

Diversity and Inclusion Index from Refinitiv

Index methodology

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About this document

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Your questions about the document, suggestions, and contributions are welcome. Please address enquiries to: index_queries@refinitiv.com.

Introduction

INDICES FROM REFINITIV

Refinitiv is the world's leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets, powered by Reuters, the world's most trusted news organization.

Refinitiv provides trusted and innovative indices and index-related services to the investment community. Our index business leverages Refinitiv's global footprint and unparalleled depth and breadth of the financial markets to provide our clients with:

- Beta-generating indices
- Alpha-generating indices
- Custom index services

Whether you require indices for benchmarking or for the development of investment vehicles, Refinitiv offers a range of index solutions to satisfy your requirements. Delivered via Refinitiv's platforms and data feeds, Indices from Refinitiv leverage the latest technologies for ease of use and convenient delivery.

Indices from Refinitiv are used by investors such as plan consultants, investment managers, mutual fund providers, exchange-traded fund (ETF) providers, financial advisors, investment banks, stock exchanges and the media. Refinitiv does not provide financial advice to clients, which allows for the provision of truly objective market information.

Each index is constructed employing content sets with the highest data integrity. They are transparent and designed to provide unbiased and neutral measures of the markets. Our rigorous financial models, analytics and classifications provide the insight needed to make better investment decisions.

GLOBAL DIVERSITY AND INCLUSION INDEX FROM REFINITIV

The Global Diversity and Inclusion Index from Refinitiv offers an innovative benchmark for fund managers and investors wishing to commit capital to companies that actively invest in and promote environmental, social and governance (ESG) values and principles in the running of their businesses.

For an initial universe of companies, the Global Diversity and Inclusion Index draws on a broad range of publicly traded companies that are representative of global equities as an asset class. The index utilizes the diversity and inclusion (D&I) score¹ to filter this initial universe and the final index selection reflects the principles and impact of diversity and inclusion.

Refinitiv has designed the Diversity and Inclusion Index on the hypothesis that companies tracking, reporting and achieving on the measures (or pillars) of diversity, inclusion and people development will, collectively and over time, offer diversification away from portfolios constructed using different selection criteria such as market capitalization alone². A fourth pillar (controversies) provides an additional dimension for measuring corporate performance in this area.

The index tracks the total return and price return of the 100 publicly traded equities across the world with the highest scores when ranked using these four pillars.

¹Data from the ESG database is broadly available for many other uses.

²Past performance is not necessarily indicative of future performance.

Over ten years of history is available, with an inception value of 100 as of June 30th, 2009. For the history, rebalances were performed on an annual basis (while, on an ongoing basis, the index is rebalanced quarterly).



Orange Line: Diversity and Inclusion Index from Refinitiv

Purple Line: Global Developed Index from Refinitiv

Index Types: Price only and total return variants are published for this index.

Constituent universe

The Global Diversity and Inclusion Index uses all of the publicly traded companies covered by the Refinitiv ESG database as the initial candidate universe. For further information about the ESG database, <https://www.refinitiv.com/en/financial-data/company-data/esg-research-data>.

Scores are calculated for each company for the diversity, inclusion, people development and controversies pillars and those companies with non-zero scores for all four pillars are assigned an overall score (the arithmetic mean of the pillar scores). The 100 companies with the best overall scores are selected for the index.

For further information about the calculation of the diversity and inclusion scores, see the methodology document on Diversity and Inclusion rating. All D&I rating scores are derived using the ESG database.

POTENTIAL BENCHMARK LIMITATIONS

The underlying ESG database contains information on over 7,000 global companies and over 400 metrics. The data is gathered from publicly available information sources and is manually collected to ensure that the information is standardized, comparable and reliable. All of the ESG data collected is quality controlled.

The public availability of ESG information varies across different countries, industries and market capitalizations. The ESG database is therefore more reflective of companies with a greater degree of ESG data disclosure. These include companies listed in countries where regulatory or investor demand favor such disclosure, companies in industries with a tradition of ESG transparency and companies with mid to large market capitalizations.

The calculated overall score is the sole criteria for the selection of companies from the ESG database for inclusion in the Global Diversity and Inclusion Index. There are therefore no constraints or caps on:

- BC³ sector
- Geographic region
- Country
- Market capitalization categorization (large, mid, small)
- Individual constituent weight

Consequently, the selected portfolio may over- or under-weight in one or more of the above areas when compared with other market benchmarks.

While certain sector, region, country and market capitalization values may be statistically significant in predicting overall scores, these factors account for only 25.61% of the variability in the model (adjusted from linear regression, FY2013 scores).

Selection methodology

The publicly traded universe of candidates for the Diversity and Inclusion Index will be the set of publicly traded equities tracked by the ESG database at the rebalance date. Each company receives a score on each of 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. For the complete scoring process, see the methodology document on the Diversity and Inclusion Rating.

By design, there is no assignment of overall scores to companies scoring zero on one or more pillars. This avoids the inclusion of companies that may score highly on some pillars but zero on others, which may lead to an overall dilution in the average score of companies selected for the Diversity and Inclusion Index or introduce a bias towards or away from any particular pillar.

At rebalance, the companies are weighted by free float market capitalization.

Data sources and data management

For each date on which the Global Index from Refinitiv is priced, the market price of each individual asset is used to re-value the portfolio, calculate a return and derive an index value.

The primary exchange for each equity (in the country of domicile) is the source used for the local equity prices. Local prices are converted to USD using the corresponding real time spot FX (bid) rate taken from Refinitiv.

If a market price is missing, the most recent prior price is used. In the case where the securities go for a period without pricing, this matter will be escalated to the Refinitiv Index Action Committee for review in order to determine what course of action is to be taken.

DATA SOURCE: ESG

Refinitiv provides objective and transparent ESG information and analysis tools to enable professional investors to benchmark, compare and integrate extra-financial information into their investment processes. It is the most comprehensive ESG database, containing information on more than 7,000 global companies and over 400 measures, including all exclusion (ethical screening) criteria and all aspects of sustainability performance, collected and standardized by more than 150 experienced analysts to ensure data accuracy and comparability.

³ Business Classification, see: <https://www.refinitiv.com/en/financial-data/indices/trbc-business-classification>

The Refinitiv ESG database covers a broad range of companies, including those tracked by indices such as the S&P 500, ASX300, MSCI World, MSCI Emerging Markets, FTSE100, Bovespa and more than 500 measures and over 100 key performance indicators to provide the most in-depth coverage in the industry.

DATA SOURCE: BUSINESS CLASSIFICATION

Business Classification (BC) from Refinitiv is an industry classification system that is owned and operated by Refinitiv. The market-oriented system tracks the primary business of a corporation and reflects global industry practices by grouping together correlated companies that offer products and services into similar end markets.

BC is used by the investment community for navigation, aggregation and benchmarking. It provides a global standard for intelligently identifying peers, tagging research, aggregating financial content and transforming the torrent of news and information into insightful trends. It delivers a solid foundation for aggregating financial ratios, portfolio benchmarking and attribution analysis.

Calculation methodology

The Global Diversity and Inclusion Index is calculated using the standard Refinitiv Global Equity Indices methodology, unless stated otherwise in the Global Diversity and Inclusion Index methodology. For further information, please refer to the Global Equity Index methodology:

<https://www.refinitiv.com/en/financial-data/indices/global-equity-index>

Corporate action rules will follow the Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on the corporate action treatment for the indices, please refer to the detailed Corporate Actions methodology document:

https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/corporate-actions-methodology.pdf

Rebalancing methodology

INTRODUCTION

The Global Diversity and Inclusion Index is rebalanced on a quarterly basis after close of business on the final business day of each calendar quarter (determined using the New York Stock Exchange trading calendar) and referencing the diversity and inclusion scores based on the most recent bi-weekly data update from the ESG database. The new rebalance is effective at market open on the first business day of the new calendar quarter.

Publicly traded equities are selected for the Diversity and Inclusion Index using the D&I score.

The top 100 companies when ranked by overall score are selected to be included in the Diversity and Inclusion Index.

COMPANY SELECTION AND CLASSIFICATION

The rebalancing procedure starts by taking the universe of companies covered by the ESG database. The candidate set is then further refined to include only those candidates for which a Diversity and Inclusion score is available at the rebalance date.

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.

The final list of constituents and their weights is published in the Index Constituent and Weight (ICW) file available on Eikon® from Refinitiv and to index clients via FTP download.

Calendar

The index is published in real time. For each day of the week from Monday to Friday (excluding Saturdays and Sundays), publication starts at 6pm Eastern Standard Time (EST) on the preceding day (including Sunday where the weekday is a Monday) and continues until 4pm on the weekday, beginning again at 6pm if the next day is also a weekday.

The index RICs for publication on Eikon are

- Global Diversity and Inclusion Index (price only): .TRDI
- Global Diversity and Inclusion Total Return Index: .TRDIT

Indices from Refinitiv are maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Refinitiv Data Operations Global Corporate Actions teams and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delistings and symbol changes, and ensure these changes are implemented into the applicable index.

The Global Diversity and Inclusion Index is rebalanced on a quarterly basis. The ESG data used to calculate the diversity and inclusion scores is issued on a bi-weekly basis; rebalances will take place after close of business on the last business day of each calendar quarter and will be effective at market open on the first business day of the new quarter.

Quality control

Refinitiv has quality control procedures in place to monitor any prices, whether they are obtained from a regulated exchange or other market, prior to calculation of indices as well as prior to publication. The Indices Operations document (available on request) describes the quality control procedures in further detail.

Data from the ESG database, and the derived D&I scores, are provided on an 'as is' basis and may be validated at the discretion of the Index Manager using underlying or alternative data sources.

ERROR REPORTING

The Index Manager (see Governance section) may determine that a retrospective recalculation is required.

A retrospective recalculation will only be made when there has been a manifest and material error. The Index Manager may choose to determine that a retrospective calculation is required following feedback from the Index Action Committee (IAC), on the proposed retrospective recalculation. The Index Manager may also seek feedback from stakeholders on proposed changes.

Any retrospective recalculation will be notified to users via the alert system on Eikon.

INSUFFICIENT DATA AND MARKET DISRUPTION

Refinitiv endeavors to develop and publish indices only where we have a high level of confidence of long-term availability and access to the necessary data to administer the indices. The Global Diversity and Inclusion Index is based on equity prices published by the exchange for each equity (in the country of domicile). Each exchange is a regulated market place and a well-established supplier of equity price discovery.

In the event that certain data is not available on time to publish the Diversity and Inclusion Index as indicated in the methodology or if the index cannot be published at all over one or more planned publication times, a new publication time will be communicated to subscribers and licensors of the index.

Should a period of market stress or a disruption affect the calculation of the index, Refinitiv reserves the right to take any action with respect to the index as it deems appropriate given the circumstances, subject to the index governance procedures (see Governance section). Refinitiv will first consider the effectiveness of the actions taken by each primary exchange in producing the equity prices used in the index calculation.

If additional action is required by Refinitiv, it will attempt to notify interested parties of any such action with as much notice as is practicable. There is no assurance however that the actions taken by Refinitiv in response to such a period of market stress or disruption will not have an adverse effect on the value of the index or the manner in which it is calculated.

CESSATION OF AN INDEX

Refinitiv aims not to stop the publication of any index that is used as a benchmark.

For those cases where Refinitiv does decide to stop the publication of an index, we will look to find a suitable successor to its role as administrator of the index. Should no successor be found, Refinitiv will conduct a consultation with any relevant stakeholders, the Index Action Committee and the Refinitiv Independent Oversight Committee. Refinitiv will publish a notice on its website about the possibility of stopping the publication of the index and inviting anyone to provide feedback.

Such notice will be posted at least six months, where possible, prior to cessation of publication of the index, or on a best efforts basis for circumstances beyond the control of Refinitiv. After the consultation period, Refinitiv will publish externally the timeline for cessation. Internally, detailed operating procedures will be drafted to ensure a managed cessation.

Governance

The Global Diversity and Inclusion Index is administered by Refinitiv which makes all decisions regarding index calculations and changes to the index methodology.

The index is subject to the Refinitiv governance policy for all index methodologies:

- The Refinitiv Benchmark Governance Framework sets the policies governing each aspect of the index business, including oversight, conflicts of interest, materials retention and remuneration
- The Refinitiv Index Methodology Policy describes the requirements that Refinitiv index methodologies need to satisfy.

The governance of the Global Diversity and Inclusion Index follows the governance framework described in the relevant documents except where this methodology provides for specific exceptions.

INDEX TEAM

The Index Team is responsible for the maintenance, calculation and distribution of the Global Diversity and Inclusion index as set out in this methodology.

INDEX MANAGER

The Index Manager is responsible for the integrity and quality of the index and has specific responsibilities as follows:

- To interpret the index methodology and implement the quarterly rebalance procedure
- To review feedback received from the index stakeholders
- Develop and implement changes to the index methodology if desired by feedback from the Index Action Committee (IAC), the Index Advisory Group (IAG) (see below), other stakeholders, or by market events
- Manage interaction with stakeholders, the IAC and the IAG in respect of rebalances and index methodology changes

Following interaction with the IAC and, where required, the IAG or stakeholders, the Index Manager is responsible for determining any changes to the methodology.

INDEX ACTION COMMITTEE

The IAC is an internal Refinitiv group of subject matter experts (indices as well as asset classes) that support the Index Manager with additional advice related to methodology interpretation or changes to the methodology. Specifically, the Index Manager may communicate the feedback obtained from index stakeholders to solicit advice from the IAC.

STAKEHOLDER CONSULTATION

An IAG of market participants provides advice and expertise on proposed methodology changes and responses to market events on a bilateral basis. The Index Manager may consult the IAG at its discretion and retains all responsibility for deciding any issues under review. The Index Manager may seek the views from the wider market when considering an issue.

Issues on which the Index Manager would typically consult the IAG include changes to the index calculation methodology, the selection and weighting of companies for the Diversity and Inclusion Index and exceptional market events.

Members of the IAG shall be at the invitation of Refinitiv.

METHODOLOGY REVIEW

The Diversity and Inclusion Index methodology is reviewed once per year and, if required by market events, more frequently. In reviewing the methodology, attention is paid to the suitability of the index calculation methodology in representing the four pillars of diversity, inclusion, people development and controversies.

Any changes to the methodology are approved by the Index Manager and will be announced by Refinitiv. All reasonable efforts will be made to provide at least one month's notice of any such changes prior to their implementation.

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