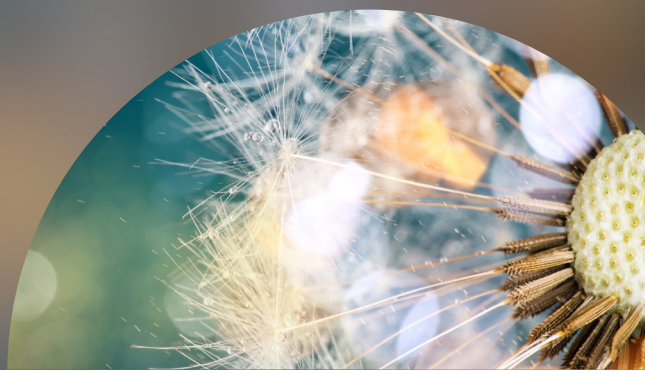
SOLUTION OVERVIEW

FTSE4Good Bursa Malaysia Index Series

Integrating ESG into Malaysian investments



Overview

Investors are increasingly incorporating Environmental, Social and Governance (ESG) considerations into core benchmarks and passive investments. FTSE Russell has been at the forefront of innovation in ESG indexing for over two decades, since the creation of the FTSE4Good Index Series in 2001, one of the world's first global ESG index families, and later in 2014 launched the FTSE4Good Bursa Malaysia Index.

Commitment to quality

The FTSE4Good Bursa Malaysia Indices are market-leading tools for investors seeking to invest in Malaysian companies. The indices support investors that wish to encourage positive change in corporate behaviour and align their portfolios with their values.

Benefits

- Engagement with companies on their FTSE4Good assessment; therefore encouraging companies to improve ESG practices
- Aligns ESG values/objectives regarding controversial business activities by excluding or applying strict criteria on companies involved with such activities
- Avoids investing in pure play coal or traditionally excluded sectors such as tobacco and weapons
- Captures a broad universe of companies that are demonstrating strong ESG practices
- Utilises a globally recognised brand in FTSE4Good
- Maintained in collaboration with local exchange partner, Bursa Malaysia, for the domestic expertise, and included alongside the range of benchmarks in the FTSE Bursa Malaysia Index Series

Features

Aligned with global climate standards

Climate change indicators aligned with global standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative (TPI). The climate change theme scores and underlying indicators were revised in June 2021 in line with FTSE Russell's work as the data partner of the TPI, a global asset owner led and backed initiative, which assesses companies on their strategy and governance of climate risk.

Aligned with the UN Sustainable Development Goals

Supports alignment with the UN Sustainable Development Goals (SDGs). All 17 SDGs are reflected in the 14 ESG Themes that companies are assessed on in order to be included in the index series.

Precise rules and focus on data

Minimises subjectivity by having clearly defined rules for constructing the indices and assessing companies.

Transparent methodology

The index and scores methodologies are available to users, so they can determine how a company is assessed. The ESG Scores are based on publicly available data.

External advisory committees

The FTSE4Good Indices benefits from the advice of two external advisory committees. The committees provide guidance on the methodology of the FTSE4Good Index and the evolution of FTSE Russell's ESG indices.

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Index construction process

Starting universe

Start with the market capitalisation weighted underlying index, the FTSE Bursa Malaysia EMAS Index.

Step 1

Constituent selection

The FTSE4Good selection criteria are designed to reflect strong ESG risk management practices. In order to be included in the FTSE4Good Bursa Malaysia Index or Shariah Index, Malaysian companies must have an overall ESG Score of 2.9 or above out of 5[1]. This ensures only companies demonstrating strong management of ESG risks are included.

	Emerging markets
Companies newly included in the Index Series	ESG Score of 2.9 or higher
Companies removed from the Index Series	ESG Score lower than 2.4

The specific thresholds are outline in the index ground rules.

Step 1 Step 2

Exclude companies based on controversies and business activities

Companies with exposure to "significant controversies" are not eligible for addition to the Index Series, and in the most extreme cases current index constituents will be deleted.

Manufacturers/producers of:

- Controversial weapons
- Conventional weapons
- Tobacco production
- Coal (ICB subsector)

Step 1 Step 2 Step 3

Apply Shariah Screening Methodology by the SAC

The general criteria stipulate that the SAC Shariah compliant companies must not be involved in any of the following core activities: Financial services based on riba (interest); Gambling; Manufacture or sale of non-halal products or related products; Conventional insurance; Entertainment activities that are non-permissible according to Shariah; Manufacture or sale of tobacco based products or related products; Stockbroking or share trading in Shariah non-compliant securities; Other activities deemed non-permissible according to Shariah.

Step 1 Step 2 Step 3 Step 4

Publish and Review Index

The FTSE4Good Index Series is reviewed semi-annually in June and December.

Any company with a Score that has fallen below the minimum threshold is allowed a 12 month grace period to improve its Score before the company is removed from the index. This incentivises improvements in corporate practices and reduces the index turnover should the company improve, therefore meeting the standards needed.

1 The threshold is lower for Emerging markets to reflect market differences

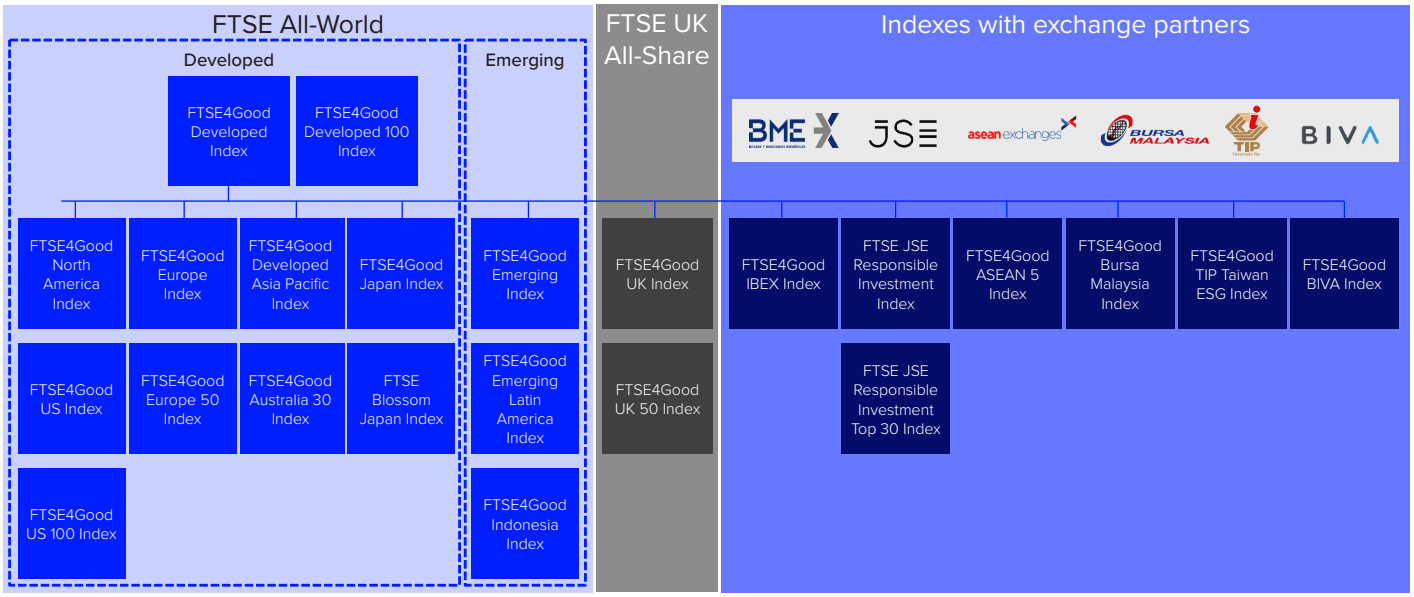
Uses for the FTSE4Good Bursa Malaysia Indices

These indices can be used in four main ways:

- **Financial products** – as tools in the creation of index-tracking investments, financial instruments or fund products focused on sustainable investment
- **Research** – to identify companies with specific environmental and social practices
- **Reference** – as a transparent and evolving global ESG standard against which companies can assess their progress and achievement
- **Benchmarking** – as a suitable replacement for a traditional market capitalisation benchmark

A global family of indices

The FTSE4Good Index Series is calculated in real-time and is suitable for creating OTC and on-exchange derivative products as well as ETFs. Values are available on all the major vendor screens.



2001

FTSE4Good

One of the first global ESG index families

2004

FTSE4Good US Select Index created, today used as a benchmark for the largest passive ESG mutual fund

2007

FTSE4Good Environmental Leaders indexes introduced, highlighting best in class companies

2012

ESG Scores based on FTSE4Good methodology launched

2013

FTSE4Good Global Minimum Variance Index launched reducing index volatility

2014

Expansion of ESG Scores coverage and methodology and launch of FTSE4Good Bursa Malaysia Index Series

2015

Launch of FTSE JSE Responsible Investment Index Series

2016

Launch of FTSE4Good ASEAN 5 Index and FTSE4Good Emerging Index

Launch of ESG data analytics platform including access to all underlying data

2017

Launch of FTSE Blossom Japan Index

Launch of FTSE4Good TIP Taiwan ESG Index

2018

Launched the FTSE Russell Stewardship, Transition and Engagement Program for Change (STEP Change)

Enhanced the FTSE ESG Scores - water critera

2019

Launch of the FTSE4Good BIVA Index, FTSE4Good North America Index and FTSE4Good Developed Asia Pacific Index

2020

Launch of the FTSE4Good Indonesia Index

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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.

Contact us

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

North America +1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 (3) 6441 1430

Sydney +61 (0)2 7228 5659

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