
Societal Development Index



Morningstar Indexes
May 2018

Societal Development Index

Investment Objectives

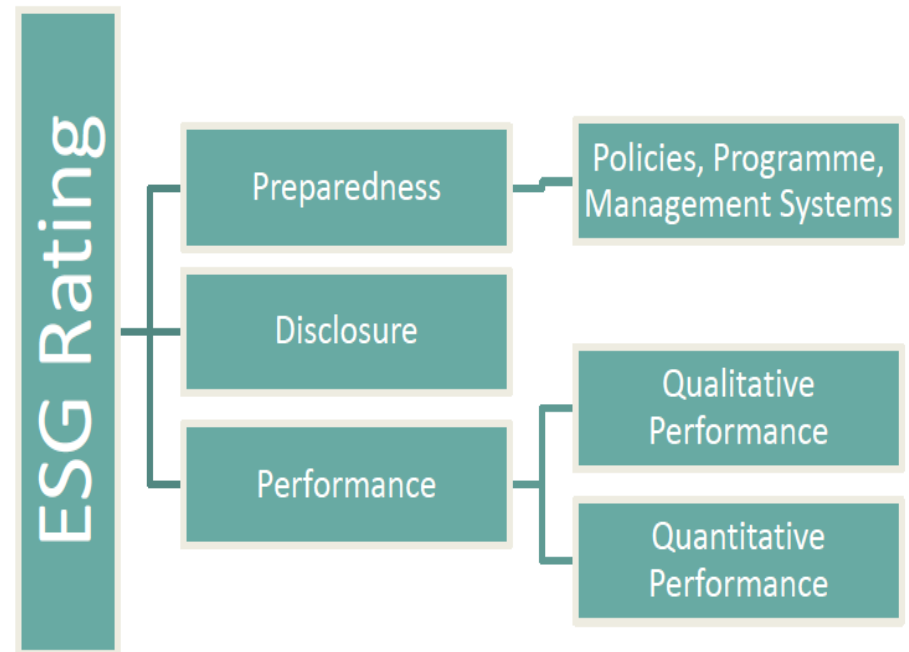
The objective of the strategy is to provide exposure to Global companies that best support the UN CDF mission and display commitment towards Sustainable Development Goals

- ▶ Such companies should display commitment towards reducing poverty and supporting economic development globally
- ▶ Additional emphasis on companies that have an exposure to Least Developed Countries
- ▶ Companies included in the index pass a rigorous number of screens and selection criteria, with security selection primarily based on Composite Score related to relevant ESG indicators

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Sustainalytics ESG Ratings Framework

- ▶ Sustainalytics' ESG Ratings measure how well issuers proactively manage environmental, social and governance issues that are most material to their business
- ▶ The ESG ratings measure companies on three parameters
 - ▶ Preparedness - Measure an issuer's level of commitment to manage ESG risks
 - ▶ Performance - Measure the effectiveness of an issuer's preparedness
 - ▶ Disclosure - Measure an issuer's level of transparency and the extent to which its ESG reporting aligns with best practice



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ESG Score Computation

- ▶ A comprehensive set of core and industry-specific metrics are analyzed, scored and weighted to determine a company's overall ESG performance
- ▶ Approximately 70 indicators (out of a total of 150 indicators) are applied to every peer group
 - ▶ Indicators are scored by assigning weights
 - ▶ Weights are assigned to each indicator based on the relevance to the key ESG issue it tracks
 - ▶ Each indicator raw score is multiplied with the assigned weight to get the final score (0 - 100)

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Composite Score: Indicators Used

The Societal Development Score is calculated using the thirty indicators that can be categorized into the following topics

- ▶ Business Ethics: bribery and corruption, Global Compact Signatory
- ▶ Employees: working conditions, HIV/AIDs programs, etc.
- ▶ Contractor and Supply Chain: social supplier standards, conflict minerals, supply chain monitoring and management, etc.
- ▶ Society and Community: human rights, community involvement and development, access to basic services and health care, etc.
- ▶ Operations: renewable energy programs
- ▶ Products and Services: credit and loan standards and sustainable financial initiatives

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Composite Score Illustration

Composite Score is weighted average of the available indicators

	Indicator 1	Score 1	Indicator 2	Score 2	Indicator 3	Score 3	Total Indicator Wt.
Actual Wt.	5%	100	10%	50	15%	25	30%
Rescaled Wt.	16.6%(5/30)	100	33.3%(10/30)	50	50%(10/30)	25	100
Rescaled Score		16.6		16.6		12.5	

Composite Score = 16.6 + 16.6 + 12.5 = 45.7

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Controversy Assessment

Companies that have a high controversy rating (i.e., 4 or 5) related to the following themes are excluded from the portfolio

- ▶ Business Ethics Incidents
- ▶ Governance Incidents
- ▶ Public Policy Incidents
- ▶ Employee Incidents
- ▶ Social Supply Chain Incidents
- ▶ Society and Community Incidents
- ▶ Operations Incidents
- ▶ Environment Supply Chain Incidents

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Product Involvement

In addition to the controversy screen, we also exclude companies that are involved in the following activities

- ▶ Adult Entertainment
 - ▶ Alcoholic Beverages
 - ▶ Controversial Weapons
 - ▶ Gambling
 - ▶ Military Contracting Weapons
 - ▶ Nuclear Energy
 - ▶ Small Arms
 - ▶ Tobacco
-
- ▶ In addition to the above screen, the company must also be compliant (although not necessarily a signatory) with UN Global Compact Principles

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Defining Frontier Markets

All frontier market economies classified as 'low income' or 'lower middle income' by World Bank, or LDCS according to the United Nations

- ▶ There are 80 countries that make it to the list
- ▶ Emerging Markets such as Egypt, India, Indonesia, Pakistan and Philippines are excluded
- ▶ Tuvalu, an LDC, is the only 'upper middle income' country that is included manually in the list

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How to Incorporate LDC/Frontier Revenue

LDC/Frontier Revenue exposure is used to boost the initial calculated Composite Score of companies that have significant exposure to such countries

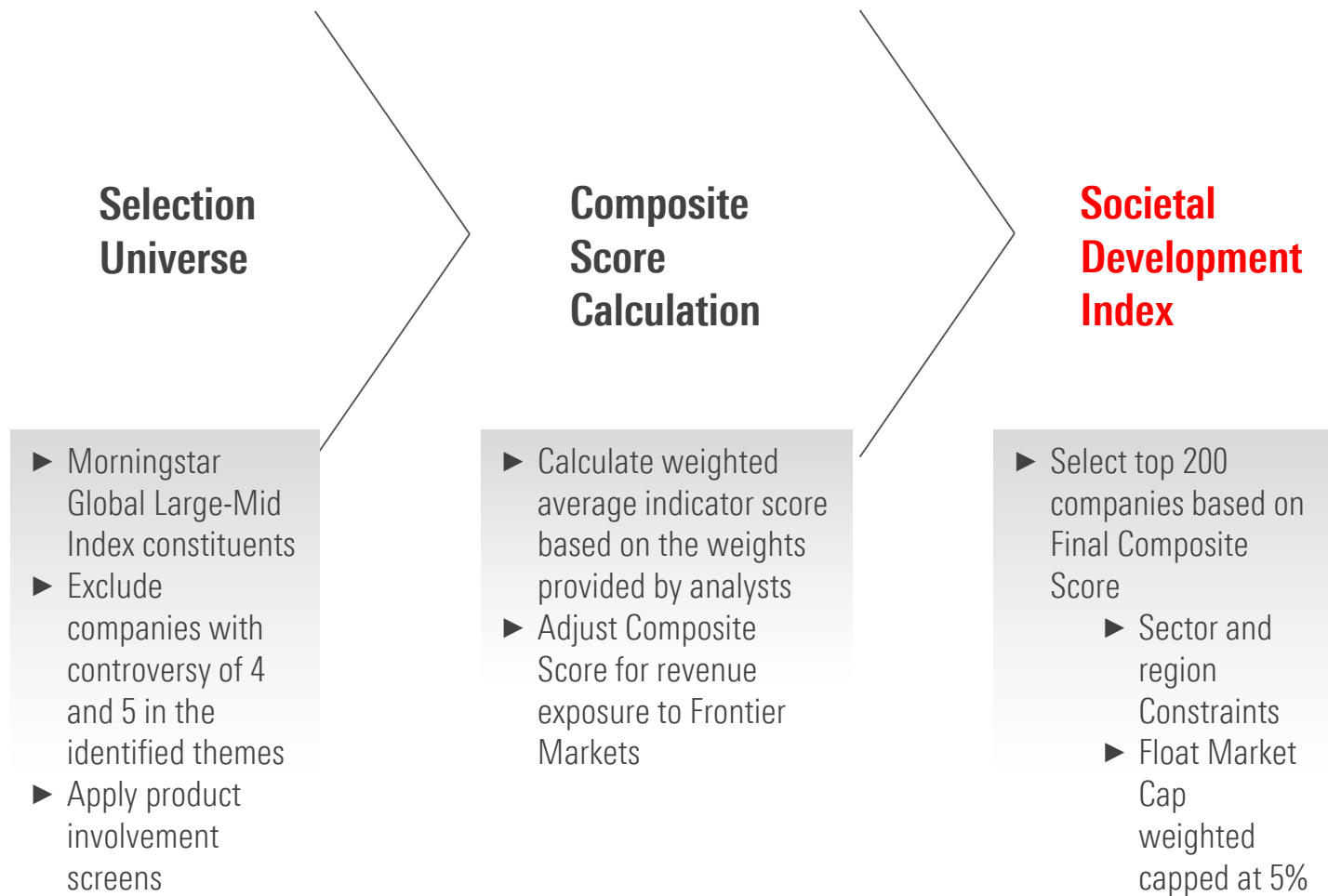
% Exposure to LDC/Frontier Markets	Composite Score Multiple
> 10%	1.5
5%-10%	1.25
1%-5%	1.125
< 1%	1

For instance, if company A has a composite score of 60 and has 12% exposure to LDC/Frontier countries, we will compute the final composite score as $60 * 1.5 = 90$

This ensures prioritization of such companies while creating the index portfolio

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Construction Process



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Index Parameters

Design Parameter	Recommendation/Options	Comments
Starting Universe	Morningstar Global Large Mid Index	<ul style="list-style-type: none"> ~4000 companies giving exposure to top 90% of Global Markets by market capitalization
Composite Score	30 indicators were identified. At least 5 indicators must be available to calculate score	
	Sustainalytics-implied weighted average of the indicator scores	Preserves relative importance of indicators as determined by Sustainalytics
Controversy Screen	Securities with high controversy in identified themes are excluded	
Selection	Top 200 by Composite Score adjusted for Frontier Exposure with region/sector constraint: <ul style="list-style-type: none"> Lower Bound: $\text{Max}(\text{Benchmark Weight} - 4\%, \text{Benchmark Weight} / 4)$ Upper Bound: $\text{Min}(\text{Benchmark Weight} + 4\%, \text{Benchmark Weight} * 4)$ 	Sector and region constraints are employed to target a low tracking error to the Morningstar Global Markets Index
Portfolio Weighting	Float Market cap weighted Company weight is capped at 5%	Weights are capped to avoid excessive company concentration
Index Maintenance	Annually reconstituted in December and quarterly rebalanced	To update security weights due to shares or float changes. Apply controversy and product involvement screens

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Frontier Markets Exposure

42% of companies in the portfolio have some revenue exposure to Frontier/LDC countries disclosed in their annual reports

% Exposure to LDC/Frontier Markets	# of Companies	Portfolio Weight	Cumulative Portfolio Weight
> 10%	9	1.1%	1.1%
5%-10%	10	1.9%	3.0%
1%-5%	12	9.5%	12.5%
< 1%	53	33.8%	46.3%
0%	116	53.7%	100.0%

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Sector Weights

Weights are constrained to be +/- 4% of Morningstar Global Markets Index

Sector Name	Benchmark Weight	Portfolio Weight
Basic Materials	6.0%	4.1%
Communication Services	3.6%	1.3%
Consumer Cyclical	11.4%	9.9%
Consumer Defensive	8.6%	10.6%
Energy	5.8%	6.0%
Financial Services	19.0%	23.4%
Healthcare	10.5%	12.2%
Industrials	11.8%	7.8%
Real Estate	4.0%	1.9%
Technology	16.2%	20.3%
Utilities	3.1%	2.6%

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Region Weights

Weights are constrained to be +/- 4% of Morningstar Global Markets Index

Region Name	Benchmark Weight	Portfolio Weight
Developed Asia Pacific	12.9%	11.3%
Developed EMEA	21.1%	27.7%
Developed North America	54.6%	53.3%
Emerging Asia Pacific	8.3%	5.8%
Emerging Europe	0.8%	0.8%
Emerging Latin America	1.4%	0.4%
Emerging Middle East and Africa	0.9%	0.6%

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Top Constituents by Final Composite Score

Companies are first sorted by Final Composite Score

Security Name	Index Weight	Sector Name	Region	Composite Score	Frontier Revenue Exposure	Final Composite Score
Sasol Ltd	0.35%	Energy	EMA	88.99	17.6%	133.48
Impala Platinum	0.03%	Basic Materials	EMA	86.10	19.1%	129.16
ADP Promesses	0.11%	Industrials	DEU	92.74	7.9%	115.92
Santos Ltd	0.12%	Energy	DAP	73.79	21.6%	110.69
Gold Fields Ltd	0.06%	Basic Materials	EMA	71.57	32.3%	107.36
National Australia Bank Ltd	1.10%	Financial Services	DAP	100.00	0.0%	100.00
BanColombia SA	0.13%	Financial Services	ELA	100.00	0.0%	100.00
SCA	0.11%	Consumer Defensive	DEU	88.84	2.0%	99.95
Galp Energia SGPS SA	0.15%	Energy	DEU	88.52	1.6%	99.59
AXA	1.04%	Financial Services	DEU	98.05	0.1%	98.05

Societal Development Index Top Constituents by Weight

Portfolio is free-float market cap weighted, with a 5% maximum cap per company

Security Name	Index Weight	Sector Name	Region	Composite Score	Frontier Revenue Exposure	Final Composite Score
Microsoft Corp	5.00%	Technology	DNA	89.15	0.0%	89.15
Bank of America Corp	5.00%	Financial Services	DNA	87.79	0.0%	87.79
Nestle SA Reg	4.76%	Consumer Defensive	DEU	81.57	0.0%	81.57
Pfizer Inc	3.99%	Healthcare	DNA	75.55	0.4%	75.55
Intel Corp	3.44%	Technology	DNA	84.96	0.0%	84.96
Cisco Systems Inc	3.38%	Technology	DNA	84.75	0.5%	84.75
PepsiCo Inc	3.05%	Consumer Defensive	DNA	63.85	0.0%	63.85
Ericsson L.M. Telefonaktie	2.81%	Technology	DEU	84.65	2.4%	95.23
Merck & Co Inc	2.77%	Healthcare	DNA	66.78	2.4%	75.13
3M Co	2.56%	Industrials	DNA	72.50	0.8%	72.50

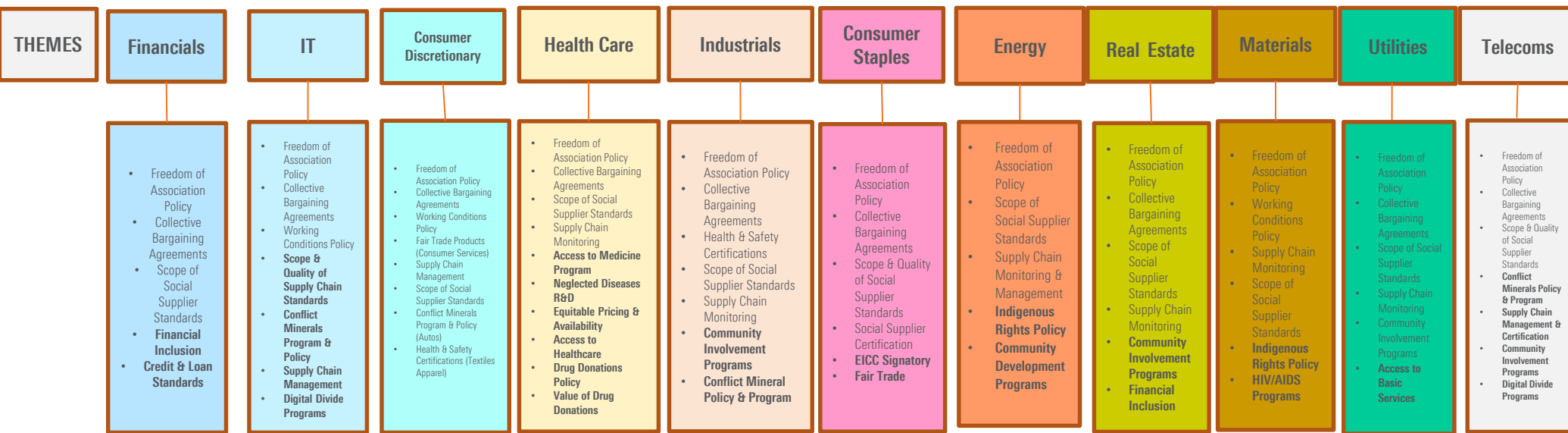
Appendix

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Indicators by Sector

EXCLUDED SECTORS*

Tobacco, Alcohol, Weapons, Gambling, Pornography, Nuclear Energy



Thematic universe

+

BONUS

Adherence to UN Global Compact (approx. 9,000 companies)

Index

* CONTROVERSIAL PRACTICE EXCLUDED: Child labor | Violation of human and labor rights | Violation of UN conventions | Access to medicine worst performer |

Sustainalytics Research Process

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Who is Sustainalytics

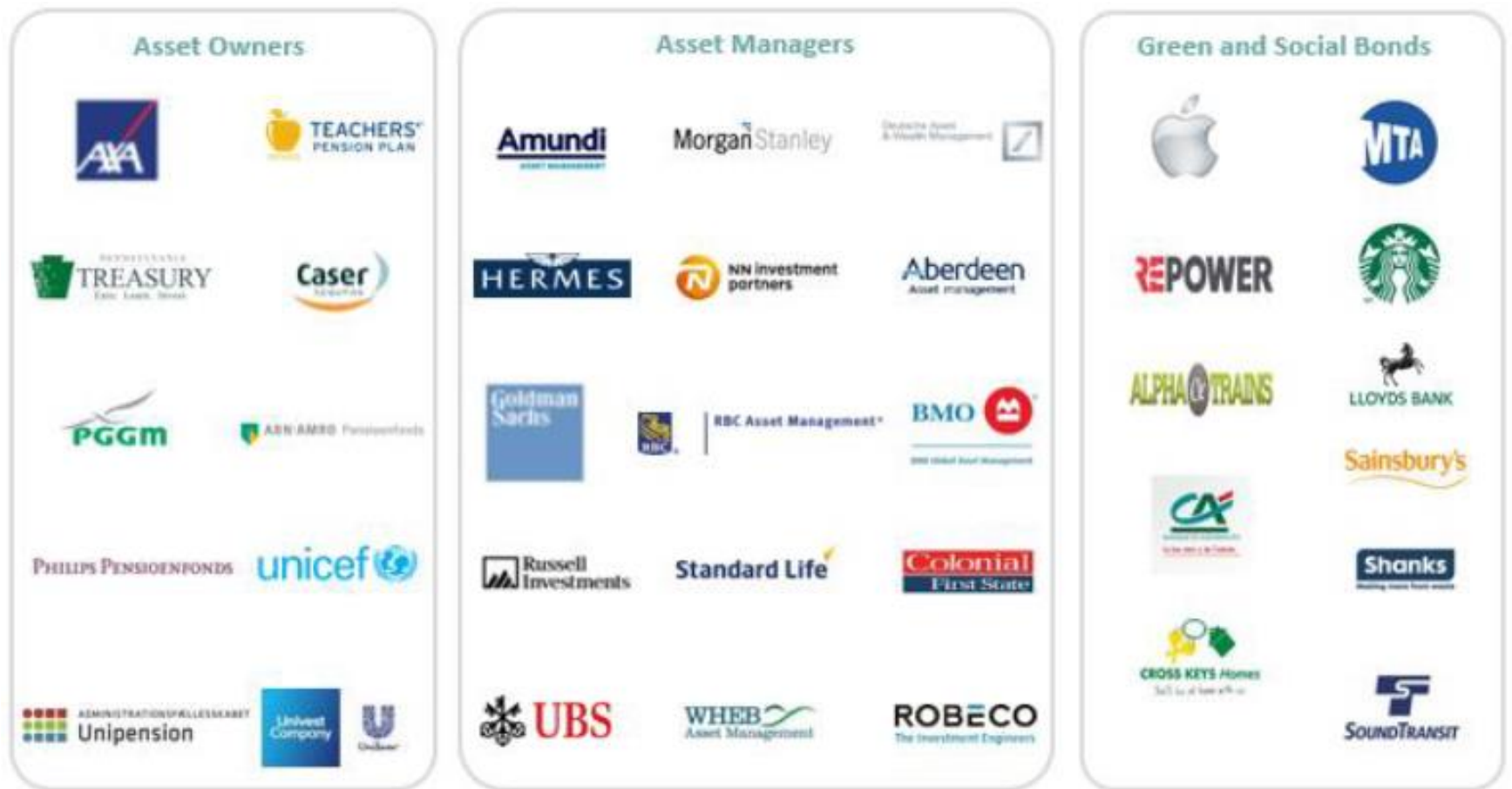
- » Sustainalytics is the largest pure-play investment research and ratings provider dedicated to RI and ESG research
- » 25 years of experience in the fields of ESG & corporate governance research & analysis
- » Over 350 professional staff with more than half engaged in research
- » Offices around the globe, providing local market knowledge



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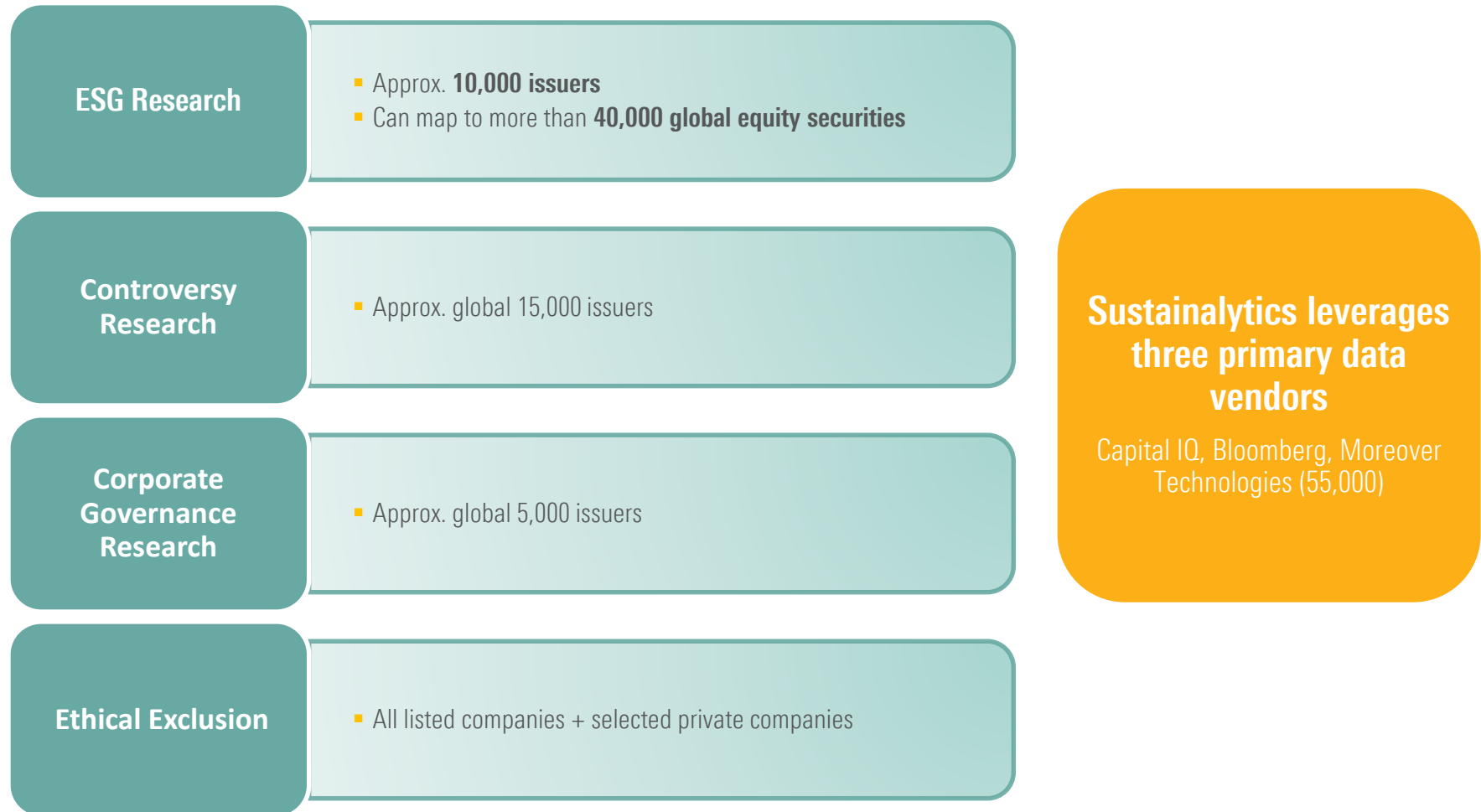
Representative Clients

A globally diversified and respected set of clients



Sustainalytics Coverage Universe

Sustainalytics applies a robust management of historical ratings and underlying datasets:



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Insightful Analysis

Transparent and large data set

Transparent research and analysis on a large data set, including historical data



Identifying key ESG issues at company and portfolio level
Track fund ESG performance against a benchmark and over time

Timely

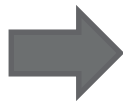
Daily monitoring of ESG incidents



Informed in a timely manner of ESG incidents as they occur, including an analysis of the impact on stakeholders
Respond to client questions with in-depth analysis of topical issues and companies

Insightful

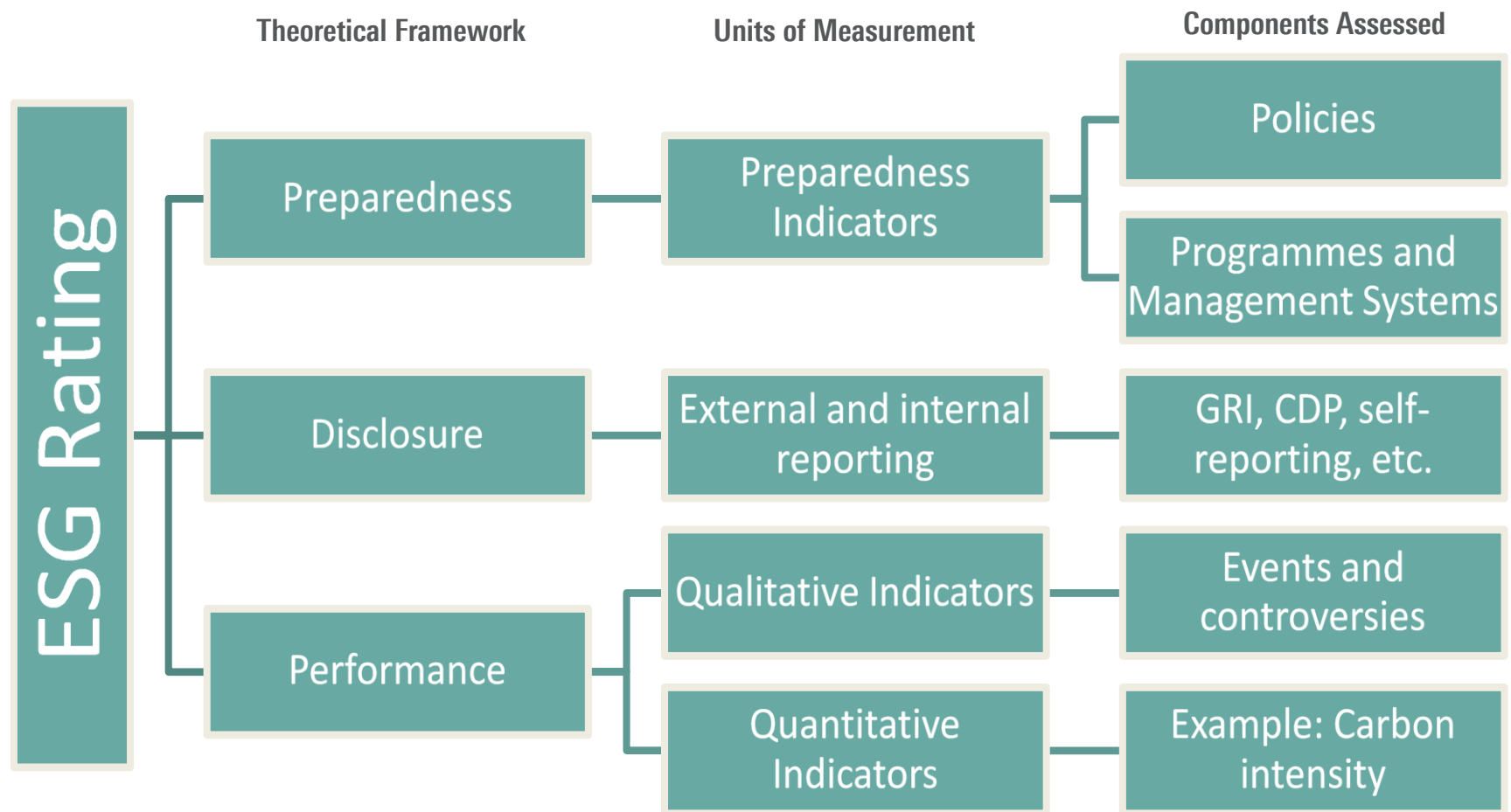
In-depth analysis of the most important ESG issues at the company and sector level



Focus on the most material ESG issues across sectors
Provide analysts and portfolio managers with additional tools to enhance their company analysis
Direct access to a large team of analysts

Sustainalytics ESG Rating Framework

A rating framework focused on multiple aspects of ESG risk management



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Company Research Process

A. Annual Review



Sources

- » Public corporate reporting and filings
- » 55,000 media sources via Moreover Technologies (Lexis Nexis)
- » Third-party sources (specialized providers, industry publications, renowned NGOs)

Analysis

- » Industry-teams conduct rating review
- » Stringent Quality Management
- » Company feedback deemed essential

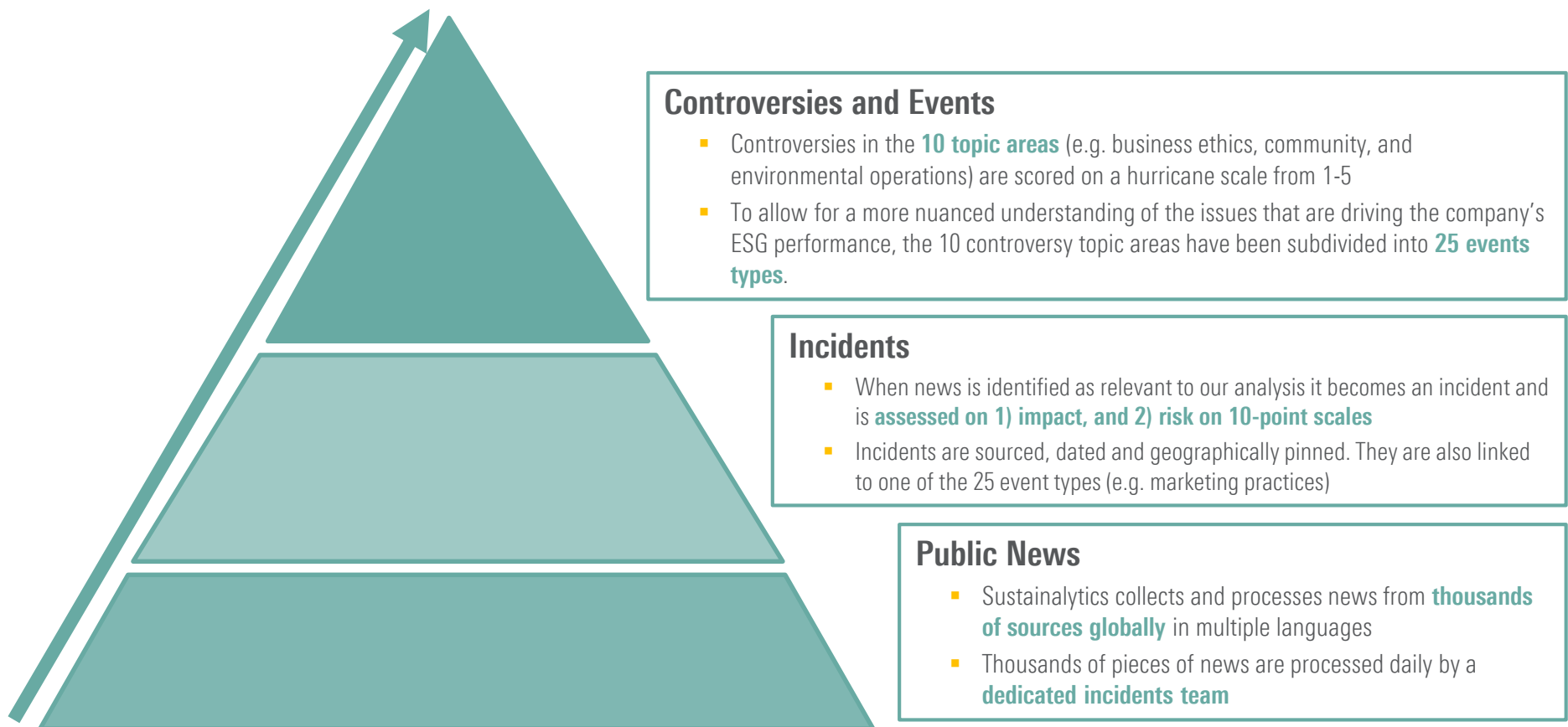
B. Daily News Monitoring



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Controversy Assessment Process

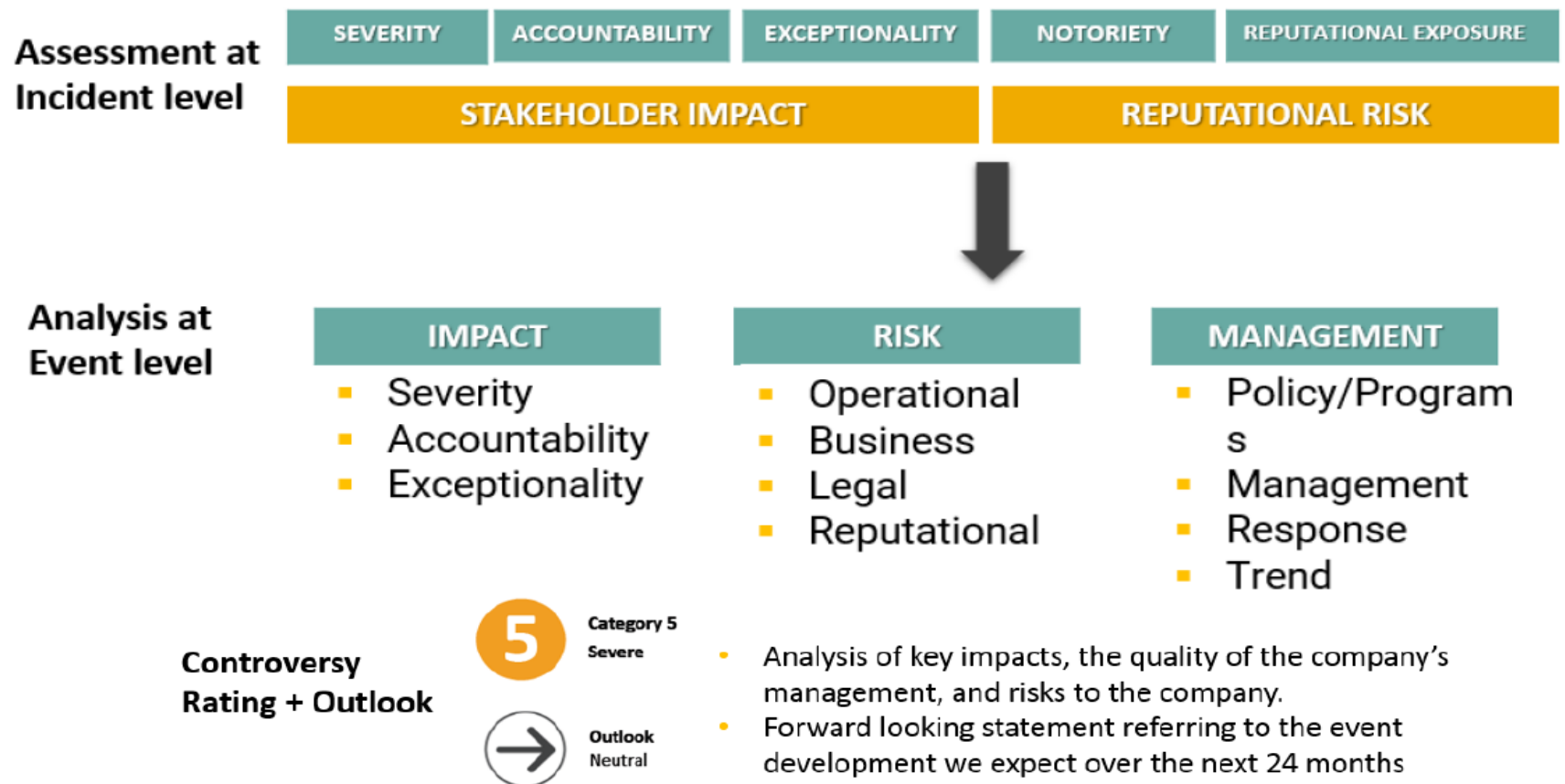
Data is analyzed as it evolves from news to incidents, to event types, and then to controversies, to uncover insightful information



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Controversy Assessment Process

Controversies often point to operational and reputational risk, especially when systemic, recurrent or exceptional in nature or company responsiveness is inadequate.



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Controversy Assessment

