



Fundata ESG Ratings

Methodology

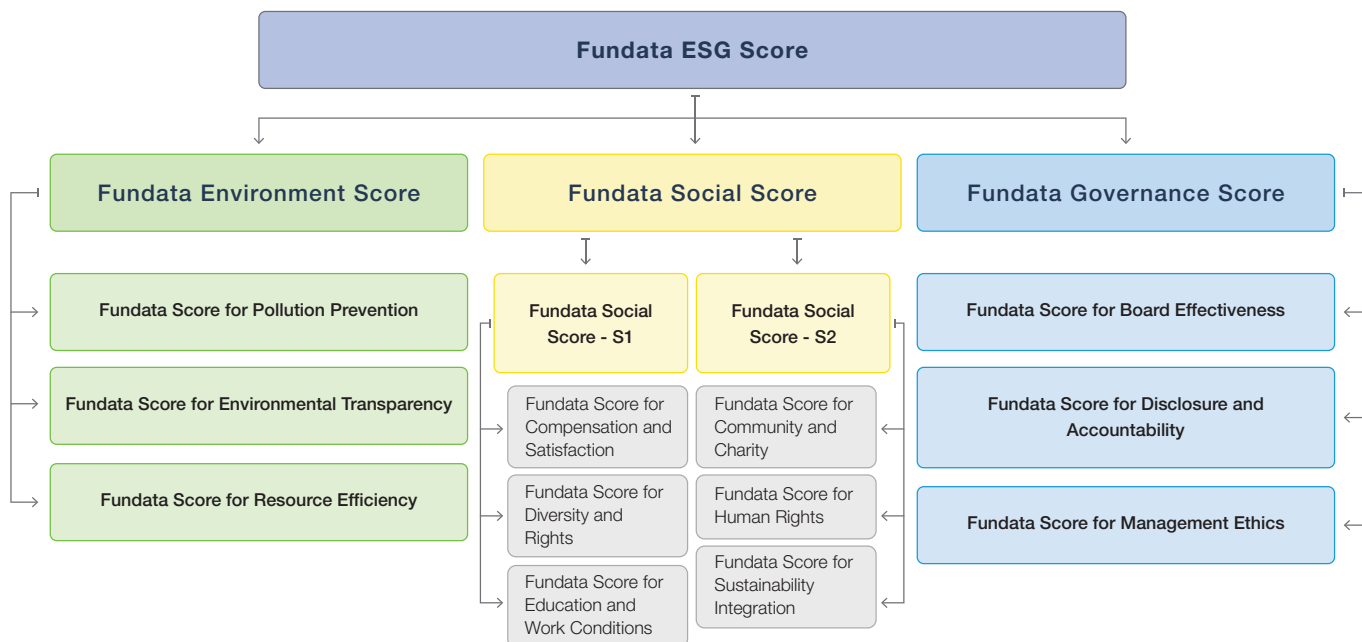
[fundata.com](http://fundata.com)

## Summary

Fundata's ESG Ratings provide a lens into the quality of a fund's portfolio measured by Environmental, Social and Governance factors. Company level scores are provided by OWL Analytics, an alternative data company that focuses on environmental, social and governance research. OWL aggregates hundreds of sources of ESG data and research to create company scores and rankings based on a strong foundation of data, optimized to increase objectivity. OWL updates ratings monthly ensuring that new developments are constantly being captured and integrated.

Fundata then rolls up the company scores to the fund level using portfolio weights. This gives all funds with available holdings data a score for each of the environmental, social and governance factors as well an overall ESG rating. The E, S and G scores are also parsed out to yield scores on a total of 18 underlying metrics for each fund. The definitions for each metric can be found in Appendix A.

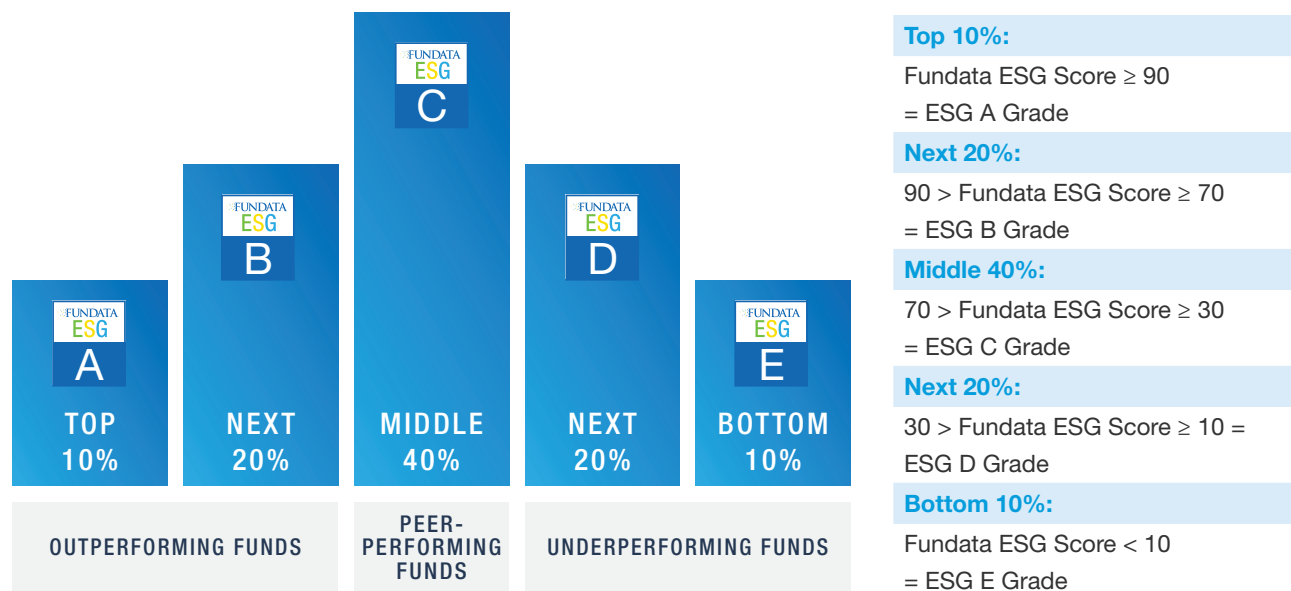
**Figure 1:** The following graphic shows the 18 data points for each fund:



Funds are ranked against each other using a percentile rank such that the top ranked fund receives a Fundata Score of 100.

Fundata calculates the percentage of a fund's portfolio that is held in companies that rank in the bottom 10% in ESG score. Companies in the bottom 10% in ESG score can be considered the poorest performers in the ESG factors so a fund's exposure to these companies is revealed in this calculation.

Fundata ESG Grades are calculated using the Fundata ESG Score. Grades are assigned as follows:



The same grading process is applied to the ESG scores for each company resulting in an ESG Grade for each company.

## Peer groups and Universe for Ranking

Company Level Universe and Ranking: The scores at the company level cover over 95% of the weight of most major indices. Companies are ranked against other companies in the same region and sector.

**Each company belongs to one of 6 regions:**

- Asia Region
- Europe Region
- Latin America Region
- Middle East / Mediterranean Region
- Pacific Region
- North American Region

**Each company belongs to one of 10 sectors:**

- Basic Materials
- Consumer Cyclicals
- Energy
- Financials
- Health Care
- Industrials
- Non-Cyclicals
- Telecom
- Information Technology
- Utilities

Each company is given a percentile rank for each of the 18 data points listed in Figure 1.

**Fund Level Universe and Ranking:** Fundata covers roughly 95% of Canadian retail investment funds and has holdings on over 95% of these funds.

Eligible funds must have ESG scores on at least 65% of asset weighted holdings. Cash holdings are excluded from this calculation.

All mutual funds and ETFs are included in the same universe for comparison. The reason for this is because the companies being held by the funds are segmented and ranked based on region and sector. When they are rolled up to the fund level the scores have already been adjusted to account for regional and sector factors which allows for comparison across the global universe. This will also help prevent funds that invest in regions or sectors that generally perform poorly across ESG factors, from receiving top scores. This follows the premise that even the best ESG companies in bad ESG sectors or regions do not deserve to be rewarded.

Segregated funds are only ranked against other segregated funds. Because segregated fund portfolios are often copies of mutual fund portfolios, ranking segregated funds separately will avoid duplication.

## Fundata Scores – Calculation

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The Fundata Scores for the 18 data points are calculated first by portfolio weighting the percentile score of the underlying securities. The portfolio weighted percentile is then re-ranked against the universe to arrive at the Fundata Score. Fundata Scores range from 0 to 100 with 100 being the best. The same calculation is applied by equal weighting the percentile score of the underlying securities. This results in an alternate data point meant to emphasize the companies that a fund holds rather than the amount of a company that the fund holds. For example, if a fund holds 0.5% in a bad company the ESG scores would be only marginally reduced using the portfolio weighted score, but using the equal weighted score would significantly reduce the ESG scores.

Fundata Scores are calculated on a monthly basis, based on most recent portfolio holdings and are published with the release of month end data.

## APPENDIX A

### E – Fundata Environment Scores

There are three scores under the Environment bucket which are averaged to yield the Fundata Environment Score for each fund.

#### E - Fundata Score for Pollution Prevention

Companies are evaluated for Pollution Prevention by aggregating data on how much a company pollutes, its policies to reduce said pollution, and its transition towards alternative technologies and processes to reduce environmental harm. The goal of the KPI is to measure how well a company is transitioning towards a lower polluting business model. It is not meant to measure absolute levels of pollution. Each company is given a percentile rank based on its region and sector.

The Pollution Prevention percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Pollution Prevention. An equal weighted version is also available.

#### E - Fundata Score for Environmental Transparency

Companies are evaluated for Environmental Transparency by aggregating data about a company's policies to reduce pollution and resource consumption. It also measures a company's environmental reporting and dedication to environmental transparency. The goal of the KPI is to measure how well a company is transitioning towards being an environmentally transparent company with rigorous policies designed to lower environmental impact. Each company is given a percentile rank based on its region and sector.

The Environmental Transparency percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Environmental Transparency. An equal weighted version is also available.

#### E - Fundata Score for Resource Efficiency

Companies are evaluated for Resource Efficiency by aggregating data about how well a company is reducing resource consumption, including water and energy, in the supply chain. We also evaluate data about the company's dedication to, and effectiveness in, recycling. The goal of the KPI is to measure how well a company is transitioning towards a lower resource consumption business model. It is not meant to measure absolute levels of natural resource use. Each company is given a percentile rank based on its region and sector.

The Resource Efficiency percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Resource Efficiency. An equal weighted version is also available.

## **E - Fundata Environment Score**

The scores for Pollution Prevention, Environmental Transparency and Resource Efficiency are averaged resulting in an Environment score for each company. The Environment scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata Environment Score. Likewise, an equal weighted average is calculated and re-ranked to yield an alternate Fundata Environment Score.

## **S - Fundata Social Scores**

There are six scores under the Social bucket, broken up into two groups of three. The first group S1, measure a company's performance on internal social factors. These are factors within the company such as treatment of employees, employee diversity and rights, and work conditions. The second group S2 measure a company's performance on external social factors. These are factors outside of the company's operations such as community standing, human rights and sustainability. The six social scores are averaged to yield the Fundata Social Score for each fund.

### **S1 - Fundata Score for Compensation and Satisfaction**

Companies are evaluated for Compensation and Satisfaction by aggregating data about how a company creates employee satisfaction through fair pay, benefits, and other practices that encourage employee productivity. The goal of this KPI is to measure how well a company is transitioning towards a satisfied workplace driven by fair compensation. Each company is given a percentile rank based on its region and sector.

The Compensation and Satisfaction percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Compensation and Satisfaction. An equal weighted version is also available.

### **S1 - Fundata Score for Diversity and Rights**

Companies are evaluated for Diversity and Rights by aggregating data on performance and practices regarding diversity in the workplace, labour-management and relations, and workforce rights. The goal of this KPI is to measure how well a company is building a workplace with diversity and fair treatment of employees. Each company is given a percentile rank based on its region and sector.

The Diversity and Rights percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Diversity and Rights. An equal weighted version is also available.

### **S1 - Fundata Score for Education and Work Conditions**

Companies are evaluated for Education and Work Conditions by aggregating data on performance and policies regarding workplace safety, worker training, and other metrics to measure worker productivity, health, and morale. The goal of this KPI is to measure how well the company is transitioning towards a workplace that values the safety, health, and growth of its employees. Each company is given a percentile rank based on its region and sector.

The Education and Work Conditions percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Education and Work Conditions. An equal weighted version is also available.

### **S1 - Fundata Social 1 Score**

The scores for Compensation and Satisfaction, Diversity and Rights and Education and Work Conditions are averaged resulting in a Social 1 score for each company. The Social 1 scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata Social 1 Score.

### **S2 - Fundata Score for Community and Charity**

Companies are evaluated for Community and Charity by aggregating data on how well a company treats the communities in which it does business, including data on charitable activities and volunteerism, protection of public health, and the social and environmental impacts of offerings on local communities. The goal of this KPI is to measure a company's positive contributions to local communities balanced by any potential negative impacts of products. Each company is given a percentile rank based on its region and sector.

The Community and Charity percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Community and Charity. An equal weighted version is also available.

### **S2 - Fundata Score for Human Rights**

Companies are evaluated for Human Rights by aggregating data on a company's policies and performance regarding human rights, including information on child or compulsory labour, treatment of people throughout the supply chain, and treatment of local populations. The goal of this KPI is to measure how well a company is transitioning towards the respect of human rights in the communities it operates. Each company is given a percentile rank based on its region and sector.

The Human Rights percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Human Rights. An equal weighted version is also available.

## **S2 - Fundata Score for Sustainability Integration**

Companies are evaluated for Sustainability Integration by aggregating data on how well a company evolves its product development, marketing, and sales towards creating sustainable offerings that reduce environmental impact and benefit the health and quality of life of customers. The goal of this KPI is to measure how well a company is transitioning its offerings to ones with low environmental and social impact. Each company is given a percentile rank based on its region and sector.

The Sustainability Integration percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Sustainability Integration. An equal weighted version is also available.

## **S2 - Fundata Social 2 Score**

The scores for Community and Charity, Human Rights and Sustainability Integration are averaged resulting in a Social 2 score for each company. The Social 2 scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata Social 2 Score.

## **S - Fundata Social Score**

The scores for Social 1 and Social 2 are averaged resulting in a Social score for each company. The Social scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata Social Score. Likewise, an equal weighted average is calculated and re-ranked to yield an alternate Fundata Social Score.



## **G – Fundata Governance Scores**

There are three scores under the governance bucket that are averaged to yield the Fundata Governance Score for each fund.

### **G - Fundata Score for Board Effectiveness**

Companies are evaluated for Board Effectiveness by aggregating data on policies and performance regarding independence of Board from management, Board diversity, alignment with best practices, and effectiveness in using best practices to incent management to achieve financial and sustainability goals. The goal of this KPI is to measure the independence of a company's Board and its effectiveness in aligning financial and sustainability goals. Each company is given a percentile rank based on its region and sector.

The Board Effectiveness percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Board Effectiveness. An equal weighted version is also available.

### **G - Fundata Score for Management Ethics**

Companies are evaluated for Management Ethics by aggregating data on how well management works with stakeholders, including information on how well they integrate ethics into decisions and policies, their performance on equitable treatment of shareholders, and their commitment to integrating ESG considerations into operations. The goal of this KPI is to measure management ethics and how well the management is integrating an ethical approach into business operations. Each company is given a percentile rank based on its region and sector.

The Management Ethics percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Management Ethics. An equal weighted version is also available.

### **G - Fundata Score for Disclosure and Accountability**

Companies are evaluated for Disclosure and Accountability by aggregating data on the quality of reporting regarding financial and sustainability goals, engagement of employees and management in sustainability, and thoroughness of transparency to all stakeholders. The goal of this KPI is to measure how well a company has transitioned to a business that has quality reporting and thorough transparency. Each company is given a percentile rank based on its region and sector.

The Disclosure and Accountability percentile scores are portfolio weighted resulting in a percentile score for the fund. The fund's percentile score is then re-ranked against the universe to arrive at the Fundata Score for Disclosure and Accountability. An equal weighted version is also available.

## **G - Fundata Governance Score**

The scores for Board Effectiveness, Management Ethics and Disclosure and Accountability are averaged resulting in a Governance score for each company. The Governance scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata Governance Score. Likewise, an equal weighted average is calculated and re-ranked to yield an alternate Fundata Governance Score.

## **Fundata ESG Score**

The scores for Environment, Social and Governance are averaged resulting in an ESG score for each company. The ESG scores are ranked against other companies in the same region and sector resulting in a percentile rank. For each fund a portfolio weighted average of the percentile ranks is calculated, then re-ranked against the universe to arrive at the Fundata ESG Score.

# Transforming market data into mission critical information flow

At Fundata, we offer our clients the most accurate and comprehensive data on Canadian Investment Funds available in the market. Combined with our commitment to fast, flexible client service, the quality of the information we provide makes us the vendor of choice for your market data and analytical requirements.



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