

INDEX OVERVIEW

FTSE MPF ESG Low Carbon Select Index Series

Providing a range of MPF benchmarks that reflect better ESG performance and a lower carbon profile



Overview

Pension markets globally are rapidly evolving in the adoption of sustainable investment and development of ESG integration and fund labelling standards. The demand to integrate environmental, social and governance (ESG) and climate considerations into core benchmarks and investment strategies, increases as sustainable investment expectations from investors and disclosure requirements mount.

The FTSE MPF ESG Low Carbon Select Index Series is designed to help investors align their investment strategy with clear, transparent sustainability objectives by integrating ESG and climate considerations in their investments. The Index Series aligns investment portfolios with carbon emissions and reserves reduction, along with improvement in the aggregate ESG Score relative to the underlying benchmark.

Pension funds tend to have longer investment horizons, making them vulnerable to long-term investment risks. The Index Series aims to provide an investment tool to reduce ESG risks and manage carbon exposures in investment portfolios that may contribute to improving the long-term risk/return profile. Company weights within each index are “tilted” using FTSE Russell’s ESG Scores and Carbon Emissions and Reserves data.

The FTSE MPF ESG Low Carbon Select Index Series consists of the following indices:

Index name	Bloomberg Ticker (Net Total Return)
FTSE All-World ESG Low Carbon Select Index	GPMPF46N
FTSE Asia Pacific ex Japan ESG Low Carbon Select Index	GPMPF45N
FTSE North America ESG Low Carbon Select Index	GPMPF47N
FTSE Europe ESG Low Carbon Select Index	GPMPF48N
FTSE China ESG Low Carbon Select Index	GPMPF43N
FTSE Hong Kong ESG Low Carbon Select Index	GPMPF42N
FTSE Japan ESG Low Carbon Select Index	GPMPF44N



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Features

MPF compliant index design

- Consists of eligible securities in the relevant underlying FTSE MPF Index Series
- Reflects MPF regulatory requirements, permitted investment markets and asset classes as well as dividend withholding tax rates and investment restrictions in the MPF system

ESG and carbon considerations

- Index methodology combines ESG, carbon emissions and carbon reserves data inputs to reduce ESG and carbon risk exposures, based on clear, transparent and targeted objectives;
- ESG and Low Carbon targets are incorporated into the index construction, setting clear objectives and outcomes for investment strategy alignment.

Baseline exclusions

- Product-based and conduct exclusions are applied to limit exposure to controversial products, activities and behaviours in core benchmarks;
- Companies involved with weapons, thermal coal extraction and power generation, tobacco production and distribution, nuclear power generation, gambling and adult entertainment are excluded;
- Companies deemed non-compliant against the UN Global Compact principles are excluded.

ESG and Carbon targets

Sustainable Investment Data Input	Target	Objective	Definition
ESG Scores 	20% improvement in index-level ESG Score *15% for FTSE MPF Europe ESG Low Carbon Select Index	To overweight companies with strong ESG Score. To take into consideration how far a company's ESG risk exposures are managed	An overall ESG Score is derived from underlying Pillar and Theme Exposures and Scores built on over 300 individual indicators.
Operational Carbon Emissions 	At least 50% reduction in index-level operational carbon emissions intensity	To underweight companies with a high GHG emissions footprint. To reduce exposure to less carbon efficient companies that have higher risk exposure to future carbon pricing costs	Annual scope 1 and 2 CO2 equivalent greenhouse gas (GHG) emissions in metric tons scaled by annual sales (in USD)
Fossil Fuel Reserves 	At least 50% reduction in index-level fossil fuel reserves intensity	To underweight companies with fossil fuel reserves To manage significant stranded assets risk from portfolio fossil fuel exposure	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)

Index construction process

Starting universe

- FTSE MPF All-World Index
- FTSE MPF Asia Pacific ex Japan Index
- FTSE MPF North America
- FTSE MPF Europe
- FTSE MPF China Index
- FTSE MPF Hong Kong Index
- FTSE MPF Japan Index

Step 1

Excluded companies

Companies are excluded from the index based on their revenue-based involvement with controversial products, activities and/or conduct. Companies involved in the following exclusion categories (revenue thresholds applied) are excluded:

- Weapons
- Tobacco production and distribution
- Adult entertainment
- Gambling
- Thermal coal extraction and power generation
- Nuclear power generation
- UN Global Compact controversies

Step 1 Step 2

Calculate ESG scores

Obtain the ESG Score for each company in the underlying indices using FTSE Russell's ESG Scores and data model.

Step 1 Step 2 Step 3

Calculate carbon emission and fossil fuel reserves data

Obtain operational carbon emission intensity and fossil fuel reserves intensity for each company in the underlying indices using FTSE Russell's Carbon Emissions and Carbon Reserves data model.

Step 1 Step 2 Step 3 Step 4

Translate scores into index weights

"Tilt", or adjust, the weight of constituents based on their alignment to index sustainability objectives, overweighting constituents with higher corporate ESG Score, and underweighting constituents with high operational carbon emissions intensity and fossil fuel reserves intensity.



Narrow index and constrain final weights

Ensure that diversification constraints are not breached and remove stocks with weight below the minimum weight threshold. The following constraints are applied during index construction:

- Country and industry weight constraints
- Maximum stock level capacity ratio
- Minimum stock weight



Publish and review index

- The index series is reviewed and rebalanced annually in September
- The ESG Scores, operational carbon emissions intensity and fossil fuel reserves intensity data are calculated annually in September
- The product-related exclusions are applied annually in September
- The conduct-related exclusions are applied quarterly in March, June, September and December

About FTSE Russell

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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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