Verde ESG Leaders Index

Index Methodology & Construction Rules · Version 3.0

A non-investable research index identifying institutional ESG leaders using only free, public, independently verifiable data — no licensed vendor ratings, no black box, and no categorical sector or product exclusions.

THIS DOCUMENT COVERS

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SECTION 1

Index Overview

Objective · Parameters · Positioning

Parameter	Specification
Index Name	Verde ESG Leaders Index
Ticker / Symbol	VESGLIDX (tracking and reference use)
Index Type	Non-investable research and tracking index
Objective	Track the equity performance of US large-cap companies that lead their GICS sectors on a fully public-data, five-pillar ESG methodology
Asset Class	US-listed equities (common stock, ADRs)
Base Universe	S&P; 500 constituents
Constituents	97 (as of the July 1, 2026 inception)
Inception Date	July 1, 2026 (live tracking). No back-tested history is published.
Base Value	1,000.00 as of the July 1, 2026 close
Currency	USD
Rebalancing	Quarterly — first trading day of March, June, September, December
Weighting	ESG-tilted float market capitalization (tilt = Verde Score ÷ 75); 10% name cap; 20% uniform sector cap
Exclusions	None. No categorical sector or product exclusions (Section 3.2)
Administrator	Verde Advisors LLC, Phoenix, Arizona
Calculation Agent	Verde Advisors LLC (research index; self-calculated, fully reproducible)

1.1 Index Rationale

The Verde ESG Leaders Index addresses a specific gap: most ESG indices rest on licensed, black-box vendor ratings that subscribers cannot reproduce or independently verify. The Verde ESG Leaders Index is built differently. Every input is drawn from free, public, primary-source data — government filings and open datasets — and the scoring pipeline is fully documented and reproducible. Any reader can, in principle, regenerate every constituent score from the same public sources. The Index measures whether multi-dimensional, transparently scored ESG quality correlates with long-term equity performance, and builds that record live from inception forward rather than through retrospective simulation.

Non-Investable Research Index. The Verde ESG Leaders Index is a non-investable research and tracking index. It is not a financial product, fund, or exchange-traded product. No securities are held, traded, or managed in connection with it. It is published for research, educational, and thought-leadership purposes only. Investors cannot directly invest in this Index.

Why the S&P; 500 universe. Version 3.0 builds on the S&P; 500 rather than the Russell 1000. S&P; 500 membership is free, public, and independently verifiable — consistent with the Index's requirement that every input, including the universe itself, be reproducible without licensed data. The scoring pipeline is universe-agnostic and can be applied to any published constituent list.

SECTION 2

Verde ESG Score — Five-Pillar Public-Data Methodology

What is measured · The public source behind each pillar · Sector-relative scoring · How pillars combine

The Verde ESG Score is a composite metric on a 0–100 scale. It is computed from five pillars, each sourced exclusively from free, publicly accessible, commercial-use-permissible data. No licensed or subscription ESG ratings are used at any point.

2.1 Pillars, Weights & Public Sources

Pillar	Wt.	What it measures	Public source
Climate Alignment	30%	Validated science-based targets; near-term and net-zero ambition; temperature alignment (1.5°C / WB2°C / 2°C)	Science Based Targets initiative (SBTi) Target Dashboard — free, open, weekly-updated
Governance Quality	30%	Board independence; CEO/Chair separation; one-share-one-vote; annual (vs. classified) elections	SEC EDGAR DEF 14A proxy statements — public domain
Carbon Efficiency	15%	Facility-level Scope 1 emissions aggregated to parent and scaled to size; relative intensity rank within GICS sector (measured-only)	EPA Greenhouse Gas Reporting Program (GHGRP) — public domain
Social Responsibility	15%	Workplace-safety incidence (TRIR) and wage-law violations, ranked within GICS sector; a labor-treatment risk screen (measured-only)	OSHA Injury Tracking Application + DOL Wage & Hour data — public domain
ESG Transparency	10%	Engagement with recognized disclosure frameworks (TCFD, SASB, GRI, ISSB, sustainability reporting) in SEC filings, on a presence basis, ranked within GICS sector	SEC EDGAR filings — public domain

2.2 Sector-Relative Scoring — Leadership in Context

The Carbon, Social, and Transparency pillars are scored relative to each company's GICS sector, not against the full universe. A railroad is compared with railroads and industrials, not with software firms. This measures leadership in context rather than penalizing inherently higher-impact industries for the physics of their business models — and it is the analytical foundation for the Index's no-exclusions design (Section 3.2). Climate Alignment and Governance Quality are scored on absolute criteria, because a validated emissions target and an independent, accountable board are meaningful in the same way in every industry.

2.3 How the Pillars Combine — Measured-Only Renormalization

Two pillars — Carbon and Social — are only meaningfully measurable for companies with the relevant physical footprint. A facility-light software firm has no EPA-reportable emissions; that is a structural fact, not evidence of cleanliness. Where a pillar is not measurable for a company, it is excluded from that company's score rather than assigned a neutral or favorable value, and the remaining pillar weights renormalize:

Verde ESG Score = $\Sigma(w_i \times \text{pillar}_i) \div \Sigma(w_i)$, summed over only the pillars measured for that company.

Climate, Governance, and Transparency are measurable across nearly the full universe and almost always contribute. This design avoids rewarding a company for data that does not exist, and is disclosed rather than hidden. No value is ever imputed.

Honest scope of each pillar (stated, not buried). Carbon is a relative efficiency rank among companies with reportable emissions, not an absolute decarbonization measure. Social measures labor-treatment risk (safety and wage compliance) and does not capture diversity metrics, for which no free, reproducible, universe-wide source exists; this is a disclosed limitation and a roadmap item. Governance signals are extracted from proxy prose and are high- but not perfect-coverage; where the core independence signal cannot be extracted, the pillar is treated as not-measured. Transparency is a breadth-of-engagement signal, not a disclosure-quality audit, and carries the lowest weight.

SECTION 3

Constituent Eligibility & Selection

The dual eligibility test · The no-exclusions design principle · Conduct-based integrity provision

3.1 Eligibility Requirements (all must be satisfied at the review date)

Requirement	Specification
Universe membership	S&P; 500 constituent at the quarterly review date. Listing, size, and liquidity standards are inherited from S&P; 500 membership criteria.
Sector leadership	Verde ESG Score within the top 20% of the company's GICS sector.
Absolute quality floor	Verde ESG Score ≥ 65/100.
Score computability	Sufficient public disclosure for the Verde ESG Score to be computed from the Section 8 sources.

Eligibility is a **dual test**: a company must lead its own sector (top quintile) *and* clear an absolute quality floor (score ≥ 65). The sector-relative leg ensures every sector of the economy can be represented by its genuine leaders; the absolute floor ensures that "best of a weak sector" alone is not enough. At the July 1, 2026 inception, 97 companies satisfied both tests. Both tests are re-applied in full at each quarterly review.

3.2 No Categorical Exclusions — A Deliberate Design Principle

The Index applies **no sector or product-based exclusions**. No industry — tobacco, defense, fossil energy, gaming, or any other — is excluded by category, and no company starts at a structural disadvantage because of the business it is in.

The rationale is analytical, not promotional. Exclusion-based ESG indices conflate the moral character ascribed to an industry with the measurable conduct of the companies in it. A company in an inherently high-impact or controversial business may nonetheless operate with exemplary governance, rigorous safety performance, validated climate targets, and industry-leading transparency — and a methodology that excludes it by category discards exactly the information an ESG index exists to measure. Strong, verifiable performance on the measured pillars — governance above all — can and should overcome the presumption attached to an industry label.

The Index therefore measures **what a company does** on the dimensions applicable to it, not the category it belongs to. Sector-relative scoring (Section 2.2) already contextualizes inherently higher-impact industries, and the dual eligibility test ensures any constituent from such an industry is both a leader within its sector and above the absolute quality floor. Inclusion of a company from a controversial industry is a finding of the methodology, not an endorsement of the industry. This is a deliberate design choice distinguishing VESGLIDX from exclusion-based ESG indices, and readers who require product-based screens should treat the Index accordingly.

3.3 Conduct-Based Integrity Provision

While no company is excluded by category, the Administrator may remove a constituent on the basis of material, publicly reported, company-specific events — regulatory action, major litigation, or a significant ESG incident — that the scored pillars have not yet had the opportunity to reflect. This provision is conduct-based, not category-based; it is expected to be used rarely; and every application is documented and explained in the quarterly reconstitution report. The Index does not rely on any subscription controversy-monitoring service.

SECTION 4

Weighting Methodology

ESG-score-tilted float market capitalization · Caps & constraints

4.1 Weighting Formula

Weight(i) = [FloatMktCap(i) × ESGTilt(i)] ÷ Σ [FloatMktCap(j) × ESGTilt(j)]

where **ESGTilt(i) = Verde ESG Score(i) ÷ 75**, ranging from 0.87 (score 65, the eligibility floor) to 1.33 (score 100). The denominator sums across all eligible constituents. The tilt rewards higher-scoring companies with proportionally greater weight while retaining the liquidity and capacity characteristics of capitalization weighting.

4.2 Weight Constraints

Constraint	Limit	Rationale
Maximum single constituent	10.0%	Limits single-name concentration
Maximum single GICS sector	20.0% (uniform, all sectors)	Maintains sector diversification

When a constituent exceeds the 10.0% cap or a sector exceeds the 20.0% cap, the excess is redistributed pro-rata to constituents below their caps in proportion to tilted float market cap; the name and sector caps are applied iteratively until all constraints hold simultaneously. Float adjustment uses public data and is approximate; the float-adjustment basis is disclosed each quarter (Section 8).

SECTION 5

Index Calculation & Daily Maintenance

Share-based price-return calculation · Buy-and-hold drift between rebalances

At inception and at each quarterly rebalance, the published target weights are converted into fixed notional share counts at that day's official closing prices:

Shares(i) = Weight(i) × IndexValue ÷ Price(i)

On each subsequent US trading day, the Index level is the value of that fixed basket at official closing prices:

IndexValue(t) = Σ Shares(i) × Price(i, t)

Between rebalances, constituent weights drift with relative prices — standard buy-and-hold behaviour for a capitalization-weighted index. At each quarterly rebalance, shares are reset to the then-current target weights at that day's closing prices while holding the Index level continuous (no jump). The Index was set to exactly 1,000.00 at the July 1, 2026 close; July 1, 2026 is the base date, and the first performance observation is the July 2, 2026 close. The Index is calculated on a **price-return** basis from official closing prices, adjusted for splits; ordinary dividends are not reinvested. A total-return variant is a roadmap item and will be announced through the Section 7 change process if introduced.

SECTION 6

Rebalancing, Reconstitution & Corporate Actions

Quarterly review process · Event treatment

6.1 Quarterly Review

Parameter	Specification
Frequency	Quarterly — first trading day of March, June, September, December
Review date	Last business day of February, May, August, November
Announcement	Constituents and weights published on verdeadvisors.co at least 10 calendar days before the effective date
Score basis	Most recent Verde ESG Score, recomputed from current public data each quarter
Universe basis	S&P; 500 membership as publicly reported at the review date

6.2 Rebalancing Steps

Step 1. Compile the S&P; 500 universe as of the review date.

Step 2. Recompute Verde ESG Scores for the full universe from current public data (Section 8).

Step 3. Apply the dual eligibility test: top 20% of GICS sector AND score ≥ 65 (Section 3.1).

Step 4. Compute ESG-tilted float-market-cap weights (Section 4.1).

Step 5. Apply the 10% name and 20% sector caps with iterative redistribution (Section 4.2).

Step 6. Publish the final constituent list, weights, and scores at least 10 days before effect.

Step 7. On the effective date, reset notional shares to the new weights at closing prices, holding the Index level continuous (Section 5).

6.3 Corporate Actions Treatment

Action	Treatment
Stock / reverse splits	Price and shares adjusted on ex-date; no constituent change; Index level unaffected.
Cash dividends	Index is price-return; ordinary dividends are not reinvested.
Special dividends (>5%)	Index adjusted on ex-date to remove the special dividend.
Constituent acquired	Removed at the closing price on the last trading day; weight redistributed pro-rata. Replacement considered at the next rebalancing.
Spin-off	Parent retained if still eligible; spin-off evaluated at the next rebalancing.
New listing / S&P; 500 addition	Not added intra-quarter; evaluated at the next review date.
Delisting / bankruptcy	Removed on trading suspension at the last available price; weight redistributed.
S&P; 500 removal	Removed at the next quarterly rebalancing unless another provision applies sooner.
Ticker / name changes	Tracked continuously; the constituent is followed through the change with no Index impact.

SECTION 7

Index Governance & Oversight

Administration · Discretion · Methodology changes

Verde Advisors LLC serves as Index Administrator, responsible for maintaining the methodology, conducting quarterly reviews, computing and publishing the Index, and documenting discretionary decisions. The Index is presently administered by the Principal Advisor; Verde Advisors intends to engage an independent external methodology reviewer to conduct an annual review in the Index's first year of operation.

7.1 Discretionary Decisions

While rules-based, certain situations require informed judgment — corporate actions not explicitly addressed, extraordinary market events, data unavailability, or material business changes affecting classification. All such decisions are documented and explained in the quarterly reconstitution report.

7.2 Methodology Changes

Material changes require a minimum 60-day advance notice on verdeadvisors.co, except where immediate change is required for index integrity (for example, a public data source ceasing publication). All changes are recorded in a methodology change log (Section 11 records the changes introduced in this version). The five-pillar weights and the eligibility parameters (top-quintile test and 65 floor) are reviewed against the live score distribution at each annual review; any change is published through this process.

SECTION 8

Data Sources — All Public & Verifiable

Every input traces to a named, free, primary source

Input	Source	Access
Climate pillar	SBTi Target Dashboard	Free / open data
Governance pillar	SEC EDGAR (DEF 14A proxies)	US gov public domain
Carbon pillar	EPA Greenhouse Gas Reporting Program (GHGRP)	US gov public domain
Social pillar	OSHA Injury Tracking Application + DOL Wage & Hour data	US gov public domain
Transparency pillar	SEC EDGAR filings (disclosure-framework engagement)	US gov public domain
S&P; 500 membership	Publicly reported index membership	Public
Share prices	Public end-of-day market data	Public

No licensed ESG ratings (e.g., MSCI, Sustainalytics, CDP scores) and no subscription data feeds are used in computing the Verde ESG Score. Float adjustment of market capitalization from purely public data is approximate; the Administrator discloses the float-adjustment basis used each quarter. Share prices are sourced from public end-of-day data.

SECTION 9

Publication & Dissemination

Reporting cadence and channels

Publication	Content	Frequency
Daily Index Value	Closing level, daily change, YTD and since-inception return — published to verdeadvisors.co/index via an automated end-of-day pipeline	Each US trading day
Monthly Report	Month, YTD, since-inception return; top-10 holdings; sector breakdown	Monthly
Quarterly Reconstitution	Full constituent list, scores, weights; additions and deletions with rationale; any Section 3.3 applications	Quarterly
Annual Methodology Review	Methodology and parameter review; performance vs. the S&P; 500 parent universe	Annual

The reference benchmark shown for context is the S&P; 500 (parent universe); it is not a component of the Index. Verde Advisors is evaluating third-party index-calculation and dissemination options and will disclose any such arrangement when in place; no such arrangement is represented as existing today.

SECTION 10

Verifiability, Reproducibility & Limitations

The differentiator — and an honest statement of what the Index does not claim

10.1 Verifiability

Every Verde ESG Score input is drawn from a named public dataset listed in Section 8. The scoring pipeline — sector-relative pillar scoring, measured-only renormalization, the dual eligibility test, ESG-tilt weighting, and constraint application — is documented and reproducible. The methodology specification is available to institutional reviewers on request. A reviewer can, in principle, reconstruct any constituent's score from the same free sources. This stands in deliberate contrast to indices built on proprietary, non-reproducible vendor ratings.

10.2 No Back-Test Is Published

Verde Advisors does not publish a back-tested track record for this Index. A credible point-in-time historical simulation would require historical index membership and historical, as-reported ESG data for every rebalancing date; assembling that from free public sources with adequate fidelity is not presently feasible, and a simulation that applies current scores to past periods would carry look-ahead and survivorship bias. Rather than publish a biased history, the Index establishes a clean, real-time track record from its July 1, 2026 inception. Any illustrative historical analysis released in future will be clearly labeled as hypothetical and subordinate to the live record.

10.3 Known Limitations

• **Pillar coverage is footprint-dependent.** Carbon and Social are measured only where a company has the relevant footprint; their weights renormalize where not measured (Section 2.3).

• **Social scope.** The Social pillar measures labor-treatment risk (safety, wage compliance), not diversity or human-capital development — no free universe-wide source exists for those.

• **Governance extraction.** Governance signals are parsed from proxy text and are not perfectly complete; unextractable names are treated as not-measured rather than guessed.

• **Transparency overlap.** The Transparency pillar is correlated with the Climate pillar by construction and is weighted lightly (10%).

• **No-exclusions consequence.** Because no categorical screens are applied, the Index may include companies from industries some readers screen out on values grounds. This is disclosed by design (Section 3.2); readers requiring product-based screens should treat the Index accordingly.

• **Float-adjustment approximation.** Free public data supports only approximate float adjustment.

• **Not investment advice; not predictive.** The Index is a research tool. ESG quality is not represented as a predictor of returns.

SECTION 11

Version 3.0 Change Log

Changes from Methodology Version 2.0 · Effective July 1, 2026

Version 3.0 supersedes Methodology Version 2.0 in full and is the methodology under which the Index launched live on July 1, 2026. The material changes are recorded below.

Element	Version 2.0	Version 3.0
Base universe	Russell 1000	S&P; 500 — membership free, public, and independently verifiable
Eligibility	Absolute threshold: score ≥ 75	Dual test: top 20% of GICS sector AND score ≥ 65
Categorical exclusions	Five excluded categories (tobacco, controversial weapons, adult entertainment, thermal coal, Arctic oil & gas)	None. No sector or product-based exclusions (Section 3.2); conduct-based integrity provision retained (Section 3.3)
Name cap	8.0%	10.0%
Sector cap	25.0%	20.0%, uniform across all sectors
Buffer rules	77/72 inclusion/exclusion score buffers	Removed; the dual test is re-applied in full each quarter. Turnover-control buffers may be introduced through the Section 7 change process once live turnover is observed
Sector-relative scoring	Carbon and Social ranked among measured companies	Carbon, Social, and Transparency explicitly ranked within GICS sector
ESG tilt	Score ÷ 75 (range 1.00–1.33)	Score ÷ 75 unchanged (range 0.87–1.33 under the wider eligibility band)

Rationale for the exclusions change. Version 2.0 excluded five product categories. Version 3.0 removes all categorical exclusions on the analytical grounds set out in Section 3.2: measurable corporate conduct — governance above all — should be able to overcome the presumption attached to an industry label, and sector-relative scoring plus the dual eligibility test already ensure that any constituent from a high-impact industry is a demonstrable leader. This change was adopted before live inception; no live index history was calculated under Version 2.0.

SECTION 12

Legal Notices & Disclaimers

Non-investable research index

12.1 Non-Investment Product

The Verde ESG Leaders Index is a non-investable research and tracking index published by Verde Advisors LLC for informational, educational, and research purposes only. It is not a financial product, fund, ETF, or investment vehicle. Verde Advisors manages no assets in connection with it and holds no securities on behalf of any investor in connection with it.

12.2 Not Investment Advice

Nothing in this document or in any Verde Advisors publication regarding the Index constitutes investment advice, a solicitation, or a recommendation to buy, sell, or hold any security. Inclusion of a company in the Index is not an endorsement of that company or its industry. Investors should conduct their own due diligence and consult qualified advisors. Past index performance is not indicative of future results.

12.3 Proprietary Methodology

The Verde ESG Score and Verde ESG Leaders Index methodology are proprietary to Verde Advisors LLC. While all underlying data sources are public, the composite methodology, selection rules, and calculation are owned by Verde Advisors LLC.

12.4 Data Sources

Verde Advisors uses data from third-party public sources and makes reasonable efforts to ensure accuracy but does not warrant the completeness, accuracy, or timeliness of any data used. The public-source providers referenced do not endorse or sponsor the Index. S&P; 500® is a registered trademark of S&P; Dow Jones Indices LLC; its use here identifies the public reference universe only and implies no sponsorship or endorsement.

This document constitutes the complete index methodology for the Verde ESG Leaders Index, Version 3.0, effective July 1, 2026, and supersedes Version 2.0 in full. Companion document: VESGLIDX Factsheet V3.0 (VESGLIDX-FS-V3). Verde Advisors LLC — Index Administration · dslattery@verdeadvisors.co · (402) 578-4107 · Phoenix, AZ · verdeadvisors.co.