

# ESG Investing through Indices

December 2019



**S&P Dow Jones  
Indices**

A Division of **S&P Global**

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**E**nvironmental

**S**ocial

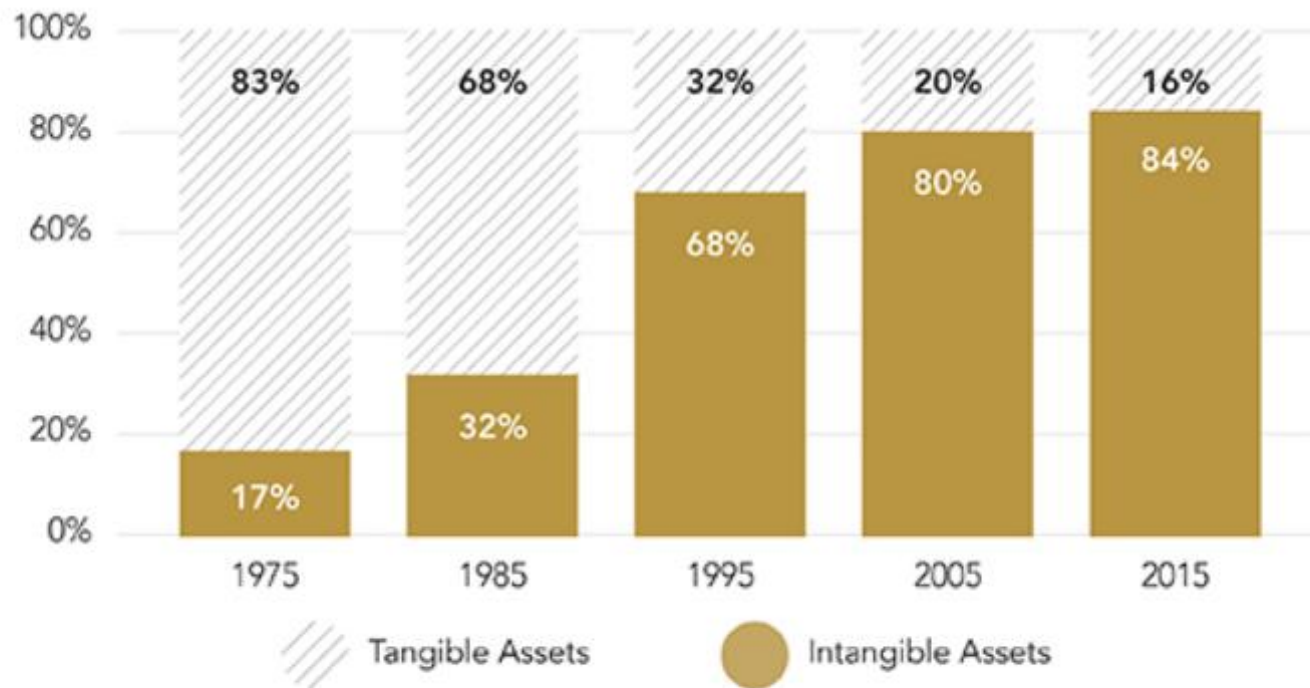
**G**overnance

## Two origins of ESG investing:

- Individuals, institutions, and countries aligning investments with their values
- The search for alpha

# Search for Alpha

## COMPONENTS *of* S&P 500 MARKET VALUE



SOURCE: INTANGIBLE ASSET MARKET VALUE STUDY, 2017

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# Johnson & Johnson's Brand Falters Over Its Role in the Opioid Crisis

An Oklahoma court case highlights the health care giant's role in the epidemic as a leading supplier of opioid ingredients.

## BUSINESS

WeWork considers governance changes to save



**Altria downgraded as analyst questions Philip Morris merger and further scrutiny of Juul's vaping ads**

PUBLISHED TUE, SEP 10 2019 • 8:07 AM EDT | UPDATED TUE, SEP 10 2019 • 10:19 AM EDT



Markets Tech Media Success Perspectives Videos

**Climate change will cost companies \$1 trillion means huge opportunities**

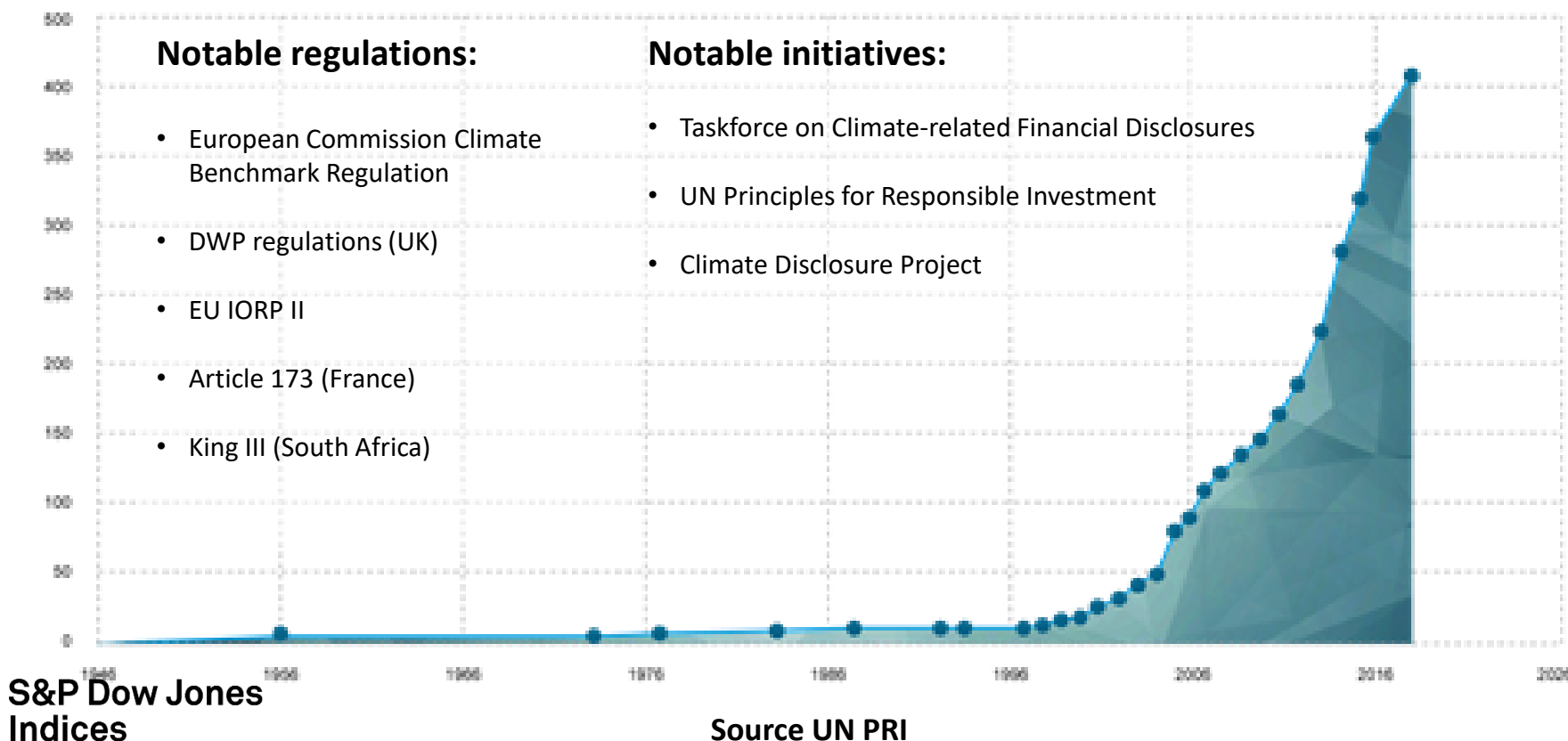
By Charles Riley, CNN Business



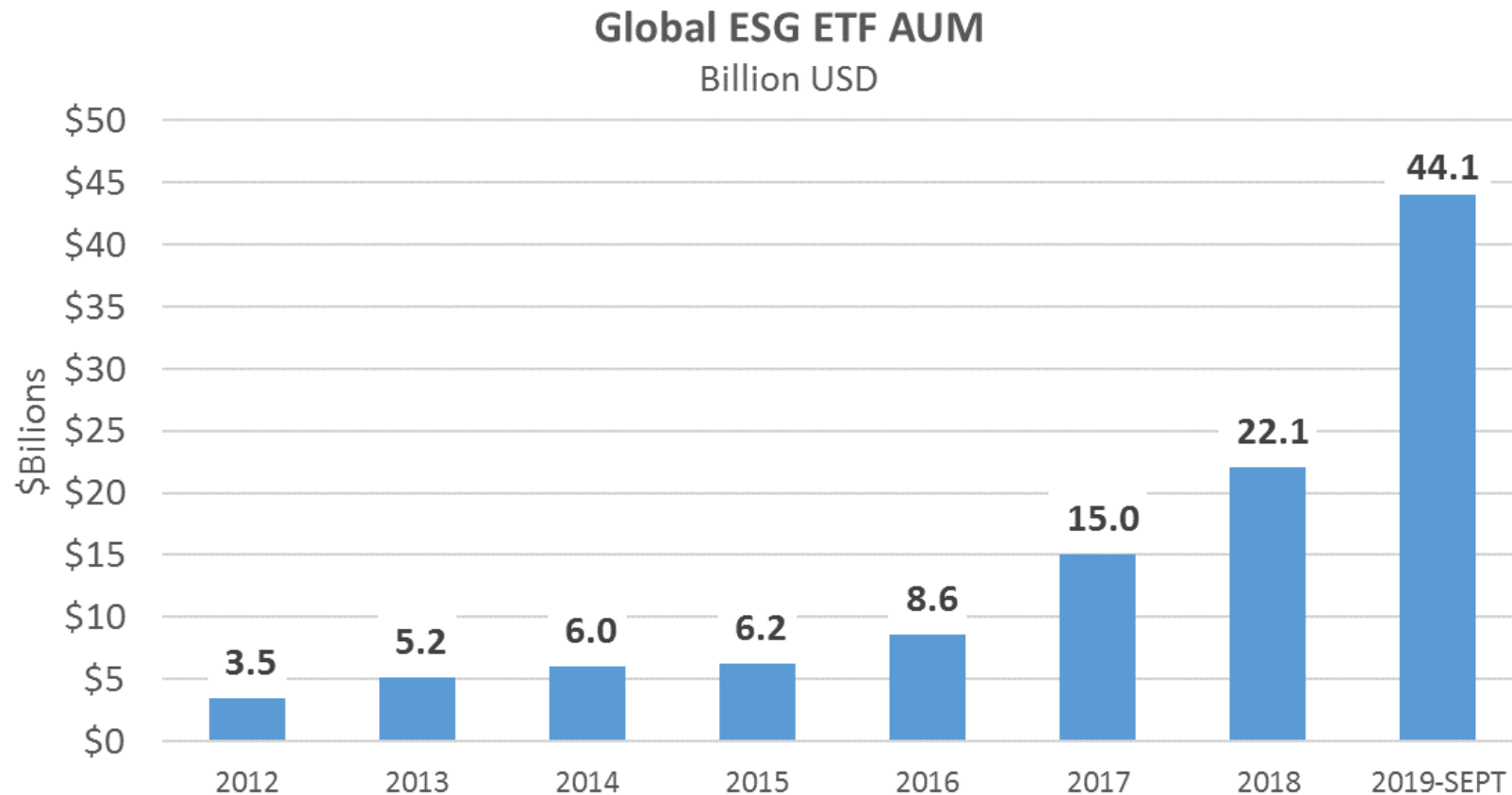
# Increase in ESG Investment Regulations

*Regulations have driven demands for ESG indices, and ESG investing has driven regulations.*

## Cumulative number of policy interventions per year



# Growth of ESG ETFs



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# ESG Moving to the Mainstream

## *From Best-in-Class Indices to Integration*

Launched the **first ever global sustainability benchmark**, the **Dow Jones Sustainability Index**



Launched **S&P Green Bond Indices**

S&P DJI publishes **ESG characteristics** of all indices on website

**S&P 500 ESG Index**  
**S&P DJI ESG Scores**

1999 ... 2009 ... 2014 ... 2016 2017 2018 2019

Launched **S&P Carbon Efficient Indices** utilizing leading Trucost carbon data



Launched S&P Long-term Value Creation Index & JPX/S&P Human Capital Index

New S&P Global Carbon Efficient Index Series **selected by GPIF for \$10.6bn allocation** (largest single ESG allocation to date)

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**Dow Jones Sustainability Indices**  
**20<sup>th</sup> Anniversary**

In collaboration with SAM



# An Example of Integration: S&P 500 ESG Index

How is ESG investing changing?

- Investors today want to integrate ESG factors into their core holdings. ESG is no longer a niche, satellite allocation.
- But investors don't want to take on outsized risks. This is not about pursuing of alpha but beta.
- They want ESG indices based on familiar benchmarks.
- Indices like the **S&P 500 ESG Index** address these needs.

# S&P ESG Index Methodology

*Driving ESG Performance while maintaining broad market exposure*

## 1) Exclude:

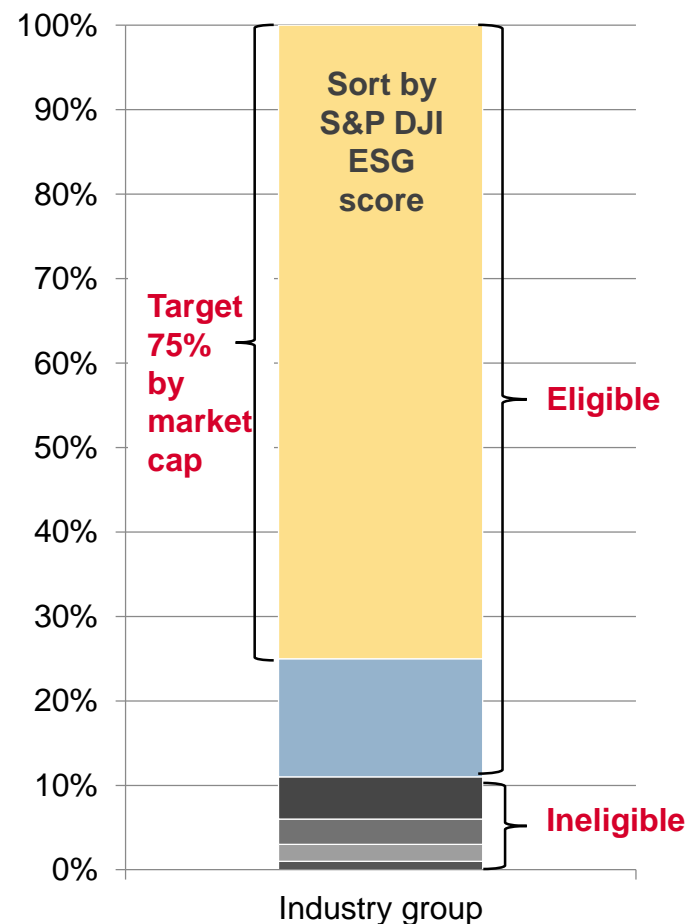
- Tobacco
- Controversial weapons
- Low UNGC scores
- Bottom 25% of S&P DJI ESG scoring companies within each global GICS Industry Group

## 2) Sort & Select:

- Sort eligible companies by S&P DJI ESG Score within each GICS Industry Group
- Select top performing companies, targeting 75% within each GICS Industry Group

## 3) Weight:

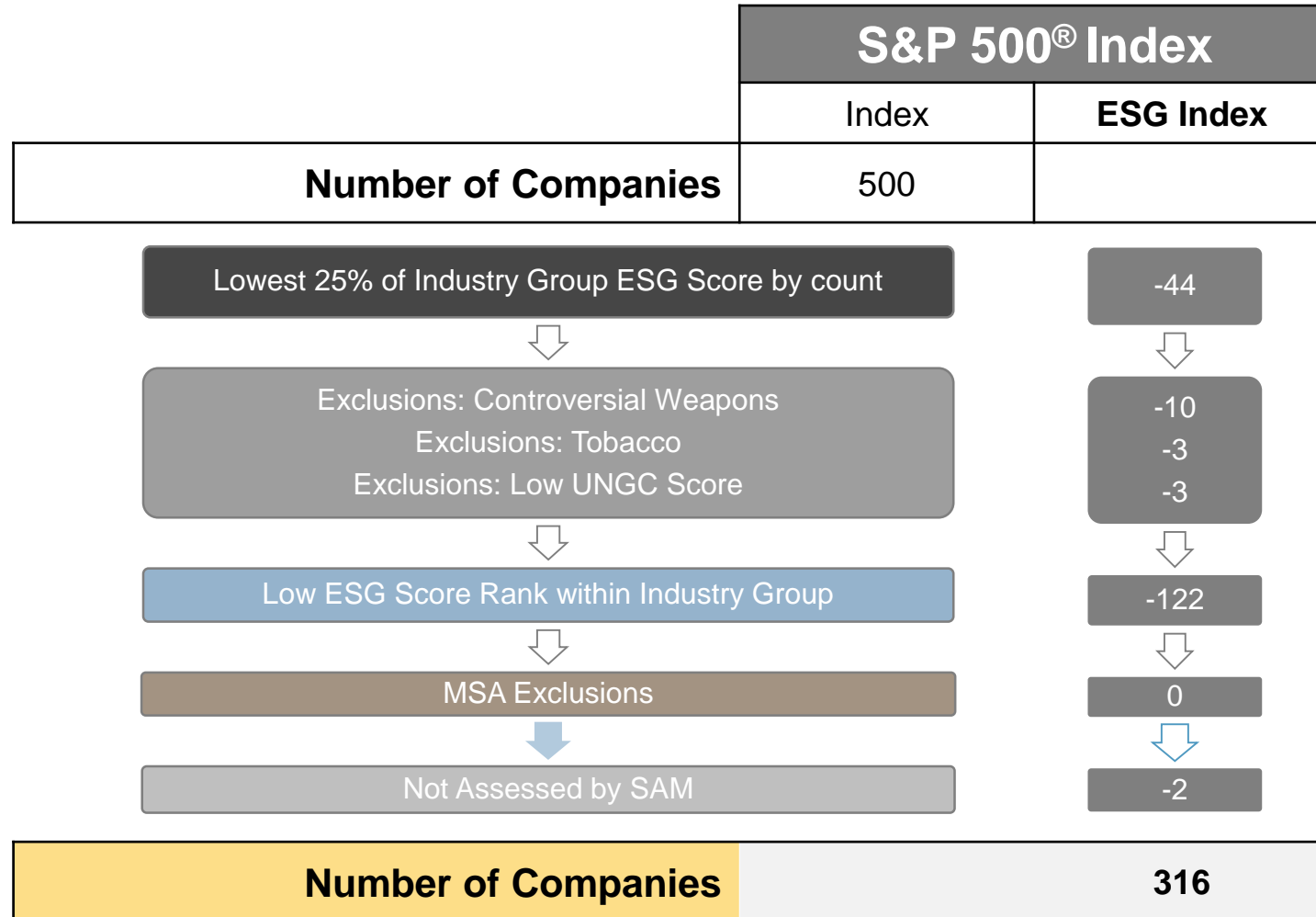
- Weight companies by float-adjusted market cap



*For illustrative purposes only*

# S&P 500® ESG Index

## Exclusions



*\*Exclusions as at rebalance on April 30<sup>th</sup>, 2018.*

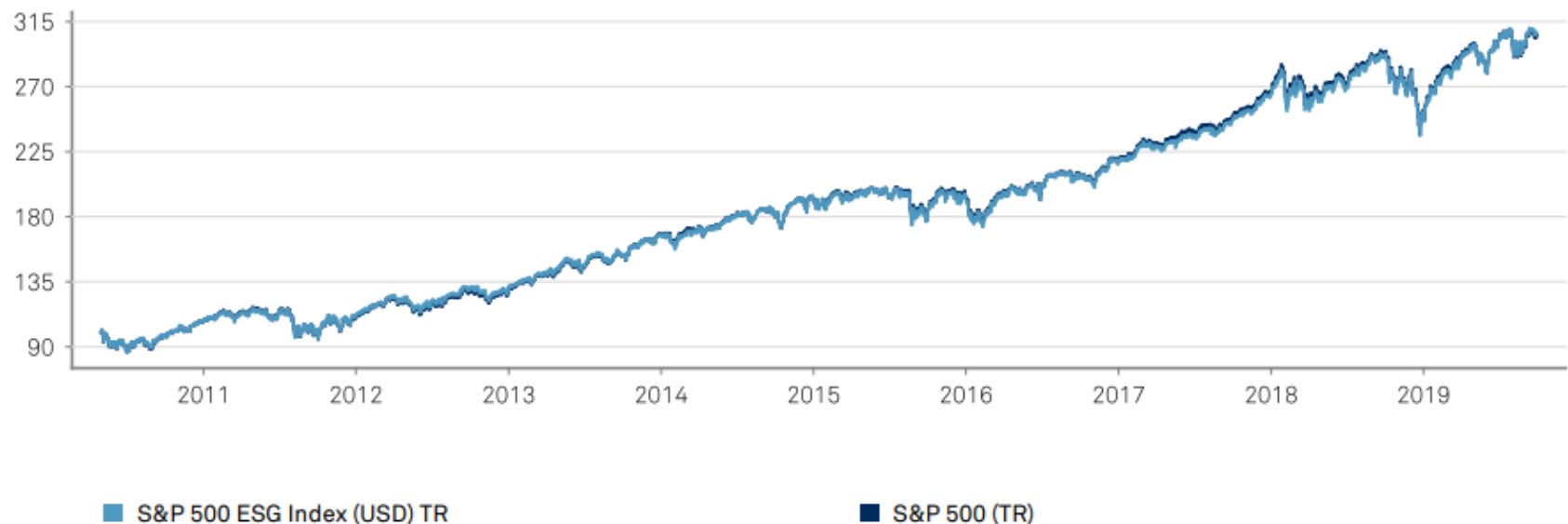
# Index Performance

## *Risk & Returns of the S&P 500 ESG Index*

	S&P 500® Index	
	Index	ESG Index
5 Year Annualized Returns (Total Return, %)	10.84%	<b>10.95%</b>
5 Year Standard Deviation (%)	11.93%	<b>11.89%</b>
5 Year Tracking Error (%)		<b>0.75%</b>

## Historical Performance

\* Data has been re-based at 100



Source: S&P Dow Jones Indices LLC. Performance data from September 30<sup>th</sup>, 2014, to September 30<sup>th</sup>, 2019. Data for graph from April 30<sup>th</sup> 2010, to September 30<sup>th</sup>, 2019. Index performance based on daily total returns, USD unless stated otherwise. Charts and graphs are provided for illustrative purposes. Past performance is not an indication or guarantee of future results. These charts and graphs may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

# S&P 500® ESG Index

*ESG Improvement*

**The S&P 500® ESG Index provides more exposure to companies...**

...considering their  
Scope 3 GHG  
emissions

...that actively monitor  
diversity related  
issues

...that perform and  
report on their ESG  
materiality analysis

...with GHG reduction  
targets

...with at least 50%  
female management  
representation

...that tie executive  
compensation to  
material ESG issues

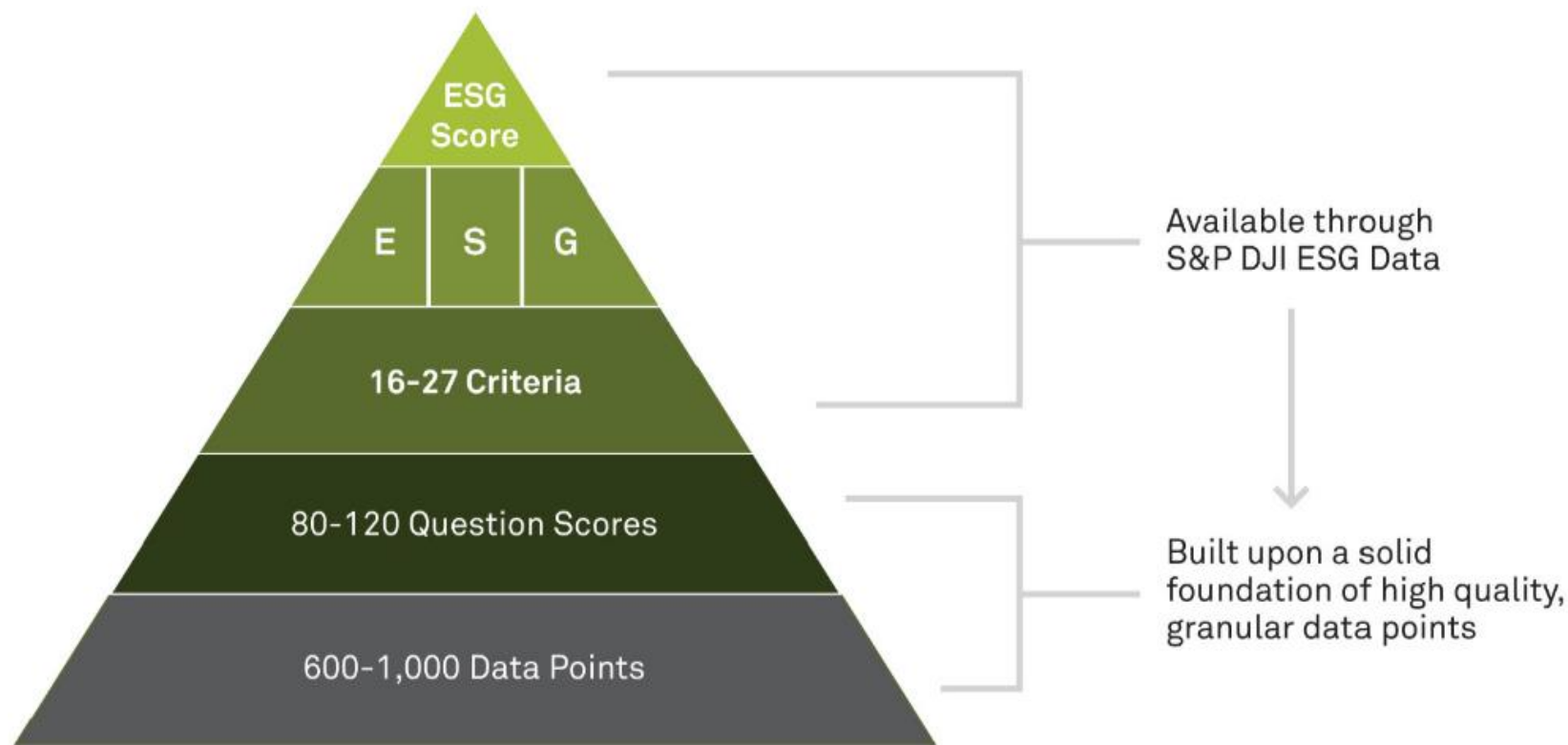
**ENVIRONMENTAL**

**SOCIAL**

**GOVERNANCE**

# S&P DJI ESG Scores:

*Some of the most comprehensive and granular ESG metrics available*

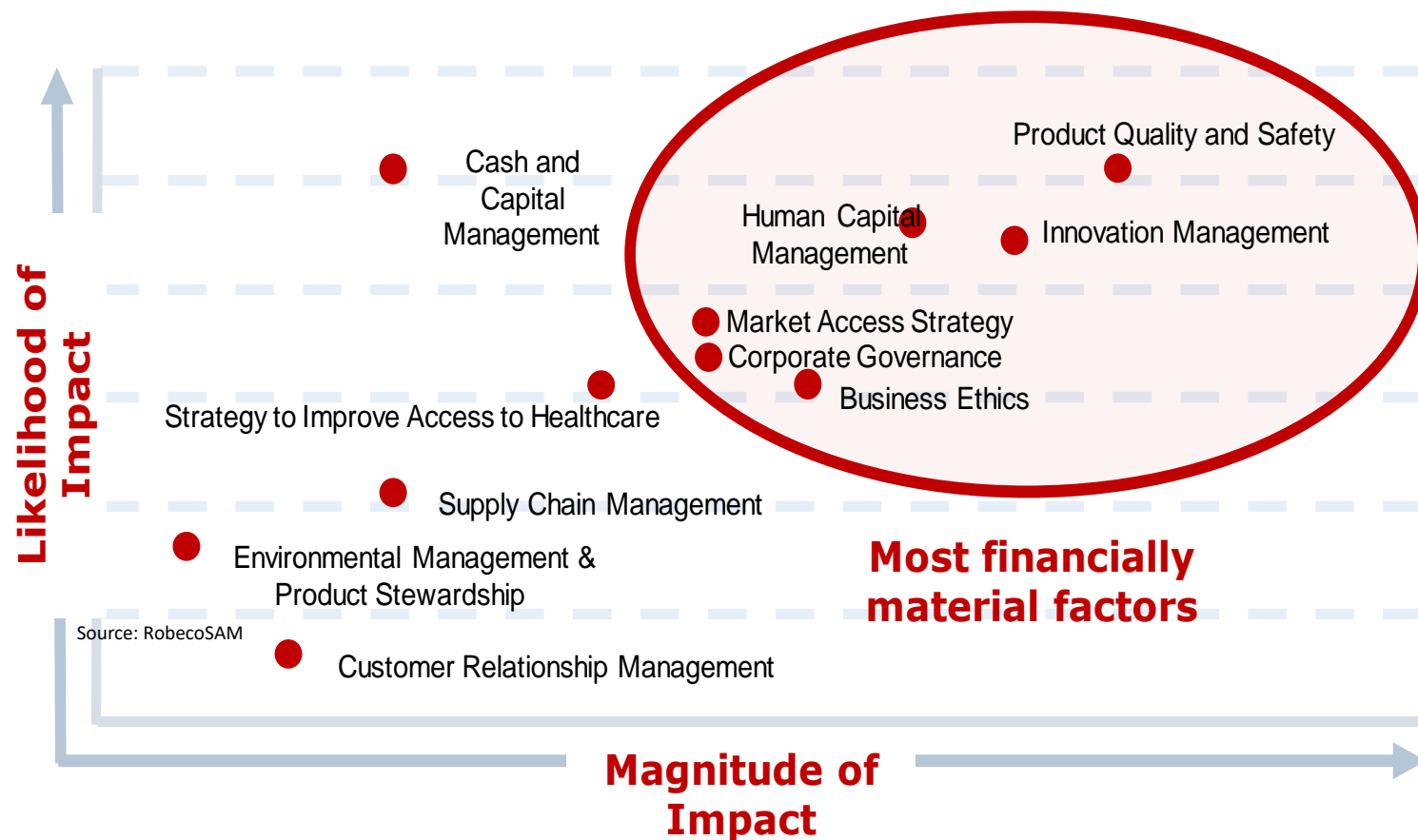




# A Financially Material Lens on ESG

*Scores focus only the most financially material issues*

## Example Materiality Matrix for Pharmaceuticals



# A Financially Material Lens on ESG

*Not All ESG Issues are Relevant for All Industries*

## Mining & Minerals



- Payment transparency

- Mineral waste mgmt.
- Water related risks
- Biodiversity

- Asset closure mgmt.
- Community impact
- Stakeholder engagement

## Restaurants



- Brand management
- Customer relationship management

- Raw material sourcing

- Local impact of business operations

## Pharmaceuticals



- Innovation mgmt.
- Product quality and recall mgmt.

- Climate strategy

- Address cost burden
- Access to drugs
- Health outcome contributions

# Performance Disclosure

The S&P 500 ESG Index launched February 4<sup>th</sup>, 2019. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at [www.spdji.com](http://www.spdji.com).

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S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live; index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at [www.spdji.com](http://www.spdji.com) for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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