Global Diversity and Inclusion Index from Refinitiv

Questions and answers

September 2018
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1. WHY THE GLOBAL DIVERSITY AND INCLUSION INDEX FROM REFINITIV?

We identified an opportunity in the marketplace to rank companies based on a set of diversity and inclusion metrics and to build an index of the top 100 companies. Refinitiv has been able to leverage our unique content, expertise and technical capabilities to develop this index.

2. WHAT DOES IT DO?

There are two main components to the Global Diversity and Inclusion (D&I) Index:

1) The first is a financial index which tracks the returns of the top 100 ranked D&I companies, which is rebalanced every quarter. The index will help investors widen their responsible investment or environmental, social and governance (ESG) product offerings by focusing on a new and growing thematic that is diversity and inclusion.

2) The second is the ability to analyze the D&I data, both at the aggregated level using our D&I scores for thousands of listed companies and for analyzing the underlying 24 D&I measures with the help of professional tools like Eikon® from Refinitiv.

3. HOW IS THE INFORMATION GATHERED?

With over 150 content research analysts that are trained to collect ESG data, we have one of the largest ESG content collection operations in the world. With local language expertise and operating from different locations across the globe we process numerous publicly available information sources all for the same company with the aim of providing up to date, objective and comprehensive coverage.

There are over 400 ESG measures which our analysts process manually for a single company, with each measure going through a careful process to standardize the information so as to make sure it is comparable across the entire range of companies. Out of measures, 24 were chosen for inclusion in the D&I scoring methodology.
Data quality is a key part of the collection process, which is why we use a combination of both algorithmic and human processes to make sure we achieve as close to 100% data quality as possible. Below is an overview as to the various methods we use to achieve that goal:

1. **DATA ENTRY/PRE-PRODUCT**
   - Around 400 built-in error check logics in the collection tool for various data points
   - Error checks can be tailor-made for specific requirements

2. **POST-PRODUCTION**
   - Around 300 automated Quality Check screeners run on ESG collection tool:
     - Relating to interrelated data points
     - Negative screening
     - Inconsistency/missing in quant and qualitative
     - Scaling
     - Variance within year
     - Raw data and comments section
     - Sector-based checks (TRBC codes)
     - Validating completeness of prior year

3. **INDEPENDENT AUDITS**
   - Sample audits on daily basis:
     - Detailed audits
     - Critical data point checks
     - Product audits
   - Weekly reporting and root cause analysis:
     - Feedback sessions with the production teams

4. **MANAGEMENT REVIEWS**
   - Monthly quality – deep dives
   - Heat map analysis with top areas for concerns
   - Measures to address problematic topics and data points
   - New system validation checks and screeners are constantly created based on new learning, insights and feedback to continuously improve the data quality

Thanks to our quality-assurance processes, we deliver the most reliable, comprehensive and trusted ESG data to our customers.

We gather information across a universe of over 7,000 listed companies and growing. We then publish the latest fiscal year ESG data for existing or new companies added to the universe on a bi-weekly cycle.

4. **HOW FREQUENTLY IS THE INDEX REBALANCED?**

The Global Diversity and Inclusion Index is rebalanced on a quarterly basis, after close of business on the final trading day of the month, using the most recent bi-weekly data update from the ESG database to update the scores. The new rebalance is effective at market open on the first trading day of the month.

5. **HOW ARE COMPANIES SELECTED FOR THE D&I INDEX?**

The starting universe of candidates for the Global Diversity and Inclusion index is the set of equities tracked by our ESG database at the rebalance date. There are a total of 24 D&I measures with each having its own defined benchmark and rolling up into one of four D&I pillars. The four pillars are diversity, inclusion, people development and controversies. For a full list of the metrics please see the appendix. Each company is assigned a pillar score for each of the four pillars.
Equities with a non-zero score on each of the four pillars will be assigned an overall score, which is simply the arithmetic mean of the pillar scores. Equities are ranked (in descending order) on the basis of overall score, and the top 100 are selected as constituents.

Global universe of companies

Each company is benchmarked per data point against industry peers

companies with scores across all four pillars are given overall scores

Top 100

The decision was made to omit the assignment of overall scores to companies scoring zero on one or more pillars. The rationale behind the decision was that their inclusion would reduce the mean score, making the average significantly lower. For the overall rankings, the intent was to rank only those companies that are actively tracking on all four pillars.

At rebalance, the companies are weighted by free float market capitalization. Since the portfolio is rebalanced quarterly, the relative weight in each tier will drift as the year progresses. There is no effort between rebalances to control weighting.
6. HOW FREQUENTLY ARE THE D&I SCORES CALCULATED?

The D&I scores are calculated once a quarter and published in the Eikon platform.

7. HOW ARE THE D&I SCORES CALCULATED?

There are a total of 24 measures with each having its own defined benchmark and rolling up into one of the four pillars. For a full list of these please see the appendix.

Weighing by industry group/country

Many individual data points are weighted based on the availability of that data point across companies in that industry group (Business Classification Level 3) or country. To determine those weights, it is necessary to first:

1. Perform a count for each data point, by both industry group and country. For Boolean data points, only Yes (‘Y’) values are counted. Values that are missing, empty (null), or NA are not counted
2. Convert the raw counts to percentages, when there are more than 10 companies available. If there are 10 or fewer in the industry group or country, the percentage is set to zero
3. Use the availability percentages to identify boundaries for assigning quartiles (i.e., for a given data point and industry group or country, determine into which quartile that percentage falls)

Once the steps above are complete, the quartile assignments can be used to determine the weighting (0%, 25%, 50%, 75%, or 100%) for that data point within its industry group or country.

As a final step, each company is tagged if it belongs to either an industry or a country for which there are insufficient members to form a benchmark.
Calculating diversity/inclusion/people development scores

The diversity, inclusion and people development pillars all use the same methodology to calculate the pillar scores.

The steps are as follows:

1. Determine the data points involved in the pillar’s calculation (see appendix)
2. For each company:
   a. For each data point used in the pillar:
      i. Determine the data point weight (based on whether the data point is weighted relative to industry group or to country)
      ii. Add the data point weight to the pillar weight total
      iii. If the data point is present:
         1. Convert non-numeric values to the appropriate numeric value (i.e., Booleans are mapped to 0/1, strings are mapped as determined by a data file)
         2. If numeric value is not a number (e.g., value was NA), or a Boolean ‘N’ (No) value, increase transparency count
         3. Obtain the appropriate min/max value for the data point within the industry group
         4. Calculate the raw score as:
               \[
               \frac{\text{numericValue} - \text{minValue}}{\text{maxValue} - \text{minValue}}
               \]
   b. Use the raw scores for each data point to create the normalized scores for each data point. Each normalized data point score is computed as:
      \[
      \text{rawScore} \times \frac{\text{dataPointWeight}}{\text{sumOfWeights}}
      \]
   c. The sum of the normalized scores, rounded to an integer value, forms the overall score for the company for that pillar

Calculating controversies cores

The methodology for calculating the controversies score is considerably simpler. It is based on the company’s market cap classification, and for each data point, whether any controversies were reported (the data points contain the number of controversies, but this is not taken into account).

The methodology steps are:

1. Determine the data points involved in the pillar’s calculation
2. For each company:
   a. For each data point used in the pillar:
      i. If data point is not present for the company, or is NA, score 100 for the data point (no controversies is considered a positive).
      ii. If the data point is present and is a positive number, score based on market capitalization (large = 50; mid = 25; small = 0).
   b. The score for the controversies pillar is the average score for the individual data points, rounded to an integer value.

Controversies are the only pillar in which the data points are updated every two weeks, rather than on a fiscal year basis.

Final score assembly

Overall score is presently based on a simple average of the four individual pillar scores. A company must have non-zero scores on all four pillar scores to have an overall score computed.

Companies are ranked (in descending order) by overall score, and the top 100 are selected as the index portfolio. Each of the equities in the index is weighted based on its free float market capitalization.
8. WHY USE COUNTRY OR INDUSTRY BENCHMARKS?

When we set about identifying the leading companies across the diversity and inclusion measures we were careful in our consideration as to how best to benchmark companies for each of the 24 measures. At the core is a desire to provide the best possible peer group for each measure. Sometimes this would mean using industry group peers using BC and other times criteria would be skewed in favor of using country benchmarks.

Would it be fair to compare the percentage of women on the board of a company headquartered in France whereby there is a quota system versus companies from other countries where there are no quotas? Should we penalize companies because regulations in those countries don’t provide quotas and/or should this be done using comply or explain type regulations such as at the Australian Stock Exchange? When looking at the percentage of women employees is it fair to compare a basic materials sector company versus healthcare sector company? We know that on average there are likely to be fewer women working in mining companies than in healthcare. Should we be penalizing companies simply because of the sector they are in? In all of the above questions we took careful decisions by analyzing the data and validating it both internally and externally over the course of the two years it took to build the index.

The above does not mean the system is perfect either. In an ideal world we would like to have an even larger universe of companies so that we could really compare apples with apples at more granular industry peers groups for example, something that with time we hope will be possible. Crucially, better and more reporting by international companies against these measures is needed to increase transparency and enable more detailed comparisons. It is difficult to measure performance if no one is reporting and we hope this index will raise awareness and lead to better and more disclosure.

9. WHY USE WEIGHTS?

In a continuation of the logic “why use country or industry benchmarks”, we understand that reporting on these measures within those countries and industries varies greatly. For example we chose to benchmark companies on the Human Rights Campaign (HRC) corporate equality index scores at a country level because it mostly pertains to American companies. HRC corporate equality scores are a great indicator and we did not want to exclude it in our index, but is it fair to weigh this measure heavily for companies headquartered in China where there are virtually none with HRC scores versus American companies for which there are over 400 with scores?

This is one reason why we introduced the concept of weights. It is designed to weigh each of the 20 measures (the controversies pillar uses a different approach) depending on the level of reporting, so that if reporting is low or non-existent for that industry/country relative to others then it is reduced in terms of weight. The opposite is also true; if reporting is high relative to other countries/industries then we allocate more weight to the measure. It is a dynamic system which adjusts as company reporting adjusts. If industries/countries report heavily on a given measure then it is very likely to be relevant. In an ideal world all of these measures matter and should be weighted 100%, but we understand that these issues are complex and sit somewhere between industry and country standards.

10. WHAT DOES A HIGH D&I SCORE MEAN?

Companies with the highest overall D&I scores (theoretical max 100) will have not only reported against the majority of the 20 measures (excluding the four controversy measures) but are also very likely to be the best in class relative to their industry and country peers.

11. HOW MANY COMPANIES ARE INCLUDED?

We cover over 7,000 listed companies in the Refinitiv ESG database. The coverage universe is determined by a number of global indices that we monitor, with bi-yearly checks to see which new constituents have joined these indices, which we will process using the latest available information at that time.
<table>
<thead>
<tr>
<th>Region</th>
<th>Indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>2,900+</td>
</tr>
<tr>
<td>Latin America</td>
<td>370+</td>
</tr>
<tr>
<td>Europe</td>
<td>1,200+</td>
</tr>
<tr>
<td>Asia (excl. Japan)</td>
<td>970+</td>
</tr>
<tr>
<td>Japan</td>
<td>430+</td>
</tr>
<tr>
<td>Africa and Middle East</td>
<td>230+</td>
</tr>
<tr>
<td>Oceania</td>
<td>450+</td>
</tr>
</tbody>
</table>

*market cap >400MM USD

### ESG global coverage

<table>
<thead>
<tr>
<th>Index</th>
<th>Sub-indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAX INDEX</td>
<td>FTSE 250 INDEX</td>
</tr>
<tr>
<td>CAC 40 INDEX</td>
<td>NASDAQ 100 INDEX</td>
</tr>
<tr>
<td>MERVAL</td>
<td>IPC35</td>
</tr>
<tr>
<td>PERU GENERAL</td>
<td></td>
</tr>
<tr>
<td>Bovespa</td>
<td>NZS 50</td>
</tr>
<tr>
<td>S&amp;P 500 INDEX</td>
<td>MSCI Emerging Markets Index</td>
</tr>
<tr>
<td>S&amp;P ASX 300 INDEX</td>
<td></td>
</tr>
<tr>
<td>COLCAP</td>
<td></td>
</tr>
</tbody>
</table>
12. WHERE CAN I FIND THE UNDERLYING INFORMATION?

All of the underlying information either at a company level or against lists is available via the Eikon platform. We have developed a couple of templates to help our users view the information, via the sample grid report templates, which are perfect for analyzing lists of companies:

Alternatively we have a detailed company level D&I template which works using the Eikon add-in for Microsoft® Office. This provides a detailed breakdown of company performance and all source / click through information.
13. WHERE CAN I FIND THE INDEX?

You can find the index via feed or in Eikon by typing the short code .TRDI and hitting return or by simply typing in the search: Diversity and Inclusion Index:

![Index Finding](image)

It is then possible to analyze the index performance by clicking on the tab “Price & Charts” followed by “Chart”.

![Chart Analysis](image)
14. DOES THE INDEX ADHERE TO IOSCO PRINCIPLES?

We support fully IOSCO’s approach, which applies a common set of principles across all jurisdictions, and we have been working to ensure full observance of these principles across all benchmarks that we administer.

15. IS THE INDEX INVESTABLE AND AVAILABLE FOR LICENSE?

The D&I index is licensable for the basis of investment products.
## Appendix: ESG Measures Used

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Eikon item code</th>
<th>Description</th>
<th>Benchmark group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controversies</td>
<td>TR.ControvDiversityOpportunity</td>
<td>Number of controversies published in the media linked to workforce diversity and opportunity (e.g. wages, promotion, discrimination and harassment).</td>
<td>Market Cap Classification</td>
</tr>
<tr>
<td>Controversies</td>
<td>TR.RecentControvDiversity</td>
<td>Number of controversies linked to workforce diversity and opportunity (e.g. wages, promotion, discrimination and harassment) published since the last fiscal year company update.</td>
<td>Market Cap Classification</td>
</tr>
<tr>
<td>Controversies</td>
<td>TR.ControvWorkingCondition</td>
<td>Number of controversies published in the media linked to the company’s relations with employees or relating to wages or wage disputes.</td>
<td>Market Cap Classification</td>
</tr>
<tr>
<td>Controversies</td>
<td>TR.RecentControvWorkingCondition</td>
<td>Number of controversies linked to the company’s relations with employees or relating to wages or wage disputes published since the last fiscal year company update.</td>
<td>Market Cap Classification</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.AnalyticBoardCulturalDiversity</td>
<td>Percentage of board members that have a cultural background different from the location of the corporate headquarters.</td>
<td>Country</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.PolicyDiversityOpportunity</td>
<td>Does the company have a policy to drive diversity and equal opportunity?</td>
<td>Industry</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.TargetsDiversityOpportunity</td>
<td>Has the company set targets or objectives to be achieved on diversity and equal opportunity?</td>
<td>Industry</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.WomenEmployees</td>
<td>Percentage of women employees.</td>
<td>Industry</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.NewWomenEmployees</td>
<td>Percentage of new women employees.</td>
<td>Industry</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.WomenManagers</td>
<td>Percentage of women managers.</td>
<td>Industry</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.AnalyticBoardFemale</td>
<td>Percentage of females on the board.</td>
<td>Country</td>
</tr>
<tr>
<td>Diversity</td>
<td>TR.AnalyticExecutiveMembersGenderDiversity</td>
<td>Percentage of female executive members.</td>
<td>Country</td>
</tr>
<tr>
<td>Inclusion</td>
<td>TR.USLGBTEqualityIndex</td>
<td>The score of the company in the HRC corporate equality index from the Human Rights Campaign Foundation.</td>
<td>Country</td>
</tr>
<tr>
<td>Inclusion</td>
<td>TR.FlexibleWorkingHours</td>
<td>Does the company claim to provide flexible working hours or working hours that promote a work-life balance?</td>
<td>Industry</td>
</tr>
<tr>
<td>Inclusion</td>
<td>TR.DayCareServices</td>
<td>Does the company claim to provide day care services for its employees?</td>
<td>Country</td>
</tr>
<tr>
<td>Inclusion</td>
<td>TR.EmployeesWithDisabilities</td>
<td>Percentage of employees with disabilities or special needs.</td>
<td>Country</td>
</tr>
<tr>
<td>Inclusion</td>
<td>TR.HIVAIDSProgram</td>
<td>Does the company report on policies or programs on HIV/AIDS for the workplace or beyond?</td>
<td>Country</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.PolicySkillsTraining</td>
<td>Does the company have a policy to improve the skills training of its employees?</td>
<td>Industry</td>
</tr>
<tr>
<td>-------------------</td>
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</tr>
<tr>
<td>People Development</td>
<td>TR.PolicyCareerDevelopment</td>
<td>Does the company have a policy to improve the career development paths of its employees?</td>
<td>Industry</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.AvgTrainingHours</td>
<td>Average hours of training per year per employee.</td>
<td>Industry</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.InternalPromotion</td>
<td>Does the company claim to favor promotion from within?</td>
<td>Industry</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.MgtTraining</td>
<td>Does the company claim to provide regular staff and business management training for its managers?</td>
<td>Industry</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.AnalyticTrainingCosts</td>
<td>Training costs per employee in U.S. dollars.</td>
<td>Industry</td>
</tr>
<tr>
<td>People Development</td>
<td>TR.EmployeeSatisfaction</td>
<td>The percentage of employee satisfaction as reported by the company.</td>
<td>Industry</td>
</tr>
</tbody>
</table>
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