

# S&P/EGX ESG Index

## **Introduction**

The Egyptian Institute of Directors, Standard & Poor's and Crisil have created an Environment, Social and Governance (ESG) Index for Egypt. The S&P/EGX ESG Index is the first of its kind in Egypt. This index not only ensures a selection of environmentally, socially and corporate governance responsible companies, but also securities which are representative of the Egyptian equity markets based on size and liquidity.

## **Eligibility factors**

All 100 companies in the universe were chosen after being subjected to a screening process which incorporates environmental, social and governance (ESG) indicators against which the company's disclosure practices are evaluated.

**There are two screens**, one focusing on environment & social indicators and the other one focusing on corporate governance indicators. While the social and environmental screens are based on output obtained from the mapping of Global Reporting Initiative (GRI), Global Compact (GC) and Millennium Development Goal (MDG) (see Appendix II)\*\*; the governance screen (see Appendix I)\* is an adaptation of standard & Poor's existing corporate governance methodology to suit Egypt's markets.

The evaluation process seeks information relating to companies' disclosure of the ES&G screen indicators available in the public domain, such as a company's annual report, Web site, bulletins and/or the disclosure made on the stock exchanges. The final aim is to determine whether a company has made transparent disclosure in such documents, on any of the indicators that are part of the ES&G screening system.

## **Index construction**

### **S&P/EGX ESG Index**

This index includes 30 stocks from the pool 100 Egyptian companies screened annually, and uses an innovative score-weighting scheme.

After reviewing the ESG scores for the 100 companies in the eligible universe, market capitalization and liquidity are also reviewed to ensure the 30 stocks chosen for the index are investable.

### **Constituent Weightings**

1- Quantitative Score- Each of the companies trading on the Egyptian Stock Exchange is assigned a quantitative ranking based on the three factors –transparency and disclosure of (1)corporate governance, (2) environmental practices (3) social governance.

2- Qualitative Score-independent sources of information, news stories, web sites and CSR filings are used to evaluate the actual performance of the company on a scale of 5 to 1, with 1 being the lowest and 5 being the highest. A final qualitative score is determined for each company.

3-Composite Score-A composite score is calculated for each company by summing the qualitative score and the quantitative score.

4-Each company's weight in the index is determined as a function of its ESG score.

### **Index Maintenance**

ESG scores, market-capitalization weights, and the Score Weight Factors (SWFs), where applicable, are reset only once a year at the July rebalancing. Companies are assigned new scores each year on their latest filings, news and other material information in the public domain.

Maintenance includes monitoring and completing adjustments for company additions and deletions, stock splits, stock dividends, and stock price adjustments due to restructurings or spin-offs. Due to the nature of score-weighted indices, most corporate actions do not change the market value of the index and do not require an index divisor adjustment.

### **Index Governance**

#### **Index Committee**

The S&P/EGX Index is the responsibility of an Index Committee that monitors overall policy guidelines and methodologies. The index Committee is composed of Standard & Poor's and Egyptian of Directors staff specialized in the global equity markets.

Decisions made by the Index Committee include all matters relating to index construction and maintenance. The Index Committee meets regularly to review market developments, and convenes as needed to address major corporate actions.

#### **Holiday schedule**

The S&P/EGX Index is calculated on all days the Egyptian equity markets are open.

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### **(Appendix I)\***

T&D Template for Assessing Conduct on Governance of Egyptian Companies

#### **Ownership Structure and Shareholder Rights**

- Shareholder Capital
- Shareholder Rights

#### **Financial and Operational Information**

- Financial Information
- Operational Information

#### Board and Management Structure and Process

- Board and Management Information
- Board and Management Remuneration

#### Business Ethics and Corporate Responsibility

- Corporate Governance
- Corruption
- Leadership
- Business Ethics

### **(Appendix II)\*\***

#### T&D Template for Assessing Environment and Social conduct (E&S) of Egyptian Companies

##### Environment

- Environmental Pollution
- Natural Resources Use
- Management Policy and Performance Indicators

##### Employees

- Employee Relations/Job Creation
- Labor Rights
- Equal Opportunity
- Union Relations

##### Community

- Human Rights
- Community Investment

##### Customers/Product

- Product Safety
- Anti-trust
- Customer Outreach and product Quality

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