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# STOXX<sup>®</sup> ESG INDEX METHODOLOGY GUIDE

Creating an Investment  
Intelligence Advantage

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# STOXX® ESG INDEX METHODOLOGY GUIDE

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# 1. INTRODUCTION TO THE STOXX INDEX GUIDES

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The STOXX index guides are separated into the following sub-sets:

- » The **STOXX Calculation guide** provides a general overview of the calculation of the STOXX equity indices, the dissemination, the index formulas and adjustments due to corporate actions
- » The **STOXX Index Methodology guide** contains the equity index specific rules regarding the construction and derivation of the portfolio based indices, the individual component selection process and weighting schemes
- » The **STOXX World Equity Index Methodology guide** contains the index specific rules regarding the construction and derivation of the STOXX World portfolio based indices, the individual component selection process and weighting schemes
- » The **STOXX Strategy Index guide** contains the formulas and description of all strategy indices
- » The **STOXX DVP Calculation guide** describes the dividend points products
- » The **STOXX Distribution Points Calculation guide** describes the distribution points products
- » The **STOXX ESG Index Methodology guide** contains the index specific rules regarding the construction and derivation of the ESG indices, the individual component selection process and weighting schemes
- » The **iSTOXX Methodology guide** contains the index specific rules regarding the construction and derivation of the iSTOXX indices, the individual component selection process and weighting schemes
- » The **STOXX Reference Rates guide** contains the rules and methodologies of the reference rate indices
- » The **STOXX Reference Calculations guide** provides a detailed view of definitions and formulas of the calculations as utilized in the reports, factsheets, indices and presentations produced by STOXX
- » The **STOXX Currency Rates Indices Methodology guide** contains the index specific rules regarding the construction and calculation of the derivation of the STOXX FX Rolling Spot Mid Rate and STOXX FX Rolling Spot Tomorrow Next Open Rate indices
- » The **Guide to Industry Classifications Used By STOXX** contains general information pertaining to industry classifications used in STOXX indices, together with any references and links to third-parties that create the data.
- » The **STOXX Eligible Market Segments guide** contains the list of stock exchanges and market segments.

All rule books are available for download on <http://www.stoxx.com/indices/rulebooks.html>

# 2. CHANGES TO THE GUIDE BOOK

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## 2.1 HISTORY OF CHANGES TO THE GUIDE

- » February 2013: Clarification of the index methodologies
- » July 2014: Addition of chapter 3 GENERAL PRINCIPLES
- » September 2014: Added cut-off date for index review
- » November 2018: Clarification on component announcements
- » July 2019: Clarification on Replacements
- » August 2019: Switch from DVFA/EFFAS KPI's to standard Sustainalytics KPI's
- » September 2019: Clarification on Weighting cap factors
- » September 2019 (2): Clarification on ESG Ratings and Scores, percentile approach in selection
- » March 2020: Clarification on UN Global Compact with Sustainalytics Global Standards Screening and ESG Controversy Rating
- » November 2020: ESG Ratings KPI updates
- » April 2022: Change in Underlying Data Announcement date to five days for the ESG Leaders Blue-Chip Indices
- » July 2022: Section 1 updated with new guides
- » January 2023: Added reference of STOXX Eligible Market Segments Guide and removed reference of iSTOXX Bond Index guide.
- » February 2023: Removed reference of STOXX Bond Index guide
- » August 2023: Methodology update of ESG Leaders Broad and ESG Leader Blue-Chip Indices

# 3. GENERAL PRINCIPLES

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## 3.1 INDEX RATIONALE

STOXX defines the index rationale as the basis for applying a certain methodology in order to achieve the index objective. STOXX performs intensive research and may conduct conversations with market participants and third parties for this purpose. STOXX discloses the index objective in every case.

## 3.2 METHODOLOGY REVIEW POLICIES

STOXX constantly monitors the execution of the index calculation rules in order to ensure the validity of the index methodology. STOXX also conducts general methodology reviews in a periodic and ad-hoc basis, to reflect economic and political changes and developments in the investment industry. As result of these activities, STOXX introduces changes to the methodology books. Material changes are notified to subscribers and the media through the usual communication channels. Clarifications of the methodology are updated in the rulebook. All changes are tracked in the section 2.1 History of changes to the guide.

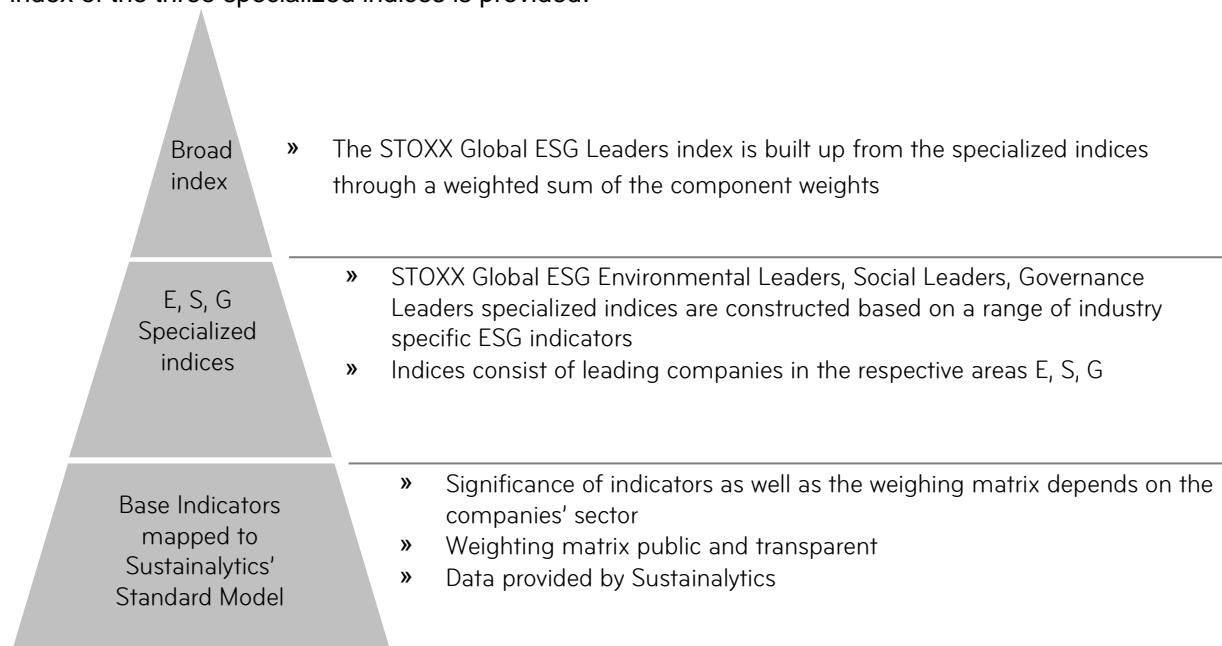
## 3.3 INDEX TERMINATION POLICY

For the termination of an index or index family for which outstanding products are present in the market to the knowledge of STOXX, a market consultation with the involved clients will be initiated by STOXX to consider their views and concerns related to the termination or transition. A consultation period will be opened. Its duration depends on the specific issue. After the consultation period and in case of further action needed, a notification will be issued and the process defined above will be followed. In the case of a transition, STOXX will launch the alternative index and will notify of its character as a suitable replacement for an existing index whose calculation should be discontinued in the future. This notification advises clients on the alternative recommended by STOXX as replacement. The timeframe in which both indices will be calculated in parallel will be disclosed in the notification's text and will be no shorter than three months.

For the termination of an index or index family for which, to the knowledge of STOXX, no listed financial products are issued in the market, a press release notification or e-mail notification to subscribers will be communicated at least three months before coming into force. Clients or third parties with interest in the index or index family are urged to communicate as soon as possible their concerns to STOXX. Based on the feedback collected, STOXX may alter the index termination decision. For the termination of an index without financial product issued on there will be no market consultation. Changes to the original notification will be communicated in the same manner.

# 4. INTRODUCTION TO THE INDEX CONCEPT

The STOXX Global ESG Leaders indices consist of the top leading companies in terms of corporate sustainability. Corporate sustainability is divided into three criteria: Environmental (E), Social (S) and Governance (G) sustainability. A specialized index is designed for each criterion, and, in addition, a roll up index of the three specialized indices is provided.



The indices follow a bottom up approach, which ensures a comprehensive component selection. The underlying data is provided by Sustainalytics. In order to measure corporate sustainability, a set of indicators which underlies each criterion is defined. A score ranging from 0 to 100 is given to each indicator. The ESG-criteria ratings are defined as the weighted sum of the indicator scores, where the weighting scheme and the set of indicators used depend on the industry the company is classified to. A detailed description can be found in section 5.1.3.

The index constituents are selected from the STOXX Global 1800 Index. In order to keep up with key requirements of responsible investors, a set of exclusion criteria is applied to the universe. A detailed description of these criteria can be found in section 5.1.2.

Documentation and data publications are provided with the index and are updated continuously at index review making the index composition transparent and comprehensive. The weighting schemes are made public within this guide book.

# 5. INDEX METHODOLOGY

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## 5.1 ESG LEADERS BROAD INDICES

### 5.1.1. OVERVIEW

The STOXX Global ESG Leaders indices track the performance of the globally leading companies with regard to corporate sustainability. The indices are structured as follows:

The STOXX Global ESG Environmental Leaders, STOXX Global ESG Social Leaders, STOXX Global ESG Governance Leaders indices that together are the STOXX Global ESG Specialized Leaders indices, all consist of companies that are leading in one of the three criteria and range above average in all other criteria. All components of the specialized indices together build up the roll-up index, the STOXX Global ESG Leaders Index.

The index concept is based on a transparent rating model provided by Sustainalytics.

**Universe:**

The index universe includes the STOXX Global 1800 companies.

Companies without a rating will not be included in the index.

For company groups that have several legal entities, Sustainalytics scores the business activities of the group as a whole, such that the scores are valid throughout all the legal entities. Therefore, STOXX selects the legal entity with the higher market cap for index inclusion in such cases and if the requirement for index inclusion is fulfilled according to the index methodology.

**Weighting scheme:**

The indices are price-weighted with a weighting factor based on the overall ESG Rating.

**Base value and dates:**

100 on March 25, 2011

**Index types and currencies:**

The STOXX Global ESG Leaders indices are available as price return and gross return in EUR, USD and GBP.

### 5.1.2 EXCLUSIONS

Before starting with the selection process a set of exclusion criteria is applied to keep up the requirements of responsible investors. The criteria are defined below and follow the Sustainalytics Global Standards Screening assessment, ESG Controversies, ESG Risk Rating, a set of definitions for controversial weapons, Thermal Coal, Tobacco, Military Contracting, Small Arms, Oil Sands Unconventional Oil & Gas.

STOXX excludes companies from the index universe according to the following rules:

**Global Standards Screening:**

STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment. Global Standards Screening identifies companies that violate or are at risk of violating commonly accepted international norms and standards, enshrined in the United Nations Global Compact (UNGC) Principles, the Organisation for Economic Co-operation and Development (OECD) Guidelines for

# 5. INDEX METHODOLOGY

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Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs), and their underlying conventions.

## Controversy Rating:

STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe). Sustainalytics assesses companies' involvement in incidents with negative environmental, social and governance (ESG) implications. Controversy involvement is one key measure of ESG performance. A controversy is defined as an event or aggregation of events relating to an ESG topic. An event is assessed on its severity on a scale of 1 to 5 (1- Low, 2- Moderate, 3- Significant, 4- High, 5- Severe). The highest Event rating under a controversy indicator, automatically becomes the Controversy Rating for a given company.

## Controversial Weapons:

STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons. The following weapons are considered controversial: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons.

The criteria for involvement are:

- » Internal production or sale of controversial weapons
- » The ultimate holding company owns >10% of voting rights of an involved company
- » >10% of voting rights of a company is owned by the involved company

## Tobacco:

- » >0% revenues from manufacturing tobacco products
- » >5% revenues from supplying tobacco-related products/services
- » >5% revenues from the distribution and/or retail sale of tobacco products

## Thermal Coal:

STOXX will exclude companies that Sustainalytics identifies to have:

- » >5% revenues from thermal coal extraction (including thermal coal mining and exploration)
- » >5% power generation capacity: coal-fired electricity, heat or steam generation capacity/ thermal coal electricity production (including utilities that own/operates coal-fired power plants)

## Unconventional Oil & Gas:

- i. Arctic Oil and Gas Exploration:
  - » >5% revenues Oil & Gas exploration & extraction in Arctic regions.
- ii. Oil Sands:
  - » >5% revenues from extracting oil sands. This category evaluates oil sands' share of total oil and gas average production in barrels of oil equivalent per day.
- iii. Shale Energy:
  - » >5% revenues from shale energy exploration and/or production.

## Weapons:

- i. Small Arms:
  - » >0% revenues from manufacturing and selling assault weapons to civilian customers
  - » >0% revenues from manufacturing and selling small arms (non-assault weapons) to civilian customers
  - » >0% revenues from manufacturing and selling key components of small arms
  - » >5% revenues from retail and/or distribution of assault weapons
  - » >5% revenues from retail and/or distribution of small arms (non-assault weapons)



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- ii. Military Contracting:
  - »>5% revenues from manufacturing and selling small arms to military / law enforcement customers
  - »> 10% aggregated revenues from manufacturing military weapons systems and/or integral, tailor-made components of these weapons and from tailor made products and/or services that support military weapons.

## ESG Risk Ratings:

STOXX will exclude companies that Sustainalytics identifies to have a “Severe” ESG Risk Rating. The ESG Risk Rating evaluates the degree of a company’s unmanaged material ESG risk by assessing a company’s exposure to, and management of, the ESG issues that are considered most material for that company from a financial perspective. Sustainalytics assess and categorizes companies into five risk categories (Negligible, Low, Medium, High, Severe).

### 5.1.3. SCORING MODEL

In general, corporate sustainability is measured by three criteria: environmental, social and governance corporate sustainability, i.e., the ESG-criteria. Sustainalytics has defined a set of indicators which evaluate the performance within each criterion.

A score is given to each indicator that ranges from 0 to 100. The scoring is based on a profound analysis performed by Sustainalytics analysts who evaluate every single company. The evaluation is based on a continuous research and analysis process using company data, media reports, sector studies and public institutions.

## ESG scores

In order to determine a total score per criteria, the ESG score, the single indicator scores are aggregated to a total score per criteria, i.e., each company has a score for environmental, social and governance sustainability. The ESG scores are built up from the single indicator scores using a weighted sum. The weights depend on the peer group the company belongs to. The peer group classification is performed by Sustainalytics. The total score for the environmental criteria per company follows the below stated formula:

$$E_i = \sum_{k,s} h_{k,s} \cdot e_k$$

where:

$e_k$  = Indicator k belonging to the environmental criteria

$h_{k,s}$  = Weight of indicator  $e_k$  in peer group s

The formula can be transposed to the social and governance criteria by replacing  $e_k$  by  $s_k$  and  $g_k$ , respectively.

The resulting ratings  $E_i$ ,  $S_i$  and  $G_i$  summarized as NormRating<sub>j</sub>, where j = E, S or G.

The selection of index constituents which is described in the next section is based on normalized ESG scores. The normalization works as follows:

## Normalization of ESG scores:

The sustainability scores for the environmental, social and governance corporate sustainability, i.e., the ESG-criteria are normalized using percentile ranking.

# 5. INDEX METHODOLOGY

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## 5.1.4. SELECTION CRITERIA

The selection of leading companies in terms of sustainability is based on the following steps.

### Minimum Filter (Top 50%):

Based on the normalized scores, a minimum filter that selects all companies which have a score greater than or equal to the 50<sup>th</sup> percentile (i.e., above average) in all three criteria is applied.

### Leadership Filter (Best 25%):

Based on the previously performed selection, a leadership filter is applied to each of the criterion individually. The selected companies have a score that is greater than or equal to the 75<sup>th</sup> percentile (i.e., in the top quartile) in at least one field of corporate sustainability, i.e. environmental, social, or governance sustainability.

### The Specialized Indices:

- » The STOXX Global ESG Environmental Leaders index consists of all companies that passed the leadership filter environmental criteria and the top 50% in the social and governance criteria.
- » The STOXX Global ESG Social Leaders index comprises all companies that passed the leadership filter in the social criteria and are among the top 50% in the governance and environmental criteria.
- » The STOXX Global ESG Governance Leaders index consists of all companies that passed the leadership filter governance corporate criteria and rank under the top 50% in the social and environmental criteria.

The indices are constructed such that a company can enter more than one specialized index if it belongs to the top quartile in more than one of the ESG-criteria.

### The Roll-up Index:

The STOXX Global ESG Leaders Index comprises all components that are eligible for at least one of the specialized indices. This means, that components of the broad index must belong to the top quartile in at least one criterion and to the top 50% in all three criteria.

In addition, a minimum liquidity of EUR 1 million is required. The liquidity is measured using 3-month average daily trading value.

## 5.1.5. WEIGHTING SCHEME

### STOXX Global ESG Specialized Leaders Indices:

The STOXX Global ESG Specialized Leaders indices are sustainability score weighted. The weight per constituent in each of the specialized indices is calculated as follows:

$$X_{i,j} = \frac{\text{NormRating}_{i,j}}{\sum_i \text{NormRating}_{i,j}},$$

where:

$\text{NormRating}_{i,j}$  = normalized score of company i in index j (j= environmental, social, governance)

The time depended weight of constituent i in each of the specialized indices j (j= environmental, social, governance) at time t is given by:

# 5. INDEX METHODOLOGY

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$$X_{i,j,t} = \frac{P_{it} \cdot q_{iT} \cdot c_{it}}{\sum_{i=1}^n P_{it} \cdot q_{iT} \cdot c_{it}},$$

where:

$c_{it}$  = adjustment factor of company  $i$  at time  $t$

The weighting factors  $q_{it}$  are determined so that the weighting factor multiplied with the close price at the date of determination represents the company's normalized sustainability ratings:

$$q_{it} = \frac{X_{i,j,t}}{P_{it_0}},$$

where:

$P_{it_0}$  = close Price of company: the closing prices of the Thursday before the second Friday of the review month are used

## STOXX Global ESG Leaders Index:

The STOXX Global ESG Leaders index components are weighted according to the weighted sum of their specialized index weights. The index weight of company  $i$  is determined by  $X_{it}(ESG)$ . Weights are not capped.

$$X_{it}(ESG) = \sum_{j=E,S,G} \frac{1}{3} \cdot X_{i,j,t},$$

where:

$X_{i,j,t}$  = weight of company  $i$  in index  $j$  ( $j$ = environmental, social or governance sustainability)

### 5.1.6 INDEX REVIEW

In order to reduce the turnover in the index and to give index constituents the incentive to improve their corporate sustainability until the next review a buffer rule is applied to all companies that are already index constituents.

#### Minimum Filter (Top 52%):

For all current index constituents, based on the normalized ratings a minimum filter that selects all companies which have a rating greater than or equal to the 48<sup>th</sup> percentile in all three criteria is applied.

#### Leadership Filter (Best 27%):

For all current index constituents, based on the previously performed selection, a leadership filter is applied to each of the criterion individually. The selected companies have a rating that is greater than or equal to the 73<sup>rd</sup> percentile in at least one field of corporate sustainability, i.e., environmental, social, or governance sustainability.

# 5. INDEX METHODOLOGY

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The buffer rule will only be applied separately to each specialized index. It can only be applied once per constituent, which means that an index constituent cannot fall under the normal minimum and leadership filter threshold for two consecutive periods.

Component changes are announced on the second Friday of the review month. For the calculation of weight factors, the closing prices on the second Thursday of the review month are used.

**Review frequency:**

STOXX ESG Leaders indices are reviewed quarterly in March, June, September, and December. The review cut-off date is the last dissemination day of the month preceding the review month.

**Weighting cap factors:**

Shares, Free Float, Weight and Cap Factors are reviewed on a quarterly basis. The weightings are published on the second Friday of each quarter, one week prior to quarterly review implementation using Thursday's closing prices.

## 5.1.7 ONGOING MAINTENANCE

**Replacements:**

A deleted company will not be replaced. If a company is deleted from the Global 1800 index, it will be excluded from the indices. The weight will be distributed through the remaining components.

**Fast Exit:**

In case a company which is an index constituent increases its ESG Controversy Rating to Category 5, the respective constituent will be deleted from the index. The deletion will take place two dissemination days after the announcement, i.e., at the open of the 3rd dissemination day. The constituent's weight will be distributed among the remaining constituents. A fast entry is not applicable.

# 5. INDEX METHODOLOGY

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## 5.2 ESG LEADERS BLUE-CHIP INDICES

### 5.2.1. OVERVIEW

The universe is predefined as STOXX Global ESG Leaders Index. Based on percentile ESG scores, an average overall score is calculated. The necessary percentile ESG scores are taken from the STOXX Global ESG Leaders selection list. Contrary to the STOXX Global ESG Leaders Indices, for the blue-chip indices only the overall Index will be launched, and no specialized indices (Environmental, Governance, Social) will be defined.

**Universe:**

The ESG Leaders Blue-Chip indices are based on the ESG Leaders Broad indices:

- » STOXX Europe ESG Leaders Blue Chip, selected from the intersection set of STOXX Europe 600 and STOXX ESG Leaders index
- » EURO STOXX ESG Leaders Blue Chip, selected from the intersection set of EURO STOXX and STOXX ESG Leaders index
- » STOXX Asia/Pacific ESG Leaders Blue Chip selected from the intersection set of STOXX Asia/Pacific 600 and STOXX ESG Leaders index
- » STOXX North America ESG Leaders Blue Chip selected from the intersection set of STOXX North America 600 and STOXX ESG Leaders index

**Weighting Scheme:**

The indices are price-weighted with a weighting factor based on the overall ESG Rating.

**Base value and dates:**

100 as of September 21, 2001

**Index types and currencies:**

The indices are calculated as price, net and gross return versions in EUR, USD, and GBP.

**Review frequency:**

The indices are reviewed quarterly in March, June, September, and December. The review cut-off date is the last dissemination day of the month preceding the review month.

**Weighting cap factors:**

Shares, Free Float, Weight and Cap Factors are reviewed on a quarterly basis. Component changes are announced on the second Friday of the review month. For the calculation of weight factors, the closing prices on the Thursday prior to the 2<sup>nd</sup> Friday of review month are used.

### 5.2.2. SELECTION CRITERIA

The STOXX ESG Leaders Blue Chip indices are selected based on free float market capitalization. The top 50 components are selected within each region.

A minimum average daily trading volume over 3-month is required to be EUR 1 million. This is to be measured at time of selection.

# 5. INDEX METHODOLOGY

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## 5.2.3. WEIGHTING SCHEME

The indices are price-weighted with a weighting factor based on the overall ESG score:

$$R_i = \frac{1}{n} \sum_{j=1}^n \text{NormScore}_{i,j} ,$$

where:

NormScore<sub>i,j</sub> = percentile score of company i in criteria j (j=E, S or G)

n = number of criteria (n=3)

From this rating a weighting factor is calculated as:  $q_{it} = \frac{X_i}{P_{it_0}}$  ,

where:

$$X_i = \frac{R_i}{\sum R_i}$$

$p_{it_0}$  = close Price of company on the Tuesday prior to the 3<sup>rd</sup> Friday of review month

## 5.2.4. ONGOING MAINTENANCE

### Replacements:

A deleted company will be replaced by the consecutive one on the selection list. If a company is deleted from the Global 1800 index, it will be excluded from the indices. The selection list is updated quarterly.

### Fast Exit:

In case a company which is an index constituent increases its ESG Controversy Rating to Category 5, the respective constituent will be deleted from the index. The deletion will take place two dissemination days after the announcement, i.e. at the open of the 3<sup>rd</sup> dissemination day. The constituent's weight will be distributed among the remaining constituents. A fast entry is not applicable.

## 6. GLOBAL STANDARDS SCREENING (GSS)

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Sustainalytics provides the Global Standards Screening (GSS) assessment to STOXX. The service identifies companies that violate or are at risk of violating commonly accepted international norms and standards, enshrined in the United Nations Global Compact (UNGC) Principles, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs), and their underlying conventions.

A company is assessed as Non-Compliant when it is found to be responsible for egregious and severe violations of commonly accepted international norms related to human rights, labour rights, the environment and business ethics. In other words, a company is assessed as Non-Compliant when it does not act in accordance with the UN Global Compact Principles and its associated standards, conventions and treaties.

The Ten Principles of the United Nations Global Compact which should provide a minimum standard of business behavior with regard to corporate social responsibility are listed below. All companies must fulfill these to be eligible for the ESG indices.

- » Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- » Principle 2: make sure that they are not complicit in human rights abuses.
- » Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- » Principle 4: the elimination of all forms of forced and compulsory labor;
- » Principle 5: the effective abolition of child labor; and
- » Principle 6: the elimination of discrimination in respect of employment and occupation.
- » Principle 7: Businesses should support a precautionary approach to environmental challenges;
- » Principle 8: undertake initiatives to promote greater environmental responsibility; and
- » Principle 9: encourage the development and diffusion of environmentally friendly technologies.
- » Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

# 7. CONTROVERSIAL WEAPONS

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The Controversial Weapons Radar (CWR) monitors company involvement in the development, production, maintenance or trade of six types of controversial weapons worldwide:

- » anti-personnel mines
- » biological and chemical weapons
- » cluster weapons
- » depleted uranium
- » nuclear weapons
- » white phosphorous

The controversial weapons radar is updated quarterly with information from a number of sources, e.g. specialized databases, industry newsletters, public interest groups, etc.

## **Anti-personnel mines:**

Anti-personnel mines are explosives that are designed to detonate at the proximity or contact of a person, which incapacitates, injures, or kills the person and/or others nearby. After being planted, anti-personnel mines can remain undetonated for years, posing a serious risk to civilians after a conflict has ended.

Sustainalytics utilises the definition applied by the 1997 Ottawa (Mine-Ban) Treaty.

<http://www.apminebanconvention.org/>

## **Biological Weapons and Chemical Weapons:**

Biological or chemical weapons are munitions that utilise biological or chemical agents, respectively, to inflict death or harm. Either type can be dispersed in gas, liquid, or solid forms. As these munitions are based on organisms or chemicals, civilians are often unintended victims since the impact zone is constrained only by how far the particles can disperse. For biological weapons, person-to-person transmission of the illness can further exacerbate the civilian impact.

Sustainalytics utilises the definitions outlined in the 1972 Biological and Toxin Weapons Convention (BTWC) and the 1993 Chemical Weapons Convention (CWC).

<http://www.un.org/disarmament/WMD/Bio/>  
<http://www.opcw.org/chemical-weapons-convention/>

## **Cluster weapons:**

Cluster weapons are air-dropped explosives that release in flight 10 or more submunitions (bomblets), each weighing less than 4 kg. The submunitions have a wide impact zone, and often remain undetonated on the ground. These munitions can remain dangerous for years after the conflict has ended, posing a serious risk to civilians.

Sustainalytics utilises the definition applied by the 2008 Convention on Cluster Munitions (CCM), which outlines seven criteria to define a cluster weapon, besides weight and submunition quantity.

<http://www.clusterconvention.org/>

## **Depleted Uranium:**

Depleted Uranium (DU) munitions are projectiles (bullets, rockets, etc.) that have been equipped with the radioactive chemical substance DU. Because of its high density, DU is often used as a penetrator in ammunition to help pierce armour. However, areas where depleted uranium munitions have been used are



# 7. CONTROVERSIAL WEAPONS

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exposed to its radioactive qualities, causing people living in the area to be more prone to cancers, congenital birth defects, and other illnesses.

Sustainalytics uses a broad definition of DU, i.e. with U-235 concentrations of 0.7% or lower. The current findings of Sustainalytics would not have been different if the company had used a more narrow definition given that there is in practice not much debate about classifying DU ammunition. There is currently no convention or legal framework illegalising or regulating depleted uranium.

## **Nuclear Weapons:**

A nuclear weapon is a device that is capable of releasing nuclear energy in an uncontrolled manner, due to fusion and/or fission reactions, making it a highly destructive explosive. The indiscriminate and disproportionate impact makes nuclear weapons a controversial weapon.

As the 1968 Treaty on the Non-Proliferation of Nuclear Weapons (NPT) does not contain a definition, Sustainalytics bases its definition of a nuclear weapon on the Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean (Tlatelolco). There is currently no comprehensive convention or legal framework that illegalises the use or production of nuclear weapon systems. The NPT Treaty deals only with trade.

<http://disarmament.un.org/treaties/t/tlatelolco>

## **White Phosphorous:**

White phosphorus (WP) is an allotrope of the chemical element phosphorus, which burns fiercely when exposed to oxygen. A WP munition is any projectile (e.g. flares, grenades, or mortars) that is equipped with WP, in order to act as a smoke-producing agent, or as tracer, illumination, or incendiary munition. As an incendiary, WP can cause injury or death when ingested, inhaled, or causing severe burns. As a smoke-based weapon, WP munitions have an indiscriminate effect, often seriously impacting civilians in densely populated areas.

There is currently no convention or legal framework comprehensively illegalising or regulating white phosphorus.

# 8. APPENDIX A: INDICATORS

## 8.1 INDICATORS NAMES

### 8.1.1 INDICATORS FOR THE GOVERNANCE (G) RATING

Indicator Long Name	Indicator Short Name
G.1.1.1 Bribery & Corruption Programmes	G.1.1.1
G.1.1 Bribery & Corruption Policy	G.1.1
G.1.2 Whistleblower Programmes	G.1.2
G.1.3.1 PRI Signatory	G.1.3.1
G.1.3.2 Responsible Investment Policy	G.1.3.2
G.1.3.3 UNEPFI Signatory	G.1.3.3
G.1.3.4 Green Building Memberships	G.1.3.4
G.1.3.5 Equator Principles Signatory	G.1.3.5
G.1.3.6 Responsible Investment Programme	G.1.3.6
G.1.3 Global Compact Signatory	G.1.3
G.1.4.1 Money Laundering Policy	G.1.4.1
G.1.4.3 Animal Testing Policy	G.1.4.3
G.1.4.4 Animal Welfare Policy	G.1.4.4
G.1.4.5 Policy on Emerging Technologies	G.1.4.5
G.1.4.6 Clinical Trial Standards	G.1.4.6
G.1.4 Tax Disclosure	G.1.4
G.1.5 Business Ethics Incidents	G.1.5
G.2.1 ESG Reporting Standards	G.2.1
G.2.2 Verification of ESG Reporting	G.2.2
G.2.3.1 Remuneration Disclosure	G.2.3.1
G.2.4.1 Director Disclosure	G.2.4.1
G.2.5 ESG Governance	G.2.5
G.2.6 ESG Performance Targets	G.2.6
G.2.7.1 Board Diversity	G.2.7.1
G.2.8.1 Board Leadership	G.2.8.1
G.2.9.1 Board Independence	G.2.9.1
G.2.10.1 Audit Committee Structure	G.2.10.1
G.2.11.1 Auditor Fees	G.2.11.1
G.2.12.1 Remuneration Committee Effectiveness	G.2.12.1
G.2.13 Governance Incidents	G.2.13
G.3.1 Political Involvement Policy	G.3.1
G.3.2 Lobbying and Political Expenses	G.3.2
G.3.3.1 Transparency on Government Payments	G.3.3.1
G.3.4 Public Policy Incidents	G.3.4

# 8. APPENDIX A: INDICATORS

## 8.1.2 INDICATORS FOR THE SOCIAL (S) RATING

Indicator Long Name	Indicator Short Name
S.1.1.1 Working Hours Policy	S.1.1.1
S.1.1 Freedom of Association Policy	S.1.1
S.1.2 Discrimination Policy	S.1.2
S.1.3 Diversity Programmes	S.1.3
S.1.4 Collective Bargaining Agreements	S.1.4
S.1.5.1 Percentage of Temporary Workers	S.1.5.1
S.1.5 Employee Turnover Rate	S.1.5
S.1.6.1 Employee Training	S.1.6.1
S.1.6.2.1 Health and Safety Management System	S.1.6.2.1
S.1.6.3 HIV/Aids Programmes	S.1.6.3
S.1.6.4 Health & Safety Certifications	S.1.6.4
S.1.6.5 LTIR Trend	S.1.6.5
S.1.6.6 Employee Fatality Rate	S.1.6.6
S.1.7 Employee Incidents	S.1.7
S.2.1.2 Signatory to Responsible Business Alliance (RBA)	S.2.1.2
S.2.1.3.1 Conflict Minerals Programmes	S.2.1.3.1
S.2.1.3 Conflict Minerals Policy	S.2.1.3
S.2.1 Scope of Social Supplier Standards	S.2.1
S.2.2.2.1 Supply Chain Management	S.2.2.2.1
S.2.2.3 Social Supplier Certification	S.2.2.3
S.2.2.4 Fair Trade Products	S.2.2.4
S.2.2 Supply Chain Monitoring	S.2.2
S.2.3 Social Supply Chain Incidents	S.2.3
S.3.1.1 Responsible Marketing Policy	S.3.1.1
S.3.1.2 Advertising Ethics Policy	S.3.1.2
S.3.1.3 Data Privacy & Security Policy	S.3.1.3
S.3.1.4 Electromagnetic Safety Programmes	S.3.1.4
S.3.1.6 Editorial Guidelines	S.3.1.6
S.3.1.8 Service Delays	S.3.1.8
S.3.1.9 Product Health Statement	S.3.1.9
S.3.1.10 Occupier Satisfaction Surveys	S.3.1.10
S.3.1.11 Customer Eco-Efficiency Programmes	S.3.1.11
S.3.1.12 Drug Promotion Standards	S.3.1.12
S.3.2.1 QMS Certifications	S.3.2.1
S.3.3 Customer Incidents	S.3.3
S.4.1 Activities in Sensitive Countries	S.4.1
S.4.2.1 Human Rights Policy	S.4.2.1
S.4.2.2 Community Involvement Programmes	S.4.2.2
S.4.2.3 Financial Inclusion	S.4.2.3

# 8. APPENDIX A: INDICATORS

S.4.2.4 Access to Medicine Programme	S.4.2.4
S.4.2.5 Neglected Diseases R&D	S.4.2.5
S.4.2.6 Equitable Pricing and Availability	S.4.2.6
S.4.2.7 Access to Health Care	S.4.2.7
S.4.2.9 Indigenous Rights Policy	S.4.2.9
S.4.2.10 Access to Basic Services	S.4.2.10
S.4.2.11 Community Development Programmes	S.4.2.11
S.4.3 Society & Community Incidents	S.4.3

## 8.1.3 INDICATORS FOR THE ENVIRONMENTAL (E) RATING

Indicator Long Name	Indicator Short Name
E.1.1 Environmental Policy	E.1.1
E.1.2.1 Biodiversity Programmes	E.1.2.1
E.1.2.2 Site Closure & Rehabilitation	E.1.2.2
E.1.2.4 Oil Spill Disclosure & Performance	E.1.2.4
E.1.2.6.2 Mineral Waste Management	E.1.2.6.2
E.1.2.7 Water Intensity	E.1.2.7
E.1.2.8 Forest Certifications	E.1.2.8
E.1.2 Environmental Management System	E.1.2
E.1.3.1 Emergency Response Programme	E.1.3.1
E.1.3.2 Hazardous Waste Management	E.1.3.2
E.1.3.3 Non-GHG Air Emissions Programmes	E.1.3.3
E.1.3.4 Water Management Programmes	E.1.3.4
E.1.3 EMS Certification	E.1.3
E.1.6 Scope of GHG Reporting	E.1.6
E.1.7.0 GHG Reduction Programme	E.1.7.0
E.1.7.1 Green Logistics Programmes	E.1.7.1
E.1.8 Renewable Energy Programmes	E.1.8
E.1.9 Carbon Intensity	E.1.9
E.1.10 Carbon Intensity Trend	E.1.10
E.1.11 Renewable Energy Use	E.1.11
E.1.12 Operations Incidents	E.1.12
E.2.1.1 Supplier Environmental Programmes	E.2.1.1
E.2.1.2 Supplier Environmental Certifications	E.2.1.2
E.2.1.3 Sustainable Agriculture Programmes	E.2.1.3
E.2.1.4 Sustainable Aquaculture Programmes	E.2.1.4
E.2.1.5 Food & Beverage Sustainability Initiatives	E.2.1.5
E.2.1.6 Green Outsourced Logistics Programmes	E.2.1.6
E.2.1.7 Recycled Material Use	E.2.1.7
E.2.1.8 FSC Certified Sourcing	E.2.1.8
E.2.1.9 Sustainable Food Programmes	E.2.1.9

# 8. APPENDIX A: INDICATORS

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E.2.1.10 Food Retail Initiatives	E.2.1.10
E.2.1 Green Procurement Policy	E.2.1
E.2.2 Environmental Supply Chain Incidents	E.2.2
E.3.1.1 Sustainable Products & Services	E.3.1.1
E.3.1.3 Fleet Emissions	E.3.1.3
E.3.1.4 Fleet Emissions Trend	E.3.1.4
E.3.1.5 Sustainable Mobility Products	E.3.1.5
E.3.1.6 Eco-Design	E.3.1.6
E.3.1.7 Product Stewardship Programmes	E.3.1.7
E.3.1.8 Organic Products	E.3.1.8
E.3.1.9 GMO Policy	E.3.1.9
E.3.1.10 Credit & Loan Standards	E.3.1.10
E.3.1.11 Responsible Asset Management	E.3.1.11
E.3.1.12 Real Estate LCA	E.3.1.12
E.3.1.13 Green Buildings Investments	E.3.1.13
E.3.1.14 Share of Green Buildings	E.3.1.14
E.3.1.15 Sustainable Financial Initiatives	E.3.1.15
E.3.1.16 Hazardous Products	E.3.1.16
E.3.1.17 Carbon Intensity of Generation	E.3.1.17
E.3.2 Product & Service Incidents	E.3.2

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# 9. APPENDIX B: INDUSTRY CLASSIFICATION

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## 9.1 PEER GROUPS

Group Name	Group Name
Aerospace & Defense	Industrial Conglomerates
Auto Components	Insurance
Automobiles	Machinery
Banks	Media
Building Products	Oil & Gas Producers
Chemicals	Paper & Forestry
Commercial Services	Pharmaceuticals
Construction & Engineering	Precious Metals
Construction Materials	Real Estate
Consumer Durables	Refiners & Pipelines
Consumer Services	Retailing
Containers & Packaging	Semiconductors
Diversified Financials	Software & Services
Diversified Metals	Steel
Electrical Equipment	Technology Hardware
Energy Services	Telecommunication Services
Food Products	Textiles & Apparel
Food Retailers	Traders & Distributors
Healthcare	Transportation
Homebuilders	Transportation Infrastructure
Household Products	Utilities