



# **THE ETHIBEL SUSTAINABILITY INDICES (ESI) GUIDELINES**

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# 1 INTRODUCTION

## 1.1 The Ethibel Sustainability Indices (ESI)

The Ethibel Sustainability Indices (ESI) were established in June 2002 and have since been heralded as an important standard or benchmark for corporate sustainability and socially responsible investment (SRI).

The ESI indices are owned by Vigeo SA ([www.vigeo.com](http://www.vigeo.com)), following the merger of Stock at Stake SA (formerly associated with Ethibel ASBL) and Vigeo SA at the end of 2005. The sustainability value and ethical composition of ESI Indices are managed by Forum ETHIBEL ASBL ([www.ethibel.org](http://www.ethibel.org)).

As the leading European Corporate social Responsibility Ratings Agency, Vigeo measures the organisations' CSR commitments, identifies extra-financial risks and their level of management. Vigeo provides two services:

- SRI analysis, ratings and benchmarks for investors and asset managers
- CSR audits for companies and local governments

As an independent association for socially responsible investing, Forum ETHIBEL promotes 'Socially Responsible Investing' (SRI) in Belgium and Europe. Forum ETHIBEL encourages dialogue between companies, governments, unions, NGO's and investors. The search for a fair balance between economic progress, environmental protection, and social justice constitutes the core of so called 'Corporate Social Responsibility' (CSR). Forum ETHIBEL provides specific instruments and labels to support investors in their search for SRI products, including the the ETHIBEL PIONEER label and the ETHIBEL EXCELLENCE label, the Ethibel Sustainability Indices and Forum ETHIBEL verifications and certificates.

The European quality label for SRI "ETHIBEL" was originally registered as a collective trade mark for SRI funds for the Benelux (registration number 00776476) and later on extended for all countries of the European Union (registration number 881953). The international Het international registration number is 795783.

The composition of the ESI Excellence indices is based upon the Ethibel Excellence Register, which is based upon Vigeo research but defined independently by Forum ETHIBEL

The Ethibel Sustainability Index (ESI) groups two indices:

- ESI Excellence Global and
- ESI Excellence Europe

The ESI Excellence Global and the ESI Excellence Europe are calculated as price indices and as total return indices. The Total Return Excellence Global is gross, whereas the Total Return Excellence Europe is net of withholding taxes.

The ESI Excellence Europe is calculated in two ways: without multipliers and with sectoral multipliers. The purpose of the multipliers is to narrow the gap between the sectoral breakdown of the market capitalisation of the ESI Excellence Europe and the same breakdown in the 1000 biggest listed European companies by market capitalisation.

### List of ESI indices

	Without multiplier, price index	Without multiplier, Total gross return index	Without multipliers, Total net return index	With multipliers, price index	With multipliers, total return Total net return index	With multipliers, total net return index, hedged
ESI Excellence Europe	X		X	X	X	X
ESI Excellence Global	X	X				

The ESI Indices are calculated and disseminated by IEM Finance, which is a leading specialist of stock indices in Europe ([www.iem-finance.com](http://www.iem-finance.com)).

## 1.2 The Philosophy Behind the Indices

Forum ETHIBEL classifies SRI investment funds (or indices) into four generations. This classification reflects an (historical) evolution in the research of companies, from a narrow moralistic view to a global concept of corporate responsibility and sustainability.

- The *first generation* consists of funds that apply negative criteria only, for instance no investments in tobacco, arms, nuclear energy, etc.
- The *second generation* applies positive criteria on a limited number of positive criteria, hence involving a limited scope of corporate responsibility, e.g. ‘green funds’ or environmental technology funds.
- The *third generation* applies positive criteria on all fields of corporate responsibility, which are the environmental, internal social, ethical-economic and external policy.
- SRI investment funds of the *fourth generation* apply the same type of criteria as funds of the third generation, but they distinguish themselves by the systematic use of stakeholder involvement in research and assessment of companies, by strong internal quality control procedures and finally by a balanced evaluation, independent of both research and fund management.

Forum ETHIBEL has chosen to promote the fourth generation of investment funds and indices.

Thanks to thorough research by Vigeo and an independent evaluation by the Register Committee, Forum ETHIBEL is able to select those companies that comply with a broad view on the concept of corporate social responsibility. Selected companies become part of the Ethibel investment universe (the Ethibel Registers). The Ethibel Registers are divided into two categories: the Pioneer Register and the Excellence Register.

To support the promotion of these fourth generation investment funds, Forum ETHIBEL has created in the mid nineties the Ethibel Label system, a European collective quality label for sustainable investing. This Label is only awarded to funds using the Ethibel Registers as investment universe. In addition, the launch of the Ethibel Sustainability Indices, back in June 2002, provides a solid SRI benchmark for (institutional) investors based on the work done for the Ethibel Label.

## 2 THE RESEARCH AND EVALUATION METHODOLOGY

### 2.1 Assessment and selection process

Forum ETHIBEL is continuously updating, monitoring and expanding the ETHIBEL Investment Register, which selects the best companies in the field of Corporate Social Responsibility, based on the systematic analysis of sectors and regions.

The research is carried out by VIGEO ([www.vigeo.com](http://www.vigeo.com)), responsible for data collecting and processing, performance rating and industry benchmarking.

The stock/bond selection is autonomously and independently executed by Forum ETHIBEL ([www.ethibel.org](http://www.ethibel.org)), responsible for assessments, rankings and the composition of the Ethibel Investment Registers (investable universe) and the Ethibel Sustainability Registers.

The international VIGEO team of researchers analyses companies against 37 criteria in 6 domains:

1. Human Rights
2. Human Resources
3. Environment
4. Business Behaviour
5. Corporate Governance
6. Community Impact

Assessments are further enriched through the consultation and communication with trade unions, environmental and human rights organisations, amongst others. Companies that are heavily involved in armament, gambling, tobacco and nuclear energy are excluded.

The final assessment, ranking and advice to the Board of Directors is made by the Register Committee, which is an international, independent panel of experts.

### 2.2 Negative criteria and exclusions

The screening model of Ethibel also consists of a cluster of criteria regarding controversial activities. The following activities are considered: *Armament, Gambling, Nuclear Energy, Tobacco, Hazardous Chemicals, the Sex-Industry, Genetically Modified Organisms(GMO's) in food and feed, Alcohol en Animal Maltreatment.*

Four of these activities are considered as exclusionary criteria: armament, gambling, nuclear energy and tobacco.

Companies with a major involvement in these activities are automatically excluded for the both ETHIBEL-labels. Involvement with the other controversial activities is carefully examined, but does not automatically lead to exclusion.

### 2.3 Positive scores

#### 2.3.1 Selection of companies

Based on industry surveys provided by VIGEO, Forum Ethibel classifies companies in 5 categories (rating scales):

- A:** Pioneers (outstanding and/or innovative in terms of CSR; only the very best companies are included here. For many industries, this category is empty)
- B:** Best in class companies

- C:** Companies that perform above average
- D:** Followers, companies performing beyond average
- E:** Laggards and/or non-transparent companies

Only those companies that score at least ‘average’, ‘well’ or ‘very well’ in all 6 VIGEO domains are presented to the "Register Committee".

### 2.3.2 *Ethibel PIONEER*

Companies that are classified “**A**” or “**B**” and that have no major involvement in negative criteria or on the level of disputable practices, are included in the Ethibel PIONEER Register that forms the basis for the Ethibel PIONEER label awarded to investment funds.

### 2.3.3 *Ethibel EXCELLENCE*

Companies that are classified “**A**” or “**B**” or “**C**” and that have no major involvement in negative criteria or on the level of disputable practices, are included in the Ethibel EXCELLENCE Register that forms the basis for the Ethibel EXCELLENCE label. If the thresholds (25% of the biggest listed companies by market capitalisation and 25% of the number of companies OR at least 5 companies) for ETHIBEL Excellence have not been reached, additional “**D**” companies might be added, based on a further integrated evaluation of the CSR performance and on the comments that were made on individual companies by the Register Committee.

## 2.4 The ETHIBEL labels

### 2.4.1 *The Ethibel PIONEER label*



Ethibel PIONEER focuses on leading companies and selects enterprises that are pioneers and trend setters in their industry on the level of Corporate Social Responsibility. At its launch in 1991, Forum ETHIBEL only promoted one quality label. In December 2004 Forum ETHIBEL launched a second label, the Ethibel EXCELLENCE label, and the original ETHIBEL-label was renamed Ethibel PIONEER.

## 2.4.2 The Ethibel EXCELLENCE label



Ethibel EXCELLENCE offers fund managers better prospects to keep a good balance between industries in their portfolios, without compromising the key objective, providing investment opportunities in strongly CSR performing companies. Ethibel EXCELLENCE goes along with the requirements of institutional investors, demanding balanced sector spreads and low risk profiles, combined with positive social and environmental considerations.

Ethibel EXCELLENCE includes all members of the Ethibel PIONEER Register, complemented with companies that perform better than average in their industry. In addition to this, companies that implemented important improvements or showing a potential for growing CSR performance, can be included into the Ethibel EXCELLENCE Register.

Ethibel EXCELLENCE offers 25% coverage of the biggest listed European companies by market capitalisation, except for the sectors 'Aerospace & Defence' and 'Tobacco'; supplemented with small, mid and micro cap companies. For non-European companies a same objective is in place, however without formal commitments or guarantees.

## 3 THE ETHICAL/SUSTAINABILITY MANAGEMENT OF THE ESI

### 3.1 The role of Forum ETHIBEL

#### 3.1.1 The Register Committee of Forum ETHIBEL

The Register Committee brings together academics in the field of corporate social responsibility, experts with a trade union background, environmentalists, human rights specialists and many others. They act in the committee in their personal capacity and in no way represent the organisations where they acquired their professional knowledge. The independent nature of this body guarantees a balanced evaluation of company profiles.

The Register Committee evaluates the quality of the company profiles and ratings provided by Vigeo and advises the Forum ETHIBEL Board of Directors on the company's eventual inclusion in the Ethibel Investment Register.

The Register Committee evaluates the company in an integrated way. This means that the company is considered as a whole and that all fields of corporate Social Responsibility and Sustainability are taken into account and are considered as equally important. For instance, a company with an outstanding performance in the field of environmental

policy but demonstrating substantial shortcomings in the field of human rights will not be approved.

The Register Committee evaluates the companies from a dynamic point of view, which means that the company's evolution in terms of Corporate Social Responsibility and Sustainability is taken into consideration.

The Register Committee also looks at the sector and regional context in which a company operates.

### 3.1.2 *The Board of Directors of Forum ETHIBEL*

The Board of Directors of Forum ETHIBEL can only approve companies for inclusion in the Ethibel Investment Registers on the basis of positive advice of the Register Committee. SRI funds with the Ethibel Labels may only invest in companies that are included in their respective Register.

The Forum ETHIBEL Board has the final responsibility and sole decision power to add or delete (as the case may be) a company, an organization or any product to the Ethibel Investment Register.

For the current composition of the members of both the Register Committee and the Board of Directors of Forum ETHIBEL, please check the website [www.ethibel.org](http://www.ethibel.org).

### 3.1.3 *Review Schedule*

The Ethibel Investment Registers form the backbone of Forum ETHIBEL's evaluation of SRI investment products. It is used to award the Ethibel Labels to SRI investment funds of the fourth generation that only invest in members of the Ethibel Investment Registers.

There is no fixed number of scheduled meetings a year for the Register Committee. Generally, the Register Committee will meet approximately 8 times in the course of one year. Shortly after these meetings, the proposed changes to the list of Register members are sent to the Board of Directors of Forum ETHIBEL.

## 3.2 **Composition of the Indices**

Only members of the **Ethibel Investment Registers** are deemed to be a candidate for inclusion in the ESI indices.

The number of constituent companies in the **ESI Excellence Europe**, is fixed at 200. It is, however, important to note that the number of constituents at any one time may temporarily fall below 200 (i.e. when a company is removed in between one of the scheduled ESI review meetings).

There is no fixed number of constituent companies in the **ESI Excellence Global**.

## 4 CALCULATION OF THE INDICES

### 4.1 Introduction

Ethibel Sustainability Indices are calculated with the Laspeyres formula, which measures price changes against a fixed base quantity weight. Each index has a unique index divisor, which is adjusted to maintain the continuity of the indices' values across changes due to corporate actions.

Ethibel Sustainability Indices are calculated in EUR.

### 4.2 Input data

The input data sources for the calculation of ESI indices include:

- Closing stock prices disseminated by exchanges,
- Information on corporate actions and corporate events disseminated by exchanges, by market authorities, by the concerned companies, and by specialised service providers
- Exchange rates taken from the Reuters multi contributor pages at 15:00 GMT

### 4.3 Dividend Treatment

Dividends taken into account for the calculation of the total gross return indices are the dividends declared by the concerned companies.

Dividends taken into account for the calculation of the total net return indices are the dividends declared less withholding tax.

### 4.4 Free Float Market Capitalisation

Ethibel Sustainability Indices are free-float market-capitalisation weighted. The free float factor is the percentage of shares remaining after subtraction of any holding superior to 5% of the capital, other than holdings of investment funds, pension funds and trustees companies.

### 4.5 Multipliers

The ESI Excellence Europe is calculated in two ways: without multipliers and with multipliers.

A multiplier is a coefficient by which the weights of all index constituents belonging to a given sector are multiplied for the calculation of the index. A multiplier is calculated as to equalize the relative weight of such sector in the total market capitalisation of the index portfolio and the weight of the same sector in the market capitalisation of the 1000 biggest listed European companies by market capitalisation.

However, whenever the result of this calculation is comprised between 0.9 and 1.1 for a given sector, no multiplier is applied to that sector. Furthermore, multipliers are capped at 1.5 and floored at 0.5.

Multipliers are calculated every year as part of the annual review and they remain unchanged until the next annual review.

## 4.6 Hedging

A currency-hedged index replicates the strategy of a portfolio manager in the euro area that would eliminate the risk of non-euro currencies (GBP, CHF, SEK, NOK and DKK in the case of Ethibel excellence Europe) fluctuation by selling every month 1-month forward contracts.

The profit and loss on any currency in the portfolio is counterbalanced by the profit and loss made on the forward on the same currency. Thus, the hedged index is not exposed to currency variations. But it bears the cost of the hedging strategy due to the bid-ask spread of the forward contract.

## 4.7 Data accuracy

The data accuracy for the calculation of ESI indices is:

- Index divisors: rounded to 5 decimal places
- Free float factors: rounded to 4 decimal places
- Multipliers: rounded to 0.05.
- Index levels: rounded to 6 decimal places

## 4.8 Base Dates & Base Values

The base of Ethibel Sustainability Indices is 1000 (as of December 31,1997).

# 5 MANAGEMENT AND REVIEW OF THE INDICES

## 5.1 Management of the Indices

### 5.1.1 *Juridical responsibilities*

The Board of Directors of Forum ETHIBEL is responsible for the management and conformity rules and regulations of the ESI Guidelines and for the ratification of all Index changes.

### 5.1.2 *Technical management*

The Ethibel Index Committee is a technical and consultative body to the Board of Directors of Forum ETHIBEL. Its duties are solely technical.

The Index Committee is composed of the responsible of IEM Finance, managing the calculations + a representative of Vigeo + the Director of Forum ETHIBEL.

The role of the ESI Committee is to:

- i) Make the ESI Guidelines operational and to establish the framework for the advice process;
- ii) Manage the scheduled periodic review meetings;
- iii) Implement additions to and deletions from the index;
- iv) Control and disseminate information to the public;
- v) Decide on responses between scheduled meetings;
- vi) Engage with corporations or stakeholders in case of contentious issues;
- vii) Prepare and validate methodological changes; and to
- viii) Anticipate the on-going evolution and development of the indices.

The ESI Committee deals with these tasks and reports to the BoD of Forum ETHIBEL on a daily and on-going basis. In addition, it meets formally at periodic review meetings to formulate its advices.

## 5.2 Introduction to the Review Process

The Ethibel Sustainability Indices are subject to scheduled annual and half-yearly reviews as well as on-going monitoring throughout the year.

Any changes to the Ethibel Investment Registers, which would have an impact on a company's inclusion or exclusion from the Ethibel Sustainability Indices will be implemented at a scheduled annual or half-yearly review.

## 5.3 Annual review

### 5.3.1 Methodology Review

An annual review conducted every September will focus on an assessment and review of the Ethibel Sustainability Indices methodology (i.e. the selection process – criteria, ratings and scorings etc.).

### 5.3.2 Selection Review

In order to reinforce the Forum Ethibel focus on promoting sustainability, the annual review will include a global assessment and review of the performance of all of the companies included in the financial benchmark index.

#### Rules applying to the ESI Excellence Europe:

- Remove companies that are included in the index but are no longer on the list of the Ethibel Investment Register at the date of the review.
- Add new constituents in the index by decreasing order of Ethibel Investment Register (A, B, C) until the number of constituents in the index is 200. A company with a market capitalisation inferior to 0.05% of the total market capitalisation of the index portfolio cannot be included in the list of constituents.
- Rule of decision if equality: Within a given category (A, B, C), the company to be selected first is the one (i.e. ahead of other companies in the same category) whose selection has the greatest effect in reducing the sum of absolute industry sector gaps (in percentage of the total market capitalisation of the index) between the ESI Excellence Europe and the 1.000 biggest listed European companies by market

capitalisation. This process may be iterated if several companies have to be selected among companies in the same category.

#### Rules applying to the ESI Excellence Global:

- Remove companies that are included in the index but are no longer on the list of the Ethibel Excellence Register as of the date of the review.
- Remove companies with a free float market capitalisation inferior to 5 million EUR
- Include in the index companies which are members of the Ethibel Investment Register in category “A” (Pioneers) or “B” (“Best services in their industry”) and whose free float market capitalisation is superior to 10 million EUR.

#### 5.3.3 *Review Dates*

The results of the annual review process and any changes to the Ethibel Sustainability Indices constituents will be announced on the third Friday of September. Implementation of any changes to the ESI indices will be based on the closing share price on the first Friday of October and will become effective on the next trading day.

### 5.4 Half-yearly Review

A half-yearly review conducted in March focuses on selecting or removing companies from the Ethibel Sustainability indices on the basis of the Ethibel Investment Register and any changes thereto.

#### 5.4.1 *Selection Review*

Rules applying to the half-yearly review are the same as for the annual review.

#### 5.4.2 *Review Dates*

The results of the semesterly reviews and any changes to the Ethibel Sustainability Indices constituents (additions or deletions) will be announced on the first Friday of March.

Implementation of any changes to the Ethibel Sustainability Indices will be based on the closing share price on the third Friday of March and will become effective on the next trading day.

### 5.5 On-going Review and Maintenance

On-going monitoring of companies within the universe will allow for the incorporation of any scheduled or unscheduled changes (i.e. corporate changes), which occur between the scheduled annual or half-yearly reviews.

#### 5.5.1 *Spin-offs*

If a company is spun-off, and if the parent company remains in the Ethibel Investment Register financial universe, then the company stays included within the Ethibel Sustainability Indices unless the Board of Directors of Forum ETHIBEL decides otherwise

at least seven days before the merger becomes effective. For that purpose, IEM Finance transmits to Forum ETHIBEL the information about any project of merger or acquisition concerning constituents of ESI indices falling in that case, as soon as it receives the information.

They will then become eligible at the first half-yearly or annual review.

### 5.5.2 *Mergers and Acquisitions*

If total market capitalisation of a merging company -company A- exceeds, at the time of the merger, four times that of each of the other companies merging with it, the resulting merged entity remains an ESI component if company A was an index component prior to the merger. If none of the merging companies market capitalisation reaches this ratio, following rules apply:

a. Two (or more) companies were previously included in the Ethibel Sustainability Indices index: In such a case, the newly merged company is included in the Ethibel Sustainability Indices following a minimum notification period of one trading day.

b. None or only one of the companies were previously included in the Ethibel Sustainability Indices: in such a case, the newly merged company will not be included in the Ethibel Sustainability Indices, unless the Board of Directors of Forum ETHIBEL decides otherwise at least seven days before the merger becomes effective. For that purpose, IEM Finance transmits to Forum ETHIBEL the information about any project of merger or acquisition concerning constituents of ESI indices falling in that case, as soon as it receives the information.

## 6 DISSEMINATION OF THE INDICES

### 6.1 Introduction

The Ethibel Sustainability indices are disseminated via emails sent to clients and they will be available on Vigeo Website ([www.vigeo.com](http://www.vigeo.com)) and IEM Finance website ([www.iem-finance.com](http://www.iem-finance.com)).

Companies included in the ESI indices and any changes to the ESI indices universes are publicly disclosed and available to all interested parties at [www.vigeo.com](http://www.vigeo.com).

### 6.2 Index Dissemination Period

Ethibel Sustainability Indices data of each trading day is disseminated on the following trading day before 12:00.