SOLUTION OVERVIEW

FTSE ESG Low Carbon Select Index Series

Integrating ESG and carbon considerations into investments

Overview

Market participants globally are developing investment strategies that integrate environmental, social and governance (ESG) and climate considerations into their investments, and allowing for tools to incentivise corporates to align their behavior with sustainability objectives.

The FTSE ESG Low Carbon Select Index Series is designed to help investors align their investments with significant reductions in emission and reserve intensities, along with improvement in the aggregate ESG score relative to the underlying benchmark.

Company weights within each index are “tilted” using FTSE Russell’s ESG Scores and Carbon Emission and Reserves data.

The FTSE ESG Low Carbon Select Index Series consists of the following indexes:

FTSE Developed ESG Low Carbon Select Index
FTSE Emerging ESG Low Carbon Select Index
FTSE Developed Europe ESG Low Carbon Select Index
FTSE Asia Pacific ex Japan ESG Low Carbon Select Index
FTSE USA ESG Low Carbon Select Index
FTSE UK ESG Low Carbon Select Index
FTSE Japan ESG Low Carbon Select Index

Features

- Consists of eligible securities in the relevant underlying FTSE Global Equity Index Series and the FTSE All-Share® Index
- Index methodology addresses ESG and climate change risks from multiple dimensions based on clear, transparent, and targeted objectives
- ESG and Low Carbon adjustments are made targeting a 50% reduction in index level carbon emissions, 50% reduction in fossil fuel reserves, and 20% improvement in index level ESG scores
- Excludes companies involved with controversial product activities – weapons, thermal coal, extraction and electricity generation, tobacco, nuclear power, gambling, adult entertainment, and companies involved with controversies related to the UN Global Compact principles
- Utilises FTSE Russell’s innovative and transparent Target Exposure methodology, which reweights each stock by tilting away from heavily polluting stocks and towards higher ESG rated stocks, while controlling for industrial and country weightings

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SUSTAINABLE GROWTH

ESG and climate measures and definitions

Measure	Objective	Definition	Mechanism
ESG Scores	The objective is to overweight companies based on their ESG Score. ESG Scores reflect corporate conduct related to environmental, social, and governance issues, considering how far a company's ESG risk exposures are addressed.	An overall ESG Score is derived from underlying Pillar and Theme 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.	– Targeted 20% improvement in index level ESG scores relative to the benchmark
Fossil Fuel Reserves	Significant carbon risk is associated with what is frequently termed "stranded assets"; these are fossil fuels reserves. To achieve the targets agreed by governments at the COP21 Summit, a significant proportion of these reserves may never be exploitable. The objective is to underweight companies with fossil fuel reserves.	Carbon Reserve Intensity is defined as the estimated CO_2 equivalent greenhouse gas (GHG) emissions in metric tons through the use and combustion of the recoverable coal, oil, and gas reserves scaled by full market capitalisation (in USD).	– Targeted 50% reduction in fossil fuel reserves relative to benchmark
Operational Carbon Emissions	Companies with higher levels of emissions per unit revenue (i.e. are less carbon efficient) will face greater costs, assuming costs associated with GHG emissions rise. The objective is to over or underweight companies according to their GHG emissions.	The latest annual CO_2 equivalent greenhouse gas (GHG) emissions in metric tons scaled by annual sales (in USD). CO_2 equivalent GHG emissions data is defined as GHG Protocol Scope 1 and 2 emissions.	– Targeted 50% reduction in operational carbon emissions relative to benchmark

Index construction process

Starting universe

Start with market capitalisation weighted index:

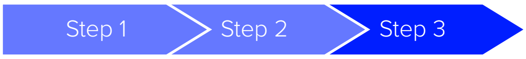
- FTSE Developed Index
- FTSE Emerging Index
- FTSE USA Index
- FTSE Japan Index
- FTSE All-Share Index

Exclude companies

Companies are excluded from the index based on their involvement with controversial product activities – weapons, thermal coal, tobacco, nuclear power, gambling, adult entertainment, and companies involved with controversies related to the UN Global Compact principles.

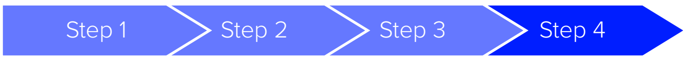
Calculate ESG scores

Obtain the ESG Score for each company in the underlying index via FTSE Russell's ESG Scores and data model.



Calculate carbon emissions and fossil fuel reserves data

Obtain operational emissions intensity and market capitalisation scaled fossil fuel reserves data.



Translate scores into index weights

Decrease the weight of constituents based on their exposure to fossil fuels or carbon emissions and increase weight of constituents with ESG Scores.

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

Publish and review index

- The product- and conduct-related exclusions are applied, and ESG, fossil fuel emissions, and reserves adjustments are calculated annually in September
- Additional reviews in December, March and June also apply conduct-related exclusions

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