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# Thomson Reuters IX Global ESG Equal Weighted Index Index Methodology

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### Intended Readership

This document provides details on the construction and maintenance of the Thomson Reuters IX Global ESG Equal Weighted Index.

### Feedback

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

## INTRODUCTION

### Thomson Reuters Indices

Thomson Reuters is 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 the world's most trusted news organization.

Thomson Reuters provides trusted and innovative indices and index-related services to the investment community.

Whether you require indices for benchmarking, or for the development of investment vehicles, Thomson Reuters offers a range of index solutions to satisfy your requirements.

### Index Description

Thomson Reuters IX Global ESG Equal Weighted Index offers an innovative benchmark for 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. The index tracks the price return and net total return of publicly traded equities across the world that display relatively high ESG.

### Constituent Universe

#### Parent Index

The constituents' universe is derived from Thomson Reuters Global Developed Index. It is a broad market indices including large, mid and small caps. The parent index has following inclusion criteria:

- A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
- A minimum of 3 months trading history;
- Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, Thomson Reuters uses the security's primary listing to determine membership.

- Various liquidity measures are used to ensure illiquid companies are not included in the parent index, and all constituents need to satisfy the following criteria:
  - Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
  - Be part of the top 99.5% of the trading value of the exchanges under consideration;
  - Trade on at least 90% of trading days; and
  - Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The parent index is rebalanced biannually every April and October along with other Thomson Reuters Equity Indices.

For a complete description of the parent index rules, please refer to the methodology for Thomson Reuters Global Equity indices, [here](#)

### **Thomson Reuters IX Global ESG Equal Weighted Index**

The first step to construct the index is to add following data elements to constituents of parent index:

- Company Code (from Datastream, used to determine multiple issues from same company)
- Average Traded Value for the past 30 trading days.
- TRBC [industrial sector data] codes (including 5th level)
- ESG scores. The specific ESG scores used are:
  - CSR Strategy
  - Community
  - Emissions
  - Human Rights
  - Environmental Innovation
  - Management
  - Product Responsibility
  - Resource Use

- Shareholders
- Workforce
- Country of Incorporation
- Headquarters Region
- Asset Category (such as “Ordinary Share”, “Preference Share”, etc.)

The next step is to apply following filters:

- Headquarters region, if blank, is updated using an ISO 3166 country/region table.
- Incorporation country must be one of the following: Australia, Belgium, Denmark, Germany, Finland, France, United Kingdom, Hong Kong, Ireland, Israel, Italy, Japan, Canada, Netherlands, New Zealand, Norway, Austria, Portugal, Sweden, Switzerland, Singapore, Spain, United States.
- Asset category must be blank or one of the following: "Fully Paid Ordinary Share", "Ordinary Share", or "Preference Share"
- Using DsCompanyCode, determine any duplicate company codes (i.e., which indicates one company represented by more than one issue) and take the issue with the highest average traded value as the company representative in the candidate set.
- Using a manually curated list, eliminate known dual listings (e.g., BHP Billiton, Reed Elsevier, Royal Dutch Shell, etc.), again selecting the representative issue based on average traded value.
- Eliminate any company where all ESG scores are NA (i.e., ESG coverage does not exist).
- Eliminate any company where the average daily traded value is less than EUR 10 million (10.000.000).
- Based on region and sector, identify the three ESG scores (out of the ten gathered for each company) to be used. If all three scores are greater than the threshold value (.5 or 50%), ESG filter is passed: eliminate all candidates that do not pass the ESG filter.
- There is no specific minimum or maximum number of constituents. Any and all candidates passing the above filters become constituents.

**Other details:****Base values and dates:**

100, on 30/06/2004

**Index types, currencies, calculation frequency:**

Price return and Net Total Return in EUR, ticks real time, pricing every 15 seconds. Net Total Return assumes reinvestment of dividends net of any withholding tax, except for US companies where the gross dividend is reinvested.

**Weighting Methodology:**

Equal Weighted.

**Calculation Methodology**

The index follows the methodology of Thomson Reuters Global Equity Indices. For details on data requirement, construction and calculation methodology of Thomson Reuters Global Equity Indices, please refer Thomson Reuters Global Equity indices Methodology document (link to the document has been provided above in “Constituents Selection” section).

**Maintenance****Daily Index Maintenance**

The securities which form the Index are re-weighted due to changes in the price of the underlying securities.

The index is maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Thomson Reuters 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, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in the Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Thomson Reuters Corporate Action Methodology that is available [here](#).

**Index Rebalance**

The index rebalances quarterly with an effective date of 2<sup>nd</sup> Monday of April, July, October and Janu-

ary<sup>1</sup>. This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the re-balance process.

## Governance

There is a committee to oversee the Index at Thomson Reuters Index Business that constructs the index, and ensures that the attributes the index claims to possess are indeed present. This committee also owns index rebalances.

### Index Action Committee at Thomson Reuters Indices

There is an index action committee (IAC) for Thomson Reuters Indices that oversees the Index. It is composed of the Thomson Reuters Equity Indices Index Manager, Thomson Reuters Commodities Index Manager, Head of Index Research and Design, Head of Product Management, Head of Data Operations and the Head of Technology.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – are indeed present. The Index Action Committee also deals with unusual corporate actions which are not handled by the pricing methodology or by the internal data management team that makes hand- adjustments to the index for items such as mergers and delistings. These reviews take place on a quarterly basis.

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<sup>1</sup> This rebalance schedule will be applicable from October 2018 rebalance onwards. For back test, rebalances were implemented at calendar quarter end, i.e., rebalance was constructed after close of business on the last trading date of the month, effective as of market open on the first trading day of the new month.



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