



# Jantzi Social Index Methodology Update

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## INTRODUCTION

The Jantzi Social Index® (JSI®) is a free-float market capitalization-weighted common stock index consisting of 60 Canadian companies that pass a set of broadly based environmental, social and governance (ESG) screening criteria. In creating the JSI in 2000, Jantzi Research, now Sustainalytics, sets out to create an index that could be used by institutional investors in benchmarking the performance of socially-screened portfolios and by financial institutions in developing investment products such as index mutual funds, exchange traded funds, index portfolios, index futures and options.

## THE JSI ELIGIBLE UNIVERSE

The Jantzi Social Index's underlying universe is the TSX Composite Index, to which Sustainalytics applied a set of exclusionary criteria, described below, in order to create the eligible universe for the JSI.

### EXCLUSIONARY CRITERIA

There are two types of exclusionary criteria: *product involvement* and *major negative ESG impact*.

#### PRODUCT INVOLVEMENT

Product involvement criteria cover products and services that are considered by many social investors to be controversial due to their negative impact or potential impact on society. A company that meets any of the criteria below will be ineligible for the JSI:

1. Military Contracting
  - The company manufactures military weapons and/or weapons systems;
  - The company derives 5 per cent or more of annual revenues from the manufacture of secondary components of weapons or weapons systems, or from weapons-related services.
2. Nuclear Power
  - The company produces nuclear power;
  - The company derives 5 per cent or more of annual revenues from products or services that support the nuclear power industry.
3. Tobacco
  - The company manufactures tobacco products;
  - The company derives 5 per cent or more of annual revenues from the supply of tobacco-related products;
  - The company derives 10 per cent or more of its revenues from the distribution and/or retail sale of tobacco products.

#### MAJOR NEGATIVE ESG IMPACT

This criterion identifies companies that are having a major negative impact on stakeholders. Sustainalytics assesses the impact of corporate controversies and incidents using a scale from 1 to 5, whereby the most significant controversies are rated as "Category 5."

Companies with one or more Category 4 or 5 controversy assessments are ineligible for the JSI.

## THE JSI ANNUAL REVIEW

The JSI will be reviewed annually in February using data at the close of business on the last business day in January. The changes resulting from the annual review will be announced after the close of business on the first Friday in March and will become effective at market open on the Monday after the third Friday in March.

There will be a limit on changes to the index resulting from the annual review with the cap on replacements being the larger of: 1) six companies or 2) 10 per cent of the free-float market capitalization of the index.

During the annual review process, changes will be made to meet the following goals for the index:

1. To include companies with leading sustainability performance
  - Companies with better performance according to Sustainalytics' Best-of-Sector™ methodology (in which each company's ESG performance is evaluated in comparison to its industry peers) are selected for the index.
  - During the annual review process, changes may be made to remove companies from the index whose ESG performance is lagging and add companies to the index whose performance is leading according to Sustainalytics' methodology to ensure the best possible overall sustainability performance for the index while taking the two other goals into consideration.
2. To ensure investability
  - When selecting companies for inclusion in the JSI, the Index Committee endeavors to ensure that overall investable market capitalization of the JSI remains close to or above 75 per cent of the S&P/TSX 60's market capitalization;
  - During the annual review process, changes may be made to increase the capitalization of the index while taking the other two goals into consideration.
3. To maintain sector weights close to those in the TSX Composite Index
  - When selecting companies for inclusion on the JSI, the Index Committee endeavors to ensure that, on a normalized basis, individual JSI industry sectors are not over or under weighted by more than 5 per cent when compared to the sector weightings of the S&P/TSX 60;
  - During the annual review process, changes may be made to move the JSI sector weights closer to those of the S&P/TSX 60, while taking the other two goals into consideration.

## REMOVAL AND REPLACEMENT BETWEEN ANNUAL REVIEWS

Companies will be removed from the index in between annual reviews if they are deleted from the TSX Composite Index or if they meet the exclusionary criteria outlined above. The following section outlines the implications of corporate actions for companies listed on the JSI. An announcement of a company replacement will be made within three business days of the discovery of any occurrence that will result in a removal.

### DELISTING AND FINANCIAL DISTRESS

A stock will be removed from the JSI if it is delisted from its stock exchange, enters bankruptcy, becomes insolvent or is liquidated. If an existing constituent is acquired for cash or ineligible paper, or by a non-quoted company in its own or another country, then the existing constituent will be removed on the effective date of the acquisition.

### MERGERS AND TAKEOVERS

If a constituent is acquired by a non-constituent, the company will be removed from the JSI. Where two index constituents merge, or one index constituent is acquired by another constituent, the resulting new company will be eligible for inclusion in the JSI. However, in the case where a constituent company acquires a non-constituent, the company will remain on the JSI unless it meets the exclusionary criteria as a result of the acquisition.

## SPIN OFFS

In the event that a constituent company of the JSI is split, only one of the two the securities resulting from the split will remain in the index. Should they both meet the ESG criteria for inclusion, the company with the larger investable market capitalization will be selected for inclusion.

## SUSPENSION OF DEALING

If a constituent is the subject of a suspension, it may remain in the index at the price at which it is halted for up to 10 business days. If a suspension of a constituent lasts beyond noon on the tenth business day, the constituent will normally be deleted from the index on the eleventh trading day at zero or the trading halt price.

A company whose trading halt is lifted after it has been removed from the JSI will be reviewed for index eligibility during the next annual review.

## INDEX GOVERNANCE

### 1. INDEX COMMITTEE

The JSI is maintained by the Sustainalytics JSI Committee, which is composed of four members and is chaired by Sustainalytics' Chief Operating Officer, Bob Mann.

The Committee is responsible for setting rules and policies for the JSI, determining the composition of the JSI and administering the methodology. In fulfilling its responsibilities, the Committee has full and complete discretion to amend, apply or exempt the application of the methodology and other JSI policies as circumstances may require, and add, remove or by-pass any security in determining the composition of the index. JSI corrections and changes to index composition will be implemented at such time and in such manner as the Committee deems appropriate.

The timing of any JSI change made in response to a correction shall be at the sole and absolute discretion of the Committee. All JSI Committee discussions are confidential.

### 2. ANNOUNCEMENTS

Announcements of additions or deletions and monthly returns for the Jantzi Social Index are posted on Sustainalytics' website (<http://www.sustainalytics.com/news-events/press-releases>) and are distributed to media and other contacts.

### 3. INDEX DISSEMINATION

Dow Jones Indexes is the distributor of real-time data. In addition, JSI levels are available through major quote vendors and through numerous investment-oriented websites.

## INDEX DATA

### TOTAL RETURN INDICES

A total return index series is calculated for the JSI as well as the price return series.

The total return calculation includes stock dividends paid in kind, stock dividends paid with the securities of an issuer other than the issuer declaring such dividend, rights distributions, and cash distributions less than four per cent of the underlying stock price based on the last traded board lot.

A dollar value is calculated for the distribution to be used in the total return index calculation.

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