

# REFINITIV GLOBAL DIVERSITY AND INCLUSION INDEX – INDEX METHODOLOGY

Version 1.0

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## About this document

### Intended readership

This document supports data use by Refinitiv Indices clients. Clients receive the data as part of their desktop license or may be licensed to use our indices in a separate licensing agreement.

### In this guide

Your questions about this document, suggestions and contributions are welcome. Please address enquiries to: [index\\_queries@refinitiv.com](mailto:index_queries@refinitiv.com).

## Introduction

### Refinitiv Indices

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, all 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 knowledge 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 solutions to satisfy your requirements. Delivered via Refinitiv's platforms and data feeds, Refinitiv indices leverage the latest technologies for ease of use and convenient delivery.

Our indices are used by investors such as plan consultants, investment managers, mutual fund providers, exchange-traded fund providers, financial advisors, investment banks and stock exchanges, as well as by 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.

### Refinitiv Global Diversity and Inclusion (D&I) Index

The Global D&I Index 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 D&I Index draws on a broad range of publicly traded companies that are representative of global equities as an asset class. The index utilizes a D&I score<sup>1</sup> to filter this initial universe, and the final index selection reflects the principles and impact of diversity and inclusion.

Refinitiv has designed the Global D&I Index on the hypothesis that companies tracking, reporting and achieving the three 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 alone.<sup>2</sup> 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 that have the highest scores when ranked using these four pillars.

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<sup>1</sup> Data from the ESG database is widely available for many other uses.

<sup>2</sup> Past performance is not necessarily indicative of future performance.

Over 10 years of history are available, with an inception value of 100 as of June 30, 2009. For the history, rebalances were performed on an annual basis, while on an ongoing basis the index is rebalanced quarterly.



**Orange line:** Refinitiv Global D&I Index

**Purple line:** Refinitiv Global Developed Index

**Index types:** Price only and total return variants are published for this index

## Constituent universe

The Global D&I Index uses all the publicly traded companies covered by the Refinitiv ESG database as the initial candidate universe. For further information about the ESG database, see: <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 D&I scores, see the methodology document on D&I rating. All D&I 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 collected manually to ensure that the information is standardized, comparable and reliable. All 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 favors 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 criterion for the selection of companies from the ESG database for inclusion in the Global D&I Index. There are therefore no constraints or caps on:

- TRBC<sup>3</sup> sector
- Geographic region
- Country

<sup>3</sup> The Refinitiv Business Classifications. See: <https://www.refinitiv.com/en/financial-data/indices/trbc-business-classification>

- Market capitalization categorization (large, mid, small)
- Individual constituent weight

Consequently, the selected portfolio may be over- or underweight 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 Global D&I Index is the set of publicly traded equities tracked by the ESG database at the rebalance date. Each company receives a score on 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. For the complete scoring process, see the methodology document on D&I 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 Global D&I 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 D&I Index is priced, the market price of each individual asset is used to revalue 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 cases where the securities go for a period without pricing, this matter will be escalated to the Refinitiv Index Action Committee (IAC) 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. The Refinitiv ESG database is one of the most comprehensive in the world, 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. This information is collected and standardized by more than 150 experienced analysts to ensure data accuracy and comparability.

The 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 and Bovespa – plus more than 500 measures and over 100 key performance indicators – to provide the most in-depth coverage in the industry.

### Data source: The Refinitiv Business Classifications

The Refinitiv Business Classifications (TRBC) is an industry classification system that is owned and operated by Refinitiv. This 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 to similar end markets.

TRBC 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 a 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 D&I Index is calculated using the standard Refinitiv Global Equity Indices methodology, unless stated otherwise in the Global D&I Index methodology. For further information, please see the Global Equity Indices methodology: <https://www.refinitiv.com/en/financial-data/indices/global-equity-index>.

Corporate action rules follow the Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on 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](https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/corporate-actions-methodology.pdf).

## Rebalancing methodology

### Introduction

The Global D&I 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). It references the D&I 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 Global D&I Index using the D&I scores.

The top 100 companies when ranked by overall score are included in the Global D&I 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 D&I 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 Refinitiv® Eikon 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 6:00 p.m. Eastern Standard Time (EST) on the preceding day (including Sunday where the weekday is a Monday) and continues until 4:00 p.m. on the weekday, beginning again at 6:00 p.m. if the next day is also a weekday.

The index RICs for publication on Eikon are

- Global D&I Index (price only): .TRDI
- Global D&I Total Return Index: .TRDIT

Refinitiv indices are maintained on a daily basis by a dedicated support team. This team collaborates closely 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 ensuring these changes are implemented in the applicable index.

The Global D&I Index is rebalanced on a quarterly basis. The ESG data used to calculate the D&I scores is issued on a bi-weekly basis; rebalances take place after close of business on the last business day of each calendar quarter and are 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 another 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 the 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 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 in long-term availability and access to the necessary data to administer the indices. The Global D&I Index is based on equity prices published by the exchange (in the country of domicile) for each equity. Each exchange is a regulated marketplace and a well-established supplier of equity price discovery.

In the event that certain data is not available in time to publish the Global D&I 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 it deems appropriate given the circumstances, subject to the index governance procedures (see the 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 IAC 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.

Where possible, such a notice will be posted at least six months 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 the timeline for cessation externally. Internally, detailed operating procedures will be drafted to ensure a managed cessation.

## **Governance**

The Global D&I 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 D&I 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 D&I 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
- To develop and implement changes to the index methodology in line with feedback from the IAC, the Index Advisory Group (IAG) (see below) or other stakeholders, or following market events
- To 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 methodology.

### **Index Action Committee**

The IAC is an internal Refinitiv group of subject matter experts (indices as well as asset classes) that supports the index manager with additional advice related to methodology interpretation or changes. Specifically, the index manager may communicate the feedback obtained from index stakeholders in order 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. The index manager may consult the IAG at his/her discretion and retains all responsibility for deciding any issues under review. The index manager may seek 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 Global D&I Index, and exceptional market events.

Membership of the IAG is at the invitation of Refinitiv.

## Methodology review

The Global D&I 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.

Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.

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