

## SOLUTION OVERVIEW

# FTSE ESG Index Series

Integrate ESG considerations into a broad market benchmark



### Overview

Market participants globally are developing investment strategies that integrate environmental, social and governance (ESG) considerations into core benchmarks.

The FTSE ESG Index Series is designed to help investors align investment and ESG objectives into a broad benchmark, whilst maintaining industry neutrality.

Company weights within each index are “tilted” using FTSE Russell’s ESG Scores. Subsequently, industry neutral re-weighting is applied so that the industry weights in each index match the underlying index universe.

As a result, the FTSE ESG Indices have risk/return characteristics similar to the underlying universe with the added benefit of improved ESG metrics.

The FTSE ESG Index Series consists of the following indices:

#### FTSE ESG Index Series

FTSE Developed ESG Index

FTSE Emerging ESG Index

FTSE All-Share® ESG Index

Russell 1000® ESG Index

### Features

- Consists of eligible securities in the relevant underlying FTSE Global Equity Index Series, the Russell 1000® Index and the FTSE All-Share® Index
- ESG adjustments are applied based on FTSE Russell’s ESG Scores – a comprehensive measure of how well a company manages relevant ESG risks and impacts
- Enhanced exposure to companies that demonstrate strong ESG practices whilst decreased exposure to companies that do not
- Industry neutral re-weighting removes industry bias and delivers risk/return characteristics similar to the underlying benchmark index universe

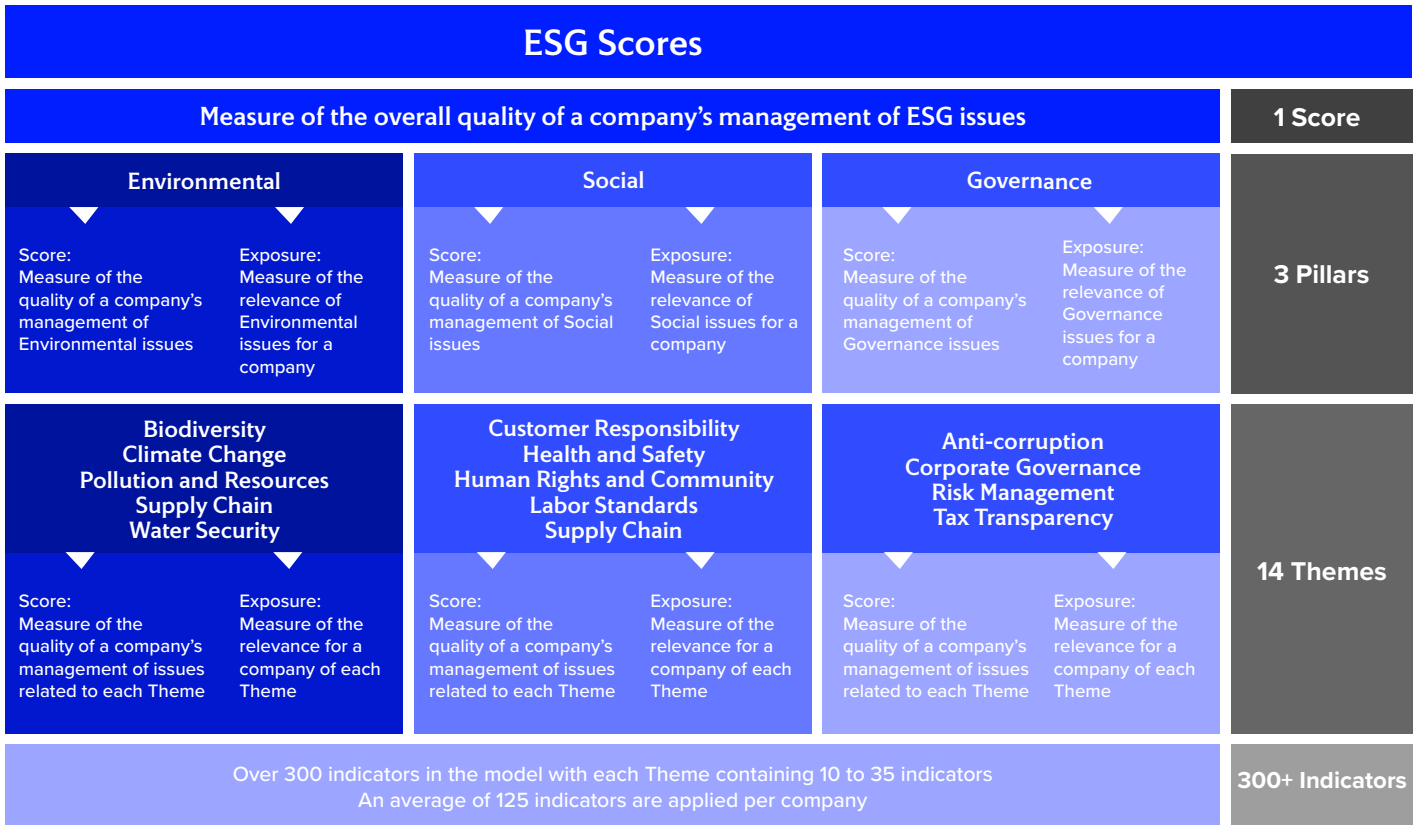


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## About FTSE Russell’s ESG Scores

The FTSE ESG Index Series uses the overall Score from FTSE Russell’s ESG Scores and data model to adjust the market capitalisation weight of its constituents. The ESG Scores include over 8,000 securities in 47 Developed and Emerging markets.

The ESG Scores are comprised of an overall Score, which is used to adjust stock weights in the FTSE ESG Index Series. The overall Score breaks down into underlying Pillar and Thematic Exposures and Scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company’s unique ESG risk exposures.



## The ESG index construction process

### Starting universe

Start with market capitalisation weighted index:

- FTSE Developed Index
- FTSE Emerging Index
- FTSE All-Share Index
- Russell 1000 Index



Step 1

### Calculate ESG scores

- Obtain the ESG Score for each company in the underlying index via FTSE Russell's ESG Scores and data model
- Remove outliers and normalise results (Z Score)<sup>1</sup>



Step 1 Step 2

### Translate ESG scores into index weights

- Combine ESG scores with weights in the underlying market capitalisation index to form a broad ESG index
- The resulting ESG index can be understood as an 'ESG Tilt' on the underlying index, by tilting the underlying weights according to the ESG score
- Companies with high scores have their weights increased and companies with low scores have their weights decreased



Step 1 Step 2 Step 3

### Apply industry neutral adjustment

- The ESG index industry weights are rescaled to match the industry index weights of the underlying universe



Step 1 Step 2 Step 3 Step 4

### Narrow index and constrain final weights

Remove stocks which do not contribute to the overall factor objective, whilst ensuring that diversification constraints are not breached.

The following constraints are applied during this process:

- Country and Industry weight constraints
- Maximum stock level capacity ratio
- Minimum stock weight



Step 1 Step 2 Step 3 Step 4 Step 5

### Publish and review index

- Indices derived from the FTSE Developed and FTSE Emerging Indices are reviewed annually in March
- Indices derived from the FTSE All-Share and the Russell 1000 Indices are reviewed annually in June

<sup>1</sup> A 'Z-Score' is a statistical measurement of a score's relationship to the mean in a group of scores. A Z-Score of 0 means the score is the same as the mean. A Z-Score can be positive or negative, indicating whether it is above or below the mean.

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