

SOLUTION OVERVIEW

FTSE4Good Bursa Malaysia Index Series

Integrating ESG into Malaysian investments

Overview

Investors are increasingly incorporating Environmental, Social and Governance (ESG) considerations into core benchmarks and passive investments. FTSE Russell has been at the forefront of innovation in ESG indexing for over two decades, since the creation of the FTSE4Good Index Series in 2001, one of the world's first global ESG index families, and later in 2014 launched the FTSE4Good Bursa Malaysia Index.

Commitment to quality

The FTSE4Good Bursa Malaysia Indices are market-leading tools for investors seeking to invest in Malaysian companies. The indices support investors that wish to encourage positive change in corporate behaviour and align their portfolios with their values.

Benefits

- Engagement with companies on their FTSE4Good assessment; therefore encouraging companies to improve ESG practices
- Aligns ESG values/objectives regarding controversial business activities by excluding or applying strict criteria on companies involved with such activities
- Avoids investing in pure play coal or traditionally excluded sectors such as tobacco and weapons
- Captures a broad universe of companies that are demonstrating strong ESG practices
- Utilises a globally recognised brand in FTSE4Good
- Maintained in collaboration with local exchange partner, Bursa Malaysia, for the domestic expertise, and included alongside the range of benchmarks in the FTSE Bursa Malaysia Index Series

Features

Aligned with global climate standards

Climate change indicators aligned with global standards such as the Task Force on Climate-Related Financial Disclosures (TCFD) and the Transition Pathway Initiative (TPI). The climate change theme scores and underlying indicators were revised in June 2021 in line with FTSE Russell's work as the data partner of the TPI, a global asset owner led and backed initiative, which assesses companies on their strategy and governance of climate risk.

Aligned with the UN Sustainable Development Goals

Supports alignment with the UN Sustainable Development Goals (SDGs). All 17 SDGs are reflected in the 14 ESG Themes that companies are assessed on in order to be included in the index series.

Precise rules and focus on data

Minimises subjectivity by having clearly defined rules for constructing the indices and assessing companies.

Transparent methodology

The index and scores methodologies are available to users, so they can determine how a company is assessed. The ESG Scores are based on publicly available data.

External advisory committees

The FTSE4Good Indices benefits from the advice of two external advisory committees. The committees provide guidance on the methodology of the FTSE4Good Index and the evolution of FTSE Russell's ESG indices.



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Index construction process

Starting universe

Start with the market capitalisation weighted underlying index, the FTSE Bursa Malaysia EMAS Index.

Step 1

Constituent selection

The FTSE4Good selection criteria are designed to reflect strong ESG risk management practices. In order to be included in the FTSE4Good Bursa Malaysia Index or Shariah Index, Malaysian companies must have an overall ESG Score of 2.9 or above out of 5¹. This ensures only companies demonstrating strong management of ESG risks are included.

| | Emerging markets |
|--|----------------------------|
| Companies newly included in the Index Series | ESG Score of 2.9 or higher |
| Companies removed from the Index Series | ESG Score lower than 2.4 |

The specific thresholds are outline in the [index ground rules](#).

Step 1

Step 2

Exclude companies based on controversies and business activities

Companies with exposure to “significant controversies” are not eligible for addition to the Index Series, and in the most extreme cases current index constituents will be deleted.

Manufacturers/producers of:

- Controversial weapons
- Conventional weapons
- Tobacco production
- Coal (ICB subsector)

Step 1

Step 2

Step 3

Apply Shariah Screening Methodology by the SAC

The general criteria stipulate that the SAC Shariah compliant companies must not be involved in any of the following core activities: Financial services based on riba (interest); Gambling; Manufacture or sale of non-halal products or related products; Conventional insurance; Entertainment activities that are non-permissible according to Shariah; Manufacture or sale of tobacco based products or related products; Stockbroking or share trading in Shariah non-compliant securities; Other activities deemed non-permissible according to Shariah.

Step 1

Step 2

Step 3

Step 4

Publish and Review Index

The FTSE4Good Index Series is reviewed semi-annually in June and December.

Any company with a Score that has fallen below the minimum threshold is allowed a 12 month grace period to improve its Score before the company is removed from the index. This incentivises improvements in corporate practices and reduces the index turnover should the company improve, therefore meeting the standards needed.

¹ The threshold is lower for Emerging markets to reflect market differences

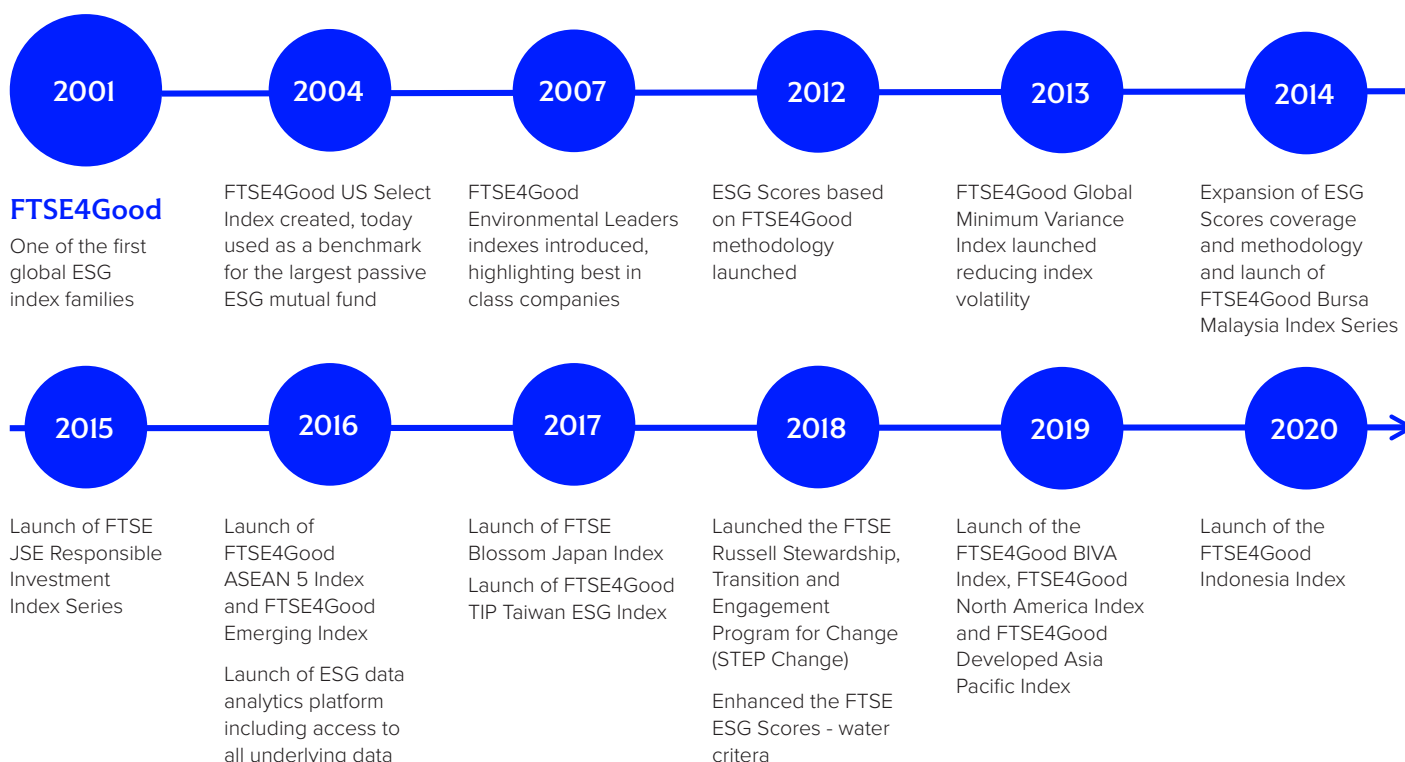
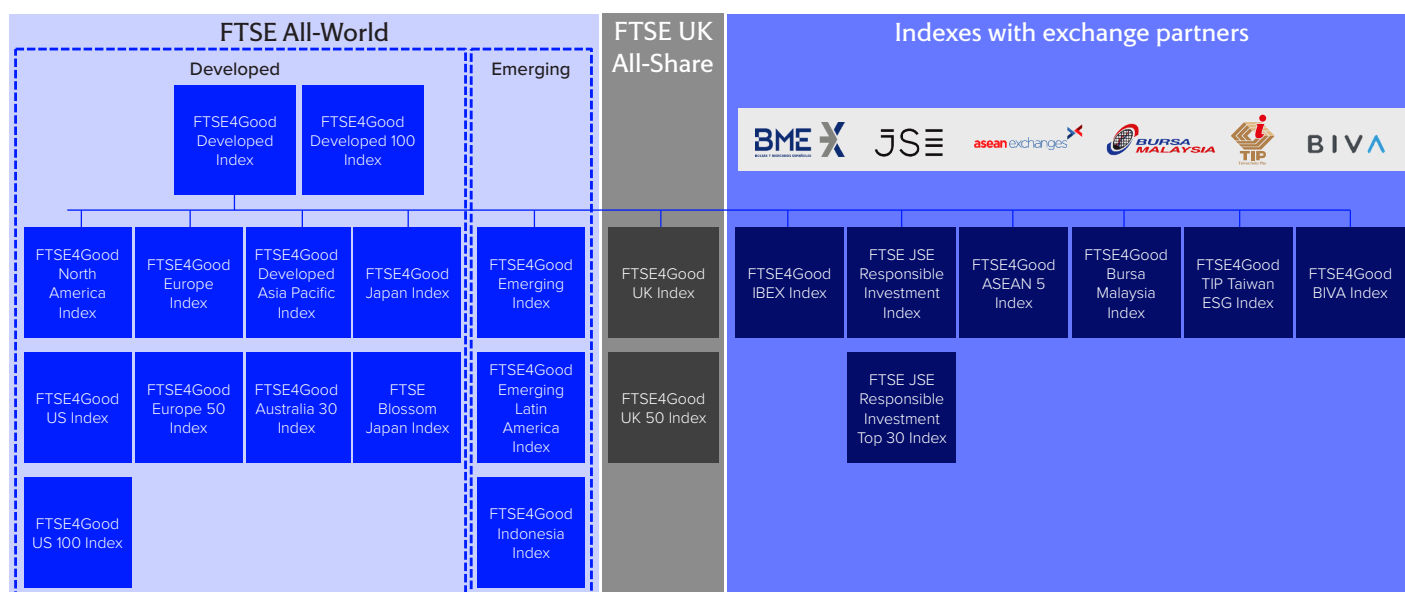
Uses for the FTSE4Good Bursa Malaysia Indices

These indices can be used in four main ways:

- **Financial products** – as tools in the creation of index-tracking investments, financial instruments or fund products focused on sustainable investment
- **Research** – to identify companies with specific environmental and social practices
- **Reference** – as a transparent and evolving global ESG standard against which companies can assess their progress and achievement
- **Benchmarking** – as a suitable replacement for a traditional market capitalisation benchmark

A global family of indices

The FTSE4Good Index Series is calculated in real-time and is suitable for creating OTC and on-exchange derivative products as well as ETFs. Values are available on all the major vendor screens.



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