

SOLUTION OVERVIEW

FTSE Blossom Japan Index Series

Measuring ESG practices of Japanese companies to facilitate stewardship integration into investment strategies



Overview

Investors globally are developing investment strategies that aim to integrate environmental, social and governance (ESG) considerations into their core approaches, and are growing in sophistication. The Japanese sustainable market is no exception to this global trend, and has blossomed in recent times, creating a demand to integrate ESG criteria into the core benchmark construction and passive strategies of investors.

Based on the underlying FTSE Japan All Cap Index, the FTSE Blossom Japan Index Series represents broad exposure to the Japanese equity market, whilst weighting each constituent based on its ESG risk using an industry or sector neutral methodology (depending on the index).

Benefits

The FTSE Blossom Japan Index Series:

- **Facilitates ESG integration into the Japanese market** – supports improved ESG and corporate sustainability practices, using FTSE ESG scores
- **Applies ICB industry or sector-neutral weighting approach** – minimises industry or sector bias by applying industry or sector neutrality to match the weights of the underlying FTSE Japan All Cap Index
- **Improves company engagement** – increases transparency and disclosure in the capital markets to improve company engagement and investment stewardship practices
- **Supports climate transition to a low carbon economy** – in addition, the Sector Relative index excludes high carbon intensity companies, while considering the quality of companies' management of climate risks and opportunities via the Transition Pathway Initiative's (TPI) Management Quality Score, to support climate transition efforts

Features

Based on FTSE Russell's ESG Scores

FTSE Russell assesses a wide universe of companies on their exposure to and management of ESG issues. Within the global universe there are approximately 1300 Japanese companies covered, including the FTSE Japan All Cap Index constituents, which are used as the basis for the FTSE Blossom Japan Index Series.

Materiality

Identifying investment-relevant ESG Themes for a given company, based on the business characteristics such as the geographies and subsectors in which it operates.

International standards

Alignment with existing international standards, including the UN Sustainable Development Goals.

Evolving criteria

Periodic review of ESG evaluation criteria based on corporate behavior, investor needs and stakeholder interest.

Independence

Governance structure based on an independent committee.

Transparency

Transparent process based on publicly available information.

Corporate engagement

Detailed corporate communication and engagement program that has improved corporate practices globally.¹

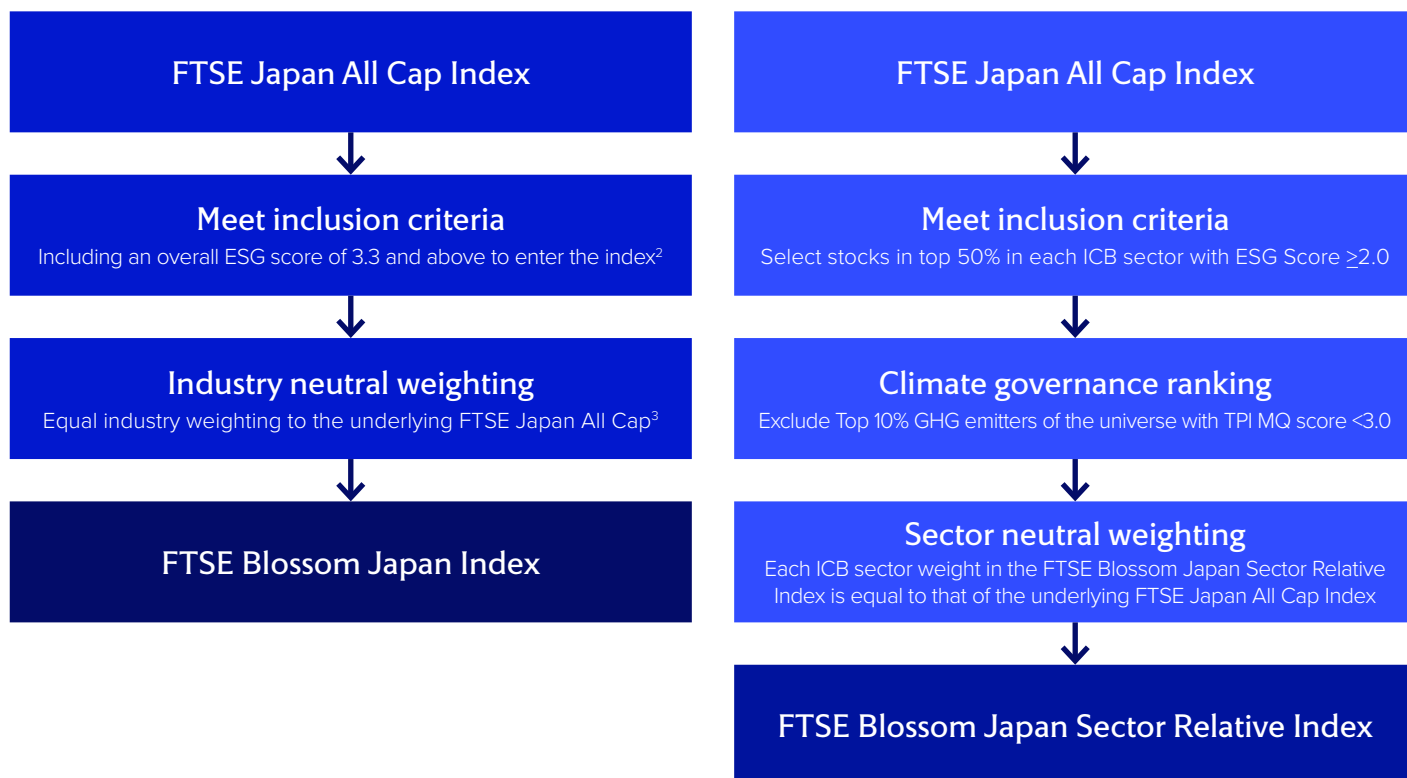
¹ Source: Mackenzie et al (2012), University of Edinburgh; Slager, Catharina Henrike (2012), University of Nottingham



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Index construction process

The FTSE Blossom Japan Index Series uses FTSE Russell's transparent ESG Scores to measure exposure to and management of ESG-related risks.



² Additional rules are set out in the FTSE Blossom Japan Index Ground Rules and the Index Inclusion Rules for the FTSE4Good Index Series

³ A single constituent's weight within the index is capped at 15%, and 20 times its index weight in the FTSE Japan All Cap Index

Index methodology

FTSE Blossom Japan Index	FTSE Blossom Japan Sector Relative Index
Approximately 200 Japanese securities	Approximately 500 Japanese securities
Industry-neutral approach to minimises industry bias by matching weights with those of the underlying index	Sector-neutral approach to minimises sector bias by matching weights with those of the underlying Index
Selects Japanese companies with ESG Score 3.3 and above	Selects Japanese companies in the top 50% of each sector and with ESG Score 2.0 and above
Since 2017, demonstrates a clear ESG standard for market participants and companies to utilise in their stewardship and engagement efforts	Supports climate transition to a low carbon economy by evaluating companies' climate governance and climate change efforts with the TPI Management Quality Score

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