



The 2018 Best 50:  
Overview of Methodology

# Best 50 fast facts

## Overview

- **Annual ranking** of corporate sustainability performance
- **Released each June** during the Best 50 Gala Dinner.

## Eligibility

- **Size:** publicly-traded in Canada with revenue of at least \$1 Bil (most recent financial data), a Canadian privately-owned or Crown corp with revenue of at least \$1 Bil (most recent financial data) and evidence of sustainability reporting\*, or among the top 10 largest Canadian cooperative organizations by revenue
- **Industry and geography:** All industries and geographies are automatically considered

## Approach

- Ranking is based on **publicly-disclosed data** (e.g., financial filings, sustainability reports). All required datapoints are pre-populated. Submissions from companies are **not** required.
- Companies part of the Best 50 starting universe **are contacted for data verification** prior to project completion.
- Methodology is based on up to **17 key performance indicators** (KPIs) covering resource, employee, financial management, clean revenue and supplier performance.

## Contact info and to learn more

- Email [research@corporateknights.com](mailto:research@corporateknights.com) if you would like to confirm the correct contacts for your organization
- [Sign up for email updates](#) on future rankings and research from Corporate Knights and the Best 50
- Visit [www.corporateknights.com/reports/2017-best-50/](http://www.corporateknights.com/reports/2017-best-50/) for more details

\* Determined from the Global Reporting Initiative database

# Ranking is conducted by Corporate Knights, a specialized media and investment research firm

Corporate Knights is a Toronto-based, employee-owned B Corp that operates in three segments:

- **Corporate Knights Magazine**

- World's largest circulating magazine focused on sustainability and responsible business.
- Reaches 435,000 of the world's most influential business and political decision-makers.

- **CK Research**

- CK Research offers a range investment product sustainability ratings and tools
- CK Research also manages several external research projects (e.g. Newsweek Green Rankings, Carbon Clean 200, Sustainable Stock Exchange Ranking).

- **Council for Clean Capitalism**

- CEO-supported group catalyzing smart and efficient public policy.
- Engages with leading public policy-makers.

# Key features of the Best 50

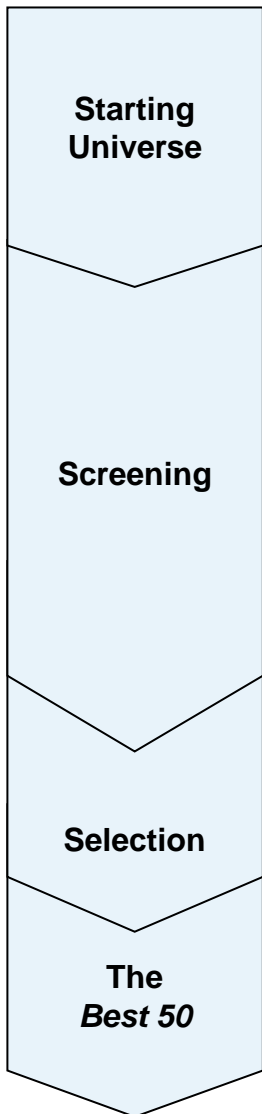
- **Approach:** driven by data, not judgment
- **Transparent:** clear approach for getting from the project's starting universe (n =232 companies) to the Best 50
- **Scoring:** Companies are only scored on 'relevant' KPIs for their respective industry
- **Data gaps:** Companies are scored 0 in the case of non-disclosure for relevant KPIs. The project incentivizes more disclosure, not less disclosure
- **Scope:** the Best 50 sticks to indicators that can be objectively measured – it does not purport to gauge companies' exposure to qualitative sustainability risks
- The approach and methodology are reviewed annually through **stakeholder consultations** and expert input\*.

\* Including research assistance from Emily Partington and the Sustainability & Energy team at WSP Canada Inc.

# Philosophical perspective of the Best 50

- **Relevance:** The ranking is meant to be representative of business sustainability in the current socio-economic context.
- **Transparency:** The precise methodology of the ranking and the results of the process are fully disclosed.
- **Objectivity:** Eligible companies will only be assessed using quantitative data and performance indicators.
- **Public data:** Only data-points that are part of the public domain are used.
- **Comparability:** Companies are compared against their industry group peers based on performance indicators for which the underlying data are reasonably well disclosed by their industry group globally.
- **Engagement:** Companies eligible for the ranking are informed prior to the ranking, so as to have an opportunity to ensure the necessary data is made available publicly.
- **Stakeholders:** Stakeholder feedback is actively solicited throughout the project. A Panel of Experts, consisting of several sustainability practitioners, review and comment on all aspects of the methodology.

# Overview of the Best 50 ranking process



Description	Details
<ul style="list-style-type: none"> <li>▪ Canadian-headquartered private and crown corporations</li> <li>▪ Canadian cooperatives</li> <li>▪ Companies listed in Canada</li> </ul>	<ul style="list-style-type: none"> <li>▪ Revenue of at least \$1 billion (2016)</li> <li>▪ 10 largest co-ops by revenue (2016)</li> <li>▪ Constituents of the TSX60 (current)</li> <li>▪ Constituents of the 2017 Best 50</li> </ul>
<ul style="list-style-type: none"> <li>▪ Organizations screened for :               <ul style="list-style-type: none"> <li>– Product categories</li> <li>– Sanctions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Organizations that derive a majority of their revenue (2016) from tobacco or weapons manufacturing and sale are removed.</li> <li>▪ Organizations whose monetary sanctions as a percentage of revenue in 2017 are in the bottom quartile against GICS Industry peers are removed.</li> </ul>
<ul style="list-style-type: none"> <li>▪ Organizations are scored on up to 17 KPIs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Organizations only scored on the 'priority KPIs' for their respective industry group</li> </ul>
<ul style="list-style-type: none"> <li>▪ The 2018 <i>Best 50</i> is populated</li> </ul>	<ul style="list-style-type: none"> <li>▪ The top 50 organizations by overall score</li> </ul>

# Updated rating methodology

(2018 Best 50 Ranking)

# Resource management KPIs

KPI	Methodology
<b>Energy Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / (Energy use – <b>renewable energy use</b> in GJ)
<b>Carbon Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / GHG emissions: scope 1 & 2 in tonnes
<b>Water Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / Water use in cubic metres
<b>Waste Intensity</b>	Revenue (converted to USD using <b>PPP exchange rate</b> ) / Non-recycled or composted or reused waste generated in tonnes
<b>Clean Air Productivity score</b>	<ul style="list-style-type: none"><li>▪ Revenue (converted to USD using <b>PPP exchange rate</b>) / VOC emissions in tonnes (25%)</li><li>▪ Revenue (converted to USD using <b>PPP exchange rate</b>) / Nox emissions in tonnes (25%)</li><li>▪ Revenue (converted to USD using <b>PPP exchange rate</b>) / Sox emissions in tonnes (25%)</li><li>▪ Revenue (converted to USD using <b>PPP exchange rate</b>) / Particulate matter emissions in tonnes (25%)</li></ul>

**Companies will only be scored on the KPIs that are deemed “priority KPIs” for their respective RBICS Sector + the five universal KPIs (see slide 11)**



# Financial management KPIs

KPI	Methodology
<b>Innovation Capacity</b>	R&D expenses / revenue – three year trailing
<b>Percentage Tax Paid</b>	Cash tax amount paid / EBITDA – five year trailing
<b>CEO-Average Employee Pay</b>	CEO compensation / average employee compensation
<b>Pension Fund Status</b>	$75\%$ (total DB and DC employer contributions/ FTE employees percentile-ranked against peers) + $1/4$ (fair value of DB plan assets/FTE employees percentile-ranked - (1-(fair value of DB plan assets/liability percentile-ranked) ))
<b>Supplier score</b>	<ul style="list-style-type: none"><li>▪ The company's largest supplier as determined by Bloomberg</li><li>▪ Largest supplier scored using this same rating methodology for the 2018 Best 50 excluding the "Supplier score" KPI.</li><li>▪ Primary data source: Bloomberg, FactSet, Thomson Reuters Eikon and CDP</li></ul>


**Companies will only be scored on the KPIs that are deemed "priority KPIs" for their respective RBICS Sector + the five universal KPIs (see slide 11)**

# Employee management KPIs

KPI	Methodology
<b>Safety Performance</b>	(1) Fatalities, and (2) lost time incidents rate
<b>Employee Turnover</b>	Number of departures / average total employees
<b>Leadership Diversity</b>	(1) Female representation on board of directors, and (2) Female representation in executive management team  (compared against same industry peers only, but against all companies in the universe)
<b>Sustainability Pay Link</b>	Mechanisms that link senior executive pay to sustainability targets

**Companies will only be scored on the KPIs that are deemed “priority KPIs” for their respective RBICS Sector + the five universal KPIs (see slide 11)**

# Additional KPIs

KPI	Calculation and notes
<p><b>Clean Revenue</b></p> <p><i>* This is a multi-year project by Corporate Knights to develop and make publicly-available an open-source definition of clean revenue categories; we welcome comments and suggestions in evolving and refining this clean revenue definition.</i></p>	<p>Percentage of your total revenue derived from products and services that are categorized as “clean” as defined by:</p> <ul style="list-style-type: none"><li>- U.S. Bureau of Labor Statistics Green goods and services.</li><li>- Statistics Canada Clean technology definitions.</li><li>- Climate Bonds Initiative green bonds criteria definitions.</li><li>- Other definitions of clean revenue from private market data providers.</li></ul> <p>Please <b><u>follow this</u></b> link for an open-source definition of clean revenues</p> <p style="text-align: center;"></p> <p><a href="https://docs.google.com/spreadsheets/d/1Yit1pphFcx-axawF_Y9G8ZBSJe9A-xft2CSWNuBxAkw/edit#gid=0">https://docs.google.com/spreadsheets/d/1Yit1pphFcx-axawF_Y9G8ZBSJe9A-xft2CSWNuBxAkw/edit#gid=0</a></p> <p><b>Example:</b> Company ABC is in the Photovoltaic and Solar Cells and Systems Providers and Wires and Cables Manufacturing segments representing 60% and 40% of their total revenue. The above link to clean revenue definitions specifies that the clean revenue percent of Photovoltaic and Solar Cells and Systems Providers is 100% and Wires and Cables Manufacturing is 5%. The clean revenue for Company ABC is: <math>60\% \times 100\% + 40\% \times 5\% = 62\%</math></p>

**This is a Universal KPI: all companies will only be scored on this KPI irrespective of RBICS Sector (see slide 11)**

# The Five Universal KPIs

**All** companies, irrespective of RBICS classification will still be assessed on all five universal KPIs:

- Leadership Diversity (made up of Women on Board and Women in Senior Executive Management),
- Sustainability Pay Link,
- Pension Fund Status,
- Percentage Tax Paid, and
- Clean revenue

Priority KPIs and weighting  
scheme for each RBICS  
Industry Group under the new  
methodology

# Impact-weighted KPIs

**Philosophy:** We take the view that in each industry, its impact for each individual KPIs is different – greater or smaller compared to another industry. The bigger an industry’s impact for a given performance metric in relation to other RBICS Industry groups, the more impactful that metric is and therefore the higher the weight of that KPI.

## Impact calculation example - Energy use by the RBICS Industry Group = Electric Utilities industry:

1. The sum of Energy Use (in GJ) by the RBICS Industry Group = Electric Utilities companies is obtained and divided by the corresponding sum of revenue (in \$ PPP) to arrive at its Energy Intensity; this is repeated for all other RBICS Industry Groups (n=326).
2. The sum total of Energy Use (in GJ) for all publicly-listed companies globally with revenue of \$1 Bil+ (n=5,994) is divided by its respective sum total of revenue in \$ PPP (“the Global Energy Intensity”).
3. The Energy Intensity of a given RBICS Industry Group is then divided by the Global Energy Intensity figure; the resulting ratio is that particular RBICS Industry Group’s impact on Energy Use.

The above is repeated for each priority KPIs for each RBICS Industry Group in turn based on the exact same principle.

## Weighing KPIs according to impact – RBICS Industry Group = Electric Utilities as an example:

The RBICS Electric Utilities Industry Group has 17 priority KPIs. Of these, Clean revenue, Women on board, Women in Executive Management, Supplier Score and Sustainability Pay Link have fixed weights (50%, 5%, 5% 2.5% and 5% respectively). The remaining 12 KPIs, representing the remaining 32.5% of the weights are allocated in accordance to their relative magnitudes of their impacts: for instance, Electric Utilities’ impact on water is 18.1 times the global average. Its weight is:  $18.1/46.5 \times 32.5\% = 12.7\%$

	Energy	GHG	Water	Waste	Employee Turnover	Injuries	Fatalities	Clean Air productivity	CEO – Average Employee Pay	Percentage tax paid	Pension Fund Status	Innovation capacity	Exec + Board Gender Diversity (fixed weight)	Clean Revenue	Sust Paylink (fixed weight)	Supplier Score (fixed weight)	Sum
<b>Impact</b>	5.1	10.6	<b>18.1</b>	0.1	0.5	0.8	2.4	1.6	0.5	1.6	4.7	0.2					46.5*
<b>Final Weight</b>	3.6%	7.4%	<b>12.7%</b>	0.1%	0.4%	0.6%	1.6%	1.1%	0.3%	1.3%	3.3%	0.2%	10%	50%	5%	2.5%	100%

\* All figures presented here are rounded off to 1 d.p.

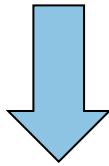
## Impact weights calculation methodology – Each industry`s impact is a function of that industry`s score relative to all industries` score for each metric

1. Energy, GHG, water, waste, clean air (NOX, SO2, PM, VOC):  $\text{Sum of the resource metric} / \text{Sum of the revenue in \$PPP for 2014, 2015 and 2016}$
2. Lost-time Injury Rate:  $\text{Absolute number of lost-time injuries} / \text{number of employees for 2014, 2015 and 2016}$
3. Fatalities:  $\text{Absolute number of fatalities} / \text{number of employees for 2014, 2015 and 2016}$
4. Employee turnover:  $\text{Absolute number of departures} / \text{number of employees for 2014, 2015 and 2016}$
5. CEO-Average Worker pay:  $\text{CEO pay} / \text{average employee pay for 2014, 2015 and 2016}$
6. Percent tax paid:  $\text{EBITDA (or Operating income for Financials) in \$PPP} / \text{Revenue in \$PPP for 10 years (2007-2016)}$
7. Innovation Capacity:  $\text{R\&D in \$PPP} / \text{Revenue in \$PPP 10 years (2007-2016)}$
8. Pension Fund Status:  $\text{Sum of Defined Benefit and Defined Contribution employer payments in \$PPP} / \text{number of employees for 2014, 2015 and 2016}$
9. Clean revenue:  $\text{Clean revenue in \$PPP} / \text{Total revenue in \$PPP (for 2016 only)*}$

\*Due to the significance of the energy transition, all energy utilities, oil and gas companies and automobile companies have a fixed weight of 50% assigned to clean revenues.

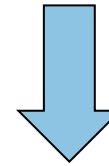
# Priority indicators and weights per RBICS Industry Group

Please **follow this** link for the list of weights for each RBICS Industry Group



[https://docs.google.com/spreadsheets/d/1HFwzQNeiB6V\\_WWQjsYfeP8NSZpumdi1HXK02zNeCJPc/edit?usp=sharing](https://docs.google.com/spreadsheets/d/1HFwzQNeiB6V_WWQjsYfeP8NSZpumdi1HXK02zNeCJPc/edit?usp=sharing)

Please **follow this** link for the list of priority KPIs for each RBICS Industry Group



[https://docs.google.com/spreadsheets/d/1HFwzQNeiB6V\\_WWQjsYfeP8NSZpumdi1HXK02zNeCJPc/edit?usp=sharing](https://docs.google.com/spreadsheets/d/1HFwzQNeiB6V_WWQjsYfeP8NSZpumdi1HXK02zNeCJPc/edit?usp=sharing)



## Appendix III: Detailed scoring methodology

#	Name of KPI	Measurement
1	Energy Productivity	In the first step, each company's Energy Productivity is calculated. Energy Productivity is defined as Revenue (\$US PPP-converted) / Total Energy Use (GJ) – Renewable Energy Use (GJ). It is then percent-ranked against that of all same-industry group peers within the CK coverage universe, and multiplied by 0.75. In the second step, the change in each company's Energy Productivity over a two-year period is calculated and percent-ranked against that of all same-industry group peers within the CK coverage universe. If the company's percent-rank is top quartile, the percent-rank is multiplied by 1 and then by 0.25. If the company's percent-rank is second quartile, the percent-rank is multiplied by 0.75 and then by 0.25. If the company's percent-rank is third quartile, the percent-rank is multiplied by 0.5 and then by 0.25. If the company's percent-rank is bottom quartile, the percent-rank is multiplied by 0.25 and then by 0.25. In the third step, the value from the first and second steps are totaled.
2	Carbon Productivity	In the first step, each company's Carbon Productivity is calculated. Carbon Productivity is defined as Revenue (\$US PPP-converted) / Total Greenhouse gas (GHG) Emissions (CO2e). Only Scope 1 and Scope 2 emissions are included according to the GHG Protocol. It is then percent-ranked against that of all same-industry group peers within the CK coverage universe, and multiplied by 0.75. In the second step, the change in each company's Carbon Productivity over a two-year period is calculated and percent-ranked against that of all same-industry group peers within the CK coverage universe. If the company's percent-rank is top quartile, the percent-rank is multiplied by 1 and then by 0.25. If the company's percent-rank is second quartile, the percent-rank is multiplied by 0.75 and then by 0.25. If the company's percent-rank is third quartile, the percent-rank is multiplied by 0.5 and then by 0.25. If the company's percent-rank is bottom quartile, the percent-rank is multiplied by 0.25 and then by 0.25. In the third step, the value from the first and second steps are totaled.

## Appendix III: Detailed scoring methodology (continued)

3	Water Productivity	<p>In the first step, each company's Water Productivity is calculated. Water Productivity is defined as Revenue (\$US PPP-converted) / Total water (m3). It is then percent-ranked against that of all same-industry group peers within the CK coverage universe, and multiplied by 0.75. In the second step, the change in each company's Water Productivity over a two-year period is calculated and percent-ranked against that of all same-industry group peers within the CK coverage universe. If the company's percent-rank is top quartile, the percent-rank is multiplied by 1 and then by 0.25. If the company's percent-rank is second quartile, the percent-rank is multiplied by 0.75 and then by 0.25. If the company's percent-rank is third quartile, the percent-rank is multiplied by 0.5 and then by 0.25. If the company's percent-rank is bottom quartile, the percent-rank is multiplied by 0.25 and then by 0.25. In the third step, the value from the first and second steps are totaled.</p>
4	Waste Productivity	<p>In the first step, each company's Waste Productivity is calculated. Waste Productivity is defined as Revenue (\$US PPP-converted) / [Total waste generated (metric tonnes) – waste recycled (metric tonnes)]. It is then percent-ranked against that of all same-industry group peers within the CK coverage universe, and multiplied by 0.75. In the second step, the change in each company's Waste Productivity over a two-year period is calculated and percent-ranked against that of all same-industry group peers within the CK coverage universe. If the company's percent-rank is top quartile, the percent-rank is multiplied by 1 and then by 0.25. If the company's percent-rank is second quartile, the percent-rank is multiplied by 0.75 and then by 0.25. If the company's percent-rank is third quartile, the percent-rank is multiplied by 0.5 and then by 0.25. If the company's percent-rank is bottom quartile, the percent-rank is multiplied by 0.25 and then by 0.25. In the third step, the value from the first and second steps are totaled.</p>
5	Innovation Capacity	<p>In the first step, each company's Innovation Capacity score is determined by measuring the ratio of research and development (R&amp;D) expenditures to total revenue averaged over a trailing three-year period. In the second step, each company's Innovation Capacity score is percent-ranked against that of all same-industry group peers within the CK coverage universe.</p>

## Appendix III: Detailed scoring methodology (continued)

6	Percentage Tax Paid	<p>In the first step, each company's Percentage Tax Paid is calculated as the amount of taxes paid in cash over a trailing five year period divided by their total EBITDA over the same period. Companies score a 0% in the event that their total EBITDA or taxes paid in cash is zero or lower over the five year period. In the second step, each company's Percentage Tax Paid is percent-ranked against that of all same-industry group peers within the CK coverage universe.</p>
7	CEO-Average Employee Pay	<p>In the first step, each company's CEO to Average Employee Pay ratio is calculated as total CEO compensation divided by average employee compensation. Average employee compensation is calculated by dividing the company's total wage bill by the total number of employees. In the second step, each company's CEO to Average Employee Pay ratio is percent-ranked against that of all same-industry group peers within the CK coverage universe. The lower the ratio, the higher the rank.</p>
8	Pension Fund Status	<p>In the first step, the sum of the company's contribution to the defined benefit and defined contribution pension plans are added up, then divided by the total number of full-time equivalent employees. This ratio is then percent-ranked against that of all same-industry group peers within the CK coverage universe. This is labelled as "A"</p> <p>In the second step, the fair value of the defined benefit plan assets is divided by the total number of full-time equivalent employees; this ratio is then percent-ranked against that of all same-industry group peers within the CK coverage universe. This is labelled as "B",</p> <p>In the third step, the fair value of the defined benefit plan assets is divided by the projected defined benefit plan obligations, then percent-ranked against that of all same-industry group peers within the CK coverage universe. This is labelled as "C".</p> <p>The Pension Fund Status Score is arrived at by the following formula: <math>(0.75 \times A) + 0.25(B - (1 - C))</math></p>

## Appendix III: Detailed scoring methodology (continued)

9 - 10	Safety Performance	Each company's Safety Performance is comprised of the Lost Time Injury Score and the Fatality Score. The Lost Time Injury Score is determined by calculating the company's lost time injury rate (defined as the number of lost time incidents per 200,000 employee hours) and percent-ranking it against that of all same-industry group peers within the CK coverage universe. The Fatality Score is determined by calculating the company's fatality rate (defined as the number of fatalities divided by the total number of full-time equivalent employees) and percent-ranking it against that of all same-industry group peers within the CK coverage universe.
11	Employee Turnover	Each company's Employee Turnover is percent-ranked against that of all same industry group peers within the CK coverage universe. The lower the ratio, the higher the rank.
12 - 13	Leadership Diversity	Each company's Leadership Diversity is comprised of the Board Diversity Score and Executive Diversity Score. The Board Diversity Score is calculated by determining the proportion of the Board of Directors that is comprised of female directors and percent-ranking it against that of all companies within the CK coverage universe. The Executive Diversity Score is calculated by determining the proportion of the senior executive team that is comprised of female executives and percent-ranking it against all companies within the CK coverage universe. The Leadership Diversity Score is then the sum of the Board Diversity Score and the Executive Diversity Score.
14	Sustainability Pay Link	The Sustainability Pay Link indicator is designed to reward companies that have set up mechanisms to link the remuneration of senior executives with the achievement of sustainability goals or targets. A score of 100% is given to companies that describe such a mechanism (e.g. the company specifies the proportion of a particular named executive's compensation that is linked to the achievement of a corporate clean capitalism target, such as reducing emissions, improving energy efficiency, or reducing health & safety accidents). A score of 0% is given to companies that do not report any linking mechanisms. Unlike all other indicators, Clean Capitalism Pay Link does not use any percent-ranking.

## Appendix III: Detailed scoring methodology (continued)

15	Supplier Score	Each company's largest supplier is identified based on Bloomberg data. That supplier is then scored using the Best 50 methodology, excluding the Supplier Score KPI.
16	Clean Air Productivity	<p>The Clean Air Productivity consists of four sub-indicators, each worth 25% of the Clean Air Productivity indicator:</p> <ul style="list-style-type: none"> <li>a) VOC Productivity</li> <li>b) Nox Productivity</li> <li>c) Sox Productivity</li> <li>d) Particulate Matter Productivity.</li> </ul> <p>Each of the above four sub-indicators are calculated in the same way, as follows:</p> <p>In the first step, each company's sub-indicator Productivity is calculated by dividing Revenue (\$US PPP-converted) by the air pollutant. It is then percent-ranked against that of all same-industry group peers within the CK coverage universe, and multiplied by 0.75. In the second step, the change in each company's sub-indicator Productivity over a two-year period is calculated and percent-ranked against that of all same-industry group peers within the CK coverage universe. If the company's percent-rank is top quartile, the percent-rank is multiplied by 1 and then by 0.25. If the company's percent-rank is second quartile, the percent-rank is multiplied by 0.75 and then by 0.25. If the company's percent-rank is third quartile, the percent-rank is multiplied by 0.5 and then by 0.25. If the company's percent-rank is bottom quartile, the percent-rank is multiplied by 0.25 and then by 0.25. In the third step, the value from the first and second steps are totaled.</p>
17	Clean revenue	<p>Percentage of your total revenue that are derived from products and services that are categorized as "clean" by:</p> <ul style="list-style-type: none"> <li>- U.S. Bureau of Labor Statistics Green goods and services.</li> <li>- Statistics Canada Clean technology definitions.</li> <li>- Climate Bonds Initiative green bonds definitions.</li> <li>- Other definitions of clean revenue from private market data providers.</li> </ul>

# Appendix IV: Corporate Knights Notice and Disclaimer

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