

May 2024

Corporate engagement within sustainable investment

Information for researched companies – Overview



**FTSE
RUSSELL**

An LSEG Business

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Introduction

FTSE Russell follows a structured engagement process when communicating with companies. The purpose of this engagement with the researched companies is to ensure there is transparency of both the related sustainable investment data methodology and collected sustainability data.

All engagement with companies is carried out as part of the standard operations of FTSE Russell to ensure Environmental, Social, and Governance (ESG) scores take into account relevant information.

FTSE Russell follows four key principles:

When communicating with companies, FTSE Russell follows four key principles:

1

We enable all companies to review the information we have collected, as an additional data check mechanism;

2

We aim to ensure companies are treated and assessed fairly and transparently;

3

We take on board corporate feedback on the ESG Scores criteria to improve and refine our methodology over time;

4

And we aim to catalyse improvements in corporate disclosure, practice and performance, while giving constituents adequate time to respond to queries.

Overview of FTSE Russell's corporate communication process: ESG scores data

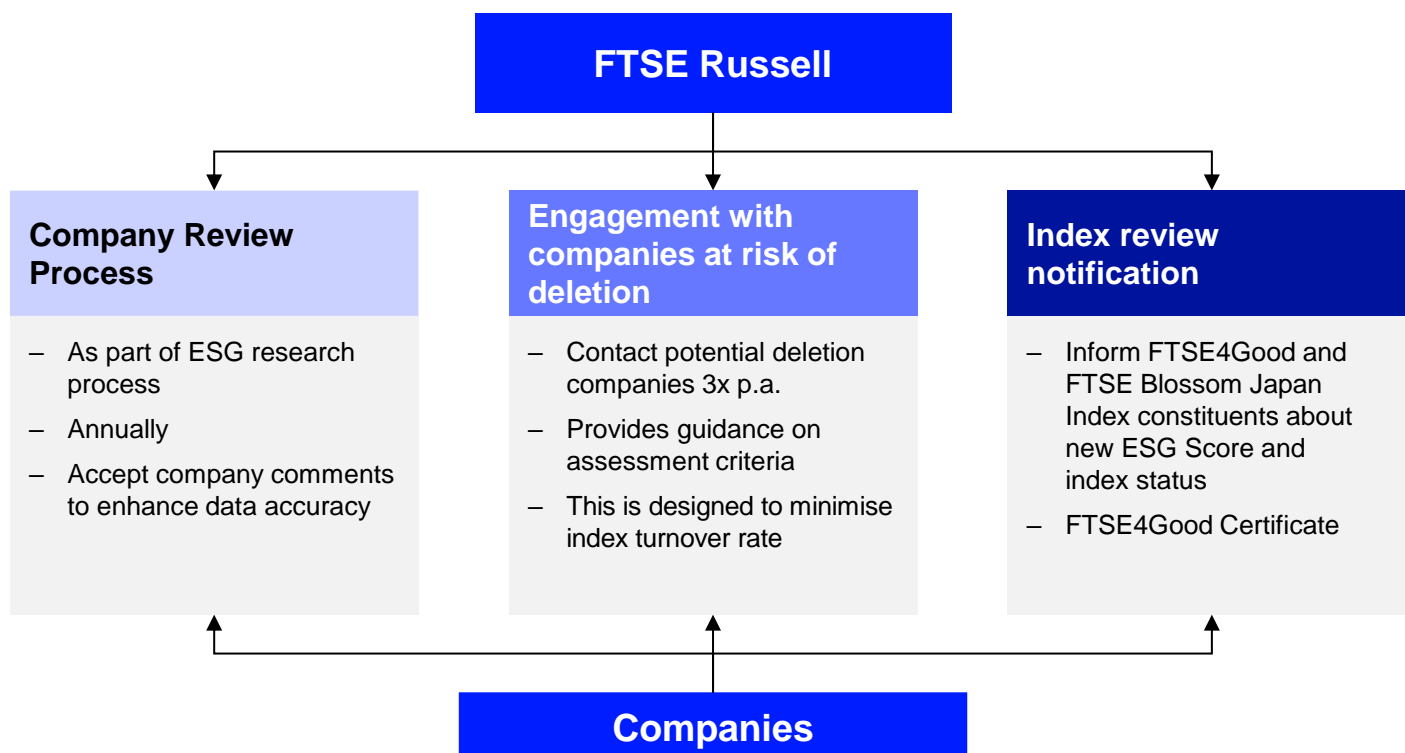
FTSE Russell ESG Scores and data

FTSE Russell's ESG Scores and data model allows investors to understand a company's exposure to, and management of, ESG issues in multiple dimensions.

Championing transparency:

- FTSE Russell relies on publicly disclosed information for ESG data, which we consider to be more reliable and less subjective compared to private, survey-based data. We do not send questionnaires to issuers to reduce the scope for self-assessments, which will enhance the transparency process
- Our primary sources of data are therefore annual reports and other materials issued by public companies. We also supplement this data with other sources, such as climate related data from Carbon Disclosure Project (CDP)
- FTSE Russell's approach is fully traceable: we are able to disclose the source from where data was collected, and the calculation methodologies for the companies' scores. The score is based on a rules-based methodology which is not reliant on analyst's subjective views

To help companies understand how ESG Scores are calculated, companies are provided with a full copy of the methodology document. The document describes in detail the rules-based process through which FTSE Russell applies datapoints to a company, and how it combines these datapoints into an ESG Score. Through this process, companies can see their own detailed ESG evaluation and are given an opportunity to review and provide their feedback and comments.



Company review process (once in an annual ESG research cycle)

Companies can access our web-based research platform (Sustainable Investment Data Platform). Companies are given around 4 weeks to review and provide feedback (by providing, for example, additional public information) that could be factored into our analysis. Analysts review this feedback and determine if a change in assessment is warranted.

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ESG research process: Overview

- 1 FTSE Russell Sustainable Investment data analysts assess companies based on publicly available information (e.g. Annual report/Sustainability report)
- 2 FTSE Russell asks companies to feedback on their initial assessment
- 3 Companies review their assessment through our online portal during a 4 week review window – **‘Company Review Process’**
- 4 Analysts incorporate the company’s feedback and finalise the assessment
- 5 Based on the finalised assessment, ESG Score is calculated and published at the index review (June and December)
- 6 Send email to FTSE4Good and FTSE Blossom constituents on index membership post index review (June and December)

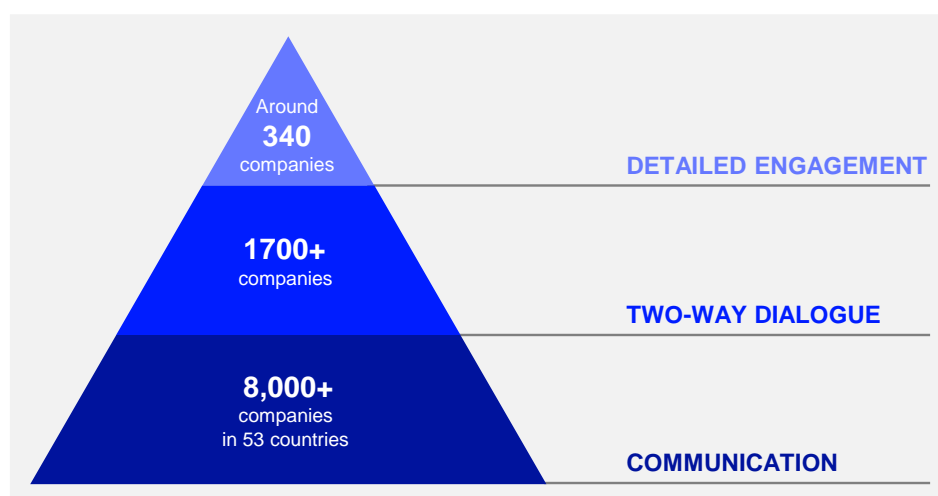
Established process for corporate communications

This process enables companies to engage with us directly (email: ftse4good@ftserussell.com) to enhance their understanding of our ESG data model and research process etc.

The process includes:

- A dedicated client service desk provides SME services in several local languages
- An opportunity to discuss the ESG Scores and data can be provided to each company upon request post publication as per [Sustainable Investment Data Recalculation Policy and Guidelines](#)

* Unlike credit rating providers, FTSE Russell does not charge companies for providing ESG scoring services, hence minimising any potential conflicts of interest.

FTSE Russell ESG engagement statistics

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Overview of FTSE4Good Index Series

The FTSE4Good index series, launched in 2001, has led to measurable improvements in corporate sustainability performance. Through the FTSE4Good Index Series, we have engaged with companies for two decades to help improve ESG disclosure standards. Academic studies from Edinburgh and Nottingham Universities have helped show the effectiveness of this engagement approach. This has been driven by incremental increases in inclusion thresholds together with grace periods, where the corporates are notified 12 months in advance of a potential index deletion (due to threshold change) to improve their standards.

FTSE Russell follows a structured process to ensure companies are given adequate notice when they face deletion from the FTSE4Good index series, so they can address shortfalls in their ESG Score if they wish to try to retain index inclusion.

Although some companies are deleted from our indices eventually as a result, this is counterbalanced by others moving to meet our standards and gaining inclusion.

Case study: FTSE Blossom Japan Index and the GPIF

FTSE Russell has supported Japan's Government Pension Investment Fund (GPIF) – the largest pension fund in the world – to help improve stewardship and corporate governance practices among listed Japanese companies.

This work has been through the FTSE Blossom Japan Index, an industry-neutral benchmark that comprises Japanese companies which demonstrate strong sustainability practices.

The index encourages improvements in corporate disclosure and sustainability performance, with companies required to meet international standards to gain inclusion. GPIF, alongside a number of other investors, are users of this index.

Given its level of visibility in Japan due to the clients using it, the FTSE Blossom Japan Index generates significant engagement and dialogue with Japanese companies and, importantly, catalyses action from companies seeking to improve their practices to qualify for inclusion. In December 2020, small cap Japanese companies became eligible, which further extends the engagement program.

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Overview of FTSE Russell's corporate communication process: Transition Pathway Initiative data

The Transition Pathway Initiative (TPI)

The [Transition Pathway Initiative](#) (TPI) was set up in 2017 by asset owners to help assess the alignment of their portfolios with the goals of the Paris Agreement and to drive emissions reductions from portfolio companies. As of February 2022, it comprises 120 investors globally who have pledged their support, jointly representing over \$40 trillion in combined Assets under management/advice.

In addition, it provides a central part of the data and analysis for the Climate Action 100+ initiative, which brings together investors managing more than \$65 trillion in assets in a collaborative engagement to encourage the world's largest corporate emitters to take action on climate change.

Using publicly disclosed corporate information sourced and provided by FTSE Russell, the TPI's data partner, the TPI evaluates and tracks the companies' carbon management, their risks and opportunities related to the low-carbon transition, and their alignment with the reductions needed to meet national and international climate targets. Since June 2021, FTSE Russell has been directly engaging with TPI companies for their review of the indicative data.

The final result analysis is made publicly available via the TPI's academic partner, the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science. This is important in that it allows companies to easily see and understand how they, and their peers, are ranked. It also provides the wider market with access to the TPI data.

To supplement this tool, FTSE Russell recently, in partnership with TPI, launched the FTSE TPI Climate Transition Index. The index, which at launch the Church of England Pension Board announced it would use for its core passive equity fund, uses TPI data to adjust the weights of companies in the underlying FTSE Developed Index, according to their performance against five criteria: fossil fuel reserves; carbon emissions; green revenues; TPI management quality; and TPI carbon performance.

Enhancements to FTSE Russell Climate Change theme (ECC) and FTSE4Good Ground Rules update:

- FTSE Russell also introduced some enhancements to the calculation of Climate Change theme (ECC) scores at the June 2021 Index Review to more accurately capture corporate performance on climate change and to more closely align with the key global investor climate initiatives, such as TPI.
- To raise corporate standards on these issues, FTSE Russell also updated FTSE4Good inclusion rules which illustrates that companies in carbon-intensive sectors can only maintain membership if they take climate risks seriously

[TPI Management Quality \(MQ\) data collection and company review](#)

All companies are assessed based on publicly disclosed information and contacted and given the opportunity to comment on the accuracy and completeness of the data concerning them. This usually takes place as part of the FTSE Russell ESG assessment and company review process. Companies who had their last FTSE Russell ESG assessment completed before February may be given additional review opportunity for two weeks in April.

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Overview of FTSE Russell's corporate communication process: Green Revenues data

Green Revenues data

FTSE Russell's Green Revenues 2.0 data model monitors the revenues of over 19,000 companies across 49 developed and emerging markets, of which approximately 4,500 are identified as having green revenues. The Green Revenues data set relies on company revenues disclosures in annual reports, but as only a small percentage of companies disclose revenues with sufficient granularity, FTSE Russell has developed a Green Revenues estimation model to overcome the problem of missing data.

Company review of research

All companies are contacted and given the opportunity to comment on the accuracy and completeness of the data concerning them. Companies may respond within a two-week time frame.

Where companies identify pertinent information (i.e. information relevant to their assessment), such as revenues or product specific attributes that were not included in the assessment, applicable company changes and the assessment itself will be updated. This has to be supported with a publicly disclosed document.



London Stock Exchange's Green Economy Mark

The Green Economy Mark identifies London-listed companies and funds that generate between 50% and 100% of total annual revenues from products and services that contribute to the global green economy.

The underlying methodology is the Green Revenues taxonomy developed by FTSE Russell as part of the FTSE Environmental Markets Classification System. It identifies industrial sectors and subsectors that are contributors to a greener, more sustainable economy, such as climate change mitigation and adaptation, cleaner water, responsible resource extraction, pollution control, and sustainable agriculture.

The 50%+ threshold for the Mark recognises businesses who have a material revenue contribution from the Green Economy. In this way it includes but also looks beyond 'pure-play' green or clean technology companies to highlight those of all sizes, across all industries, driving the transition to a sustainable, low carbon economy.

Through its consistent application across London Stock Exchange's markets and segments, the Green Economy Mark and Green Revenue tracking improves visibility to investors and other stakeholders that are interested in Green Economy activities.

For further details, please visit [Green Economy Mark | London Stock Exchange](#)

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

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