMENTATION TIMING

These changes will be implemented in conjunction with the upcoming rebalancing, which takes effect prior to the market open on Friday, April 1, 2022. The changes will first be visible to clients beginning on Thursday, March 24, 2022.

Please note that the methodologies on S&P DJI's website are being updated to reflect these changes.

For more information about S&P Dow Jones Indices, please visit www.spglobal.com/spdji.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and 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 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.

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