

The S&P Europe 350[®] ESG Index: A Broad, Sustainable Index Solution

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Launched in 2019, the S&P Europe 350 ESG Index was designed to meet the growing market need for new benchmarks holistically integrating sustainability principles.

Spanning the 11 GICS[®] sectors, the index provides insights into a wide range of sustainability issues, such as governance, gender diversity, the environment, human rights, risk culture, cyber security, tax strategy, and many others.

THE INDEX FOUNDATION

The natural starting point to the S&P Europe 350 ESG Index is the S&P Europe 350. The European counterpart to the S&P 500, this index is a float-adjusted, market-capitalization-weighted index that includes the largest and most liquid stocks from developed Europe.

Exhibit 1 provides a brief methodology overview with comparisons to MSCI Europe, STOXX Europe 600, and Euro STOXX 50, three widely used European equity indices.

Exhibit 1: Rules-Based Methodology Comparison of the S&P Europe 350 to Peer Indices				
CATEGORY	S&P EUROPE 350	MSCI EUROPE	STOXX EUROPE 600	EURO STOXX 50
Geographic Coverage	Developed Europe (16 Countries)	Developed Europe (15 Countries excluding Luxembourg)	Developed Europe (17 Countries including Poland)	Eurozone
Number of Components	363*	454	600	50
Index Selection Criteria	Committee determined based on size and liquidity and country and sector representation	Large- and mid-cap companies from developed Europe	The largest 600 stocks in universe, subject to minimum liquidity threshold	Largest 50 companies across 20 ICB Supersectors, subject to minimum liquidity threshold
Sector Classification System	GICS	GICS	ICB	ICB
Weighting	Float market cap	Float market cap	Float market cap	Float market cap with a 10% maximum single stock cap
Rebalancing Frequency	Quarterly review with additions typically only made when vacancies occur	Semiannual reviews	Quarterly review	Annual review with quarterly weighting adjustments

Source: S&P Dow Jones Indices LLC, MSCI, Qontigo. Data as of June 21, 2021. * Includes 350 companies but 363 securities due to the inclusion of multiple share classes. Table is provided for illustrative purposes.

When comparing this index to its peers it's important to note that the S&P Europe 350 is inclusive of both the eurozone and non-eurozone, which allows the index to provide a more comprehensive view of the region.

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THE S&P DJI ESG SCORES

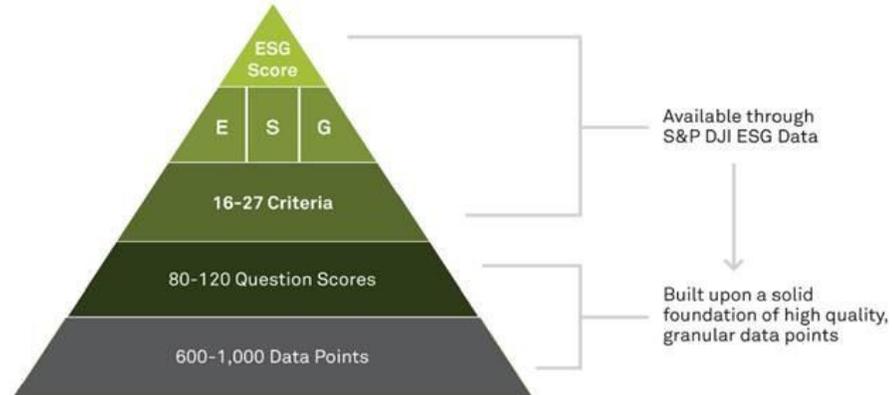
The second key component of this index is the data, particularly the S&P DJI ESG Scores, which determine the index composition.

The S&P DJI ESG Scores are based on data gathered over two decades by S&P Global Sustainable1,1 which publishes ESG scores based on data collected through the S&P Global Corporate Sustainability Assessment (CSA). The CSA has become a leading standard in its own right as the definitive guidebook and grading system for corporations, quantifying their progress on sustainability topics and their ESG performance in relation to their peers.

Because S&P Global Sustainable1 directly interacts with companies, it is able to collect 600-1,000 data points per company. These data points are then transformed into four levels of scores (see Exhibit 2). The top score, the overall ESG score, is used to construct the S&P Europe 350 ESG Index.

The S&P DJI ESG Scores determine the index composition.

Exhibit 2: S&P DJI ESG Scores



Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

The top score, the overall ESG score, is used to construct the S&P Europe 350 ESG Index.

BUILDING A BROAD EUROPEAN ESG BENCHMARK

The index has two primary goals; first, to provide a true representation of the large-cap European equity market and second to exclude companies that are not managing their businesses in line with ESG principles, according to their S&P DJI ESG Scores and other relevant ESG data, while including companies that are doing so. These goals work together to create an index with an ESG tilt that has historically reflected the risk/return profile of its underlying index.²

¹ S&P Global acquired SAM in 2020. SAM was originally part of RobecoSAM, an active investment manager, and gathered ESG data to inform RobecoSAM's portfolio managers' investment decisions.

² For more information on the index construction, please see the [Index Methodology](#).

Key Benefits

Realized ESG Potential: A useful metric to consider is the “realized ESG potential” of the index. This depicts how much of an S&P DJI ESG Score improvement was achieved by the ESG index, relative to the maximum possible improvement that could have been attained by investing solely in the single highest-ranked company in terms of S&P DJI ESG Score. According to this measure, the S&P Europe 350 ESG Index realized more than 38.8% of the ESG potential of the benchmark, representing a meaningful boost for an ESG index that still provides benchmark-like returns.³

Real-World Benefits: Perhaps more interesting still are the real-world benefits represented by the enhanced sustainability profile. Indeed, the S&P DJI ESG Scores account for myriad underlying sustainability metrics, driven by up to 1,000 real-world data points per company assessed. The sustainability benefits of the S&P Europe 350 ESG Index are thus simply too numerous to convey in a single white paper. Nevertheless, a small sampling of these enhancements is highlighted in Exhibit 3.

Exhibit 3: Benefits of the S&P Europe 350 ESG Index versus the S&P Europe 350

	Environmental		Social		Governance
	<p>9% Higher exposure to companies which have established processes for identifying, assessing, and managing climate-related issues integrated into their over-all risk management, i.e. climate change is integrated into the company’s centralized enterprise risk management program covering all types/sources of risks and opportunities</p>		<p>8% Higher exposure to companies that monitor and disclose female representation across their organization, as well as a breakdown of workforce based on other minority group(s), e.g. age, nationality, disability, etc.</p>		<p>6% Higher exposure to companies which have a publicly available independence statement for the board of directors in place</p>
	<p>6% Higher exposure to companies that have estimated annual CO2e savings and anticipated annual cost savings from emissions reduction activities in the latest reporting year</p>		<p>12% Higher exposure to companies which have developed employee development programs that have been implemented to upgrade and improve employee skills. This includes the description of business benefits for each program and quantitative measures of the positive impact that these programs have had on their business.</p>		<p>5% Higher exposure to companies which did not incur any fines or settlements related to anti-competitive business practices in the past four fiscal years</p>
	<p>8% Higher exposure to companies which have established science-based corporate-level climate-related targets combining Scope 1 & 2 GHG emissions, referring either to absolute or relative (intensity) targets</p>		<p>6% Higher exposure to companies that proactively conducted an assessment of potential human rights across their own operations, contractors and Tier 1 Suppliers, specifically covering local communities and migrant labour</p>		<p>10% Higher exposure to companies which have identified ESG objectives for their supply chain management strategy, including supplier selection and retention process</p>

Source: S&P Dow Jones Indices LLC. These are just a few examples of the numerous ways in which the S&P Europe 350 ESG Index offers enhanced ESG representation. Increased index exposure to each ESG theme in the metrics above is calculated using the question-level data in the CSA (2020 methodology year). These metrics are calculated using index data as of April 30, 2021, as the percentage difference between the performance of the S&P Europe 350 ESG Index and the S&P Europe 350 constituents across these metrics, on a weighted average basis.

Risk/Return Profiles: The objective of the S&P Europe 350 ESG Index is to enhance allocation to companies with improved sustainability characteristics while maintaining similar overall industry group weights to the underlying index. As the risk/return metrics over a 1-, 3-, 5-, and 10-year time horizon demonstrate (see Exhibit 4), the index has achieved realized tracking errors between 1.01%-1.09%, and almost identical volatility to the underlying index.

³ This realized ESG potential is calculated as the percentage difference between the aggregate S&PDJI ESG Scores of the S&P Europe 350 ESG Index and the S&P Europe 350, relative to the strategy’s maximum potential ESG improvement based on investing only in the single highest-ranked ESG scoring company in the benchmark. The S&P Europe 350 ESG Index represents 38.8% $((6.87)/(99.41-81.69))$ of the possible ESG improvement that the index could achieve (99.41 is the highest score in the S&P Europe 350).

Exhibit 4: Performance Characteristics of the S&P Europe 350 versus the S&P Europe 350 ESG Index

CATEGORY	S&P EUROPE 350	S&P EUROPE 350 ESG INDEX
Number of Constituents	363	244
Float-Adjusted Market Cap (USD Billions)	10,650	7,874
ANNUALIZED TOTAL RETURNS (%)		
10-Year	8.49	8.36
5-Year	9.63	10.07
3-Year	8.90	9.33
1-Year	28.75	27.20
ANNUALIZED RISK (%)		
10-Year	13.70	13.73
5-Year	14.10	14.07
3-Year	16.98	16.84
1-Year	16.66	16.97
ANNUALIZED RISK-ADJUSTED RETURNS (%)		
10-Year	0.62	0.61
5-Year	0.68	0.72
3-Year	0.52	0.55
1-Year	1.73	1.60
REALIZED TRACKING ERROR (%)		
10-Year	-	1.04
5-Year	-	1.01
3-Year	-	1.03
1-Year	-	1.09

The objective of the S&P Europe 350 ESG Index is to enhance allocation to companies with improved sustainability characteristics...

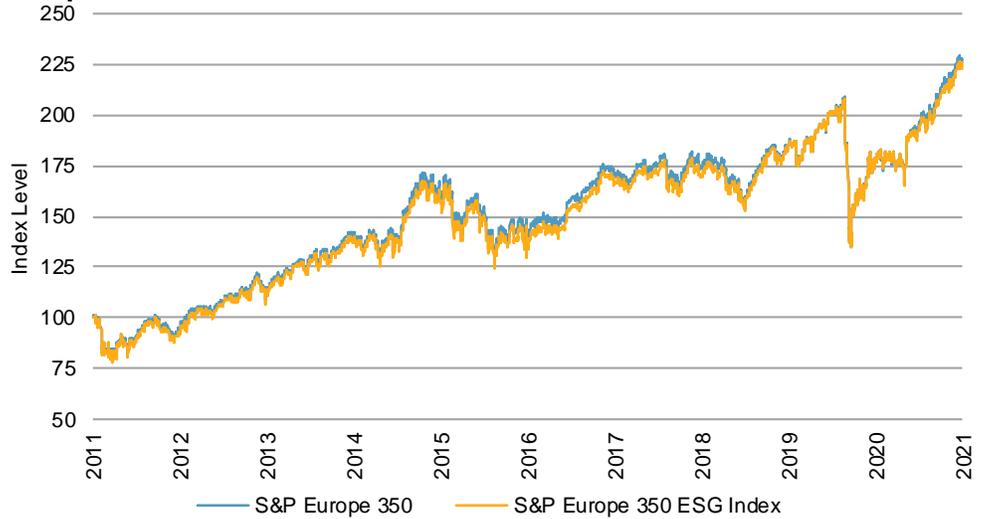
...while maintaining broad and diversified exposure...

...in an effort to provide benchmark-like returns.

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2021. Past performance is no guarantee of future results. Index performance based on total return in EUR. Table is provided for illustrative purposes and reflects 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.

Exhibit 5 further illustrates the return profile of the S&P Europe 350 ESG Index relative to the S&P Europe 350 over a 10-year timeframe. The latter time period shows some of the live performance record, given that the S&P Europe 350 ESG Index launched in 2019. Despite excluding more than 26% of the constituents according to rules-based eligibility and selection criteria, the S&P Europe 350 ESG Index achieved a similar return profile to the S&P Europe 350, along with a myriad of sustainability enhancements.

Exhibit 5: 10-Year Historical Returns of the S&P Europe 350 versus the S&P Europe 350 ESG Index



The S&P Europe 350 ESG Index achieved a similar return profile to the S&P Europe 350...

...along with a myriad of sustainability enhancements.

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2011. Past performance is no guarantee of future results. Index performance based on total return in EUR. Chart is provided for illustrative purposes and reflects 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.

CONCLUSION

The S&P Europe 350 ESG Index fulfills the most important requirements of market participants seeking a broad, European benchmark incorporating sustainability principles. By employing leading ESG scores and the most common ESG exclusions while historically providing benchmark-like risk/return characteristics, the S&P Europe 350 ESG Index can serve as a common starting point for the growing market focused on sustainability.

The S&P Europe 350 is an index that can serve as a common starting point for the growing market focused on sustainability demand.

For a more in-depth look at this index, see [The S&P Europe 350 ESG Index: Defining Europe's Sustainable Core](#).

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