
Gender Diversity Metrics

Morningstar Research

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Executive Summary

Using corporate legal filings in the United States, United Kingdom, and Canada, Morningstar introduces new gender diversity metrics to help investors evaluate the gender diversity breakdown of officers and boards of directors for public companies as well as portfolios. In this methodology, we explain the definitions of gender diversity data points, both for equities and funds.

Introduction

The scope of sustainability extends well beyond primary goals such as combating climate change and promoting human rights. One aspect of environmental, social, and governance investing is corporate governance, the system of principles and processes by which companies are managed. In today's global context, the composition of leadership teams and boards, and the need to promote greater diversity in them, has come to the forefront. To help investors gain a more comprehensive understanding of the governance practices in the companies that constitute their investments, Morningstar is developing a suite of gender diversity metrics. These include gender diversity of executives and directors both at the equity and portfolio level.

Methodology

Equity Metrics

Scope

We leverage the Morningstar global equity database, which contains company-level fundamental data of over 50,000 companies going back to 2000 and, most recently, over 20,000 companies. This initial rollout of gender diversity metrics primarily focuses on Canadian, U.S., and U.K. companies. More precisely, the focus is on common stocks and active securities listed on key exchanges in these countries (Nasdaq, NYSE, OTCBB, AMEX in the U.S., TSX and TSXV in Canada, and LSE in the U.K.). At the time of launch, gender data of officers and directors is collected from annual reports for over 10,000 companies in the U.S., around 4,000 in Canada, and approximately 2,000 in the U.K. However, coverage evolves constantly and we anticipate our global coverage to increase over time. The gender of the following executive positions, when disclosed, include: *president*, *chief executive officer*, *chief financial officer*, *chief operating officer*, and *chief accounting officer*. These may be disclosed as *executive officer*, *named executive officer*, *member of the management team/board*, *executive team*, or *executive management*.

Finally, while a person's gender may not fall into the male/female binary, we have implemented the binary structure because of the nature of our data. We recognize that we may be misclassifying and not considering officers who do not fit into this system.

Data Point Definitions

In all the definitions below, *directors* refers to disclosed members of the board of a company.

Executives covers the following positions: *president*, *chief executive officer*, *chief financial officer*, *chief operating officer*, and *chief accounting officer*. These may be disclosed as *executive officer*, *named executive officer*, *member of the management team/board*, *executive team*, or *executive management*.

Number of Female Directors

The number of female directors disclosed in the company's annual report.

Number of Male Directors

The number of male directors disclosed in the company's annual report.

Number of Female Executives

The number of female executives disclosed in the company's annual report.

Number of Male Executives

The number of male executives disclosed in the company's annual report.

Number of Female Executives and Directors

The number of female executives and directors disclosed in the company's annual report.

Number of Male Executives and Directors

The number of male executives and directors disclosed in the company's annual report.

Percentage of Female Directors

The proportion of female directors out of the total number of directors disclosed in the company's annual report.

Percentage of Male Directors

The proportion of male directors out of the total number of directors disclosed in the company's annual report.

Percentage of Female Executives

The proportion of female executives out of the total number of executives disclosed in the company's annual report.

Percentage of Male Executives

The proportion of male executives out of the total number of executives disclosed in the company's annual report.

Percentage of Female Executives and Directors

The proportion of female executives and directors out of the total number of executives and directors disclosed in the company's annual report.

Percentage of Male Executives and Directors

The proportion of male executives and directors out of the total number of executives and directors disclosed in the company's annual report.

Portfolio Metrics**Scope**

The portfolio aggregates are weighted averages of the equity percentages and are calculated based on the long positions of the portfolio. Cash, cash equivalents, and derivative positions are excluded from the calculation. Because of the source universe (Canadian, U.K., and U.S. companies), the portfolio calculation tends to cover managed investments within specific geographic and asset-type categories (equity categories with geographic exposure to Canada, the U.K., and the U.S.), although they are not limited to these.

Data Point Definitions

In all the definitions below, *directors* refers to disclosed members of the board of a company.

Executives covers the following positions: *president*, *chief executive officer*, *chief financial officer*, *chief operating officer*, and *chief accounting officer*. These may be disclosed as *executive officer*, *named executive officer*, *member of the management team/board*, *executive team*, or *executive management*.

Percentage of female directors

The asset-weighted average of female directors on the boards of the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of male directors

The asset-weighted average of male directors on the boards of the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of female executives

The asset-weighted average of female executives in the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of male executives

The asset-weighted average of male executives in the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of female executives and directors

The asset-weighted average of female executives and directors in the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of male executives and directors

The asset-weighted average of male executives and directors in the companies held in the portfolio that are covered by Morningstar research (U.K., U.S., and Canadian equities).

Percentage of AUM covered - gender diversity

The percentage of a portfolio's assets under management that come from equities covered by Morningstar research. The calculation of this percentage covers long positions only and is rescaled after excluding cash and derivatives security types.

Number of holdings covered - gender diversity

The number of holdings in the portfolio covered by Morningstar research.

Conclusion

We expect that we will enhance our diversity data points and create additional metrics as we collect new information from corporate filings over time. We will note methodological changes in this document as they are made. ■■



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