ESG in Investing: The Time is Now

FTSE Russell

Data tools for ESG Integration

FTSE Russell ESG Ratings and
Green Revenues

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Important information

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LSEG Sustainable Investment Philosophy

We empower investors with next generation sustainability and climate risk capabilities to advance their investment and stewardship strategies.

INNOVATION

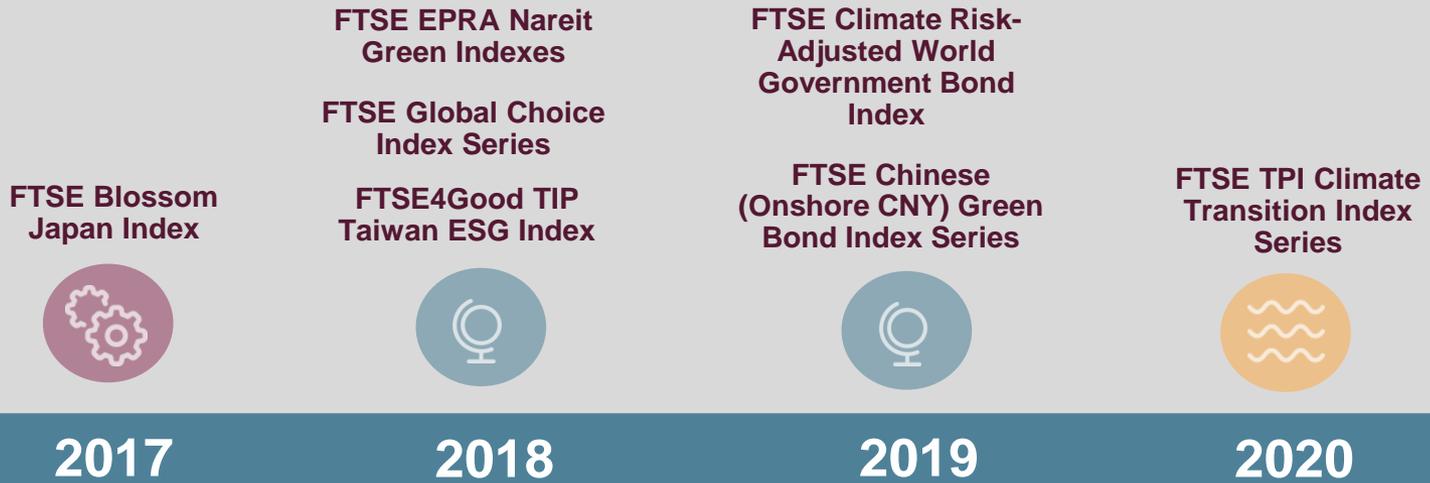**Driving the transition to a sustainable and low-carbon economy**

We enable consistent SI integration across asset classes through benchmarks, data, analytics, and flexible custom capabilities to support the full range of client investment, stewardship, and risk management needs.

INTEGRATION

CONVENING THE MARKET
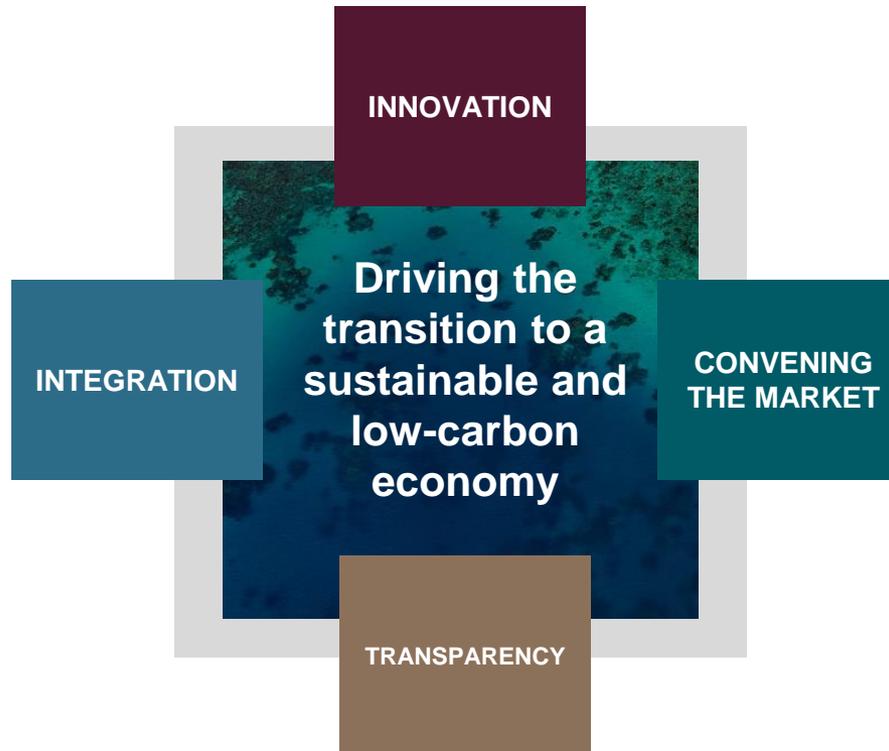
We connect up the investment chain, driving industry standards and enabling collaborative action from issuers to investors and policy makers.

TRANSPARENCY

We champion transparency to advance disclosure and data flows, enhancing the quality and accessibility of sustainability and climate information to the entire market.

FTSE Russell – Evolving Market Needs

FTSE4Good Indexes

FTSE Environmental Markets Indexes

FTSE UK Carbon Optimised Index

FTSE4Good Bursa Malaysia

FTSE ex Fossil Fuels Index

FTSE Climate Balanced Factor Index

FTSE Green Revenues Index Series

2001   2008   2011   2014   2016

FTSE EPRA Nareit Green Indexes

FTSE Global Choice Index Series

FTSE4Good TIP Taiwan ESG Index

FTSE Climate Risk-Adjusted World Government Bond Index

FTSE Chinese (Onshore CNY) Green Bond Index Series

FTSE Blossom Japan Index

FTSE TPI Climate Transition Index Series

2017   2018   2019   2020

2020
Sustainability Provider of the Year (finalist)

Pensions Age Awards

2019
Editor's Triple Star for FTSE Chinese (Onshore CNY) Green Bond Index Series

The Asset Triple A Awards

2019
Best ESG Index for the FTSE Custom Developed Ex Korea SDG Aligned Index (finalist)
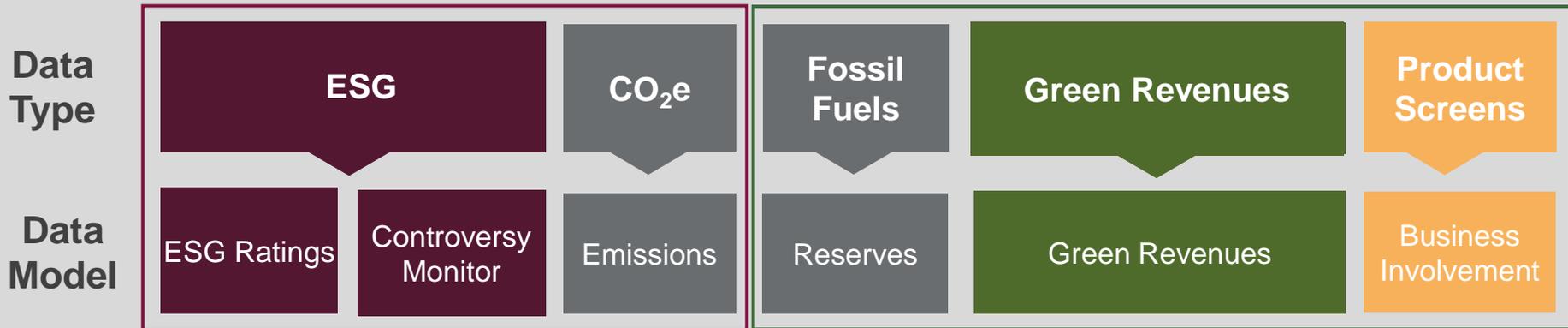
Investment Week Sustainable & ESG

Data is the starting point for ESG integration
Key business risks and opportunities

…how a company operates

…what a company manufactures

	ESG	**CO$_2$e**	**Fossil Fuels**	**Green Revenues**	**Product Screens**
Data Type	ESG	CO$_2$e	Fossil Fuels	Green Revenues	Product Screens
Data Model	ESG Ratings / Controversy Monitor	Emissions	Reserves	Green Revenues	Business Involvement

ESG issues are material risks to business
In addition to managing these risks, consider how companies are
responding to **opportunities** for sustainable and 'green' development

Sustainable investment research
ESG Ratings – How do companies operate?

Source: FTSE Russell. April 2021

300+ Indicators

Individually researched aspects which focus on key operational issues

14 x Themes

A **Score** and **Exposure** for the relevant issues within each ESG Pillar

3 x Pillars

A cumulative **Score** and **Exposure** for each of Environment / Social / Governance.

1 x ESG Rating

A cumulative calculation of total ESG performance

Investor initiatives: Focus on climate change
Disclosure frameworks supporting low carbon pathways

TCFD Recommendations

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

"There are activities and assets that formerly were valuable that will not be valuable in a net-zero world…Conversely, there are technologies and activities that are part of the solutions and they will be tremendously valuable.

Mark Carney, Forum Davos Agenda Week 2021
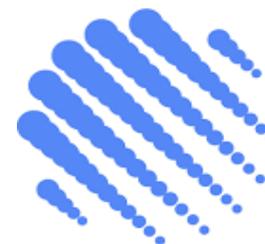
Transition Pathway Initiative: Management Quality Scores

- TPI's **Management Quality** framework is based on **19 indicators**, each of which **tests whether a company has implemented a particular carbon management practice**. These 19 indicators are used to map companies on to 5 levels/steps. **Same for all sectors**. See latest TPI *Methodology and Indicators Report, version 3.0*, for more detail.

Level 0	Level 1	Level 2	Level 3	Level 4
Unaware	**Awareness**	**Building capacity**	**Integrating into operational decision making**	**Strategic assessment**

Level 4 — Strategic assessment
- Company has set long-term quantitative targets (>5 years) for reducing its GHG emissions
- Company has incorporated climate change performance into executive remuneration *(modified question)*
- Company has incorporated climate change risks and opportunities in its strategy
- Company undertakes climate scenario planning
- Company discloses an internal carbon price
- Company ensures consistency between its climate change policy and position of trade associations of which it is a member *(new question)*

Level 3 — Integrating into operational decision making
- Company has nominated a board member/committee with explicit responsibility for oversight of the climate change policy
- Company has set quantitative targets for reducing its GHG emissions
- Company reports on its Scope 3 GHG emissions
- Company has had its operational GHG emissions data verified
- Company supports domestic & international efforts to mitigate climate change
- Company discloses membership and involvement in trade associations

Level 2 — Building capacity
- Company has set GHG emission reduction targets
- Company has published info. on its operational GHG emissions

Level 1 — Awareness
- Company recognises climate change as a relevant risk/opportunity for the business
- Company has a policy (or equivalent) commitment to action on climate change

Level 0 — Unaware
- Company does not recognise climate change as a significant issue for the business

Climate change will bring about significant investment risks and opportunities

One of the most significant, and perhaps most misunderstood, risks that organizations face today relates to climate change…
Source: TCFD, The Need for Climate-Related Financial Disclosure, 2020

The green economy has grown from $2trn in 2009 to $4trn in 2018, an annualised growth rate of 8% (faster than global equity market).
Sources: FTSE Russell December 2018, September 2020

A key conclusion is that investing for a 2°C scenario is both an imperative and an opportunity
Source: Mercer, Investing in a Time of Climate Change: The Sequel, 2019

Scenario Analysis results: Companies in the oil and gas sector vary significantly from the most and the least exposed… A few companies in the oil and gas sector demonstrate some resilience under a range of scenarios
Source: HSBC & Vivid Economics, Investing in the Low Carbon Transition, 2020

- The TPI assesses companies' preparedness for the transition to a low carbon economy

Taxonomies for green and sustainable activities
Clarifying what is sustainable

"If Europe is to mobilise capital at scale for sustainable development, it needs a technically robust classification system to establish market clarity on what is 'sustainable'. This system would cover a wide range of activities, investments and assets that can be clearly linked to the Paris Agreement and the Sustainable Development Goals (SDGs)."

First recommendation of EU High-Level Expert Group on Sustainable Finance

Countries/regions working on it: Europe, China, the UK, Canada, Japan, Singapore, ASEAN and Malaysia…

Green Economy Companies Disclosed vs Non-disclosed

26%

74%
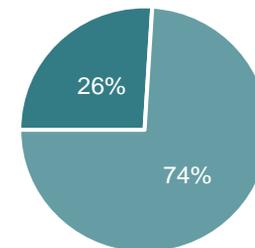
■ Disclosed ■ Non-disclosed

Source: FTSE Russell, data as of September 2020

Green Revenues 2.0 data model

Quantifying balance sheet exposure to the Green Economy

April 2020

Key points

- Despite the need for better corporate disclosures, quantifying Green Revenues has emerged as **a key requirement for global investors.** Our taxonomy provides a solution for upcoming **developing Global** taxonomies, allowing investors to measure their **exposure to the green economy.**

- FTSE Russell has **a robust Green Revenues data model** backed by a long history of "green" exposure analysis to support portfolio management and reporting — since 2016 (data model) 2008 (taxonomy).

- Green Revenues 2.0 provides higher value insights with single Green Revenues percentages based on an **expanded taxonomy —** 10 sectors, 64 subsectors and 133 micro sectors, — a robust **estimates methodology and tiering based on level of "greenness."**

*Source: FTSE Russell Research Paper "Investing in the global green economy: Busting common myths", data as of March 2018

The growing importance of green

Growing
Grown as a proportion of the total market, while the fossil fuels sector has shrunk

Substantial
Represents 6% of the market capitalization of global listed companies

Diversified
Represents all company sizes; small, mid and large cap

Multifaceted
Diverse industries and sectors addressing environmental challenges

What do we know about the green economy?

Outperforming
FTSE Russell's green indexes have outperformed their parent benchmark over the last 5 years

Global
Broad geographical coverage with the US having the largest exposure

"We all know that the green economy is the future."

Antonio Guterres,
UN Secretary-General
28/03/19

Source: FTSE Russell paper, as of 2018 - Investing in the global green economy: Busting common myths

FTSE Russell Green Revenues 2.0

Quantifying individual company revenue exposure to the green economy

Green Revenues Data Model

Broad & Deep Coverage
16,000+ companies
Over 98% global market cap
9+ years of data history*

Comprehensive
Taxonomy
Green Tiering
Percentage estimates

Transparent
Market leading methodology and governance relevant to market needs

Total Green Revenues market

*Point estimates available from 2016

Green Revenues Classification System [GRCS]

Sectors, subsectors and micro sectors

Green Sectors

Green Revenues %

Sectors:
- Energy Generation
- Energy Equipment
- Energy Management and Efficiency
- Environmental Resources
- Environmental Support Services
- Food and Agriculture
- Transport Equipment
- Transport Solutions
- Waste and Pollution Control
- Water Infrastructure and Technology

FTSE GRCS 2.0
GR Data 2.0
2020

Green Revenues (GR) Data Model
2018

FTSE Russell Green Revenue Classification System (GRCS)
2013

Environmental Markets Classification System
2008

- **Multiple sub sector allocation**

- **No minimum revenue threshold**

10	**64**	**133**
SECTORS	SUBSECTORS	MICRO SECTORS

Green Revenues Classification System [GRCS]
Sectors and subsectors

ENERGY GENERATION [EG] 19	ENERGY MANAGEMENT AND EFFICIENCY [EM] 13	ENERGY EQUIPMENT [EQ] 22	ENVIRONMENTAL RESOURCES [ER] 11	ENVIRONMENTAL SUPPORT SERVICES [ES] 5
Bio Fuels	Buildings & Property (Integrated)	Bio Fuels	Advanced & Light Materials	Environmental Consultancies
Cogeneration	Controls	Cogeneration Equipment	Key Raw Minerals & Metals	Finance & Investment
Clean Fossil Fuels	Energy Management Logistics & Support	Clean Fossil Fuels	Recyclable Products & Materials	Smart City Design & Engineering
Geothermal	Industrial Processes	Fuel Cells		
Hydro	IT Processes	Geothermal		
Nuclear	Lighting	Hydro		
Ocean & Tidal	Power Storage	Nuclear		
Solar	Smart & Efficient Grids	Ocean & Tidal		
Waste to Energy	Sustainable Property Operator	Solar		
Wind		Waste to Energy		
		Wind		

FOOD & AGRICULTURE [FA] 17	TRANSPORT EQUIPMENT [TE] 12	TRANSPORT SOLUTIONS [TS] 9	WASTE & POLLUTION CONTROL [WP] 15	WATER INFRASTRUCTURE & TECHNOLOGY [WI] 10
Agriculture	Aviation	Railways Operator	Cleaner Power	Advanced Irrigation Systems & Devices
Aquaculture	Railways	Road Vehicles	Decontamination Services & Devices	Desalination
Land Erosion	Road Vehicles	Video Conferencing	Environmental Testing & Gas Sensing	Flood Control
Logistics	Shipping		Particles & Emission Reduction Devices	Meteorological Solutions
Food Safety, Efficient Processing & Sustainable Packaging			Recycling Equipment	Natural Disaster Response
Sustainable Plantations			Recycling Services	Water Infrastructure
			Waste Management	Water Treatment
				Water Utilities

10 SECTORS	**64** SUBSECTORS	**133** MICRO SECTORS

Green, Greener, Greenest

Company activities are assessed against seven environmental objectives and allocated to micro sector tiers based on overall impact.

Impact in tiers		
Tier 1	**Tier 2**	**Tier 3**
Clear & significant	**Net positive**	**Limited**
Micro sector examples — Solar — Recyclable products & Materials — Waste management	**Micro sector examples** — Flood control — Cloud computing — Smart city design & Engineering	**Micro sector examples** — Nuclear — Bio fuels — Key raw materials and minerals

Environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Pollution prevention and control
4. Protection of healthy ecosystems
5. Sustainable use and protection of water and marine resources
6. Transition to a circular economy, waste prevention and recycling
7. Sustainable and efficient agriculture

Green Revenues capabilities

RESPOND TO TAXONOMY REQUIREMENTS

- By end 2021, financial products on sale in the EU will have to reference the EU Taxonomy for Sustainable Activities; similar taxonomies are in progress elsewhere
- FTSE Russell Green Revenues can be calibrated to taxonomy reporting requirements.

SEIZE CLIMATE TRANSITION RISK OPPORTUNITIES IN PORTFOLIO MANAGEMENT

- Understand portfolio exposure to climate transition risks
- Identify opportunities for investment in companies with green activities

INPUT INTO CLIMATE RISK-ADJUSTED INDEXES

- Use a unique data set to tilt custom indexes towards companies offering opportunities in the climate transition

USE FOR CLIMATE/TCFD REPORTING

- Use FTSE Russell Green Revenues data to communicate portfolio exposure to climate-related opportunities and performance

Green Economy Mark

- Equity issuers with 50%+ green revenues, across all segments of the Main Market & AIM

- FTSE Russell Green Revenue Data Model provides a robust underlying framework

- Addresses investor focus on environmental opportunities with increased visibility

- Supports response to regulators (e.g. clear mapping to EU Taxonomy).

- Increases market-wide awareness of the breadth of the green economy

- Green Economy Mark added to Turquoise to support secondary market liquidity

- Issuers with 90%+ green revenues may list bonds on the Sustainable Bond Market

London Stock Exchange Group

Key points

- **FTSE Russell's Green Revenues data model is growing with the marketplace**, quantifying with point data accuracy, where companies are today, and measuring their progress in achieving green standards.

- **Green Revenues 2.0** — The data model has expanded to offer a larger universe than ever in its 10-year history. Users can access this data via our flexible, web-based interface.

- **Green revenues data tells you…**

  — What it means to be green – Robust taxonomy

  — What companies are active in the green economy – Comprehensive estimates methodology

  — How green are those companies – Green, greener or greenest?

Important information