

Morningstar® Minority Empowerment IndexSM

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Powered by Sustainalytics

Morningstar uses company-level sustainability research provided by Sustainalytics, a firm with global reach and a reputation for insightful research. The firm covers 7,500 companies with its comprehensive ESG ratings, which judge companies against their global industry peers. Analysis spans dimensions of preparedness, disclosure, quantitative data points, and qualitative performance. A company's Sustainability Score is the firm's ESG Score with its Controversy Score subtracted.

Companies committed to diversity and inclusion are motivated by both values and value. On the values side, racial and ethnic diversity is about equality of opportunity and a workforce that reflects the complexion of society.

Then there's the business case. Research shows that companies serious about diversity and inclusion achieve superior financial results.¹ Diversity is linked to better talent acquisition and employee satisfaction, a stronger customer orientation, and improved decision-making. Employees from varied backgrounds bring different perspectives to the table.

The Morningstar Minority Empowerment Index provides exposure to U.S. companies that stand out for their commitment to racial and ethnic diversity. Commitment is measured through policies, programs, and performance, as well as societal impact. Companies are judged not only on the basis of their own workforces and boards of directors, but also on their supply chains and community interactions.

Index Eligibility

The Morningstar Minority Empowerment Index derives its constituents from the Morningstar US Large-Mid Index, which targets 90% of U.S. equity market capitalization. To be eligible for the minority empowerment index, a company must have undergone a robust assessment by researcher Sustainalytics (see sidebar: Powered by Sustainalytics). Eligible companies will have received scores on at least five of the relevant indicators (see Index Selection section). Companies are excluded from the index if they are

considered by Sustainalytics to be experiencing a "High" or "Severe" level of Controversy in one of three areas: Employee Incidents, Social Supply Chain Incidents, or Society and Community Incidents.

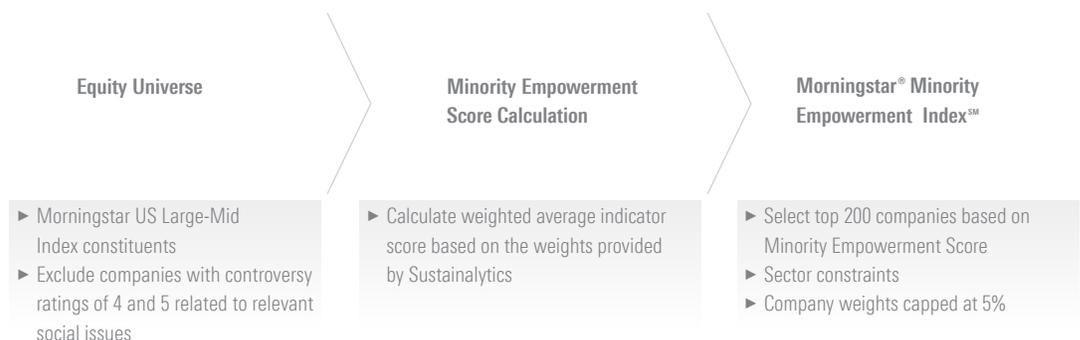
Index Selection

Companies are selected on the basis of their Minority Empowerment Score, which is driven by a Sustainalytics assessment of a company on the following indicators:

- ▶ Board Diversity
- ▶ Discrimination Policy
- ▶ Score of Social Supplier Standards
- ▶ Digital Divide Programs
- ▶ Freedom of Association Policy
- ▶ Diversity Programs
- ▶ Supply Chain Monitoring
- ▶ Community Development Programs
- ▶ Health and Safety Management System
- ▶ Conflict Minerals Programs

Each indicator's weight in the overall score is determined by Sustainalytics' assessment of its importance. Companies are ranked based on their scores. The index targets the 200 best-scoring stocks, subject to sector constraints (see Index Weighting section). The actual number of index constituents may not always be 200, depending on eligibility criteria, weighting considerations, the number of share classes of stock a company offers, or mergers and acquisitions. To reduce turnover, constituents are allowed to remain in the index if they continue to score reasonably well.

Morningstar Minority Empowerment Index Construction Process



¹ Hunt, V., Layton, D., and Prince S. 2015. "Why Diversity Matters," McKinsey & Co., Feb. 2, 2015. <https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>.

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Index Weighting

Securities are weighted according to float-adjusted market capitalization, which ensures low turnover and macro consistency. Index weight devoted to individual companies is capped at 5% of overall index weight. To ensure diversification and minimize performance deviation from the overall market, the index's sector weights are kept within plus or minus 2 percentage points from their weight in the Morningstar US Large-Mid Index. These constraints can be relaxed depending on the number of eligible securities.

Rebalancing and Reconstitution

The index is reconstituted (membership reset) annually in December on the Monday following the third Friday of the month. If Monday is a holiday, reconstitution is effective on the following business day. The index is rebalanced (weights reset) quarterly, in March, June, September, and December on the Monday following the third Friday of the month. Market data used is as of the last trading day of February, May, August, and November.