

# How Global Institutional Investors Are Incorporating ESG In Their Portfolio Management

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**S&P Dow Jones  
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# S&P DJI ESG Index Development

## *Moving From Purely Exclusionary to Integrated ESG Strategies*

Launched the first ever global sustainability benchmark, the **Dow Jones Sustainability Index**



Launched **S&P Green Bond Indices**

Leading by example: S&P DJI publishes **ESG characteristics** of all indices on website

**S&P ESG Indices**  
**S&P DJI ESG Scores**  
S&P/Drucker Institute Corporate Effectiveness Index

1999 ... 2009 ... 2014 ... 2016 2017 2018 2019

Launched **S&P Carbon Efficient Indices** utilizing leading Trucost carbon data



Launched S&P Long-term Value Creation Index & JPX/S&P Human Capital Index

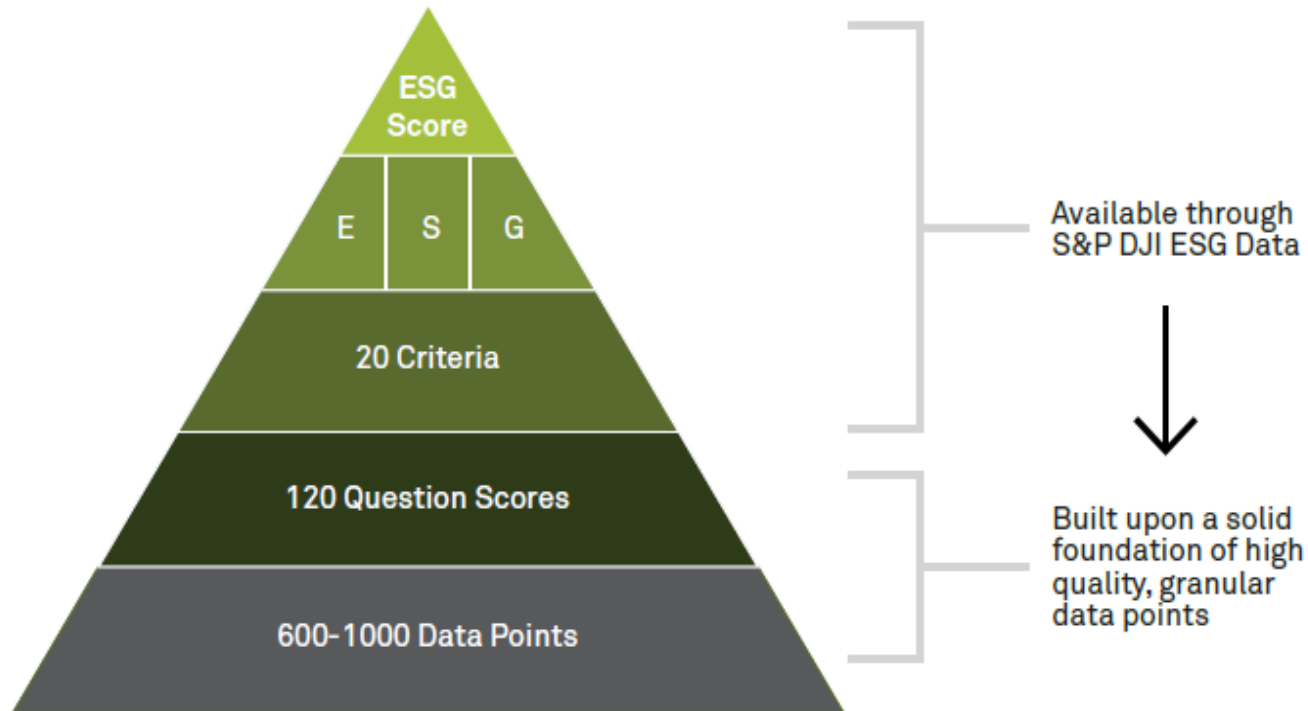
New S&P Global Carbon Efficient Index Series **selected by GPIF for \$10.6bn allocation** (largest single ESG allocation to date)

### S&P Dow Jones Indices

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# S&P DJI ESG Score - Comprehensive and Granular ESG Metrics

- Calculated by SAM (a brand of RobecoSAM) through its annual Corporate Sustainable Assessment (CSA), which goes beyond public disclosure.
- Built upon comprehensive and granular ESG metrics (600-1000 per company).
- The CSA is industry-specific, accounting for the most financially material and relevant issues for a given sector.

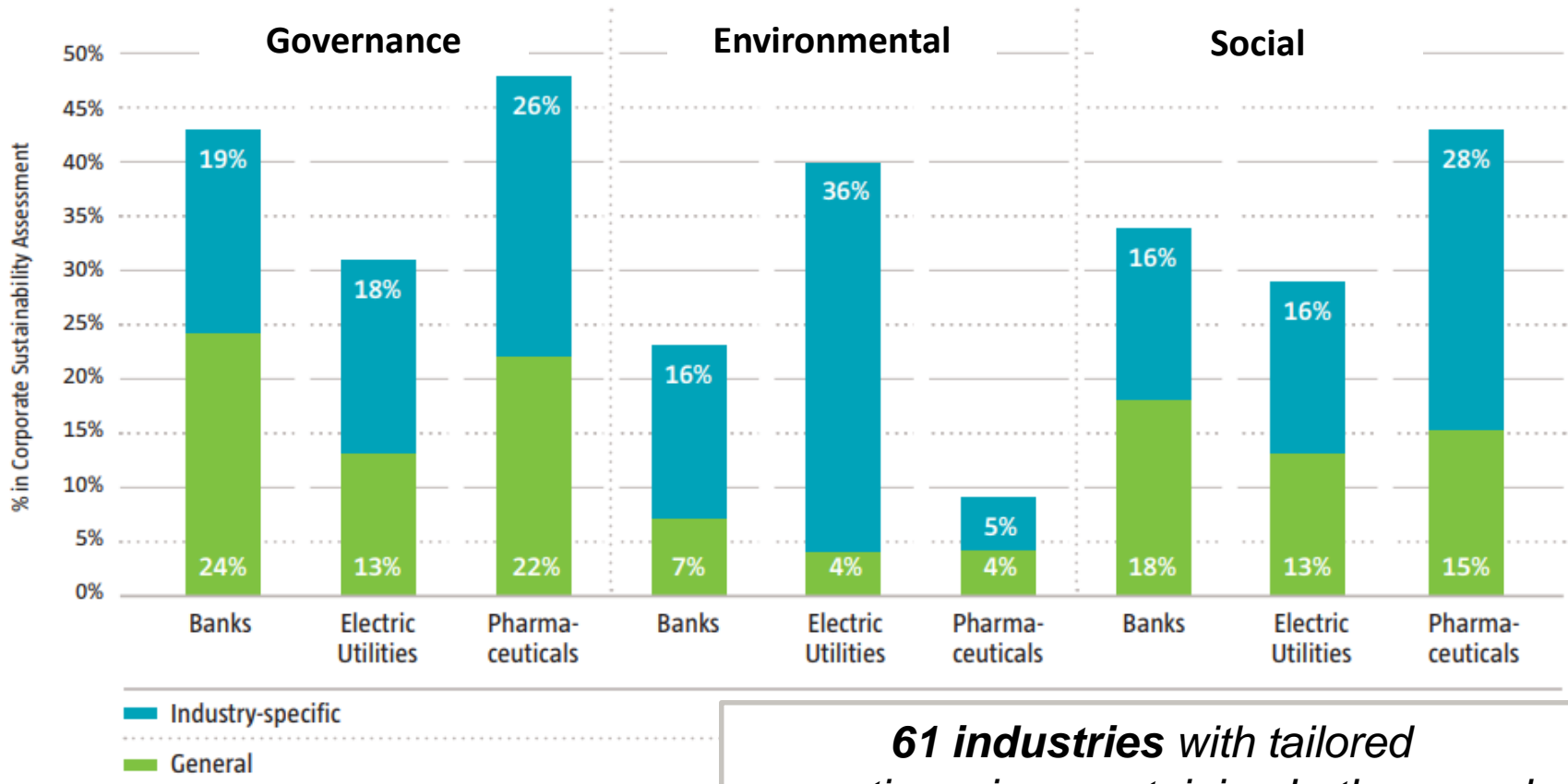


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# S&P DJI ESG Score - Data Collection Process

**Corporate Sustainability Assessment (CSA):** Annual rules-based questionnaire assessment comprising a best-in-class approach to assessing ESG performance.



**61 industries** with tailored questionnaires containing both general and industry-specific questions

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Source: S&P Dow Jones Indices, RobecoSAM

# S&P DJI ESG Score - Industry-Specific Criteria And Component Weighting

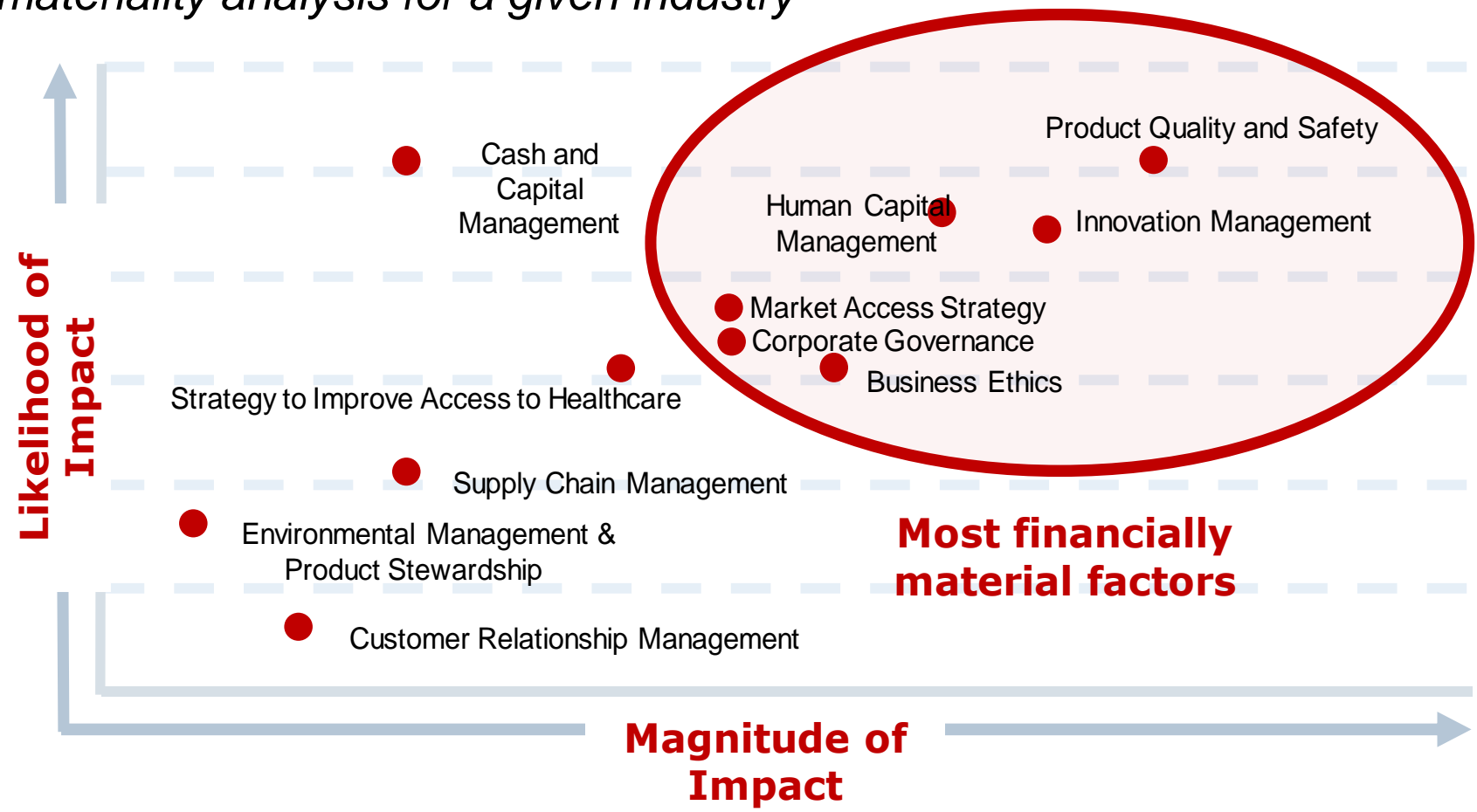
## Governance Dimension

	Banks	Electric Utilities	Pharmaceuticals	
Anti-crime Policy & Measures	●			industry-specific
Codes of Business Conduct	●	●	●	general
Corporate Governance	●	●	●	general
Customer Relationship Management	●	●		industry-specific
Financial Stability and Systemic Risk	●			industry-specific
Information Security & Cybersecurity	●	●		industry-specific
Innovation Management		●	●	industry-specific
Market Opportunities		●		industry-specific
Marketing Practices			●	industry-specific
Materiality	●	●	●	general
Product Quality and Recall Management			●	industry-specific
Risk & Crisis Management	●	●	●	general
Supply Chain Management		●	●	industry-specific
Tax Strategy	●		●	industry-specific
<b>Total Economic Dimension Weight</b>	<b>43%</b>	<b>31%</b>	<b>48%</b>	

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# S&P DJI ESG Score - Financially Materiality

*Weights vary by industries and are determined by SAM's financial materiality analysis for a given industry*







*Financially Materiality For Pharmaceuticals industry*

# Application of ESG Scores

- **Portfolio Exclusions** - Investors can screen stocks by ESG scores to:
  - Reduce exposures to reputational risks
  - Performance concerns of the lowest ranking ESG companies
  - Ethical concerns
  - Client demand
  - Invest in best in ESG class companies
- **Integrating ESG scores into analysis**
  - Concerns around the risks associated with low-ranking ESG companies
  - A view that highly-ranked ESG stocks will outperform
  - Quantifying intangible values
- **Portfolio Tilts**
  - Portfolio-level ESG improvement without excluding companies and losing diversification. Tilts can also be applied alongside other strategies within an index.
- **Identifying Industry Laggards**
  - It is impossible to engage with every company in the way they would desire. ESG scores can be used to target laggards within industries.

# ESG Indices With Different Objectives

ESG Category	Description	Examples
 <b>Core ESG</b>	Best-in-class and broad market approaches that target ESG performance while replicating the risk and return profile of the parent index.	<ul style="list-style-type: none"> <li>• Dow Jones Sustainability Indices</li> <li>• S&amp;P ESG Indices</li> <li>• S&amp;P 500 ex-Tobacco</li> </ul>
 <b>Climate – Aligned</b>	Indices designed to address climate change and the transition to a low-carbon economy.	<ul style="list-style-type: none"> <li>• S&amp;P Carbon Efficient Indices</li> <li>• S&amp;P Carbon Price Risk Adjusted Indices</li> <li>• S&amp;P Fossil Fuel Free Indices</li> </ul>
 <b>Thematic &amp; SDGs</b>	Indices that focus on specific ESG-related issues, often with a narrow objective.	<ul style="list-style-type: none"> <li>• S&amp;P Long-term Value Creation Index</li> <li>• Dow Jones Green REIT Indices</li> </ul>
 <b>Fixed Income</b>	Fixed Income variants of the core ESG indices and a suite of indices providing access to the green bond market.	<ul style="list-style-type: none"> <li>• S&amp;P 500 Bond IG Carbon Efficient Index</li> <li>• S&amp;P Green Bond Indices</li> </ul>

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Source: S&P Dow Jones Indices



# The S&P ESG Index Series

## *Integrating ESG Values Into the Core*

Aligning investment objectives with ESG values

- Broad market exposure & industry diversification
- Similar risk and return profile to the parent index
- Achieve a higher composite ESG score relative to the parent index which holds true industry by industry.

Covering global markets with transparent indexing approach

- Uses S&P DJI ESG scores to select companies, targeting 75% of the market capitalization of each GICS Industry Group within the parent index
- 23 country, regional, and global ESG indices, including the S&P 500 ESG Index

# S&P ESG Index – Construction

*Driving ESG Performance While Maintaining Broad Market Exposure*

## 1) Exclude:

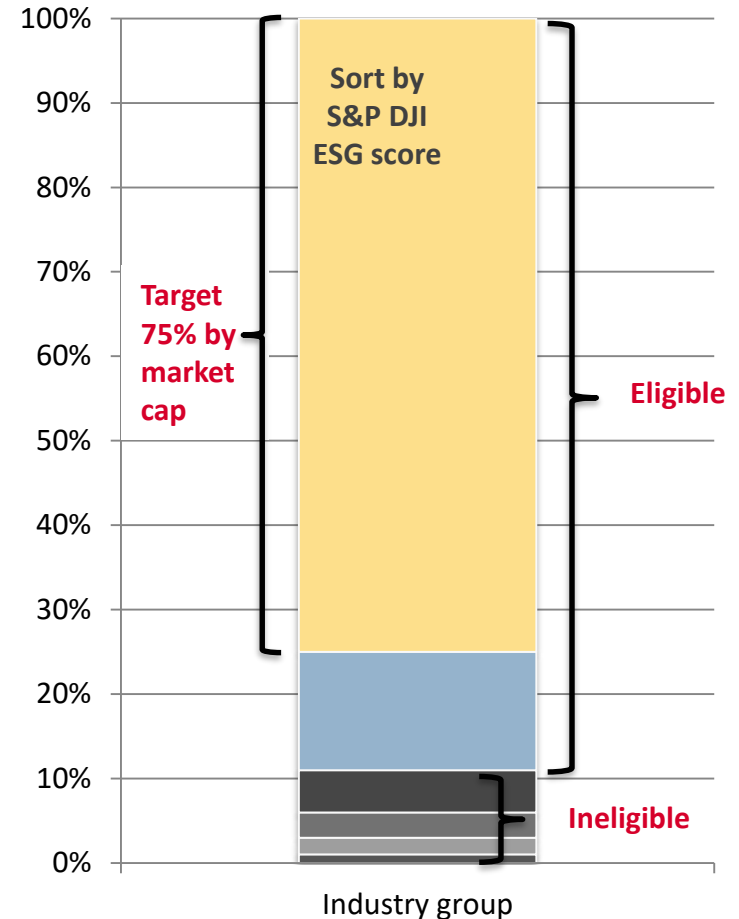
- Tobacco
- Controversial weapons
- Low UNGC scores
- Bottom 25% of S&P DJI ESG scoring companies within each global GICS Industry Group

## 2) Sort & Select:

- Sort eligible companies by S&P DJI ESG Score within each GICS Industry Group
- Select top performing companies, targeting 75% within each GICS Industry Group

## 3) Weight:

- Weight companies by float-adjusted market cap



*For illustrative purposes only*

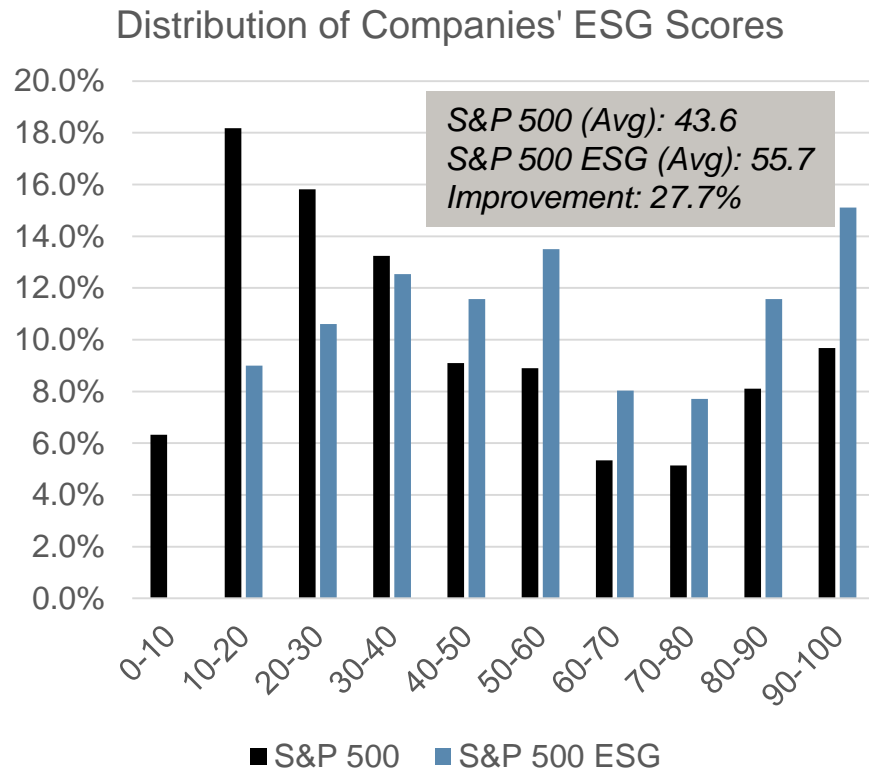
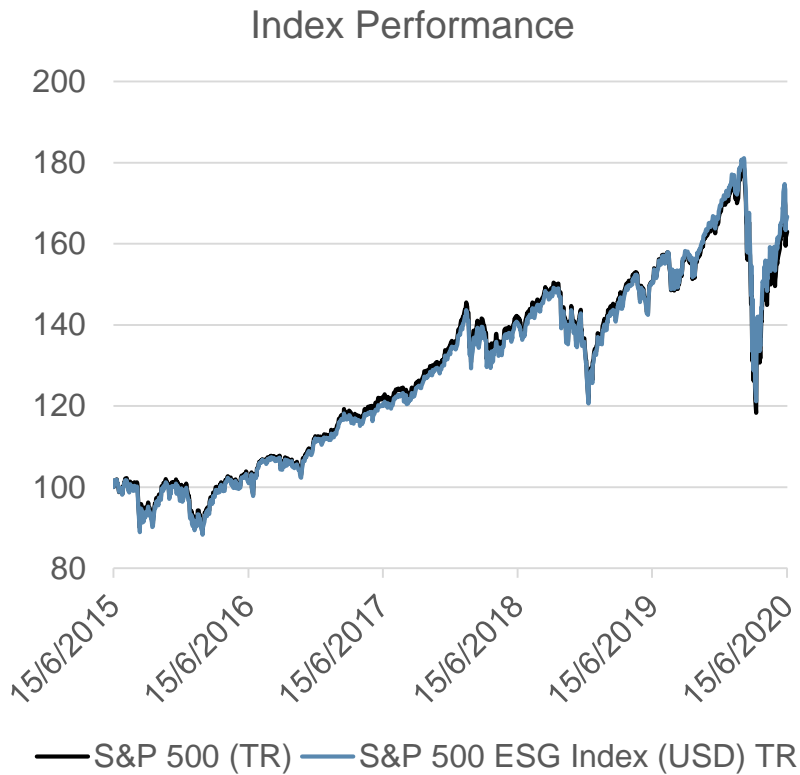
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Source: S&P Dow Jones Indices

# S&P ESG Index – Index Performance

*Similar Risk And Return Profile To The Parent Index With Improvement On ESG Performance*



Source: S&P Dow Jones Indices LLC. Data as of June 12<sup>th</sup>, 2020. Index performance based on daily USD total returns. Charts and graphs are provided for illustrative purposes. Past performance is not an indication or guarantee of future results. These charts and graphs may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

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