

SOLUTION OVERVIEW

FTSE JPX Net Zero Japan Index Series

The next generation of climate transition indices



Overview

Japanese investors are increasingly seeking to mitigate climate risks, capture climate opportunities from the nascent green economy and ensure alignment with Net Zero by 2050 in their portfolios. The market has taken evolutionary steps as it has developed from relatively simple risk-based implementation options—such as creating “ex fossil fuel” or “low carbon” portfolios—to approaches that also capture the potential upside from the transition to a low carbon economy and a net zero pathway.

The FTSE JPX Net Zero Japan Index Series is based on JPX’s well-tracked TOPIX 500, which provides diversified exposure across the Japanese stock market. The series aligns to net zero by 2050 by applying index tilts to the market capitalisation weighted FTSE JPX Japan 500 Reference Index and FTSE JPX Japan 200 Reference Index, to achieve a 30% reduction in carbon emissions and fossil fuel reserves against reference indices and an average 7% annual reduction in carbon emissions and fossil fuel reserves. It also achieves a significant uplift in exposure to the green economy and overweights companies with better climate governance for the transition to a low carbon economy and support climate change efforts.

FTSE JPX Net Zero Japan Index Series

The Index Series consists of two indices based off the well-tracked TOPIX 500, which provides diversified exposure across the Japanese stock market:

- FTSE JPX Net Zero Japan 500 Index
- FTSE JPX Net Zero Japan 200 Index

Benefits

- Provides a clear picture of company alignment with the climate transition based on multiple climate parameters
- Combines market-leading climate data from FTSE Russell and the Transition Pathway Initiative into a single index design, allowing investors to align with net zero commitments
- Uses FTSE Russell’s tilt-based multi-factor methodology for transparent index construction and support investor stewardship and corporate engagement activities



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Features

Diversified exposure across the Japanese stock market

The base index of FTSE JPX Net Zero Japan 500 Index is a reference index that contains TOPIX 500 constituents and the base index of FTSE JPX Net Zero Japan 200 Index is the largest 200 stocks in terms of market value in the reference index.

Adheres to international frameworks

These jointly-developed indices, are the first TOPIX 500 based Japanese climate integrated indices intended to align with the EU Climate Transition Benchmark (CTB) criteria and the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD).

Aligns with “Net Zero” pathways

FTSE Russell’s Target Exposure methodology drives decarbonisation of the index at a rate in line with climate scenarios set out by the IPCC.

Supports the climate transition to a low carbon economy

Incorporates data assessments from the Transition Pathway Initiative (TPI) to evaluate companies’ climate governance for the transition to a low carbon economy and support climate change efforts via the TPI Management Quality (MQ) and TPI Carbon Performance (CP).

Target outcomes by tilting constituent weights for risks, opportunity and transition alignment

The constituent weights are tilted with Fossil Fuel Reserves, Carbon Emissions, Green Revenues, TPI MQ and CP for potentially signalling the 2DC transition progress/performance of the companies.

Climate change parameters

Climate Risks & Opportunities /Disclosed		Fossil fuel reserves	Underweight or exclude companies with fossil fuel reserves
		Carbon emissions	Over or underweight companies according to their GHG emissions (see also “Net zero pathways”)
		Green revenues	Overweight companies engaged in the transition to a green economy
		TPI Management Quality	Over or underweight companies according to their management quality (“climate governance”)
Transition Alignment		TPI Carbon Performance	Over or underweight companies according to their carbon performance (“2°C/Below 2°C pathways”)
		Net zero pathways	Apply annual decarbonisation (carbon emissions reduction) target to reach “net zero” over c.10 years

Index construction process

Starting universe

Start with the market capitalisation weighted index (e.g. FTSE JPX Japan 500 Reference Index or FTSE JPX Japan 200 Reference Index).

Step 1

Exclude companies

Apply the baseline exclusions: controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons), tobacco activities and companies identified as being non-compliant with UN Global Compact (UNGC) principles.

Step 1

Step 2

Calculation of climate scores

Constituents' Fossil Fuel Reserve Intensity is calculated as the estimated CO2 equivalent GHG emissions in metric tons generated by the combustion of a company's fossil fuel reserves, divided by its full company market capitalisation (in USD).

Constituents' Operational Carbon Emissions Intensity is calculated as the latest annual CO2 equivalent GHG emissions in metric tons scaled by enterprise value including cash (in USD).

Constituents are assigned a FTSE Green Revenues ratio value, TPI MQ score and TPI CP score.

Step 1

Step 2

Step 3

Translate scores into tilts

Apply FTSE Target Exposure for targeted climate outcomes:

- Underweight companies with fossil fuel reserves
- Over/underweight companies according to their greenhouse gas emissions whilst applying sector neutrality
- Overweight companies generating revenues from the global green economy
- Over/underweight companies according to the quality of their climate governance
- Over/underweight companies according to their carbon performance
- Target a minimum 30% (CTB) reduction in carbon emissions and fossil fuel reserves intensity relative to the reference benchmark
- Apply 7% average annual reduction in carbon emissions and fossil fuel reserves intensity relative to the base year
- Target an uplift in Green Revenues exposure

Step 1

Step 2

Step 3

Step 4

Adjust index and constrain final weights

The following constraints are applied during this process:

- Industry weight constraints
- Minimum stock level weight
- Maximum stock level capacity ratio
- Maximum turnover ratio

Step 1

Step 2

Step 3

Step 4

Step 5

Publish and review indices

The FTSE JPX Net Zero Japan Index Series are reviewed annually in December.

About FTSE Russell

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

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.

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About JPX Market Innovation & Research



JPX Group has established JPX Market Innovation & Research, Inc. (JPXI) as a new subsidiary parallel to the exchanges, the self-regulatory organisation, and the clearing house. It commenced business on April 1, 2022. JPXI, as a leading index administrator for the Japanese market, covers a number of equity indices including its flagship index, TOPIX.

As well as taking on JPX Group's index, data, and digital-related services, thereby enabling JPX Group to provide all market-related services from under one roof, JPXI will play a key role in creating the global, comprehensive financial and information platform "G-HUB" as set out under the long-term vision to be achieved by 2030 "Target 2030".

Furthermore, JPXI will contribute to bolstering the competitiveness and status of Japanese financial and capital markets by enriching services on ESG, listed company, and others considered necessary to enhance the attractiveness of the market, as well as envisioning how financial and capital markets should look with the use of new technologies.

About the Transition Pathway Initiative



The Transition Pathway Initiative (TPI) is a global initiative led by asset owners and supported by asset managers. It assesses companies' preparedness for the transition to a low carbon economy, supporting efforts to address climate change. Launched in 2017, it is rapidly becoming the "go-to" corporate climate action benchmark. The TPI is backed by 120 investors globally with over \$40 trillion in combined assets under management and advice (February 2022).



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