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# STOXX<sup>®</sup> ESG INFORMATION GUIDE

Creating an Investment  
Intelligence Advantage

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# STOXX® ESG INFORMATION GUIDE

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# 1. INTRODUCTION

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The STOXX ESG Information Guide provides a brief introduction to some of the third-party datasets STOXX uses in the ESG space.

# 2. CHANGES TO THE GUIDE BOOK

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## 2.1 HISTORY OF CHANGES TO THE GUIDE

» November 2020: Publication of the ESG Information Guide

# 3. 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:

- » 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.

# 4. 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

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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.

## 5.1 ESG RATING

Sustainalytics' ESG Ratings measure how well companies proactively manage the environmental, social and governance issues that are the most material to their business. The research framework broadly addresses three themes: Environmental (E), Social (S) and Governance (G). Focus is set on key ESG issues that vary by industry, ESG issues that are the most material areas of exposure and therefore define key management areas for the company.

Sustainalytics defines a set of indicators within each of these E, S and G themes, and companies are scored from 0 to 100 based on their performance in each indicator. The companies' E, S, G and overall ESG Scores are then derived from the sum of the weighted average of the underlying indicator scores.

ESG Rating and ESG Score are used interchangeably in the STOXX methodology guides as well as other materials.

## 5.2 INDICATOR NAMES

### 5.2.1 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
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

## 5.2.2 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
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

### 5.2.3 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

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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

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# 6. APPENDIX: INDUSTRY CLASSIFICATION

## 5.3 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