

Frequently Asked Questions

S&P Global Carbon Efficient Index Series

COMPANY BACKGROUND

1. Who is S&P Dow Jones Indices (S&P DJI)?

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[®]. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has become home to nearly 1,000,000 indices across the spectrum of asset classes that have helped define the way investors measure and trade the markets.

2. Who is Trucost ESG Analysis and how does it work together with S&P DJI?

Trucost ESG Analysis is part of S&P Global. A leader in carbon and environmental data and risk analysis, Trucost ESG Analysis assesses risks relating to climate change, natural resource constraints, and broader environmental, social, and governance factors. Companies and financial institutions use Trucost ESG Analysis intelligence to understand their ESG exposure to these factors, inform resilience and identify transformative solutions for a more sustainable global economy. S&P Global's commitment to environmental analysis and product innovation allows us to deliver essential ESG investment-related information to the global marketplace. For more information, visit www.trucost.com.

INDEX DESIGN

- 1. What are the S&P Global Carbon Efficient Indices?** Each index in the S&P Carbon Efficient Index Series is designed to measure the performance of companies in a respective underlying index, while overweighting or underweighting companies that have lower or higher levels of carbon emissions per unit of revenue.

The constituents' weights are adjusted within each industry group to reflect each company's relative carbon to revenue footprint. Each index also seeks to maintain the respective Global Industry Classification Standard (GICS[®]) industry group weights of its underlying index.

The indices were designed in conjunction with environmental data specialists from Trucost ESG Analysis.

- 2. Why was the S&P Global Carbon Efficient Index Series created?** Large institutional investors have become increasingly aware of the need to understand, measure, and manage the environmental impacts of their investments. In particular, there is a focus on reducing greenhouse gas (GHG) emissions, given the global consensus reached at the 2015 UN Paris Climate Conference.

The indices in this series use a reweighting methodology to address concerns around a number of dimensions: relative corporate carbon efficiency within an industry, public disclosure (or lack thereof) of emissions information by companies, and the overall impact of various types of industries (and therefore the urgency with which they decarbonize).

- 3. What makes this index methodology unique?** The combination of levels of emissions and corporate disclosure practices makes this design unique.

Additionally, the construction is innovative because a company's weight adjustment in an index is determined with respect to a unique global comparison of its carbon levels. This process creates a classification group within each industry group,¹ known as the "S&P Carbon Global Standard." The S&P Carbon Global Standard was developed specifically for these indices and allows a company to be assessed in accordance with global industry levels.

- 4. How is the S&P Carbon Global Standard designed, and how is it used?** The objective of the S&P Carbon Global Standard is to determine industry-based emissions levels against which any company can be compared.

a. Decile classification:

- i. The first step is to look at the spread of emissions of a large global universe of companies and establish 10 levels, based on the industry's actual emissions numbers. The range of carbon to revenue footprint of [S&P Global LargeMidCap](#) companies is used to determine these levels (within each industry group).
- ii. A company is then compared to this, classified, and assigned a corresponding weight adjustment.

Additionally, a company's weight in an index is further adjusted based on three other elements.

- b. Disclosure status: As public disclosure of corporate emissions numbers is seen as desirable, Trucost ESG Analysis data is checked to determine which companies have full or partial emissions disclosure (with respect to the largest Trucost ESG Analysis carbon emissions category).
- c. Industry group classification: Each industry group is further identified as either high, mid, or low impact, so that carbon-related weight adjustments are more significant in higher impact industry groups.
 - i. High impact = range > 500 (CO₂e / revenue)
 - ii. Low impact = range ≤ 150 (CO₂e / revenue)
 - iii. Mid impact = all remaining industry groups
- d. High non-disclosing carbon emitters: A "high non-disclosing carbon emitter" is not eligible for index inclusion. This is defined as any company that has not sufficiently disclosed its carbon emissions (see element *b*) and that has a carbon to revenue footprint higher than or equal to the 100th highest carbon to revenue footprint of companies in the S&P Global LargeMidCap.

¹ There are 24 GICs sub-industry groups, which sit one level below the 11 GICs sectors. More details can be found at: <https://spindices.com/documents/index-policies/gics-map-english-20160701.xlsx>.

This methodology is used to add nuance to a company’s weighting in an S&P Global Carbon Efficient Index.

5. What weight adjustments are used? The adjustments are summarized in Exhibit 1.

Exhibit 1: Weight Adjustments						
DECILE CLASSIFICATION	DISCLOSURE STATUS	DECILE WEIGHT ADJUSTMENT (%)	CARBON WEIGHT ADJUSTMENT (%)			
			INDUSTRY GROUP IMPACT FACTOR			
			LOW	MID	HIGH	
			x0.5	x1	x3	
1 st Decile	Disclosed	40	20	40	120	
	Non-Disclosed	30	15	30	90	
2 nd Decile	Disclosed	30	15	30	90	
	Non-Disclosed	20	10	20	60	
3 rd Decile	Disclosed	20	10	20	60	
	Non-Disclosed	10	5	10	30	
4 th -7 th Decile	Disclosed	10	5	10	30	
	Non-Disclosed	0	0	0	0	
8 th Decile	Disclosed	0	0	0	0	
	Non-Disclosed	-10	-5	-10	-30	
9 th Decile	Disclosed	-10	-5	-10	-30	
	Non-Disclosed	-20	-10	-20	-60	
10 th Decile	Disclosed	-20	-10	-20	-60	
	Non-Disclosed	-30	-15	-30	-90	

Source: Trucost ESG Analysis. Data as of July 2018. Table is provided for illustrative purposes.

A negative weight adjustment implies that weight is allocated away from the company and into companies with a positive weight adjustment.

INDEX CONSTRUCTION

1. How are stocks selected for the S&P Global Carbon Efficient Indices? The S&P Global Carbon Efficient Indices are constructed annually from the then-current constituents of an underlying index.

For a security to be eligible for inclusion in an index, it must:

- Not have been certified as a high non-disclosing carbon emitter (per the S&P Carbon Global Standard mentioned previously) and
- Pass a liquidity screen specific to the index if it is a new potential constituent.

2. Where do the carbon to revenue footprint metrics come from? The carbon to revenue footprint metrics are calculated by Trucost ESG Analysis. Trucost ESG Analysis evaluates the environmental performance of companies and produces an annual carbon emissions figure.

The metrics used are the company's annual GHG emissions (direct and first-tier indirect), expressed as metric tons of carbon dioxide equivalent (CO₂e), divided by their annual revenues.

Each company's carbon to revenue footprint is researched annually, approximately eight months after the company's fiscal year end.

All companies within Trucost ESG Analysis' coverage universe that do not have recent disclosed annual carbon emissions are assigned one, based on an estimate and using its proprietary input-output model.

- 3. How often are the indices rebalanced, and what are the rules around reconstitution?** The indices are reconstituted annually, after the close of the third Friday in March. The rebalancing reference date is the third Friday in February.

For more information on rebalancing and reconstitution, please refer to the methodology on the S&P DJI website: www.spdji.com.

- 4. How are controversies associated with companies in the index series monitored and handled?** Companies within the indices are monitored on a daily basis by RepRisk,² a leading provider of business intelligence on environmental, social, and governance risks. RepRisk analyzes companies for related controversies, including a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents, and environmental disasters. Using this data, each company is assigned a daily RepRisk Index (RRI) indicator. A company is defined as a risk if their RRI indicator is 75 or above. If a company is reported by RepRisk to have violated the RRI indicator threshold of 75, the affected company will be removed with a minimum of two days advance notice. A company removed as a risk will only be considered for addition to the indices on a future rebalancing date when it satisfies all the eligibility criteria and its RRI score has remained below 75 on all days since the previous year's rebalancing date.

INDEX DATA AND LICENSING

- 1. How often are the S&P Global Carbon Efficient Indices calculated?** The indices are calculated daily.
- 2. How much history is available?** History is available from March 20, 2009. The indices were launched on July 17, 2018. All data prior to the launch date is back-tested.
- 3. How can I access data for these indices?** Index levels are available on Bloomberg, Reuters, and BlackRock's Aladdin. Additional data for the indices is available via S&P DJI's FTP feed.

The FTP feed provides four daily files: index levels, opening and closing stock-level data and weights, and daily corporate actions. Files including index-level fundamentals are available on a monthly basis.

² For more information on RepRisk, please refer to www.reprisk.com. This service is not considered a direct contribution to the index construction process.

4. **Where can I obtain more information about the indices?** Historical and current monthly index information, including factsheets and methodology, is available at www.spdji.com.
5. **Do I need a license from S&P DJI in order to use the indices and their data?** Yes, in order to access, receive, use, or distribute the indices or any related data, a subscription or license agreement with S&P DJI would be required.
6. **Do I need a license from S&P DJI to use the indices in connection with financial products?** Yes, in order to use the indices in connection with a financial product or transaction, a license agreement with S&P DJI would be required.
7. **Will S&P DJI calculate customized versions of the indices?** Yes, custom indices can be developed and distributed. There may be an additional cost for this service.
8. **How much do the indices cost for subscription and usage?** Pricing information requests can be addressed to S&P DJI at the following contact information.

Contact us

For more information, or for enquiries relating to the above questions, please contact index.services@spglobal.com (or IndexServicesTokyo@spglobal.com for Japanese language support).

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