

Morningstar® Developed Markets Ex-Japan Gender Diversity IndexSM

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Equileap

Equileap is the leading provider of data and insights on gender equality in the corporate sector. Launched in 2016 in Amsterdam, the social enterprise aims to accelerate progress towards gender equality in the workplace. Equileap researches several thousand public companies globally using its comprehensive Gender Equality Scorecard™ with 19 criteria, including gender balance across the workforce, the gender pay gap, paid parental leave and anti-sexual harassment policies. Its data and indices are used by dozens of financial institutions globally.

The United Nations Sustainable Development Goals describe gender equality not only as a fundamental human right, but also as the foundation for a prosperous world. Societies that tap into the full potential of their populations are more competitive.

The same principles carry over to the business world. Companies committed to diversity and inclusion are both advancing the cause of equity and acting in their own best interests. Research has shown that combining people of different backgrounds results in "cognitive diversity," which enhances problem solving.¹ Also linked to talent acquisition and retention, customer alignment, and brand value, diversity and inclusion can even improve financial results.

Yet, in the business world, women remain under-represented and underpaid. This is a missed opportunity, as women often exceed men in educational attainment. It also has pernicious societal impact, undermining women's ability to save and invest over their lifetimes.

Global best practices related to corporate gender diversity have been established. Leading companies promote gender balance in their workforce, their leadership ranks, and their supply chain. They institute inclusive policies and create a culture of transparency and accountability.

The Morningstar Developed Markets ex-Japan Gender Diversity Index emphasizes the shares of publicly traded companies within North America, Europe, and the Asia-Pacific region outside of Japan that are committed to gender equality. The index aims to provide a similar

risk/return profile to the broad market and is powered by company-specific analysis provided by Equileap (see sidebar), a leading researcher focused on gender.

Measuring Gender Diversity

Equileap assigns companies a Gender Equality score based on 19 criteria across four broad categories, which are weighted differently.

- Category A: Gender Balance in Leadership and Workforce
- Category B: Equal Compensation and Work-Life Balance
- Category C: Policies Promoting Gender Equality
- Category D: Commitment, Transparency, and Accountability

Examples of the 19 criteria driving category scoring include the gender balance of senior management, the gender pay gap, and policies around parental leave and sexual harassment. Equileap also examines a company's legal record, placing companies dealing with gender-related legal controversy on an "Alarm Bell" list.

Index Eligibility

The index derives its constituents from the Morningstar Developed Markets ex-Japan Large-Mid Index, which includes large- and mid-capitalization equities from the U.S., Canada, Western Europe, Israel, Australia, Hong Kong, New Zealand, and Singapore. Securities are excluded from the index if they are part of the Alarm Bell list, which flags companies embroiled in legal cases involving gender-based violence and discrimination. Securities are ineligible for 12 months after initially appearing on the Alarm Bell list. Otherwise, the index includes all members of the parent index. Constituent count is variable.

Morningstar Developed Markets ex-Japan Gender Diversity Index Construction Process



¹ Diversity Still Matters. McKinsey. May 19, 2020. <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-still-matters> and The CS Gender 3000 Report 2019. Credit Suisse October 2019. <https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/cs-gender-3000-report-2019-201910.html>

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Index Weighting in Practice

Company A is classified in the financial services sector in Europe. Relative to its regional peers, the company receives a strong Gender Equality score from Equileap. Company A's weight in the parent index is 0.20%. Because it lands in the second-best scoring cohort, Company A receives 0.25% weight in the gender diversity index or 1.25 X 0.20%.

Index Weighting

The index weighting scheme balances macro consistency with an emphasis on gender equality. Thus, constituents are weighted according to both their Gender Equality, or GE, score and their float-adjusted market capitalization.

- ▶ Within each broad region (North America, Europe, Developed Asia-Pacific outside of Japan), securities are placed into five different groupings according to their GE score. For securities with identical scores, Equileap's assessment in Category A (See the "Measuring Gender Diversity" section) serves as a tiebreaker.
- ▶ Securities falling into the top-scoring group within their region receive index weight 1.5 times what their market capitalization would indicate; the next group 1.25; the middle group 1.00; the next group 0.75, and the bottom-scoring group 0.50.
- ▶ Securities that were previously excluded because they were on the Alarm Bell list can be added at the reconstitution following their removal, albeit at reduced weight.

- ▶ The small number of constituents of the parent index that are not scored by Equileap are assigned the average score for companies within their sector and country.
- ▶ To deliver similar exposure to the broad equity market, the index's regional weights are kept identical to those of the parent index. Individual constituent weight is capped at 5%.

Reconstitution and Rebalancing

The index is reconstituted (membership reset) in December, using Equileap's annual GE scoring. The index is rebalanced (weights reset) quarterly, in March, June, September, and December. At quarterly rebalancing time, 5% security capping is enforced and securities on the Alarm Bell controversy list are removed.