



# Jantzi Social Index Methodology



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## INTRODUCTION

The Jantzi Social Index® (JSI®) is a market capitalization-weighted common stock index consisting of 60 Canadian companies that pass a set of broadly based environmental, social and governance (ESG) rating criteria. In creating the JSI, Jantzi-Sustainalytics set out to create a benchmark against which institutional investors could measure the performance of socially-screened portfolios. The JSI was also designed to be liquid and to support investment products such as index mutual funds, exchange traded funds, index portfolios, index futures and options. The JSI does not presume to represent the only 60 companies in Canada that meet its ESG criteria.

### INDEX CONSTRUCTION

In deciding upon specific ESG rating criteria for the JSI, Jantzi-Sustainalytics considered several underlying questions, including:

- Is each ESG rating criterion researchable?
- Is each ESG rating criterion measurable?
- Does the ESG rating framework reflect the current state of socially responsible investing (SRI) in Canada?
- Does the ESG rating framework reflect recent developments in SRI in Canada and internationally?
- Are there business, corporate social responsibility and/or scientific foundations for each ESG rating criterion?

In developing the ESG framework for the index, Jantzi-Sustainalytics used in-house expertise and also created an advisory committee to provide assistance. The JSI advisory committee was comprised of six individuals, each of whom brought knowledge of, and commitment to, SRI and corporate social responsibility.

Once the rating framework was developed, Jantzi-Sustainalytics set out to determine which companies would be included in the index. Jantzi-Sustainalytics used the JSI criteria to identify companies, whose records in the areas of community, corporate governance, customers, employees, environment and/or human rights were poor on balance, rendering those companies ineligible for inclusion in the index. The criteria were also used to ensure that no company with significant involvement in the production of military weapons, nuclear power or tobacco products would become part of the JSI.

This process began with analysis of the ESG records of the S&P/TSX 60 companies. Seventeen companies were eliminated from JSI contention during this process. Jantzi-Sustainalytics then analyzed the companies in the S&P/TSX Composite Index (then the TSE 300) that were not part of the S&P/TSX 60 and selected companies that met the JSI rating criteria. The selection process also considered market capitalization and industry in order to ensure suitability with respect to liquidity and sector representation.

## INDEX QUALIFICATION CRITERIA

The Jantzi Social Index's screening framework includes three types of criteria: exclusionary criteria, qualitative ESG criteria and financial criteria.

### EXCLUSIONARY ESG CRITERIA

Exclusionary ESG criteria cover areas of business activity that are considered by many social investors to be controversial. The JSI's exclusionary criteria address three such areas:

- Military Weapons
- Nuclear Power
- Tobacco

The applications of these criteria are based on a threshold of involvement that is defined in terms of percentage of total annual revenues derived from such activities. If a company meets any of the exclusionary criteria, it is not eligible for the JSI.

### QUALITATIVE ESG CRITERIA

The qualitative ESG criteria used to assess companies are based largely on understanding how their operations impact the organization's stakeholders. This approach provides a framework for representing the interests of all of the groups affected, whether positively or negatively, by a company's operations. The qualitative areas of interest or concern included in the JSI criteria are: Community and Society, Corporate Governance, Customers, Employees, Environment and Human Rights.

Once a company's ESG impacts are understood, Jantzi-Sustainalytics uses its *Best-of-Sector™* methodology (evaluating each company's record in comparison to its industry counterparts) to understand its overall ESG performance. Recognizing that companies often face ESG challenges inherent to the nature of their operations, this approach evaluates performance against best practices in each industry.

Companies that, on balance, have poor records compared to their industry counterparts based on the qualitative criteria are not eligible for the JSI.

### FINANCIAL ELIGIBILITY CRITERIA

To be eligible for inclusion in the JSI a security must meet the following two criteria:

1. Based on the volume weighted average price over the last three trading days of the month-end prior to the Semi-Annual reviews, the security must represent a minimum weight of 0.05 per cent of the index, after including the Quoted Market Value of that security in the total float capitalization of the index.
2. The security must have a minimum volume weighted average price of C\$ 1 over the last three trading days of the month-end prior to the Semi-Annual reviews.

## PERIODIC REVIEW OF CONSTITUENTS

The JSI will be reviewed semi-annually in February and August using data at the close of business on the last day in January and July respectively. The semi-annual review will be implemented after the close of business day on the third business day in February and August.

Details of the outcome of each periodic review will be announced as soon as possible in February and August.

### 1. DELETIONS FROM THE INDEX SERIES

At the periodic review, an existing constituent of the JSI that has an investable market capitalization (after the application of investability weightings) of less than 0.05 per cent of the total investable market capitalization of the index will be removed.

Jantzi-Sustainalytics also undertakes a comprehensive ESG review of the JSI constituents each August. If at the time of review, a company's ESG performance is in the bottom quartile of its sector, the JSI Index Committee will review the company to determine if it should be removed from the JSI. If a company is removed for ESG reasons, Jantzi-Sustainalytics will not add it back for a period of at least two years.

## 2. ADDITIONS INTO THE INDEX SERIES

In selecting companies to add to the JSI, Jantzi-Sustainalytics considers three primary factors.

1. The ESG performance of companies.
2. The market capitalization of companies.
  - When selecting companies for inclusion in the JSI, the Index Committee endeavors to ensure that overall investable market capitalization of the JSI remains at least 75 per cent of the S&P/TSX 60's market capitalization
3. A company's impact on the JSI's sector weighting relative to the S&P/TSX 60 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 Index.

## DELETIONS AND ADDITIONS OUTSIDE OF THE PERIODIC REVIEW PROCESS

### DELETIONS

A stock will be deleted from the list of constituents when the constituent 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 is deleted 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 resultant security will remain on the JSI.

### 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 continue to be included 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 at the next semi-annual review.

## INDEX GOVERNANCE

### 1. INDEX COMMITTEE

The JSI is maintained by the Jantzi-Sustainalytics JSI Committee. The Committee is comprised of four members and is chaired by Jantzi-Sustainalytics' president. The three remaining members are Jantzi-Sustainalytics' (i) Managing Director/Director of Research (ii) Managing Director of North American Operations (iii) Jantzi Sustainalytics' Index Analyst.

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/deletions and monthly returns for the Jantzi Social Index are posted on the Jantzi-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 on Jantzi-Sustainalytics' website (<http://www.sustainalytics.com/indexes>), 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 4 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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