

REFINITIV IX GLOBAL ESG HIGH DIVIDEND LOW VOLATILITY EQUAL WEIGHT INDEX

Index Methodology

April 2020

Published: April 30, 2020

© 2020 Refinitiv Limited. All Rights Reserved.

Refinitiv Limited, by publishing this document, does not guarantee that any information contained herein is or will remain accurate or that use of the information will ensure correct and faultless operation of the relevant service or associated equipment. Neither Refinitiv Limited, nor its agents or employees, shall be held liable to any user or end user for any loss or damage (whether direct or indirect) whatsoever resulting from reliance on the information contained herein.

This document may not be reproduced, disclosed, or used in whole or part without the prior written consent of Refinitiv.

Contents

Introduction.....3
Construction Methodology5
Calculation Methodology7
Maintenance8
Quality Control.....9
Governance10
Methodology and Change Procedure111

Intended Readership

This document provides details on the construction and maintenance of The Refinitiv IX Global ESG High Dividend Low Volatility Equal Weight Index.

Document Publication

This document is available on the Refinitiv website and on request.

Feedback

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

1. INTRODUCTION

1.1 Refinitiv Indices

Serving more than 40,000 institutions in over 190 countries, Refinitiv provides information, insights and technology that drive innovation and performance in global financial markets. Our heritage of integrity enables our customers to make critical decisions with confidence while our best-in-class data and cutting-edge technologies enable greater opportunity.

We enable the financial community to trade smarter and faster, overcome regulatory challenges, and scale intelligently.

Refinitiv provides trusted and innovative indices and index-related services to the investment community. Whether one requires indices for benchmarking, or for the development of investment vehicles, Refinitiv offers a range of index solutions to satisfy the requirements.

1.2 The Index

The Refinitiv IX Global ESG High Dividend Low Volatility Equal Weight 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 along with high dividend and low volatility features.

1.3 Constituent Universe

The constituents' universe is derived from Refinitiv Global Developed Index, which is called the parent index. The parent index is free float adjusted market capitalization weighted index. It is a broad market index including large, mid and small caps. It 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, Refinitiv uses the security's primary listing to determine membership.
- Various liquidity measures are used to ensure illiquid companies are not included in the 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.

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

2. CONSTRUCTION METHODOLOGY

2.1 Universe

The Index Universe is made of companies from countries as described in section 1.3

The universe is as observed on the rebalance effective date.

2.2 Data

All stocks in the base universe are first screened for the following indicators:

- i) Company Code (from DataStream, used to determine multiple issues from same company)
- ii) Average Traded Value for the past 30 trading days.
- iii) TRBC [industrial sector data] codes (including 5th level)
- iv) ESG scores. The specific ESG scores used are:
 - CSR Strategy
 - Community
 - Emissions
 - Human Rights
 - Environmental Innovation
 - Management
 - Product Responsibility
 - Resource Use
 - Shareholders
 - Workforce
- v) Country of Incorporation
- vi) Headquarters Region
- vii) Asset Category (such as “Ordinary Share”, “Preference Share”, etc.)
- viii) Dividend per Share mean yield, next 12 months
- ix) Annualized Realized Volatility, past 252 trading days.

2.3 Composition list

- i) Remove companies for which a market cap could not be established in the parent index as on parent index’s rebalance date.
- ii) Index-specific filter
 - 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.
- Index uses a percentile-based "high dividend yield/low volatility" filter, for the remaining candidates:
 - a. Determine the quartile values for the data item DPS mean yield, next 12 months.
 - b. Determine the median value for Annualized Realized Volatility.
 - c. Filter out any candidates with a dividend yield below the cutoff for the 75th percentile.
 - d. Filter out any candidates with a volatility below the median.
- There is no specific minimum or maximum number of constituents. Any and all candidates passing the above filters become constituents.

2.4 Base values and Inception date

100, on 30/6/2004

2.5 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.

2.6 Weighting Methodology

Equal Weighted

3. CALCULATION METHODOLOGY

The index follows the methodology of Refinitiv Global Equity Indices. For details on data requirement, construction and calculation methodology of Refinitiv Global Equity Indices, please refer Refinitiv Global Equity Indices Methodology document [here](#).

4. MAINTENANCE

4.1 Daily Index Maintenance

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

The index is 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, 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 Refinitiv Corporate Action Methodology that is available [here](#).

4.2 Index Rebalance

Rebalance frequency is quarterly (after close of business on third Friday of calendar quarter).

The index rebalances quarterly with an effective date of 2nd Monday of April, July, October and January¹. This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the rebalance process.

¹ 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.

5. Quality Control

5.1 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.

5.2 Re-Statement Policy

A retrospective recalculation will only be made when a manifest and material error has been identified. Any retrospective recalculation will be notified to users via the alert system on Refinitiv Eikon.

5.3 Insufficient Data and Market Disruptions

Refinitiv endeavors to develop and publish indices only where Refinitiv has a high level of confidence of long-term availability and access to the necessary data to administer the indices.

A “Market Emergency” is herein defined as any unscheduled and extraordinary condition in which liquidity in the markets used to source input data is interrupted (such as an event resulting in the unscheduled closing of futures exchanges). Should a Market Emergency occur, Refinitiv reserves the right to take such action with respect to the Index as it deems appropriate given the circumstances and after consulting with the Index Action Committee as appropriate.

Refinitiv will attempt to notify interested parties of any such actions as well in advance as is practicable. There is no assurance, however, that following a Market Emergency, the actions taken in response to such Market Emergency, or any other force majeure event, will not have an adverse effect on the value of the Index or the way it is calculated.

6. GOVERNANCE

There is a committee to oversee the Index at Refinitiv 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.

6.1 Index Action Committee

There is an internal index action committee (IAC) at Refinitiv Indices. The IAC reviews country and region indices and rebalances. It is composed of the Refinitiv Equity Indices Benchmarks Manager, Refinitiv Commodity Indices Benchmarks Manager, Head of FX Benchmarks Research & Design, Development Manager and Head of Data Operations.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – the necessary liquidity, capitalization assignment (large, mid or small-cap) or style considerations – are indeed present. These reviews take place at each rebalance and at each quarterly review. 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 monthly or more frequent basis. Finally, as each index needs a minimum number of constituents in order for its price to be computed, the Index Committee decides if an index should be discontinued or possibly resurrected. This decision will normally be made during the rebalance period but could happen more often.

6.2 Benchmark Manager

The Benchmark Manager is a subject matter expert and is responsible for the integrity and quality of the Index which includes the following specific responsibilities:

- Interpreting the Index Methodology and implement the change procedure (if any)
- Reviewing feedback received from the Index stakeholders.
- Developing and implementing changes to the Index Methodology pursuant to feedback from Index stakeholders or in response to market events, subject to Section 7.2, Cessation of an Index.
- Managing interaction with Index stakeholders

6.3 Index Stakeholder Feedback

The Benchmark Manager may seek the views of market participants and other Index stakeholders on a bilateral basis from time to time or through one or more Index Advisory Groups. Issues on which the Benchmark Manager may consult Index stakeholders include conditions in the underlying markets that the Index represents, the representativeness of the input data used in the determination of the Index, the performance of the index with respect to the underlying markets that it represents, potential changes to the index calculation methodology, the weight calculation algorithm and exceptional market events.

7. METHODOLOGY REVIEWS AND CHANGE PROCEDURES

7.1 Review of the Methodology

The Refinitiv IX Global ESG High Dividend Low Volatility Equal Weight Index Methodology is reviewed once a year and, if required by market events, more frequently. Any potential changes to the Methodology are reviewed by the Index Action Committee.

7.2 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, Refinitiv 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 6 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.

CONTACT US:

IndexManagers@refinitiv.com