

## INDEX OVERVIEW

# FTSE EPRA Nareit Green Index Series

Integrating climate risk into listed real estate portfolios

### Overview

Climate change poses clear and material risks to real estate assets with the potential to impact return profiles. Real estate investing has historically lacked the appropriate tools to allow investors to assess their exposure to climate risk and to integrate it effectively in their investment strategies.

To help address this gap, the **FTSE EPRA Nareit Green Index Series** have been designed to allow investors to identify real estate companies with strong sustainability performance.

These indices are a sustainability-focused extension to the FTSE EPRA Nareit Global Real Estate Index Series, leading listed real estate benchmarks, with approximately US\$407 billion of active and passive assets tracking this family<sup>1</sup>.

### Benefits

- Allows for significant improvements in climate and sustainability characteristics, specifically the increase in floor space under eligible green certified constituents and the reduction in carbon emissions per dollar of revenue
- Takes an alternative approach to addressing the lack of comprehensive sustainability data. The indices draw on a geolocation dataset containing data on over 15 million buildings to utilise bottom up building data to assess the sustainability characteristics of real estate companies
- Includes an alternative index for investors that are focused on limiting tracking error to the parent benchmark, by minimising active sector and country weights. This version also provides notable sustainability improvements



### Features

- Consists of eligible securities in the underlying FTSE EPRA Nareit Global Real Estate Index Series
- Constituent weights are adjusted based on two sustainable investment measures:
  - Green building certification
  - Energy usage
- Managed in partnership with the European Public Real Estate Association (EPRA), and the US-based association for REITs and publicly traded real estate companies, Nareit
- Follows the FTSE Global Factor Index Series methodology to address concerns about liquidity, capacity, diversification and turnover
- Constructed with the FTSE Target Exposure Framework, allowing a transparent tilt exposure towards and away from index constituents according to a number of exposure objectives
- Transparent, rules-based process

<sup>1</sup> Data as of December 31, 2021 as reported on April 1, 2022 by eVestment for active institutional funds, Morningstar for active retail mutual funds, insurance products, and ETFs, and passive assets directly collected by FTSE Russell.



## Green building measures and definitions

Measure	Objective	Definition
<p>Green building certification</p> 	Increase/decrease constituent weights based on percentage of buildings that have eligible green building certification	Share of the total net leasable area in the company’s real estate portfolio that is certified as part of an eligible green building certification scheme
<p>Energy usage (kWh)</p> 	Increase/decrease constituent weights based on energy usage	Average estimated energy use per square metre in a company’s real estate portfolio

## Index construction process

### Starting universe

Select an index from within FTSE EPRA Nareit Global Real Estate Index Series as a starting universe (e.g. FTSE EPRA Nareit Developed Index)

**Step 1**

### Apply Green Certificate and Energy Consumption targets

- Green building certification: Share of the total net leasable area in the company’s real estate portfolio that is certified as part of an eligible green building certification scheme
- Energy usage: average estimated energy use per square metre in a company’s real estate portfolio

**Step 1**

**Step 2**

### Target Exposure corrective tilts

The Target Exposure methodology allows for targeting specific levels of improvement in index level sustainable investment measures while controlling for diversification, capacity, and concentration to ensure the index remains investable.

The following constraints can be applied during this process:

- Country and industry objectives are stated as a targeted set of active weights that satisfy upper and lower bounds
- Beta, capacity, turnover, maximum stock weight objectives may also be set

**Step 1**

**Step 2**

**Step 3**

### Publish and review index

The index is reviewed annually in September to update for newly eligible stocks, changes in exposure to energy usage and green building certification.

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**EMEA** +44 (0) 20 7866 1810

**North America** +1 877 503 6437

**Asia-Pacific**

**Hong Kong** +852 2164 3333

**Tokyo** +81 (3) 6441 1430

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