

# Index Calculation

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Climate Strategy Index is a sector-wise scoring methodology constructed to rank firms based on their environmental performance, governance and goals and relative weights assigned to each of these categories.

The climate strategy Index for a particular firm is calculated as:

$$\text{Climate Strategy Index} = w_1 * \text{Performance Index} + w_2 * \text{Governance Index} + w_3 * \text{Goal Index}$$

Such that  $w_1, w_2$  and  $w_3$  are the normalised weights for each category, i.e.

$$w_1 = \frac{w_{perf}}{w_{perf}+w_{gov}+w_{goal}} ; w_2 = \frac{w_{gov}}{w_{perf}+w_{gov}+w_{goal}} ; w_3 = \frac{w_{goal}}{w_{perf}+w_{gov}+w_{goal}}$$

Where  $w_{perf}, w_{gov}$  and  $w_{goal}$  are the weights assigned to each category based on estimated importance.

**Environmental Performance Index** is the simple mean of the following:

1. Reverse percentile rank of Scope 1 emission volume (*normalised by revenue*) in respective sector
2. Reverse percentile rank of market-based Scope 2 emission volume (*normalised by revenue*) in respective sector
3. Reverse percentile rank of Scope 3 emission volume (*normalised by revenue*) in respective sector
4. Reverse percentile rank of water withdrawal volume (*normalised by revenue*) in respective sector
5. Percentile rank of biodiversity area (*normalised by revenue*) in respective sector

\*All non-reported volumes are considered 0 (ranking them same as the worst performing firm for that particular category)

**Environmental Governance Index** is the simple mean of the following:

1. GHG Assurance state (*Yes/No/Partial corresponding to 1/0/0.5*)
2. TCFD disclosure (*Yes/No/Partial corresponding to 1/0/0.5*)
3. Environmental skill as key board competency (*Yes/No/Partial corresponding to 1/0/0.5*)
4. Executive compensation tied to ESG milestone (*Yes/No/Partial corresponding to 1/0/0.5*)

**Environmental Goals Index** is the simple mean of the following:

1. Whether firm has a net-zero goal (*Yes/No corresponding to 1/0*)
2. Whether net-zero goal covers scope 1 emissions (*Yes/No/NA corresponding to 1/0/0*)
3. Whether net-zero goal covers scope 2 emissions (*Yes/No/NA corresponding to 1/0/0*)
4. Whether net-zero goal covers all of scope 3 emissions (*Yes/No/NA corresponding to 1/0/0*)

5. Whether firm is working with SBTI (*Yes/No/NA corresponding to 1/0/0*)
6. Status of the goal with SBTI (*Comitted/Validated/NA corresponding to 1/0.5/0*)
7. Whether firm has an interim goal on the way to Net Zero (*Yes/No/NA corresponding to 1/0/0*)
8. Whether “Net Zero” or “Carbon neutral” is mentioned in the firm’s proxy statement (*Yes/No/NA corresponding to 1/0/0*)

The indices are calculated to quantify and compare the environmental strategy of firms of a particular sector based on key metrics as listed above.