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# CLIMATE GLOBAL – CLIMATE-RESILIENT US REIT INDEX METHODOLOGY

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# 1. CLIMATE GLOBAL – CLIMATE-RESILIENT US REIT INDEX

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## 1.1 INDEX DESCRIPTION

The ***Climate Global – Climate-Resilient U.S. REIT Index*** identifies, and tracks U.S. publicly listed Real Estate Investment Trusts (REITs) that demonstrate greater resilience to climate-related physical risks and extreme weather events. The Index combines market capitalization with Climate Global’s proprietary Climate Robustness & Durability Score (CRDS™) — a science-based framework that leverages the same insurance-grade catastrophe models and analytical standards relied upon by global insurers and reinsurers to price policies and construct insurance portfolios. By applying these quantitative methods to evaluate property-level hazard exposure and portfolio vulnerability, CRDS™ enables a consistent, transparent approach to identifying REITs with stronger climate & extreme weather durability while maintaining diversification and liquidity within a rules-based structure.

The index has a base date of March 11th, 2016, with an initial value of 1,000.

The index is currently available in the following versions:

- Price Return: CLIMX
- Total Return: CLIMXTR
- Net Total Return: CLIMXNTR

## 1.2 CREATION OF MASTERLIST

### 1.2.1 Initial Universe

To be eligible for inclusion in the Initial Universe, securities must have:

- Their country of domicile, country of Incorporation and listing country as US.
- A minimum total market capitalization of USD 100 million.

## 1.3 SECURITY SELECTION PROCESS

The security selection process is based on extensive research carried out by Climate Global and entails the following steps:

- **Step 1:** The selection universe comprises all publicly listed **U.S. Real Estate Investment Trusts (REITs)**.
- **Step 2:** Mortgage REITs are excluded from the eligible universe. All others are considered, including: Industrial, Office, Retail, Residential, Self-Storage, Lodging/Resorts, Health Care, Data Centers, Timber, Specialty, Infrastructure and Diversified.
- **Step 3:** REITs classified as Specialty, Infrastructure, or Diversified are excluded if a majority of their total assets are not within the eligible operating sectors.
- **Step 4:** Each eligible REIT is assigned a **Climate Robustness & Durability Score (CRDS™)**, derived from property-level hazard modeling, exposure analysis, and portfolio aggregation.

Climate Global's Climate Robustness & Durability Score (CRDS™) is a proprietary, quantitative measure of how resilient a REIT's underlying real-estate portfolio is to climate and severe weather risks. CRDS™ draws on catastrophe-modeling practices and property-level climate analytics employed by the insurance & reinsurance industry to price policies and evaluate risks at both a property & portfolio level. The score incorporates:

- **Asset-Level Hazard Exposure:** Each asset in a REIT's portfolio is evaluated using stochastic, forward-looking hazard simulations calibrated by historical economic loss data. A multitude of perils are considered, including flood, hurricane, wildfire, hail, wind, heat stress, water stress, sea level rise, and others.
  - **Portfolio Aggregation:** Weighted roll-up of asset-level scores into a portfolio-level metric, taking into account loss correlation between geographically proximal properties. This is similar to how insurers or reinsurers would underwrite portfolio risk given the geographic distribution of their policies.
  - **Economic Proxies:** In principle, the goal of the Index is to capture the economic impact of climate & extreme weather risks by adjusting the net present value (NPV) of future discounted cash flows (DCF) of a portfolio of properties while marginalizing across all other factors. Since market capitalization reflects investor consensus on the present value of future cash flows, we use it as a practical, observable proxy for NPV of DCF. Our methodology blends CRDS with market cap while balancing diversification & concentration.
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- **Step 5:** REITs lacking sufficient asset-level data required for climate risk assessment (CRDS score) are excluded.

## 1.4 FINAL COMPOSITION

A tunable climate threshold,  $\delta$ , is applied to the CRDS values to determine the final securities to be included in the index. Securities with a CRDS score of less than  $\delta$  are excluded.

*Index Contents:*  $\{C_i \mid C_i > \delta\}$ , where  $C_i$  denotes the CRDS score of security  $i$ .

$\delta$  is selected so that the Index comprises at least 30 constituents, at most 40% of all eligible REITs, with a nominal target range of 30-80 constituents.

## 1.5 WEIGHTING

The index weighting is done in 3 steps as follows:

### Step 1: CRDS Score Normalization

$$\hat{C}_i = \frac{C_i}{\sum_j C_j}, \text{ where}$$

- $C_i$  denotes the CRDS score of security  $i$
- $\hat{C}_i$  denotes the normalized CRDS score between 0.0 and 1.0 of security  $i$ .

### Step 2: Compressed and Normalized Market Cap

$$\hat{M}_i = \frac{M_i^\mu}{\sum_j M_j^\mu}, \text{ where}$$

- $M_i$  denotes the market cap of security  $i$
- $\mu$  is an exponential weighting factor between 0.0 and 1.0
- $\hat{M}_i$  denotes the normalized and compressed market cap between 0.0 and 1.0 of security  $i$

The factor  $\mu$  allows the index to avoid overconcentration in constituents with high relative market cap. For example, if  $\mu = 1.0$  and a single constituent had dominant market cap, then the index would be overconcentrated in that constituent. However,  $\mu = 0.0$  would equally weight all constituents regardless of market cap. We select a value of  $\mu$  such that that top-10 constituents comprise less than 35% Index's holdings.

### Step 3: Weighting

Finally, we blend the CRDS and market cap to obtain the final index weights.

$$W_i = \frac{\hat{C}_i^\theta \cdot \hat{M}_i^{1-\theta}}{\sum_j \hat{C}_j^\theta \cdot \hat{M}_j^{1-\theta}}, \text{ where}$$

- $\hat{C}_i$  denotes the normalized CRDS score
- $\hat{M}_i$  denotes the normalized & compressed market cap
- $\theta$  is an exponential weighting factor between 0.0 and 1.0
- $W_i$  is the final index weight for security  $i$

The factor  $\theta$  allows the index to balance between market cap and CRDS score. For example, if  $\theta = 1.0$  the index would be entirely CRDS weighted, and if  $\theta = 0.0$  the index would be entirely market cap weighted. Currently we use a value of  $\theta = 0.5$  to equally weight CRDS with market cap.

## 1.6 BUFFER RULES

Buffer Rules are employed to reduce Portfolio Turnover. The following buffer rules apply:

### 1.6.1 Market Capitalization

A constituent shall continue to be included in the Initial Universe if its market capitalization is greater than or equal to 80% of the previously defined market capitalization limit. To illustrate, if an existing index member qualifies all other selection criteria but doesn't qualify the market capitalization criteria to the extent of 20% deviation then it will be retained in the investible universe.

## 1.7 INDEX CALCULATION AGENT

INDXX serves as the calculation agent and is tasked with determining the index value based on the index methodology.

## 1.8 INDEX PUBLISHER

This index is published by INDXX.

## 1.9 INDEX ADMINISTRATOR

Climate Global LLC serves as the index administrator.

## 1.10 RECONSTITUTION AND REBALANCING RULES

- The index follows a quarterly reconstitution and rebalancing schedule. The reconstituted portfolio becomes effective at the close of the second Friday of March, June, September and December of each year. This day is called the 'Reconstitution Effective Day.'
- The security selection and portfolio creation process start on the close of nearest Friday falling at least one month before the Reconstitution effective day, called the 'Selection Day.' The selection list is created based on the data as of the Selection Day.
- Weights are calculated at the close of the seventh trading day prior (six trading days prior) to the Reconstitution Effective Day. Index Shares are frozen using weights as of this day.

## 1.11 CORPORATE ACTIONS

The corporate action guidebook is present in the Governance section of INDXX's website, under 'Index Documents'- [Indxx Calculation Standard Guidelines](#)

## 1.12 DISCLAIMER

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