

ISS ESG SECTOR-BASED SCREENING

Sector-Based Screening helps institutional investors and other users identify and make decisions regarding companies' involvement in certain industry sectors, particularly in the production and distribution of certain products and services which are viewed by some as controversial. It provides a detailed, granular set of revenue data that is shaped by prevailing industry and investment standards, and user needs. Issue areas covered by Sector-Based Screening include: Abortifacients, Alcohol, Animal Welfare (Fur/Exotic Leather and Live Export), Cannabis, Civilian Firearms and Ammunition, Contraceptives, Euthanasia, For Profit Correctional Facilities, Gambling, GMO, Hazardous Substances, Military Equipment and Services, Palm Oil, Pork, Pornography, Tobacco, and Violent Video Games. Involvement in such sectors can constitute a material sustainability risk.

Outputs

For each covered issuer, ISS ESG's Sector-Based Screens provide issuer profiles which identify the type of business activity, specifying whether the covered company engages in Production, Distribution or Services related to the issue area, as well as providing the reported or calculated/estimated share of revenue generated from the controversial business activity. Where applicable, assessments provide information on product sub-categories and additional metrics, such as the presence of a public policy regarding the issue area. Sector-Based Screening is focused on the identification and measurement of quantitative data where publicly available, and the estimation of assumed involvement where it is not. The research is centered around providing a quantitative measure of a company's level of involvement in a given controversial activity – primarily in terms of revenue exposure but also, in some areas, taking into account the existence or absence of public policy regarding a particular controversial activity.

Sector-Based Screening covers both direct operations as well as operations that are $\geq 20\%$ owned by the company, such as subsidiaries, joint ventures, associates, and affiliates. Revenue shares for involved associates and affiliates are attributed to the parent entities in proportion to ownership. Parent entities inherit their subsidiaries' assessments, but not vice versa.

Research Process

Sector-Based Screenings assessments are updated annually as well as on an ad-hoc basis in case of relevant corporate actions (e.g., mergers, acquisitions). ISS ESG's Sector-Based Screening research process can be broken down as follows:

- Risk assessment: Identification of risk industries and issue-relevant keywords, review of third-party data and reports, and news monitoring
- Research: Review of corporate disclosure such as regulatory filings, sustainability reports, press releases, investor presentations, company websites, and other company disclosures. Third-party information such as government sources, industry databases and reputable newspapers are cross-referenced as supplemental to company disclosures. Data collected during this process is a mixture of qualitative and quantitative nature which encompasses supporting information on the nature of the involvement, narrative context on the business operations/activities, and revenue assessment generated from the company's involvement.
- Quality assurance: All significant changes as well as new assessments are peer-reviewed and company dialogues are initiated if key information is not disclosed.

- Final report: Granular data to support customized implementation

Use of Estimated Data

ISS ESG’s Sector-Based Screening primarily leverages revenue information from company reported data. Should disclosure be insufficient or inadequate, information regarding the revenue of an issuer in controversial activities will be calculated/estimated. In some instances, reported raw data is used to model or calculate certain data factors which serves as a basis to generate estimated revenue information. Approximately 84% of the total assessments within the broader Sector-Based Screening contain estimations. This excludes screening issues covering Stem Cells, Abortion, Predatory Lending, and Animal Welfare issues relating to Factory Farming and Animal Testing for which Sector-Based Screening does not provide reported or calculated/estimated revenue share data.

As seen in the table below, Sector-Based Screening issues where all of total issue revenue assessments are calculated/estimated come from Military Equipment, Civilian Firearms, Euthanasia, Hazardous Substances, and Pornography. This is largely a result of significant differences in reporting quality, standards, and requirements between the companies in Sector-Based Screening’s large coverage universe. While company reported data is in most cases used as the starting point, as part of the standardization process this is aligned with the definitions applied in Sector-Based Screening to ensure the comparability, consistency, and comprehensiveness of the research results.

SECTOR-BASED SCREENING ISSUES (SBS)	PERCENTAGE OF CALCULATED/ESTIMATED REVENUE DATA OUT OF TOTAL ISSUER COVERAGE
Military Equipment	100%
Civilian Firearms	100%
Abortifacients	98%
Contraceptives	96%
Euthanasia	100%
Animal Welfare - Live Export	92%
Animal Welfare - Furs/Exotic Leather	97%
Cannabis	76%
For-profit Correctional Facilities	50%
GMO	87%
Hazardous Substances	100%
Palm Oil	76%
Alcohol	93%

Gambling	76%
Pork	99%
Pornography	100%
Tobacco	93%
Violent Video Games	95%
TOTAL SBS	84%

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