

Guide for ESG Sector Leaders IDX KEHATI
(Appendix of IDX Announcement No. Peng-00409/BEI.POP/12-2021 dated 15 December 2021)

1. INDEX INFORMATION

1.1. General Information

Index Name	ESG Sector Leaders IDX KEHATI
Index Code	ESGSKEHATI
Description	An index that offers broad market exposure and diversification by choosing representative in each industry with best ESG score. Stocks with above average ESG score are selected to represent the industry and grouped by IDX Industry Classification.
Counterparty	Collaboration between Indonesia Stock Exchange (IDX) and Keanekaragaman Hayati (KEHATI) Foundation
Methodology	Capped Free Float Adjusted Market Capitalization Weighted On each periodic review, the constituent weight is capped so the highest weight in the index is no more than 15%.
Base Date	June 1, 2016 (Base Value = 100)
Launch Date	December 20, 2021

1.2. General Selection Criteria

Universe	<p>Assessed Universe</p> <p>Stocks included in the Assessed Universe are IDX Composite constituents which have selected under following criteria:</p> <ol style="list-style-type: none"> 1. Financial and Liquidity Screening. 2. Negative List Screening (ESG). <p>ESG KEHATI Universe</p> <p>Stocks included in the ESG KEHATI Universe are stocks in the Assessed Universe which have selected under following criteria:</p> <ol style="list-style-type: none"> 1. Having ESG Score within the required threshold. ESG Score measure company's ESG performance with environment, social, and governance aspect with criteria set by KEHATI. 2. Do not involved in ESG Controversy.
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Selection Criteria	ESG scores comparison is made among companies in one similar sector based on the IDX Industrial Classification. Companies that have an ESG score above the sector average will be included in the IDX KEHATI ESG Sector Leaders index.
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2. INDEX MAINTENANCE

2.1. Periodic Evaluation

	Major Evaluation	Minor Evaluation
Evaluation Period	May and November	February and August
Effective Date	First trading day of June and December	First trading day of March and September
Process / Purposes	Select the stocks of index constituents. <ul style="list-style-type: none"> - Adjust changes in the number of listed shares. - Adjust stock weights based on their free float ratios. - Adjust the stock weights based on the cap. 	
Announcement	5 exchange days or later prior to the effective date, depends on announcement date of Sharia Securities List from the Financial Services Authority.	

2.2. Incidental Evaluation

Besides the routine evaluation, incidental evaluation can be done at any time if there are significant changes in the number of shares, delisting, or if there is any other information that has significant impact on an index constituent.

3. CONSTITUENT SELECTION PROCESS

3.1. Selection Universe

Stocks that are eligible to continue the process of index constituents are stocks in the KEHATI ESG Universe which are selected from the Assessed Universe.

To obtain Assessed Universe, selection will be made from IDX Composite with the following criteria:

Negative List Screening (ESG)

Company does not have a core business in 9 negative sectors screened by KEHATI:

1. Pesticide
2. Nuclear
3. Weaponry
4. Tobacco
5. Alcohol
6. Pornography
7. Gambling
8. Genetically Modified Organisms
9. Coal Mining

Financial and Liquidity Screening

Selected by considering the following factors:

1. Market Capitalization
2. Total Asset
3. Net Income
4. Free Float
5. Average Trading Value

From the Assessed Universe, stocks in the KEHATI Universe will be selected with the following criteria:

1. Having ESG Score within the required threshold. ESG score assesses the company's ESG performance in environmental, social and governance aspects based on predetermined indicators.
2. Passed the ESG Controversy Screening.

3.2. ESG Score Assessment

The focus of ESG performance assessment includes aspects of the environment, social, and governance. Sources of data on the assessment of the ESG score are as follows:

1. Sustainability Report
2. Financial Statements
3. Listed Company Website
4. External Data Provider
5. Questionnaire
6. Other Sources

The ESG criteria in each of these aspects are:

Environment	Social	Governance
<ul style="list-style-type: none"> • Sustainable Products and Product Innovation, • Natural Resources and Biodiversity • Energy Usage • Greenhouse Gas Emissions • Waste Management 	<ul style="list-style-type: none"> • Employee Training and Development • Worker Practice • Occupational Health and Safety • Product Safety • Environmental Social Impact 	<ul style="list-style-type: none"> • Shareholder Rights Protection Mechanism • Competencies and Roles of the Board of Commissioners & Directors • Quality and Disclosure of Information • Business Ethics and Stakeholders Engagement • Sustainability Management Practice

3.3. Process of Determining Selected Constituents

With “Best in Class” approach, the stocks that are included in the KEHATI Universe are compared within the sector. Stocks that have an ESG score above the sector average will be included in the IDX KEHATI ESG Sector Leaders Index. If there are no stocks in one or more sectors in the Assessed Universe, it is possible that there are no representative stocks from that sector in the IDX KEHATI ESG Sector Leaders Index.

4. METHODOLOGY OF INDEX CALCULATION

4.1. Index Calculation Formula (Weighting Method)

The index uses “Capped Free Float Adjusted Market Capitalization Weighted Average” methodology. This method adds free float ratio factor into the market capitalization. Moreover, the weight of index constituents is capped at 15%.

Index calculation formula is as follows:

$$\text{Index} = \frac{\sum_{i=1}^n (\text{Market Cap}_i \times \text{Free Float Ratio}_i)}{\text{Base Market Cap}} \times 100$$

Where:

Market Cap _i	=	Total listed shares × market price of stock i
Free Float Ratio _i	=	Ratio of number of free float shares to the total listed shares of stock i
n	=	Number of index constituents
Base Market Cap _i	=	Market capitalization on the Base Date (adjusted in the evaluation period if there are any changes in the number of shares for the index)

4.2. Adjusting Stock Weight Based on Free Float Ratio

In each evaluation period, the weight of each stock is evaluated based on the value of the free float ratio. There is no technical difference in weight adjustment between major evaluation and minor evaluation. In the major evaluation, this process of adjusting weight was preceded by the selection process of the index constituents.

4.2.1. Calculation of Free Float Ratio

The free float ratio of each stock is calculated based on the free float stocks to total listed stocks. The definition of free float is the number of scripless shares owned by investors with ownership of less than 5% excluding stocks owned by management and treasury stock. The percentage value of the free float ratio is rounded to two decimals.

4.2.2. Calculation of Free Float Adjusted Market Capitalization

The free float adjusted market capitalization of each stock is calculated as follows:

$$MC_i = P_i \times S_i \times FF_i$$

Where:

MC _i	=	Free float adjusted market capitalization of stock i
P _i	=	Price of stock i
S _i	=	Total listed shares of stock i
FF _i	=	Free float ratio of stock i

4.2.3. Calculation of Stock Weight

The weight of each stock is calculated as follows:

$$\text{Weight}_i = \frac{MC_i}{\sum_{i=1}^n MC_i}$$

Where:

MC_i	=	Free float adjusted market capitalization of stock i
n	=	Number of constituents
$\sum_{i=1}^n MC_i$	=	Total free float adjusted market capitalization of all constituents

4.3. Stock Weight Capping

On the evaluation period, both major evaluation and minor evaluation, the number of shares is also adjusted to ensure the weight of a stock in the index does not exceed the specified cap.

If there is no constituent that has a weight exceed the cap, then this step is not necessary. But if there is one or several stocks that have a weight of more than the cap, then the process of adjusting stock weight by capping is applied as follows:

4.3.1. Determining the Number of Capped Stocks

In this process, the number of stocks with weights above the cap are determined. The number of capped stocks is equal to s and the number of uncapped stocks = t = 1-s.

4.3.2. Calculating the Total Free Float Adjusted Market Capitalization of Capped Stocks

If MC_s is the total free float adjusted market capitalization of capped stocks and c is the cap, then:

$$MC_s = \frac{s \times c}{1 - (s \times c)} \times MC_t$$

Where:

MC_s	=	Total free float adjusted market capitalization of all capped stocks
MC_t	=	Total free float adjusted market capitalization of all uncapped stocks
s	=	Number of capped stocks
c	=	Cap

4.3.3. Calculating the Capped Free Float Adjusted Market Capitalization

If $MC_{i,s}$ is the capped free float adjusted market capitalization of a capped stock, then:

$$MC_{i,s} = \frac{1}{s} \times MC_s$$

4.3.4. Calculating the Number of Shares for the Index

The adjusted number of shares for index (Adj. S_i) of a stock is calculated by rounding the stock's free float adjusted market capitalization divided by the stock price, as the following formula:

$$\text{Adj. } S_i = \left[\frac{MC_i}{P_i} \right]_{\text{rounded}}$$

If a stock is a capped stock, MC_i is equal to $MC_{i,s}$.

4.3.5. Calculating Final Stock Weight

The final weight of each stock is calculated as follows:

$$\text{Weight}_i = \frac{\text{Adj. } MC_i}{\sum_{i=1}^n \text{Adj. } MC_i}$$

$$\text{Adj. } MC_i = \text{Adj. } S_i \times P_i$$

Where:

Weight_i	=	Weight for stock index i
$\text{Adj. } MC_i$	=	Market capitalization of stock i after adjustment of free float ratio and capping.
$\sum_{i=1}^n \text{Adj. } MC_i$	=	Total market capitalization of all stocks after adjustment of free float ratio and capping.
n	=	Number of constituents

The weight adjustment process is complete if each index constituent does not exceed the cap. The adjustment process should be repeated if there is still any stock that have a weight of more than the cap as a result of the preceding weight adjustment in other stocks.

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