FTSE4Good 20-year anniversary report

How an index changed sustainable investment forever

FTSE Russell

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INTRODUCTION

Arne Staal

CEO FTSE Russell,
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Twenty years ago, FTSE introduced a new kind of equity index amidst considerable public skepticism.

The FTSE4Good index series, launched in 2001, used transparent metrics of environmental, social and governance (ESG) performance to select its constituents, incentivizing companies to improve their sustainability practices.

Some regarded the approach of the new index as a fad. In a newspaper column, one of the UK's main business commentators even called it the "silly index." At the time, many investment professionals still considered ESG issues as irrelevant, and at worst as detrimental to returns.

Two decades later the capital markets and investment approaches have changed beyond recognition. Financial institutions around the world—including sovereign wealth funds, pension funds, insurance companies, asset managers and banks—now incorporate sustainability into their philosophy and processes as a matter of course.

The collective assets of signatories to the United Nations Principles for Responsible Investment (UN PRI) represent more than half of the world's institutional assets, reaching over $121 trillion in 2021 and covering over 4,500 firms.

The story of sustainable investment during the last 20 years has been one of deepening commitment, evolving standards, increasing professionalism and more collaborative engagement.

As a forerunner of this trend, the FTSE4Good index series has demonstrated that we can achieve measurable improvements in corporate sustainability by incremental changes.

The index incentivizes improved behavior through increases in inclusion thresholds over time, together with grace periods, during which the companies facing deletion from the index are given an opportunity to improve standards.

In this special report, published to mark the FTSE4Good index series' 20th anniversary, we look at how an index changed sustainable investment forever.

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20 years of the FTSE4Good: Leading the way on sustainability

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During the two decades since the introduction of the FTSE4Good index, sustainable investment practices have evolved substantially.

In the early years, asset managers and asset owners signed up to voluntary, collective initiatives, such as the Sustainable Investment Forums (including UKSIF, Eurosif and US SIF) and then later from its launch in 2006, the UN-backed Principles for Responsible Investment (PRI) to which FTSE was a founding member. Then followed the introduction of country-based stewardship codes, which encouraged investors to deepen their interaction and engagement with investee companies on strategic issues.

In the last decade, ESG integration has become the norm, with large investors using sustainability parameters deep within the investment process. Reflecting the global shift around the climate emergency and the related economic transition towards a net zero economy there is huge momentum around measuring corporate transition, climate-adjusted indexes, green industry classifications, and application across asset classes.

Institutional investors are now informed with better data and more tools to integrate sustainability and climate into their investments than ever before. Looking ahead, policymakers, regulators and research providers will continue promoting transparency and disclosure in the portfolios of asset owners and their investment managers worldwide.

> "In the last decade, ESG integration has become the norm, with large investors using sustainability parameters deep within the investment process."

Two decades of sustainable investment: How practices and standards evolved

Early years (2000-2006)

Two decades ago, at a time when Environmental, Social and Governance (ESG) investing was still a niche topic and even return-compromising for investment professionals, FTSE launched one of the first ESG indexes, the FTSE4Good Index Series, in anticipation of future developments.

The trend toward Sustainable Investment (SI) picked up speed with a number of sustainability initiatives, such as the Sustainable Investment Forums (e.g., UKSIF, Eurosif and US SIF) and the UN-backed Principles for Responsible Investment (PRI).

Climate change and investor stewardship (2007-2012)

Next came the introduction of the world's first country stewardship code, unveiled in the UK, by their Financial Reporting Council, encouraging investors to deepen their interaction and engagement with investee companies on strategic issues.

This period was also marked by a growing awareness of climate risks within the investment industry, and in 2008, FTSE and Impax Asset Management came together to create the FTSE Environmental Markets Index Series and the first green industrial taxonomy.

For many years, SI commitments and policies proliferated, but little changed in investment practices and actual asset allocation.

ESG integration becomes the norm (2013-2018)

The landscape changed beyond recognition, with financial institutions around the world-including pension funds, insurance companies, asset managers and banks-incorporating SI approaches into their investment philosophy and processes.

From 2015, ESG integration into passive strategies (index design, not only engagement and voting) took off too. However, the step change, which is evident now, has been in the actions being taken: re-allocating assets and using sustainability parameters in an integrated manner deep within the investment process.

Drive for deeper sophistication and impact (2019 onward)

Institutional investors now have access to improved data and more tools to help integrate sustainability into their investments. However, there are continued frustrations about some barriers e.g. data standards, availability of data, and transparency.

Attention turns to fixed income as an asset class lagging in sustainable investment integration; in particular sovereign bonds, covered by the forward-looking index, FTSE Climate Risk-Adjusted World Government Bond Index.

Looking ahead, the industry will continue to promote transparency and disclosure in the portfolios of asset owners and their investment managers worldwide.

Sustainable investment accelerates to the point where it is the top agenda item now for most across the finance sector, especially around climate.

The COVID-19 pandemic, despite its manifold societal and economic impacts, accelerates the move towards ESG.

Predominately led by the European Union, sustainable investment regulation and standard setting grows with importance.

Amidst growing concerns on climate change, biodiversity and equality, the new decade brings intensifying urgency on sustainability among investors.

FTSE4GOOD MILESTONES: FROM 2001 TO 2021

2001 — Launch of FTSE4Good, one of the first global ESG index families

2004 — FTSE4Good US Select Index created, and later becomes the index tracked by one of the largest SRI passive mutual funds in the world

2007 — Launched new Climate Change criteria

2012 — ESG Scores based on FTSE4Good methodology launched

2013 — FTSE4Good Developed Minimum Variance Index launched reducing index volatility

2014 — Expansion of ESG Scores coverage and methodology and launch of FTSE4Good Bursa Malaysia Index Series

2015 — Launch of FTSE JSE Responsible Investment Index Series

2016 — Launch of FTSE4Good ASEAN 5 Index and FTSE4Good Emerging Index

2017 — Launch of FTSE Blossom Japan Index

Launch of FTSE4Good TIP Taiwan ESG Index

2018 — Taiwan Bureau of Labor Funds selected FTSE4Good TIP Taiwan ESG Index for $1.4 billion mandate

2019 — Launch of the FTSE4Good BIVA Index, FTSE4Good North America Index and FTSE4Good Developed Asia Pacific Index

2020 — Launch of the FTSE4Good Indonesia Index

Japanese small-cap stocks were added to the FTSE Blossom Japan Index as the underlying benchmark switched to FTSE All Cap Japan Index

2021 — The Climate Theme of FTSE Russell's ESG Scores is aligned with the Transition Pathway Initiative (TPI) Climate methodology

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Measuring ESG practices and performance

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FTSE Russell's ESG scores and data model allows investors to understand a company's exposure to ESG issues at a granular level and according to a clear hierarchy.

Our ESG scores cover 7,200 securities in 47 developed and emerging markets, including all the constituents of the FTSE All-World index, the FTSE All-Share index and the Russell 1000 index.

FTSE Russell's ESG scores and data model

The scores and data model consists of the following layers:

- An **ESG score** that measures the overall quality of a company's management of ESG issues;
- ESG **pillar exposures and scores** for each of the three ESG 'pillars' (environmental, social and governance);
- 14 ESG **theme exposures and scores** (for five environmental themes, five social themes and four governance themes);
- More than **300 ESG indicators,** with an average of 125 indicators applied to each company.

How FTSE Russell ESG scores are calculated

Individual companies are scored on a scale from 0 (no disclosure) to 5 (best practice) in each of the 14 ESG themes. They also receive an exposure ranking between 1 (low) and 3 (high) in each theme.

To ensure materiality in the overall ESG score, the scores system is based on the assumption that companies with greater exposure to particular themes should be doing more to address them.

So, for example, the pillar score of an individual company is not a simple mean of its theme scores within that pillar. Instead, each theme score is weighted by its individual exposure level, before the weighted average is calculated to give the pillar score.

A similar principle is also applied to calculate the overall ESG score, where the weight of each pillar is based on the average exposure to the applicable themes within it.

In addition to absolute ESG scores and scores, FTSE Russell calculates peer-relative scores and scores by comparing individual companies' ESG performance against that of peers within the relevant Industry Classification Benchmark (ICB) supersector.

How ESG data and scores are developing

Alongside the challenges that ESG scores pose, the financial industry is also struggling with the lack of standardization of basic ESG data.

Given that a clear determination of what constitutes ESG data doesn't exist, it's not surprising that separate data providers that collect different data on ESG in different ways don't always correlate highly with one another. Certainly, a focus on standardizing core disclosures and reporting standards is an underpinning consideration which is worth getting right first.

Arguably transparency of scoring methodology should, in the near term, be the primary focus for regulators and the financial industry. This would promote innovation and cognitively diverse approaches to the problem, while forcing transparency on what scores represent, and allow users of the scores to determine what best suits their needs for which purposes.

Alignment with international standards

FTSE Russell's ESG scores support alignment with the ten UN Global Compact (UNGC) principles, which lays out a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption.

Our ESG evaluation criteria are derived from pre-existing global standards and aim to support the drive towards the global harmonization of sustainable investment methodologies. For example, they draw from GRI (the Global Reporting Initiative), TCFD (Task Force for Climate-Related Financial Disclosures), the OECD Guidelines, the GHG Protocol, and Transparency International's Business Principles for Countering Bribery.

FTSE Russell ESG scores can be used as a tool for the integration of ESG into investment portfolios in a variety of ways, including active portfolio management, benchmark construction and company engagement.

An ESG score, much like a credit rating, offers a single score that aims to capture how sustainable a particular issuer is. A credit rating, however, estimates the probability of a single outcome: that an issuer will default on its debt within a given time period. An ESG score, meanwhile, seeks to aggregate hundreds of individual indicators into a single measure.

Using ESG scores in practice

The ESG Scores can be used as the building blocks for integrating ESG into investments in a variety of ways, including active portfolio management, benchmark construction, and company engagement.

PORTFOLIO EVALUATION AND MANAGER DUE DILIGENCE

When selecting and evaluating asset managers, institutional investors are increasingly assessing how they integrate ESG aspects into their processes. The ESG Scores can help assess the range, average and variance of asset manager portfolios with respect to ESG integration.

ENGAGEMENT AND STEWARDSHIP

As part of their stewardship responsibilities, an increasing number of fund managers and pension funds are engaging investee companies regarding their ESG practices. ESG Scores provide an independent and objective measure to identify companies for engagement and track progress.

RISK MANAGEMENT

The ESG Scores enable investors to identify companies with the greatest ESG exposures and can be used alongside conventional risk measures to provide a complementary perspective.

RESEARCH AND ANALYSIS

The risk and return relationships of different ESG aspects will vary. The ESG Scores provide a granular and comprehensive data set for research and analysis that allow users to develop their own views on how, or how not, to integrate ESG data.

CUSTOM BENCHMARKS

Many investors want a tailored benchmark to reflect their ESG preferences. The ESG Scores provide a comprehensive and flexible tool for creating bespoke indexes and can also be used alongside fundamental or smart beta methodologies.

ACTIVE PORTFOLIO MANAGEMENT

The ESG Scores can be used to help define ESG eligibility criteria for an investment universe or can be applied into a propriety quant or fundamental model.

Tougher climate change standards

We may review the methodology of the ESG scores and data model to reflect the increasing urgency of individual sustainability issues.

For example, in July 2020, FTSE Russell issued a market consultation on whether to revise its climate standards for the FTSE4Good index series, in recognition of the growing importance of climate considerations in ESG indexes.

The key proposals were to enhance the climate change theme score within ESG scores, and to introduce minimum climate change score thresholds in the FTSE4Good index series inclusion rules. The respondents to the consultation were overwhelmingly supportive of these proposed enhancements.

FTSE Russell used Transition Pathway Initiative's (TPI) methodology for analyzing the climate performance of listed companies in order to determine the climate change score.

Climate change score thresholds were determined by FTSE Russell's classification of developed and emerging markets, as well as by a company's sub-sector classification, with the most carbon-intensive sectors set higher standards.

At the FTSE4Good June 2021 semi-annual index review, we identified 208 existing constituents of the FTSE4Good All World index (or over 10 percent of the index by constituent count) that failed to meet the new climate performance standards at this date.

In accordance with FTSE4Good's policy of offering grace periods to companies facing deletion from the index, the companies were notified and given 12 months to improve their climate performance to above the minimum threshold.

"...the companies were notified and given 12 months to improve their climate performance to above the minimum threshold."

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Can benchmarks deliver positive change?

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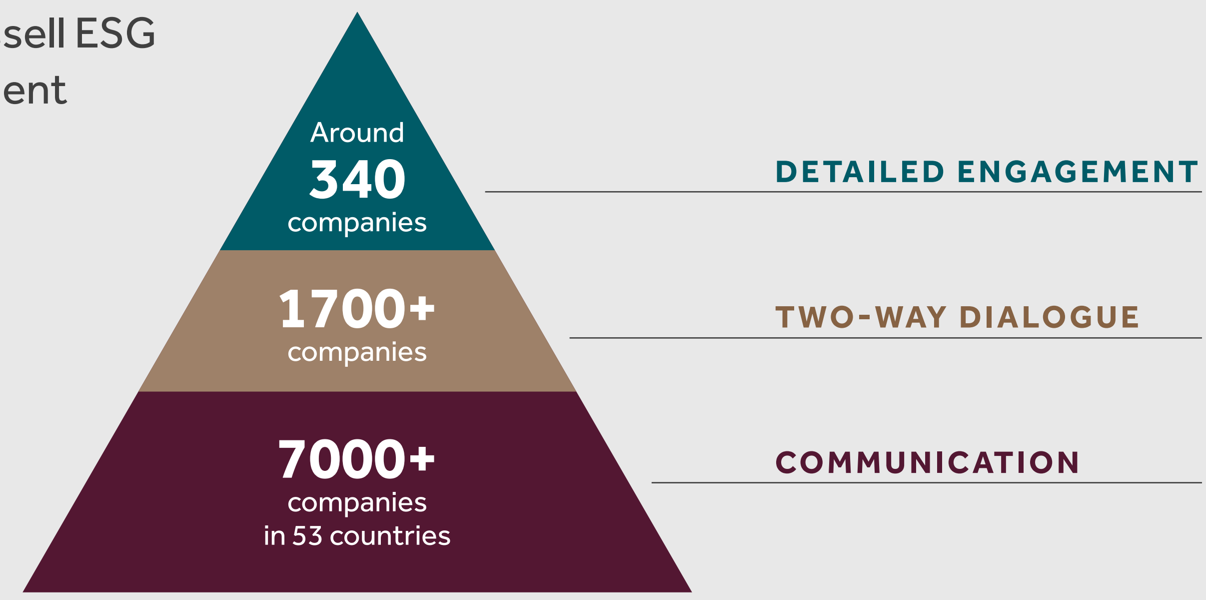
FTSE4Good provides an example of how sustainability indexes can influence corporate practices for the better. This has been driven by incremental increases in the index's inclusion thresholds, together with grace periods, during which companies are notified 12 months in advance of an index deletion in order to help them to improve their companies' standards.

A structured stewardship and engagement process

Each year, FTSE Russell's ESG analysts communicate with over 7,000 companies in 53 countries and we conduct two-way dialogue with 1,772 companies[1]. In the case of a more focused group of up to a few hundred companies (those facing deletion from the FTSE4Good index series or trying to improve their ESG practices), we become involved in a more detailed process of engagement. FTSE Russell follows a structured process to ensure companies are given adequate notice when they face deletion from the FTSE4Good index series, so they can address shortfalls in their ESG Scores if they wish to try to retain index inclusion.

FTSE Russell ESG engagement statistics



[1] From August 2020 to July 2021

When communicating with companies, FTSE Russell follows four key principles:

1

We enable all companies to review the information we have collected, as an additional data check mechanism;

2

We aim to ensure companies are treated and assessed fairly and transparently;

3

We take on board corporate feedback on the ESG Scores criteria to improve and refine our methodology over time;

4

And we aim to catalyze improvements in corporate disclosure, practice and performance, while giving constituents adequate time to respond to queries.

Although companies are deleted from our indexes for not keeping pace with the increased thresholds for inclusion, this is counterbalanced by others moving to meet our standards and gaining inclusion in our indexes. In each calendar year since 2011, with the support of our engagement program, the number of constituents added to the FTSE4Good Developed Index has exceeded the number of constituents deleted from the index, with a total over that period of 892 companies added and 389 removed.

Additions and deletions to the FTSE4Good Developed index by calendar year

Year	Constituents added	Constituents removed	Total constituents
2011	89	25	719
2012	43	18	735
2013	45	29	749
2014	50	12	782
2015	83	58	801
2016	122	67	843
2017	92	44	889
2018	120	35	958
2019	123	32	1041
2020	68	46	1013
2021*	57	23	1045
Total	**892**	**389**	**n/a**

*To end of June 2021

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The state of global ESG disclosure

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Improving but still uneven disclosure levels

There's been a decade-long push to improve standards of ESG and climate-related metrics and disclosure across the corporate sector.

In 2015, the G20 Financial Stability Board (FSB) set up an industry-led task force on climate-related financial disclosures (TCFD) to design a better transparency framework. Its goal, set out in 2017 with the publication of TCFD's recommendations, was to enable financial market participants to understand better their climate-related risks.

In early 2017 FTSE Russell's parent company, LSEG, published guidance for issuers globally on voluntary ESG reporting to investors. This authoritative report summarized existing reporting frameworks and provided advice for issuers based around eight reporting priorities, building on the guidance from the TCFD framework and the UN Sustainable Development Goals. And more recently in 2021, the London Stock Exchange (LSE) introduced its climate reporting guidance for London-listed issuers. It is the first stock exchange to publish climate reporting guidance based on the United Nations Sustainable Stock Exchanges' (SSE) Model Guidance on Climate Disclosure, which is in line with the TCFD recommendations. LSE's Climate Reporting Guidance is tailored to the UK's regulatory and policy environment for public companies. The guidance helps companies in London integrate climate risks and opportunities into operational decision making and report carbon performance.

In October 2021 the TCFD issued further guidance on disclosures of climate-related metrics, using FTSE Russell's carbon targets framework as an example of transparency on corporate greenhouse gas emissions reduction targets.

Recent European Union initiatives – such as the 2016 Benchmark Regulation, the 2020 Taxonomy Regulation and the 2021 Sustainable Finance Disclosure Regulation – all show the growing commitment of policymakers in the area of sustainability.

But ensuring that extra-financial disclosures catch up with mandatory financial reporting is a tough challenge, particularly when it comes to how and where investors can gather the information. Corporate ESG data and information comes from multiple sources, including companies' voluntary sustainability reporting, mandatory accounting disclosures, regulatory filings, stock exchanges, NGOs, and through the media.

The picture on data and disclosure is improving. Sustainable Investment standard-setting bodies are coming together and aligning their demands. Of particular importance is that the International Organization of Securities Commissions (IOSCO) and International Financial Reporting Standards (IFRS) Foundation are aligned on the need to accelerate standardization and reporting; something that sustainability advocates have been recommending for years.

Improvements in data quality and disclosure

FTSE Russell's ESG Data Model places an emphasis on quantitative data in the calculation of ESG Scores. The ability to assess relative corporate performance through the use of quantitative ESG data depends heavily on the availability, comparability and reliability of data. Evolving global standards in ESG reporting are driving improvements in data quality, but the disclosure levels are still uneven across global markets (see the table, 'Global League ESG Disclosure').

However, in aggregate there have been substantial improvements in ESG disclosure levels during the last five years. For example:

47%

The average **ESG disclosure score** by country has increased from 30% in 2016 to 47% in 2021[2]

56%

The average **Environmental disclosure score** by country has increased from 37% in 2016 to 56% in 2021

45%

The average **Social disclosure score** by country has increased from 31% in 2016 to 45% in 2021

32%

The average **Governance disclosure score** by country has increased from 11% in 2016 to 32% in 2021

Some countries continue to do well on ESG disclosure standards, while others continue to lag. For example, nine of the top ten countries by average ESG disclosure levels in 2021 were EU member states, reflecting more advanced practices in this region. Meanwhile, Middle Eastern countries scored relatively poorly in 2021, just as they did in 2016.

However, it's important not to overlook the absolute improvement in ESG disclosure standards amongst the poorer performers: Egypt and the UAE, for example, had average ESG disclosure scores of 5% and 6%, respectively, in 2016, but by 2021 these had risen to 20% and 23%.

China has also achieved a substantial rise in its ESG disclosure standards, rising from an average score of 7% in 2016 to 36% in 2021.

The jump in governance disclosure scores around the world is particularly noticeable, with some countries making dramatic improvements. Japan, for example, scored only 3% on governance disclosure in 2016 but this score had risen to 25% by 2021.

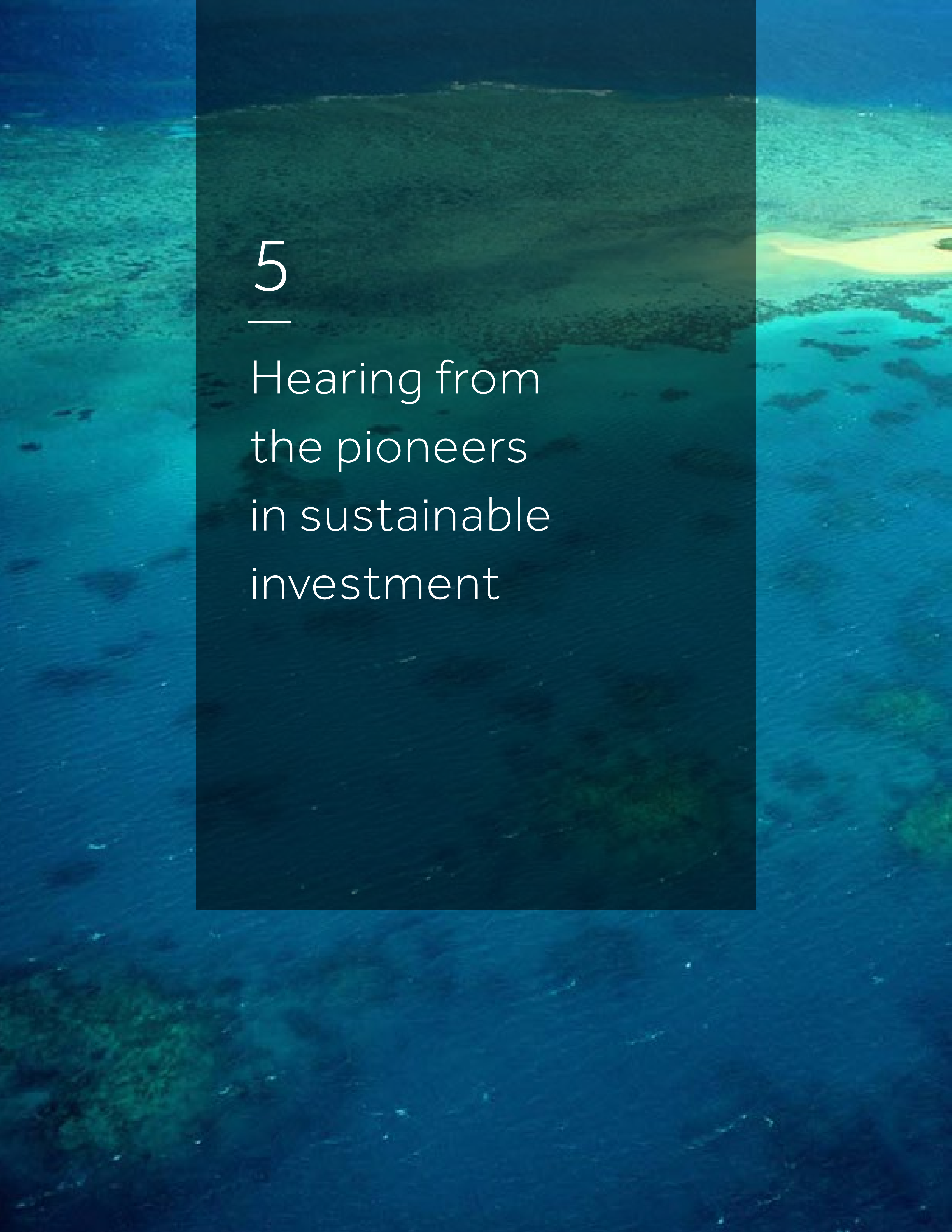
[2] 2016 data are taken from the FTSE4Good 15-year anniversary report. They were collected between April 2015 and March 2016 and accessed on June 20 2016.

Global league ESG disclosure:
Average quantitative ESG data disclosure rate by country

Rank	Country	Average ESG Disclosure	Average Environmental Disclosure	Average Social Disclosure	Average Governance Disclosure	Companies Researched
1	**Spain**	81%	81%	87%	66%	24
2	**Portugal**	78%	67%	92%	83%	4
3	**Finland**	72%	74%	70%	70%	14
4	**Italy**	71%	66%	80%	60%	31
5	**Hungary**	70%	76%	65%	71%	4
6	**Greece**	69%	63%	80%	53%	9
7	**Austria**	68%	79%	59%	63%	7
8	**Czech Rep.**	67%	74%	58%	70%	4
9	**Taiwan**	65%	79%	62%	44%	99
10	**France**	63%	71%	66%	35%	79
11	**Netherlands**	63%	69%	63%	47%	24
12	**Thailand**	62%	64%	65%	49%	45
13	**Poland**	61%	67%	63%	33%	10
14	**Chile**	60%	59%	61%	55%	21
15	**Norway**	59%	77%	47%	44%	12
16	**Germany**	59%	68%	54%	49%	73
17	**Russia**	58%	63%	55%	50%	28
18	**Sweden**	58%	80%	49%	45%	37
19	**United Kingdom**	57%	72%	46%	52%	113
20	**Brazil**	56%	52%	60%	52%	69
21	**South Africa**	55%	62%	56%	36%	56
22	**Ireland**	55%	100%	31%	60%	4
23	**Switzerland**	55%	71%	51%	34%	43
24	**Colombia**	54%	56%	59%	40%	8
25	**Malaysia**	51%	55%	55%	28%	45
26	**Korea**	50%	58%	51%	25%	121
27	**Belgium**	50%	48%	52%	48%	14

Rank	Country	Average ESG Disclosure	Average Environmental Disclosure	Average Social Disclosure	Average Governance Disclosure	Companies Researched
28	**Australia**	50%	56%	47%	39%	104
29	**Hong Kong**	50%	58%	50%	28%	81
30	**Turkey**	49%	48%	55%	34%	27
31	**Singapore**	48%	56%	50%	32%	39
32	**Canada**	48%	56%	43%	40%	47
33	**India**	47%	38%	62%	29%	148
34	**Mexico**	46%	55%	44%	31%	31
35	**Japan**	45%	63%	36%	25%	486
36	**Philippines**	44%	46%	51%	23%	25
37	**Indonesia**	43%	29%	53%	48%	31
38	**Denmark**	42%	58%	31%	25%	18
39	**New Zealand**	40%	37%	43%	33%	11
40	**United States**	37%	54%	28%	24%	568
41	**China**	36%	41%	40%	15%	253
42	**Israel**	32%	45%	33%	13%	23
43	**Pakistan**	27%	18%	39%	22%	4
44	**UAE**	23%	24%	36%	0%	15
45	**Egypt**	20%	33%	21%	8%	6
46	**Kuwait**	14%	15%	13%	15%	11
47	**Qatar**	13%	7%	16%	18%	18
48	**Saudi Arabia**	13%	11%	16%	13%	40
	2021 Grand Total	47%	56%	45%	32%	2984
	2016 Scores	**30%**	**37%**	**31%**	**11%**	**2923**

FTSE All-World Constituents and ESG data as at June 21, 2021



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Hearing from the pioneers in sustainable investment

From its inception in 2001, the FTSE4Good index has been a collaborative effort, not just through the structured engagement process with index constituents, but also by means of the involvement of the best minds in the sustainable investment industry in the index's oversight and development.

We asked some of those sustainable investment experts to share their impressions of the first two decades of FTSE4Good and to talk about its role in challenging companies and helping investors to deploy capital more responsibly.

Below, you can read first-hand accounts of how the new index catalyzed changes in corporate behaviour, how its carrot-and-stick approach focused on incremental improvements, and why its design could support a virtuous cycle in responsible investment over the years ahead.

Sir Mark Moody-Stuart

Previous Chairman of the FTSE Russell ESG Advisory Committee

"Over the years the FTSE4Good index has had a clear effect on the quality of ESG performance and reporting of companies. Over time, the requirements and reporting for the index has become progressively more specific as both companies and FTSE Russell have learned from experience. This has led to what is effectively a double ratchet effect on performance. First, companies have taken account of the performance of companies as a whole, as well as the scores of others in their sector and worked to improve their own score. Second, the hurdle for leading or best in class performance has risen progressively and been reflected in more specific and well-defined indicators required for the index. The result has been a demonstrable overall performance."

"I worked for the Ashridge Centre for Business & Society when FTSE4Good was launched. I remember the ripples from the initial index in the media and through FTSE100 boardrooms here in the UK. A period of global industrial scale stewardship was born. About a decade later CCLA supported the development of the FTSE ESG Scores. These played a core part in our initial systematic integration of environmental and social risks into our investment process. Congratulations on reaching this key anniversary, and thank you again to all the excellent staff and committee members I worked with over my decade of involvement."

Helen Wildsmith

Stewardship Director, CCLA; previously Chair of the ESG criteria sub-committee and Deputy Chair of the FTSE Russell ESG Advisory Committee

Dr. Craig Mackenzie

Head of Strategic Asset Allocation, abrdn; previously Deputy Chair of the FTSE Russell ESG Advisory Committee at launch

"FTSE4Good played an important role in helping globalise the concept of corporate sustainability. It used the carrot of index inclusion and the stick of potential deletion to nudge hundreds of companies around the world to catch up with leading corporate practice. FTSE's tireless company engagement work played a vital role in convincing executives to see the benefit of taking ESG seriously, long before it was fashionable to do so."

"FTSE4Good was a ground-breaking index, driving a significant shift in company behaviour. At its launch, the exclusion of Tesco drew headlines. That made companies sit up and take notice that sustainability issues were becoming material for investors. Tesco was swift to respond, improving management practices and disclosures, recognising that what companies do has a wider impact on the environment, their suppliers, employees and societies at large. FTSE4Good can take credit for being at the forefront of the sustainability movement."

Amanda Young

Chair of the FTSE Russell ESG Advisory Committee

David Bull CBE

former CEO UNICEF UK; previously a member of the FTSE Russell ESG Advisory Committee

"For 20 years the FTSE4Good index series has led the way in establishing clear and progressive criteria for environmentally and socially responsible business. I'm proud to have been part of the team that built this ground-breaking initiative through an innovative partnership between UNICEF UK and FTSE, and to have served on the advisory committee until 2016. I've witnessed and participated in the serious and keen debates that have ensured the criteria progressed in a way that encouraged and incentivised continuous improvement. FTSE4Good has made a real difference and I trust will continue to do so for the next 20 years."

Chris Sutton

Senior Lecturer in Actuarial Science, Queen Mary University of London

"Those of us involved at the launch of FTSE4Good 20 years ago knew it was something original and worthwhile. Just a few months later, as the question of index membership started changing practices at some large companies, we also realised that FTSE4Good had a real impact. The combination of a rules-based approach, company engagement and a willingness to tackle the hard sustainability issues has meant the index and scores have continued to challenge companies and help investors worldwide."

Arisa Kishigami

Board Member, JSIF; previously Head of ESG, APAC, FTSE Russell

"When joining FTSE Russell I had the belief that the constantly evolving criteria and engagement approach embedded into the FTSE4Good Index Series could be a catalyst for systemic change in the global investment process. A decade into working at FTSE, this became a reality. The FTSE Blossom Japan Index, part of the FTSE4Good family, became one of the first ESG indexes adopted by the world's largest asset owner, GPIF. I congratulate the milestones the index series have achieved, and hope that future catalysts for change may continue to be developed and supported."

David Harris

Global Head of Sustainable Finance, Data & Analytics, LSEG

"Bringing sustainability into investment was regarded as 'fringe' 20 years ago – not so today as climate and sustainability moves centre stage amongst investors and corporates alike. FTSE4Good has been a pioneering force, by cranking up the standards continuously over time, with the carrot of index inclusion and the stick of index deletion it helped raise corporate standards and get sustainability onto the board agenda. As we look to the next decade the trend is set to accelerate with sustainability being built into index design as a norm for passive investing globally."

Chad Rakvin

Global Head of Index Funds, Legal & General Investment Management (LGIM)

"We have been managing FTSE4Good benchmarks for over 15 years on behalf of our clients. The industry has moved very fast with respect to the integration of more advanced metrics and best thinking in terms of index construction. Given our support as a Research Funding Partner of the Transition Pathway Initiative (TPI) and our experience in working with FTSE Russell to bring the TPI scoring frameworks into one of our flagship Future World Funds, we are delighted to see this evolution of the FTSE4Good series. We look forward to tackling the ongoing challenges our clients face by equipping them with the right tools to meet their investment, climate and broad ESG objectives."

Will Oulton

Global Head Responsible Investment, First Sentier Investors; previously Deputy Chief Executive, FTSE

"In 2001, the concept of FTSE developing an index series not solely based on financial criteria was a novelty, as the idea of benchmarking sustainable investing via an ESG driven index was relatively new. There was also little understanding then of how ESG issues could constitute sources of risk and return and that posed a learning challenge for the team, however it became clear to us that the FTSE4Good Index really generated a sense of momentum and change in many leading companies. It was a real honour to be involved in what today has become a world-renowned benchmark."

Mr. Isao Uesaki

Senior Investment Officer – Index Strategies, Nomura Asset Management

"In 2004, Corporate Social Responsibility (CSR) was already a key issue that international corporations could not afford to disregard.

In light of this important trend, we established Japan's first SRI-type global index fund benchmarked to the FTSE4Good Developed 100, with the intent of drawing investor focus to companies that actively pursue CSR. Our hope was that by facilitating investment in such companies, we would thereby support a virtuous cycle in which companies and society could develop synergistically.

The FTSE4Good Developed 100 Index was launched in 2001. Since then, the index has undergone continual review and improvement in order to accurately incorporate social expectations and regulatory considerations. Looking ahead, we will continue to adapt to the evolving needs of the times and ensure that ESG perspectives are properly reflected in our management of the index. As always, we remain committed to providing products utilizing this index that satisfy the needs of our clients."

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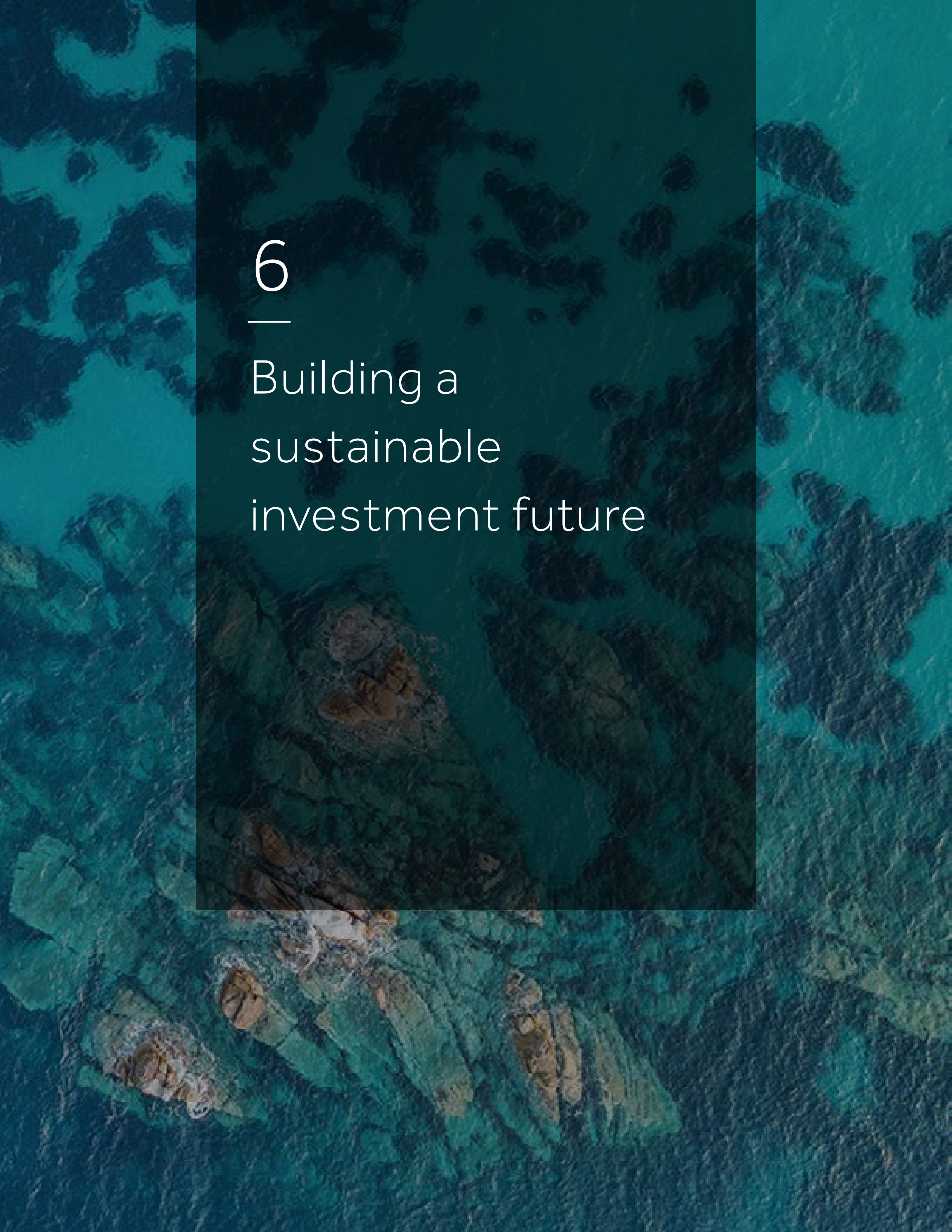
Building a sustainable investment future



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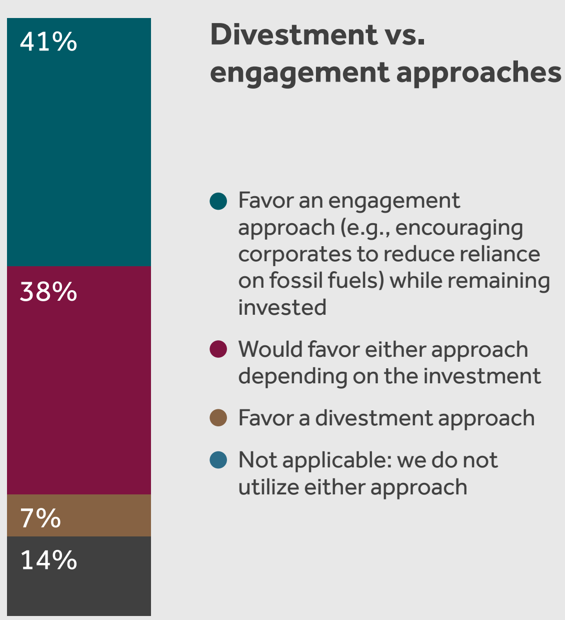
Since the FTSE4Good Index Series was launched in 2001, there has been a revolution in asset owners' and asset managers' approach to sustainable investment.

Considered by many market professionals as a fad twenty years ago, there is no doubt today that sustainable investment is a maturing story with a positive outlook.

Since we first surveyed global asset owners in 2017, we've learned more with each passing year about their awareness, attitudes, and behaviors when it comes to Sustainable Investment. Our annual survey is a valuable barometer for shifting attitudes amongst asset owners globally, and this year we had almost 200 asset owners taking part, giving us good representation across Europe, North America and Asia-Pacific.

More than eight in every ten (84%) of the institutional asset owners that took part in FTSE Russell's 2021 survey[3] are either implementing or evaluating sustainability into their portfolios.

Divestment vs. engagement approaches



FTSE Russell 2021 survey of asset owners. Responses to the question: Which statement best reflects your views on divestment vs. engagement approaches for 'brown' assets such as oil, gas and mining stocks? Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment

[3] The survey covered 179 global asset owners, located in North America (40%), EMEA (36%) and Asia Pacific (19%).

The survey also showed that institutions increasingly prefer engagement with investee companies, rather than divestment, as the best way to influence corporate behavior.

The FTSE4Good index's historic focus on engagement with companies seeking to improve their sustainability practices is therefore very much in line with investors' demands. The index is an example of how a well-designed benchmark based on principles of transparency and objectivity can incentivize better corporate standards, helping achieve scale engagement between the investment community and the real economy.

Meanwhile, the use of sustainability and climate data by the investment community is now a standard part of investment processes. Across all regions, growing numbers of asset owners, asset managers, investment consultants, benchmark calculators and investment banks are routinely integrating this type of analysis, which in turn impacts global capital flows and investor-corporate engagement. As this report demonstrates, there is clear evidence of improvement in corporate standards, as companies seek to keep pace with the needs of the investment community.

FTSE Russell looks forward to supporting the investment community during the next phase of this journey. The approaches to ESG integration in both active and passive portfolios will continue to advance in sophistication. This will require further growth in the breadth, depth and functionality of ESG data analytics and benchmarks. However, this all relies on data, much of it reported by companies, and FTSE Russell will encourage and support corporate issuers globally in their efforts to improve public reporting.

For more information about our indexes, please visit ftserussell.com.

About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

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