



## INDEX METHODOLOGY

# NASDAQ OVERSEAS CHINA NEW ECONOMY COMPANIES TOP 50 ESG INDEX<sup>SM</sup>

## NQCNNEW

### INDEX DESCRIPTION

The Nasdaq Overseas China New Economy Companies Top 50 ESG Index is designed to capture the new drivers of the China Economy by measuring the performance of the 50 largest companies from China in certain sectors. Companies are evaluated on the basis of their business activities, controversies and ESG Risk Ratings and weights modified on the basis of their ESG Risk Ratings.

### SECURITY ELIGIBILITY CRITERIA

#### Index inclusion

A security must be included in the Nasdaq Global Index (NQGI) as of the Index Reconstitution Reference Date. Please refer to that methodology for further information on its constituent selection.

#### Security types

A security must be classified as a common stock or ordinary share.

#### Multiple securities per issuer

One security per issuer is permitted. If an issuer has multiple otherwise-eligible securities, only the security with the highest three-month average daily traded value may be eligible.

#### Listing exchanges

A security must be listed on the Hong Kong Exchange.

#### Geographies and countries

A security must be issued by a company domiciled in China.

## **Industries and sectors**

A security must be allocated by the Industry Classification Benchmark (ICB) to the Consumer Staples, Consumer Discretionary, Health Care or Technology Industry. ICB is a product of FTSE International Limited that is used under license.

## **Market capitalization**

A security must be issued by a company with a market capitalization of at least \$250 million (USD).

## **Liquidity**

A security must have a three-month average daily traded value of at least \$1 million (USD).

## **Float**

At least 20% of a security's total shares outstanding must be publicly available for trading (float shares).

## **ESG criteria**

A security must be issued by a company not determined by Sustainalytics to be involved in specific business activities as defined in Appendix A.

A security must be issued by a company not deemed by Sustainalytics to be non-compliant with the principles of the United Nations Global Compact.

A security must be issued by a company that is not determined by Sustainalytics to have a controversy level higher than four (4), as defined by Sustainalytics.

A security must be issued by a company with a Sustainalytics ESG Risk Rating Score lower than 40.

## **Other eligibility criteria**

If, at reconstitution, Nasdaq becomes aware that an issuer or security will soon undergo a fundamental change that makes it ineligible, Nasdaq will remove the security from consideration. This includes entering into a definitive merger or acquisition agreement or other pending arrangement that would make it ineligible for Index inclusion, or a filing of bankruptcy or similar protection from creditors, or other events as described in Section 3 of **Corporate Actions and Events Manual – Equities**.

# **INDEX CALENDAR**

## **Reconstitution schedule**

The Index Reconstitution is conducted annually in November by applying the Constituent Selection Process to all securities that meet the applicable Security Eligibility Criteria.

## **Reconstitution reference dates**

Unless otherwise specified, the Security Eligibility Criteria and Constituent Selection Process are applied by using data as of the prior month-end.

## **Reconstitution announcement dates**

Index Reconstitutions are announced in early November.

## **Reconstitution effective dates**

Index Reconstitutions become effective at market open on the first trading day following the third Friday in November.

## **Rebalance schedule**

The Index is rebalanced quarterly in February, May, August and November by applying the Constituent Weighting Process.

## **Rebalance reference dates**

The Constituent Weighting Process is applied using data as of the prior month-end (January, April, July and October).

## **Rebalance announcement dates**

Index Rebalances are announced in early February, May, August and November.

## **Rebalance effective dates**

Index Rebalances become effective at market open on the first trading day following the third Friday in February, May, August and November.

## **Holiday schedule**

The Index is calculated Monday through Friday and does not close for holidays.

## **Index calculation and dissemination schedule**

The Index Value is calculated five (5) days a week, Monday through Friday, once per second from the start of the trading day in Tokyo (09:00:01 Japan Standard Time) until the close of the trading day in New York (17:16:00 Eastern Time).

## CONSTITUENT SELECTION

### Constituent selection process

Every security that meets all applicable Security Eligibility Criteria is considered for inclusion in the Index. The 50 eligible securities with the largest issuer market capitalizations after removing the bottom 20% by ESG Risk Rating Score are included in the Index.

## CONSTITUENT WEIGHTING

### Constituent weighting scheme

The Index is a modified ESG Risk Rating Score-adjusted market capitalization-weighted index.

### Constituent weighting process

An ESG Risk-Adjusted Market Cap is calculated for each Index Security as the product of its issuer's market capitalization and a scaled additive inverse of its issuer's ESG Risk Rating Score.

$$ESG\ Risk\text{-}Adjusted\ Market\ Cap = \frac{40 - ESG\ Risk\ Rating\ Score}{40} \times Market\ Cap$$

Each Index Security's initial security weight is calculated by dividing the security's ESG Risk-Adjusted Market Cap by the sum of the ESG Risk-Adjusted Market Caps of all Index Securities.

Initial weights are then adjusted by the following two-stage weight adjustment process:

#### Stage 1

Initial index weights are adjusted to meet the following Stage 1 constraint, producing the Stage 1 weights:

- No Index Security weight may exceed 8%.

#### Stage 2

Stage 1 weights are adjusted to meet the following Stage 2 constraints, producing the final weights:

- For Index Securities with the five largest market capitalizations, Stage 1 weights are maintained.
- For all other Index Securities, no weight may exceed 4%.

For additional information about index weighting, see **Nasdaq Index Weight Calculations**.

## INDEX MAINTENANCE

### Deletion policy

#### Daily

If, at any time other than an Index Reconstitution, Nasdaq becomes aware that an Index Security has become ineligible for continued inclusion, it is removed from the Index as soon as practicable. This includes events such as filing for bankruptcy or similar protection from creditors, delisting or other arrangement including mergers and acquisitions. Refer to the **Corporate Actions and Events Manual – Equities** for further information.

### **Quarterly**

If, at each quarter's end (month-end of January, April, July and October), an Index Security's issuer fails any of the ESG eligibility criteria, the Index Security is removed from the Index on the Rebalance Effective Date in the following month.

### **Replacement policy**

If, at any time other than an Index Reconstitution, an Index Security is removed from the Index, it is replaced at the next Quarterly Rebalance by a "replacement security". A replacement security must meet the following criteria:

- It was eligible for inclusion at the most recent Reconstitution, yet not selected to be included in the Index.
- It has not become ineligible since the most recent Reconstitution via corporate action or other continued eligibility criteria.
- It has not been added to the Index since the most recent Reconstitution.
- Its issuer meets all of the Reconstitution ESG eligibility criteria as of the Rebalance Reference Date.

Of the securities meeting those criteria, the security(ies) whose issuer(s) had the largest market capitalization(s) as of the Reconstitution Reference Date is(are) selected as the replacement security(ies).

### **Corporate actions**

In the periods between scheduled index reconstitution and rebalancing events, individual Index securities may be the subject to a variety of corporate actions and events that require maintenance and adjustments to the Index. Specific treatment of each type of corporate action or event is described in **Nasdaq Corporate Actions and Events Manual – Equities**, which is incorporated herein by reference.

In certain cases, corporate actions and events are handled according to the weighting scheme or other index construction techniques employed. Wherever alternate methods are described, the Index will follow the "Non-Market Cap Corporate Action Method."

### **Index share adjustments**

Other than as a direct result of corporate actions, the index does not normally experience share adjustments between scheduled Index Rebalance and Reconstitution events.

## APPENDIX A: PROHIBITED AREAS OF BUSINESS INVOLVEMENT

At the annual Reconstitution and at each quarterly Rebalance, companies determined by Sustainalytics to be engaged in the following business activities are excluded from the Index.

Category of Involvement	Description	Acceptable involvement range	Acceptable ownership range
Adult Entertainment: Production	The company is involved in the production of adult entertainment and/or owns/operates adult entertainment establishments.	0-4.9% of revenues	n/a
Adult Entertainment: Distribution	The company is involved in the distribution of adult entertainment materials.	0-4.9% of revenues	n/a
Alcoholic Beverages: Production	The company manufactures alcoholic beverages.	0-4.9% of revenues	n/a
Alcoholic Beverages: Related Products/ Services	The company is a supplier of alcohol-related products/services to alcoholic beverage manufacturers.	0-4.9% of revenues	n/a
Alcoholic Beverages: Retail	The company derives revenues from the distribution and/or retail sale of alcoholic beverages.	0-4.9% of revenues	n/a
Arctic Oil & Gas Exploration: Extraction	The company is involved in oil and gas exploration in Arctic regions.	0% of revenues	n/a
Arctic Oil & Gas Exploration: Significant ownership (extraction)	The company owns 10-50 per cent of another company with involvement in oil and gas exploration in Arctic regions.	n/a	0%
Cannabis: Production (Recreational Cannabis)	The company is involved in the development and/or cultivation of cannabis for recreational purposes.	0% of revenues	n/a
Cannabis: Significant ownership (Production Recreational Cannabis)	The company owns 10-50 per cent of another company with involvement in the development and/or cultivation of cannabis for recreational purposes.	n/a	0%
Cannabis: Retail (Recreational Cannabis)	The company derives revenues from the distribution and/or retail sale of cannabis for recreational purposes.	0-4.9% of revenues	n/a

Controversial Weapons: Tailor-made and essential	The company is involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	No involvement	n/a
Controversial Weapons: Significant ownership (Tailor- made and essential)	The company is involved, through corporate ownership, in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.	n/a	0%
Controversial Weapons:	The company provides components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon.	No involvement	n/a
Controversial Weapons: Significant ownership (non tailor-made or non essential)	The company provides, through corporate ownership, components/services for the core weapon system, which are either not considered tailor-made or not essential to the lethal use of the weapon.	n/a	0%
Gambling: Operations	The company owns and/or operates a gambling establishment.	0-4.9% of revenues	n/a
Gambling: Specialized Equipment	The company manufactures specialized equipment used exclusively for gambling.	0-4.9% of revenues	n/a
Gambling: Supporting Products/ Services	The company provides supporting products/services to gambling operations.	0-4.9% of revenues	n/a
Military Contracting: Weapons	The company manufactures military weapon systems and/or integral, tailor-made components or these weapons.	0% of revenues	n/a
Military Contracting: Significant ownership (Weapons)	The company owns 10-50 per cent of another company with involvement in manufacturing military weapon systems and/or integral, tailor-made components or these weapons.	n/a	0-9.9%
Military Contracting: Weapon related products and/or services	The company provides tailor-made products and/or services that support military weapons.	0-4.9% of revenues	n/a

Nuclear Power: Production	The company produces nuclear power.	0-4.9% of revenues	n/a
Nuclear Power: Supporting Products and Services	The company provides products/services that support the nuclear power industry.	0-4.9% of revenues	n/a
Oil & Gas: Production	The company is involved in oil and gas exploration, production, refining, transportation and/or storage. Subcategories: - Exploration and Production - Refining - Transportation - Storage	0-4.9% of revenues	n/a
Oil & Gas: Supporting Products/ Services	The company provides tailor-made products and services that support oil and gas exploration, production, refining, transportation and storage.	0-4.9% of revenues	n/a
Oil & Gas: Generation	The company generates electricity from oil and/or gas.	0-4.9% of revenues	n/a
Oil Sands: Extraction	The company extracts oil sands.	0% of revenues	n/a
Oil Sands: Significant ownership (extraction)	The company owns 10-50 per cent of another company with involvement in extraction of oil sands.	n/a	0-9.9%
Riot Control: Protection equipment and riot control weapons	The company manufactures protection equipment and riot control weapons.	No involvement	n/a
Riot Control: Significant ownership (Protection equipment and riot control weapons)	The company owns 10-50 per cent of another company with involvement in manufacturing protection equipment and riot control weapons.	n/a	0-9.9%
Shale Energy: Extraction	The company is involved in shale energy exploration and/or production.	0% of revenues	n/a
Shale Energy: Significant ownership (extraction)	The company owns 10-50 per cent of another company with involvement in shale energy exploration and/or production.	n/a	0-9.9%



Small Arms: Civilian customers (Assault weapons)	The company manufactures and sells assault weapons to civilian customers.	0% of revenues	n/a
Small Arms: Significant ownership (Civilian customers – assault weapons)	The company owns 10-50 per cent of another company that manufactures and sells assault weapons to civilian customers.	n/a	0-9.9%
Small Arms: Military/law enforcement customers	The company manufactures and sells small arms to military/law enforcement.	0% of revenues	n/a
Small Arms: Significant ownership (Military/law enforcement customers)	The company owns 10-50 per cent of another company manufactures and sells small arms to military/law enforcement.	n/a	0-9.9%
Small Arms: Key components	The company manufactures and sells key components of small arms.	0-4.9% of revenues	n/a
Small Arms: Retail/ Distribution (assault weapons)	The company is involved in the retail and/or distribution of assault weapons.	0-4.9% of revenues	n/a
Small Arms: Retail/distribution (Non-assault weapons)	The company is involved in the retail and/or distribution of small arms (non- assault weapons).	0-4.9% of revenues	n/a
Small Arms: Civilian customers (Non-assault weapons)	The company manufactures and sells small arms (non-assault weapons) to civilian customers.	0% of revenues	n/a
Small Arms: Significant ownership (Civilian customers – non-assault weapons)	The company owns 10-50 per cent of another company that manufactures and sells small arms (non-assault weapons) to civilian customers.	n/a	0-9.9%
Thermal Coal: Extraction	The company extracts thermal coal.	0-4.9% of revenues	n/a
Thermal Coal: Power Generation	The company generates electricity from thermal coal.	0-4.9% of revenues	n/a
Tobacco Products: Production	The company manufactures tobacco products.	0% of revenues	n/a

Tobacco Products: Significant ownership (production)	The company owns 10-50 per cent of another company with involvement in manufacturing tobacco products.	n/a	0-9.9%
Tobacco Products: Related Products/ Services	The company supplies tobacco-related products/services.	0-4.9% of revenues	n/a
Tobacco Products: Retail	The company derives revenues from the distribution and/or retail sale of tobacco products.	0-4.9% of revenues	n/a

## APPENDIX B: METHODOLOGY CHANGE LOG

Effective date	Methodology section	Description or summary of changes
November 20, 2023	Index description	The Index name is changed from Nasdaq Overseas China New Economy Companies to 50 Index to Nasdaq Overseas China New Economy Companies Top 50 ESG Index.
November 20, 2023	Security eligibility criteria: Index inclusion	A criterion is added that a security must be included in the Nasdaq Global Index (NQGI) as of the Reconstitution Reference Date.
November 20, 2023	Security eligibility criteria: Security types	Depository receipts (both American and Global) and depository shares are removed from permitted security types.
November 20, 2023	Security eligibility criteria: Listing exchanges	The criteria for Listing exchanges are changed to include only securities listed on the Hong Kong Exchange.
November 20, 2023	Security eligibility criteria: ESG eligibility	ESG eligibility is added, with a corresponding appendix (A) outlining the applicable ESG rules.
November 20, 2023	Constituent Selection: Constituent selection process	A criterion is added to remove the bottom 20% by ESG Risk Rating Score before selecting the 50 eligible securities with the largest issuer market capitalizations.
November 20, 2023	Constituent weighting: Constituent weighting scheme	The weighting scheme of the Index is changed to a modified ESG Risk Rating Score-adjusted market capitalization-weighted index.

November 20, 2023	Constituent weighting: Constituent weighting process	The calculation of initial weights is changed to dividing a security's ESG Risk-Adjusted Market Cap by the sum of the ESG Risk-Adjusted Market Caps of all Index Securities.
November 20, 2023	Index maintenance: Deletion policy	A quarterly deletion policy is added pertaining to Index Securities failing the ESG criteria.
November 20, 2023	Index maintenance: Replacement policy	A criterion is added that the issuer of a replacement security must meet all of the Reconstitution ESG eligibility criteria as of the Rebalance Reference Date.

## ADDITIONAL INFORMATION

### Announcements

Nasdaq announces Index-related information via the Nasdaq Global Index Watch (GIW) website at <http://indexes.nasdaqomx.com>.

For more information on the general Index Announcement procedures, please refer to the **Nasdaq Index Methodology Guide**.

### Unexpected market closures

For information on Unexpected Market Closures, please refer to the **Nasdaq Index Methodology Guide**.

### Calculation types

For information on the Index calculation types as well as the mathematical approach used to calculate the Index(es), please refer to the **Calculation Manual – Equities & Commodities**.

### Recalculation and restatement policy

For information on the Recalculation and Restatement Policy, please refer to the **Nasdaq Index Recalculation Policy**.

### Data sources

For information on data sources and the classification of dividends and associated tax rates, please refer to the **Nasdaq Index Methodology Guide**.

## Contact information

For any questions regarding an Index, please contact the Nasdaq Index Client Services team at [indexservices@nasdaq.com](mailto:indexservices@nasdaq.com).

## Index dissemination

Index values and weightings information are available through Nasdaq Global Index Watch (GIW) website at <https://indexes.nasdaqomx.com/> as well as the Nasdaq Global Index Flexfile Delivery Service (GIFFD) and Global Index Dissemination Services (GIDS). Similar to the GIDS offerings, Genium Consolidated Feed (GCF) provides real-time Index values and weightings for the Nordic Indexes.

For more detailed information regarding Index Dissemination, see the **Nasdaq Index Methodology Guide**.

## Website

For further information, please refer to Nasdaq GIW website at <https://indexes.nasdaqomx.com/>.

## FTP and dissemination service

Index values and weightings are available via FTP on the Nasdaq Global Indexes FlexFile Delivery Service (GIFFD). Index values are available via Nasdaq's Global Index Dissemination Services (GIDS).

# GOVERNANCE

## Index governance

All Nasdaq Indexes are managed by the governance committee structure and have transparent governance, oversight, and accountability procedures for the index determination process. For further details on the Index Methodology and Governance overlay, refer to the **Nasdaq Index Methodology Guide**.

## Nasdaq Index Management Committee

The Nasdaq Index Management Committee is responsible for the overall oversight of activities related to the development, issuance, and operation of Nasdaq Indexes. The Committee reviews and approves all new Index Methodologies as well as updates to existing methodologies. For a detailed overview of the Index Management Committee, refer to the **Nasdaq Index Methodology Guide**.

## Internal reviews of methodology

All new methodologies or updates to existing methodologies must be reviewed by the Index Management Committee. Additionally, all in-scope Index methodologies are subject to an annual review

by the Index Management Committee and U.S. Oversight Committee. For a detailed description on internal reviews of the Methodology, refer to the **Nasdaq Index Methodology Guide**.

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### **Communication with stakeholders and consultations**

In certain circumstances, Nasdaq will seek feedback from clients and market participants via consultations. For a detailed description on Consultations and Communications with Stakeholders, refer to the **Nasdaq Index Methodology Guide**.

### **Index cessation**

Nasdaq has a documented procedure that is followed for Index Cessation that includes termination/retirement of an Index or Index Family. For more information, refer to the **Nasdaq Index Cessation Policy**.

### **Discretionary adjustment**

This Index Methodology was created by Nasdaq to achieve the aforementioned objective of measuring the underlying purpose of each Index governed by this methodology document. Any deviations from this methodology are made in the sole judgment and discretion of Nasdaq so that the Index continues to achieve its objective.

For more information on potential adjustments including Calculation and Pricing Disruptions, Expert Judgment, and Unexpected Reconstitution/Rebalances, refer to the **Nasdaq Index Methodology Guide**.

## **GLOSSARY OF TERMS AS USED IN THIS DOCUMENT**

For the glossary of key terms, refer to the **Nasdaq Index Methodology Guide**.

## DISCLAIMER

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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