

# Morningstar® Societal Development Index<sup>SM</sup>

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## Powered by Sustainalytics

Morningstar uses company-level sustainability research provided by Sustainalytics, a firm with global reach and a reputation for insightful research. The firm covers more than 10,000 companies with its ESG ratings, which judge companies against their global industry peers across more than 140 indicators. Analysis spans dimensions of preparedness, disclosure, quantitative data points, and qualitative performance. Sustainalytics also scores companies on the basis of ESG Controversy, which measures ESG-related incidents with internal and external impact.

The notion that the private sector has a critical role to play in improving society and protecting the environment is becoming increasingly mainstream. The United Nations has been at the forefront of promoting sustainability within the corporate sphere, first with the Global Compact, initiated in 2000 by then Secretary General Kofi Annan, and augmented through the Sustainable Development Goals of 2015.

Crafted by the 193 U.N. member states in conjunction with global civil society, the 17 goals provide a road map to a better planet. Targeting issues such as poverty, healthcare, inequality, and the state of air, land, and sea, each goal includes specific targets to be achieved by 2030. Corporate responsibility is central. As such, the U.N. Sustainable Development Goals widen the scope for business beyond mere financial return.

The Morningstar® Societal Development Index<sup>SM</sup> provides exposure to a globally diversified cohort of large- and mid-cap companies that demonstrate commitment to the U.N. Sustainable Development Goals with an emphasis on poverty reduction and economic development, especially in lesser-developed countries.

## Index Eligibility

The Morningstar Societal Development Index derives its constituents from the Morningstar Global Large-Mid Index, which targets 90% of global equity market capitalization across developed and emerging markets. To be eligible for the Morningstar Societal Development Index, a company

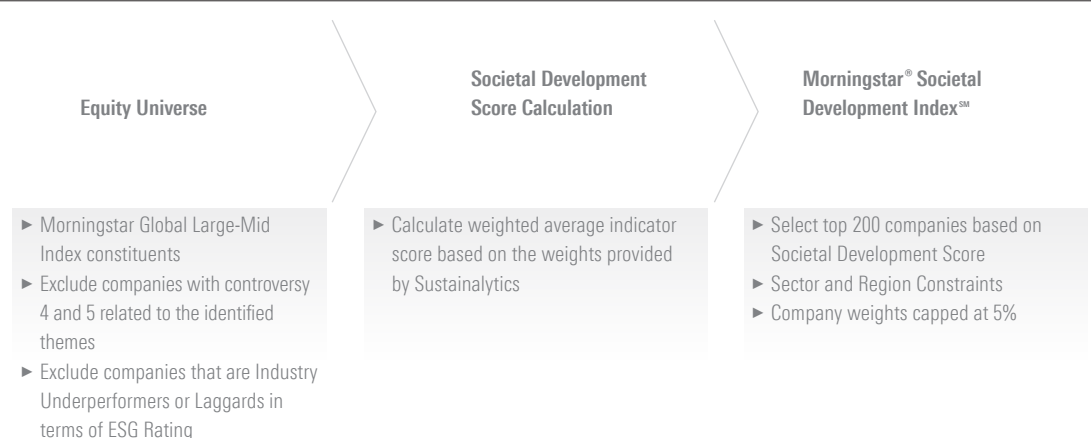
must have undergone an assessment by Sustainalytics (see sidebar) and deemed to be in compliance with the U.N. Global Compact principles addressing human rights, labor protections, the environment, and corruption. Eligible constituents must also be considered on par or better than global industry peers on general environmental, social, and governance criteria. Companies are ineligible if they are experiencing a serious controversy related to business ethics, human rights, or the environment. Also excluded are companies involved in the following:

- ▶ Adult Entertainment
- ▶ Alcoholic Beverages
- ▶ Controversial Weapons
- ▶ Gambling
- ▶ Military Contracting Weapons
- ▶ Nuclear Energy
- ▶ Small Arms
- ▶ Tobacco

## Index Selection

Eligible companies are ranked on the basis of their Societal Development Score, which considers a number of indicators assessed and weighted for relevance by Sustainalytics. These indicators align with the U.N. Sustainable Development Goals, so they look at a company's policies and programs relating to health and welfare, human rights, labor protection, corruption, fair trade, and renewable energy. The score is also influenced by a company's exposure to the developing world. So companies are awarded points based on the revenue they earn from countries identified as

## Morningstar Societal Development Index Construction Process



“low income” or “lower middle income” by the World Bank or as a “Least Developed Country” by the United Nations. The index selects the 200 top-scoring companies subject to weighting considerations (see Index Weighting section). The actual number of index constituents may not always be 200, depending on eligibility criteria, weighting considerations, the number of share classes of stock a company offers, or mergers and acquisitions. To reduce turnover, constituents may remain in the index so long as their relative rank does not deteriorate significantly.

#### **Index Weighting**

Securities are weighted according to float-adjusted market capitalization, which ensures low turnover and macro consistency. Index weight devoted to individual companies is capped at 5% of overall index weight. To ensure diversification and minimize performance deviation from the overall market, the index’s sector weights and regional weights are kept within plus or minus 4 percentage points from their weight in the Morningstar Global Large-Mid Index. These constraints can be relaxed depending on the number of eligible securities.

#### **Rebalancing and Reconstitution**

The index is reconstituted (membership reset) annually in December on the Monday following the third Friday of the month. If Monday is a holiday, reconstitution is effective on the following business day. The index is rebalanced (weights reset) quarterly, in March, June, September, and December on the Monday following the third Friday of the month. Market data used is as of the last trading day of February, May, August, and November.