SOLUTION OVERVIEW

FTSE UK ESG Risk-Adjusted Index Series

Integrating broad ESG risks in UK equity indices

Overview

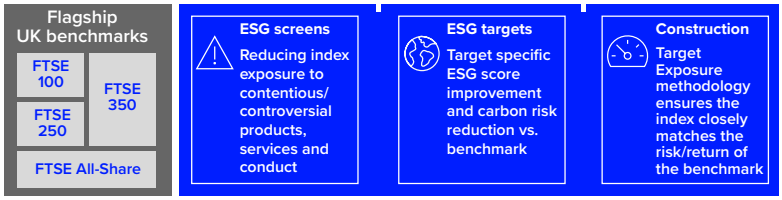
Investors are seeking the ability to incorporate sustainable investment considerations within a broad market portfolio without significantly impacting the risk and return characteristics of that industry standard benchmark.

FTSE UK ESG Risk-Adjusted Index Series is a UK equity index family, constructed using robust screening criteria, FTSE Russell's ESG Scores, and carbon emissions and reserves data. The series provides investors with a tool to create UK equity market exposure whilst also managing key ESG risks found in the UK universe.

Benefits

The indices can be used by market participants to benchmark the performance of active ESG funds, as a replacement for core market cap weighted passive portfolios, and in the creation of ETFs, structured products and index-based derivatives.

FTSE UK ESG Risk-Adjusted Index Series Construction



Features

- Based on the flagship FTSE UK Series Benchmarks: FTSE 100, FTSE 250, FTSE 350 and FTSE All-Share®, which captures 98% of the UK investable market capitalisation. More than $788 billion in passive and active funds1 track the FTSE UK Index Series
- For decades, the indices within the FTSE UK Index Series – the FTSE All-Share®, FTSE 100, FTSE 250 and other indices – have served as a measure of the UK's stock market and as a gauge of the health of the country's economy, both during periods of optimism and in moments of crisis
- Removes index exposure to specific products and services and controversial conduct
- Reduces the carbon emissions and reserves exposure by 50% vs the benchmark
- Improves the index-level ESG performance (by min. 5%) vs the benchmark
- Applies FTSE Russell's transparent target exposure methodology
- Delivers risk/return characteristics similar to the underlying benchmark index universe

1 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.

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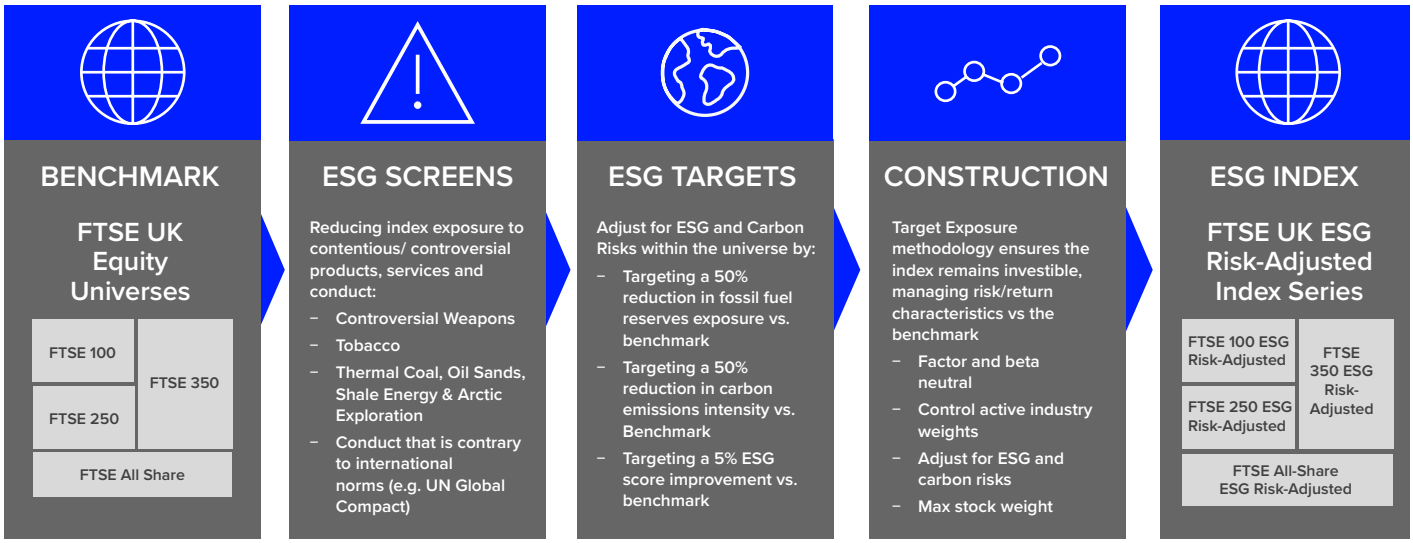
Index Construction Process



Step 1

Starting Universe

Start with the market capitalisation weighted index: FTSE 100, FTSE 250, FTSE 350 and FTSE All-Share.

Step 1 Step 2

ESG Screens

Companies involved in the following business operations are removed: Controversial Weapons, Tobacco, Thermal Coal (extraction and energy generation), Oil Sands, Shale Energy, and Arctic Exploration. Companies that potentially breach the United Nations Global Compact principles are also excluded.

Find the specific thresholds outlined in the index ground rules.

Step 1 Step 2 Step 3

ESG Scores

The **ESG Risk-Adjusted indices** incorporate broad ESG and carbon risks by targeting specific improvements and reductions versus the benchmark. The indices target a 50% reduction in fossil fuel reserve exposure, 50% reduction in operational carbon emissions intensity, and a minimum of 5% ESG score improvement on the index.

Step 1 Step 2 Step 3 Step 4

Target Exposure Corrective Tilts

The Target Exposure methodology ensures that the index closely matches the risk/return of the benchmark. Factor exposures are neutralised by applying corrective tilts on common factors such as value, size, quality, low volatility, and momentum. Additionally, the Target Exposure approach allows for targeting of specific levels of ESG score improvement while controlling for active industry weights and keeping market beta close to 1. The methodology provides control over tracking error, diversification, capacity, and concentration to ensure the index remains investable.

Step 1 Step 2 Step 3 Step 4 Step 5

Publish and Review Index

The index is reviewed semi-annually in June and December.

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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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