



# Morningstar Minority Empowerment Index – ESG Benchmark Statement

July 2021

| <b>CONSIDERATION OF ESG FACTORS IN THE BENCHMARK METHODOLOGY</b> |   |
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| Item 1. Name of the benchmark administrator.                     | Morningstar   |
| Item 2. Type of benchmark.                                       | Equity  |
| Item 3. Name of the benchmark.                                   | Benchmark – <a href="#">Morningstar Minority Empowerment Index</a><br>Family – Morningstar Sustainability Equity Package  |
| Item 4. Does the methodology take into account ESG factors?      | Yes   |
| Item 5. ESG factors taken into account for benchmark family.     |   |
| (a) List of environmental factors considered                     | <p>This benchmark family takes the following environmental factors into account by exclusion: <a href="#">Controversy Ratings</a>; <a href="#">overall ESG ratings</a>; Sustainalytics' <a href="#">Carbon Risk Score</a> (securities with a Severe Carbon Risk Score — over 50 — are excluded); exclude securities noncompliant with the United Nations Global Compact principles.</p> <p>This benchmark family takes the following environmental factors into account by selection: Controversy Ratings; overall ESG ratings; securities must have at least five of the listed indicator scores in the <a href="#">index rulebook</a>; must have current <a href="#">Carbon Risk Rating</a>.</p> <p>This benchmark family takes the following environmental factors into account by weighting: Overall ESG ratings; Minority Empowerment Score (top 200 securities with the highest Minority Empowerment Score are selected; subject to sector active weight constraints).</p>  |
| (b) List of social factors considered                            | <p>This benchmark family takes the following social factors into account by exclusion: Controversy Ratings; overall ESG ratings; exclude securities noncompliant with the U.N. Global Compact principles; <a href="#">Product/Revenue Involvement Screens</a>: derive more than 5% of revenue from predatory lending activities; are involved in manufacturing of riot control weapons; derive more than 5% of revenue from tobacco products production; security controversy rating must be 3 (out of 5) or lower based on employee incidents, social supply chain incidents, and society and community incidents; securities classified under the Sustainalytics subindustry security services and correctional facilities.</p> <p>This benchmark family takes the following social factors into account by selection: Overall ESG rating; securities must have at least five of the listed indicator scores in the index rulebook.</p> <p>This benchmark family takes the following social factors into account by weighting: Overall ESG rating; Minority Empowerment Score (top 200 securities with the highest Minority Empowerment Score are selected; subject to sector active weight constraints).</p> |

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| <p>(c) List of governance factors considered.</p> | <p>This benchmark family takes the following governance factors into account by exclusion: Overall ESG rating; securities noncompliant with the U.N. Global Compact principles; security Controversy Rating must be 3 (out of 5) or lower based on employee incidents, social supply chain incidents, and society and community incidents; securities classified under the Sustainalytics subindustry security services and correctional facilities.</p> <p>This benchmark family takes the following governance factors into account by selection: Overall ESG rating; securities must have at least five of the listed indicator scores in the index rulebook.</p> <p>This benchmark family takes the following governance factors into account by weighting: Overall ESG rating; Minority Empowerment Score (top 200 securities with the highest Minority Empowerment Score are selected; subject to sector active weight constraints).</p> |
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Item 6. ESG factors applied for the stated benchmark.

(a) List of environmental factors considered:

Selection:

- Overall ESG rating
- Controversy Rating
- Indicator scores
- Sustainalytics' Carbon Risk Score (securities with a Severe rating are excluded; score higher than 50).

Exclusion:

- Overall ESG rating
- Controversy Rating
- U.N. Global Compact principles
- Indicator scores

Weighting:

- Overall ESG rating
- Minority Empowerment Score

(b) List of social factors considered:

Exclusion:

- Overall ESG rating
- Controversy Rating
- Predatory lending
- Riot control weapon manufacturing
- Tobacco production

- Classified under Sustainalytics subindustry security services and correctional facilities

Selection:

- Overall ESG rating
- Indicator scores

Weighting:

- Minority Empowerment Score

(c)List of governance factors considered:

Exclusion:

- Overall ESG rating
- Controversy Rating
- U.N. Global Compact principles
- Classified under Sustainalytics subindustry security services and correctional facilities

Selection:

- Overall ESG rating
- Indicator scores

Weighting:

- Minority Empowerment Score

Description of factors considered.

U.N. Global Compact violations: Sustainalytics' Global Standards Screening assesses a company's impact on stakeholders and the extent to which a company causes, contributes to, or is linked to violations of international norms and standards (U.N. Global Compact, Organization for Economic Cooperation and Development, the U.N. Guiding Principles on Business and Human Rights and their underlying conventions).

Environmental, social, and governance ratings: Sustainalytics' environmental, social, and governance ratings measure how well issuers proactively manage ESG issues that are the most material to their business.

Sustainalytics' Carbon Risk Score assesses a company's carbon risk, driven by the transition to a low-carbon economy. The ratings are determined by an evaluation of a company's material exposure to and management of carbon issues.

Minority Empowerment Score / Indicator Score: The Minority Empowerment Score is calculated as a weighted average of the following indicator scores: board diversity, discrimination policy, scope of social supplier standards, freedom of association policy, diversity programs, community development programs, health and safety management system, conflict mineral programs, media ethics programs, human rights programs, editorial guidelines, advertising ethics, human capital development, responsible product offering, responsible marketing policy, human rights policy, gender pay and equality programs, gender pay disclosure. The indicator weights are determined by Sustainalytics based on the indicator's importance to determine a company's performance.

Controversy Ratings: Controversy ratings: Using smart technologies to monitor more than 700,000 news stories daily,

Sustainalytics' Controversies Research identifies companies involved in ESG-related incidents. These incidents are assessed through a framework that considers the severity of incidents, the corporations' accountability, and whether they form part of a pattern of corporate misconduct. Investors use Controversies Research to support investment decisions, including screening and engagement, and to manage reputational risks.

- This index's controversy ratings are based on employee incidents, social supply chain incidents, society and community incidents.

Data Inputs:

Externally sourced through Sustainalytics ESG Research

### **Sustainalytics**

Sustainalytics is a leading independent ESG and corporate governance research, ratings, and analytics firm that supports investors around the world with the development and implementation of responsible investment strategies.

In particular, this index uses the following ESG products: Sustainalytics ESG Risk Rating Scores, Controversies, Country Ratings, Global Standards Screening, and Product Involvement, Controversial Weapons Involvement.

For details on Sustainalytics ESG Research's full suite of ESG products, please refer to:

<https://www.sustainalytics.com/>

Sustainalytics' research process involves the collection and analysis of information made available by third parties, including civil society, corporate, government, industry association, investor, media and regulatory sources. Sustainalytics also uses third-party data providers about which information is available at <https://www.sustainalytics.com/legal-disclaimers/>

Verification and quality of data:

The verification and quality of data are checked both externally and internally by automated and manual quality assurance processes involving, inter alia, change control; change mapping; ID mapping; exception reporting; prepublication reviews; continuous incident monitoring; quarterly rebalancing; and centralized definitions.

Incorrect pricing and corporate action data for individual issues in the database will be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within five days of its occurrence, will always be fixed retroactively on the day it is discovered to prevent an error from being carried forward. Commercially reasonable efforts are made to correct an older error subject to its significance and feasibility.

Sustainalytics Quality Approach to ESG Rating:

Universe Management

- Centralized universe definitions and processes for rebalancing;
- Quarterly rebalances of Sustainalytics' standard coverage and compliance universes;

- Clear, transparent, and consistent approach to the allocation of research versus coverage entities.

#### Company Research

- Continuous improvement and maintenance of quality and research standards;
- Feedback that is received from companies in Sustainalytics' coverage and that are a part of our ESG Risk Ratings and controversy research is taken into consideration, and whenever relevant included;
- Quality reviews of ESG assessments before publication;
- Reviewing controversy ratings by the Events Oversight Committee—focus on controversy level changes to and from level 4 and 5.

#### Data and Deliverable Management

- Quality and reliability of our covered company and identifier data through automated quality assurance;
- Quality and reliability of our proprietary (research) data through automated quality assurance, prior to publication;
- Quality and reliability of standard deliverables through end-of-gate quality assurance process;
- Quality and reliability of custom client deliverables through end-of-gate quality assurance processes (automated and manual);
- Monitoring and investigating ESG score fluctuations and their root causes using automated tools.

#### Update Cycle

- We aim for annual updates of management indicators for the covered companies.
- Continuous updates are made as incidents occur and feed into updates of event indicators, which is not disclosure-driven.

Annual updates to the rating framework (selection of material ESG issues, weighting of indicators)

#### Reference standards:

U.N. Global Compact violations: The United Nations Global Compact Principles, the Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises, the U.N. Guiding Principles on Business and Human Rights, and their underlying conventions.

Controversial weapons: International treaties and conventions used to define controversial weapons include the Nuclear Non-Proliferation Treaty (1968), Biological and Toxin Weapons Convention (1972), Chemical Weapons Convention (1997), Anti-Personnel Mine Ban Convention (1999), Convention on Cluster Munitions (2008), United Nations Convention on Certain Conventional Weapons (1980), and Convention on the Physical Protection of Nuclear Material (1980).

The methodology behind Sustainalytics' Global Standards Screening is based on the following international standard:

- U.N. Global Compact Principles
- OECD
- World Governance Indicators
- On top of these international (convention-based) standards, we also look at industry-specific standards or initiatives. Examples are the Roundtable on Sustainable Palm Oil, the standards for systemically important banks, local corporate governance codes, and many others.

Said industry-specific standards are incorporated in our assessments of companies' management of ESG issues in our ESG Risk Rating.

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| Date on which information has been last updated and reason for the update: July 2021 |