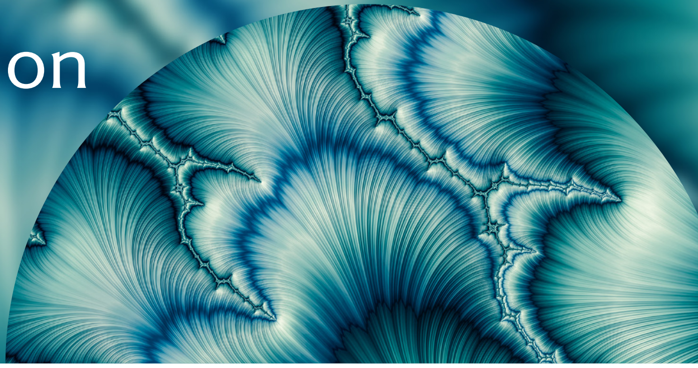
SOLUTION OVERVIEW

FTSE TPI Climate Transition Index Series

Building company progress for the low-carbon shift into index design



Overview

As the transition to the low-carbon economy gains urgency, considering companies' preparedness and progress is becoming an important element in investors' decision-making and engagement activities.

The FTSE TPI Climate Transition Index Series is designed to offer investors with a solution to support their climate transition-related commitments. It combines FTSE Russell's expertise in climate data and index design with the Transition Pathway Initiative's (TPI) analysis of how the world's largest and most carbon exposed/intensive public companies are managing the climate transition.

Index constituent weights are adjusted using five transparent criteria: company exposure to specific climate related risks (carbon emissions; fossil fuel reserves) and opportunities (green revenues) as well as the extent of climate governance activities (management quality) and commitments to 1.5°C aligned emissions pathways (carbon performance). Meaningful adjustments based on the TPI's forward-looking analysis ensure that leading and lagging company behavior is clearly reflected in the index.

Benefits

- Provides a clear picture of company alignment with the climate transition based on five climate parameters
- Combines market-leading insights and data from FTSE Russell and the Transition Pathway Initiative
- Delivers significant improvements across all climate parameters – carbon, green revenues and 'Paris alignment' – while managing tracking error vs. the benchmark
- Transparent index construction – using FTSE Russell's tilt-based multi-factor methodology – supports investor stewardship and corporate engagement activities, with company progress on emissions reductions and disclosures reflected in the index through increased weights via improved TPI scores

Features

- The index series methodology is designed to reflect the performance of a global and diversified basket of securities where their weights are varied to account for risks and opportunities associated with the transition to a low carbon economy
- Constituent weights are adjusted based on five key climate considerations. FTSE Russell inputs capture company exposure to:
  - Green revenues
  - Fossil fuel reserves
  - Carbon emissions
- TPI inputs provide forward-looking views on company alignment with the climate transition via:
  - Management quality: Companies' climate governance activities (aligned with the Taskforce on Climate-related Financial Disclosures' recommendations)
  - Carbon performance: Company commitments to emissions pathways that are aligned to the Paris Agreement and 1.5°C/below 2°C warming scenarios
- Follows FTSE Global Factor Index Series transparent, rules-based methodology to address concerns about liquidity, capacity, diversification and turnover.

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Climate change parameter

Climate parameter	Adjustment
Fossil fuel reserves	– Underweight companies with fossil fuel reserves
Carbon emissions (Scope 1 & 2)	– Over or underweight companies according to their GHG emissions – Sector neutrality
Green revenues	– Overweight companies engaged in the transition to a green economy
Management quality	– Over or underweight companies according to their Management Quality ("climate governance") score – Regional industry neutrality
Carbon performance	– Over or underweight companies according to their carbon performance ("1.5°C/Below 2°C pathways") assessment

Aligning an index with the climate transition

Investor approaches to integrating climate considerations into investment strategy and implementation decisions are increasing in sophistication. Meeting this demand requires indices that go beyond a narrow focus on carbon emissions and/or fossil fuel reserves exposure to integrate company activity within the green economy. In addition, an index aligned with the climate transition needs to capture company commitments to the TCFD, along with emissions pathways – in particular for the most carbon-intensive companies globally – that are aligned with international (e.g., 2°C warming) targets.

The FTSE TPI Climate Transition Index Series achieves this by bringing together data and analysis from both FTSE Russell and the Transition Pathway Initiative (TPI). Our partnership with the TPI has enabled the design and development of this unique index series.

The TPI aims to evaluate what the transition to a low carbon economy looks like for companies with a high impact on climate change. It also aims to assess how prepared these companies are for the low carbon transition. Full details of the TPI, including its research methodologies, are available at www.transitionpathwayinitiative.org.

Index construction process

Starting universe

Start with market capitalisation weighted index (e.g., FTSE Developed Index, FTSE Emerging Index, Russell 1000 Index).

Step 1

Exclude companies

Exclude companies in line with FTSE's minimum set of exclusions (includes exclusions around involvement in tobacco production, thermal coal extraction, controversial weapons production, and involvement in controversies), and any additional exclusions according to the index.

Step 1 Step 2

Translate scores into tilts

Adjustments to constituent weights are achieved using 'tilts' (over or under weights) and are based on a range of constituent-level data. Standard 'climate tilts' achieve a significant reduction in exposure to both fossil fuel reserves and operational carbon emissions (Scope 1 & 2), while constituents generating green revenues from a wide range of green economy sectors have weights increased. Climate governance and commitments to 'Paris aligned' carbon emissions pathways (based on the TPI's Management Quality and Carbon Performance assessments, respectively) are over emphasised using stronger tilts – to create clear and meaningful alignment with the objectives of the TPI. In particular, companies identified as not aligned to the objectives of the Paris Agreement are removed from the index (but remain eligible for inclusion and can be re-admitted once 'Paris aligned' commitments are evident).

Neutrality adjustments are applied to the Management Quality scores (regional industry neutrality) and, separately, operational carbon emissions (sector neutrality) to manage deviations from the underlying benchmark.

Step 1 Step 2 Step 3

Narrow index and constrain final weights

Remove stocks which do not contribute to the overall factor objective, while ensuring that diversification constraints are not breached.

The following constraints are applied during this process:

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

Step 1 Step 2 Step 3 Step 4

Publish and review index

The indices are reviewed annually in September, with the exception of the Russell 1000 TPI Climate Transition Index which is reviewed in June, and the FTSE Global Core TPI Climate Transition Index which is reviewed semi-annually in March and September.

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