

S&P ESG Index Series and S&P ESG Titled Index Series Consultation on Thermal Coal Exclusion – Updated

NEW YORK, MARCH 23, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on a potential change to the S&P ESG Index Series and S&P ESG Titled Index Series.

S&P DJI is considering modifying the index eligibility rules to exclude companies that generate a certain amount of revenue from thermal coal, specifically thermal coal extraction and power generation. Three options are being considered and are summarized in the table below.

Proposed Change	Current	Methodology	Proposed
Index Eligibility for Thermal Coal Companies	--		<p>Option 1. Companies must generate less than 25% of revenue from thermal coal.</p> <p>Option 2. Companies must generate less than 10% of revenue from thermal coal.</p> <p>Option 3. Companies must generate less than 5% of revenue from thermal coal.</p>

For more information on the impacted index families, please refer to the [S&P ESG Index Series Methodology](#) and [S&P ESG Titled Index Series Methodology](#).

BACKGROUND

Recently, the ESG space has seen a shift toward divestment from thermal coal companies at certain levels of involvement. Many institutions have publicly stated their intention to divest from thermal coal companies by the end of 2020. Given that these specific indices currently exclude companies with product involvement in tobacco and controversial weapons, two areas which are considered to be highly controversial, S&P DJI is considering adding thermal coal to the list of excluded product areas.

In order to properly frame the potential impact of this exclusion, the individual index objectives must be considered. Indices in both the S&P ESG Index Series and the S&P ESG Titled Index Series aim to maintain similar overall industry group weights to their benchmark index. Given that many thermal coal companies are part of the Energy sector, it holds that these particular index families may be more heavily impacted by excluding thermal coal companies, especially at more restrictive revenue thresholds.

IMPACT ANALYSIS

Using data from the April 2019 rebalancing up to the end of April 2020, Table 1 on the following page shows the total return, annualized volatility, and tracking error (versus the non-ESG headline index) for

the headline ESG indices, as well as the hypothetical results that would have occurred had each of the thermal coal (“TC”) methodology change options been in effect.

Table 1:

	Headline Index	ESG Index / Methodology			
		Current (incl. TC)	Hypothetical (excl. TC)		
			Option 1 (25%)	Option 2 (10%)	Option 3 (5%)
	S&P 500	S&P 500 ESG			
Total Return	-0.84%	1.72%	1.85%	1.36%	1.34%
Annualized Volatility	32.28%	32.37%	32.30%	32.23%	32.22%
Tracking Error		1.08%	1.06%	1.10%	1.11%
	S&P 500	S&P 500 ESG Tilted			
Total Return	-0.84%	-0.26%	-0.21%	-0.72%	-0.73%
Annualized Volatility	32.28%	32.73%	32.60%	32.65%	32.65%
Tracking Error		1.36%	1.32%	1.45%	1.47%
	S&P Global 1200	S&P Global 1200 ESG			
Total Return	-4.98%	-3.34%	-3.21%	-3.44%	-3.37%
Annualized Volatility	25.96%	26.07%	26.15%	26.02%	26.00%
Tracking Error		1.37%	1.44%	1.42%	1.43%
	S&P Global LMC	S&P Global LMC ESG			
Total Return	-5.85%	-4.89%	-4.89%	-5.07%	-5.04%
Annualized Volatility	24.83%	25.04%	25.17%	25.07%	25.03%
Tracking Error		0.81%	0.93%	0.91%	0.90%
	S&P/ASX 200	S&P/ASX 200 ESG			
Total Return	-12.51%	-13.01%	-12.88%	-12.37%	-11.18%
Annualized Volatility	26.74%	26.51%	26.59%	26.46%	26.37%
Tracking Error		2.19%	2.23%	2.19%	2.57%

Using data from the April 2019 rebalancing, Table 2 below shows the actual one-way turnover as well as the hypothetical one-way turnover that would have resulted if each of the previously described methodology change options had been in effect at that time.

Table 2:

Index	Actual (incl. TC)	Turnover Hypothetical (excl. TC)					
		Option 1		Option 2		Option 3	
		25%	Difference	10%	Difference	5%	Difference
S&P 500 ESG Index	13.76%	13.98%	-0.22%	14.57%	-0.81%	14.92%	-1.16%
S&P 500 ESG Tilted Index	13.73%	13.74%	-0.01%	14.34%	-0.61%	14.41%	-0.68%
S&P Global 1200 ESG Index	12.42%	12.53%	-0.11%	12.73%	-0.31%	12.77%	-0.35%
S&P Global LargeMidCap ESG Index	12.50%	12.66%	-0.16%	12.85%	-0.35%	12.81%	-0.31%
S&P/ASX 200 ESG Index	8.72%	10.33%	-1.61%	10.82%	-2.10%	18.73%	-10.01%

Using data from the April 2019 rebalancing, Table 3 below and on the following pages shows the rebalancing changes and their weight impact that would have resulted had each of the previously described methodology change options been in effect at that time. Companies marked as N/A are stocks in the headline index that are involved in thermal coal, but were not included in the respective ESG index.

Table 3:

Index	Thermal Coal Exclusions	Exclusion Level (% of Revenue)	Impact	Weight
S&P 500 ESG	Energy Inc.	25%	#N/A	-
	PPL Corp	25%	#N/A	-
	Ameren Corp	25%	#N/A	-
	American Electric Power	25%	Drop	0.2283%
	CMS Energy Corp	10%	Drop	0.0852%
	DTE Energy Co	10%	#N/A	-

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Index	Thermal Coal Exclusions	Exclusion Level (% of Revenue)	Impact	Weight
S&P 500 ESG (continued)	Duke Energy Corp	10%	Drop	0.3584%
	Alliant Energy Corp	10%	Drop	0.0603%
	FirstEnergy Corp	10%	#N/A	-
	Nisource Inc	10%	Drop	0.0560%
	NRG Energy	10%	Drop	0.0626%
	Pinnacle West Capital (AZ)	10%	Drop	0.0578%
	Southern Co	10%	#N/A	-
	WEC Energy Group Inc	10%	Not Added	0.1338%
	Xcel Energy Inc	10%	Drop	0.1572%
	AES Corp	10%	Drop	0.0613%
Dominion Energy Inc	5%	Drop	0.3367%	
S&P 500 ESG Tilted	Eergy Inc.	25%	Not Added	0.0206%
	PPL Corp	25%	Drop	0.0587%
	Ameren Corp	25%	Drop	0.0366%
	American Electric Power	25%	Drop	0.1271%
	CMS Energy Corp	10%	Drop	0.0376%
	DTE Energy Co	10%	Drop	0.0519%
	Duke Energy Corp	10%	Drop	0.5518%
	FirstEnergy Corp	10%	Drop	0.0408%
	Nisource Inc	10%	Drop	0.0800%
	NRG Energy	10%	Drop	0.0864%
	Pinnacle West Capital (AZ)	10%	Drop	0.0325%
	Alliant Energy Corp	10%	Drop	0.0312%
	Southern Co	10%	Drop	0.1108%
	WEC Energy Group Inc	10%	Drop	0.0757%
	Xcel Energy Inc	10%	Drop	0.0850%
AES Corp	10%	Drop	0.1140%	
Dominion Energy Inc	5%	Drop	0.1630%	
S&P Global 1200 ESG	Ameren Corp	25%	#N/A	-
	AGL Energy Ltd	25%	Drop	0.0338%
	American Electric Power	25%	Drop	0.1385%
	CLP Holdings Ltd.	25%	Drop	0.0677%
	Eergy Inc.	25%	#N/A	-
	Origin Energy Ltd	25%	Not Added	0.0299%
	PPL Corp	25%	#N/A	-
	Anglo American Plc	10%	Drop	0.1191%
	Chubu Electric Power Co	10%	#N/A	-
	Alliant Energy Corp	10%	Drop	0.0366%
	CMS Energy Corp	10%	Drop	0.0517%
	DTE Energy Co	10%	#N/A	-
	Duke Energy Corp	10%	Drop	0.2174%
	Xcel Energy Inc	10%	Drop	0.0953%
	Emera Inc	10%	Not Added	0.0286%
	Endesa SA	10%	Drop	0.0259%
	Enel SpA	10%	Drop	0.1601%
	Energias de Portugal SA	10%	Drop	0.0303%
	FirstEnergy Corp	10%	#N/A	-
	Kansai Electric Power Co Inc	10%	Drop	0.0320%
	Kyushu Electric Power Co Inc	10%	#N/A	-
	Nisource Inc	10%	Drop	0.0340%
	NRG Energy	10%	Drop	0.0380%
	Pinnacle West Capital (AZ)	10%	Drop	0.0351%
	AES Corp	10%	Drop	0.0372%
South32 Limited	10%	#N/A	-	
Southern Co	10%	#N/A	-	
WEC Energy Group Inc	10%	Not Added	0.0812%	
Dominion Energy Inc	5%	Drop	0.2042%	
RWE AG	5%	#N/A	-	

Index	Thermal Coal Exclusions	Exclusion Level (% of Revenue)	Impact	Weight
S&P Global 1200 ESG (continued)	Orsted	5%	#N/A	-
	BHP Group Ltd	5%	Drop	0.2542%
	Enel Chile S.A.	5%	Not Added	0.0090%
	Fortis Inc	5%	#N/A	-
	BHP Group Plc	5%	Drop	0.1635%
S&P Global LMC ESG	AES Gener S.A.	25%	Drop	0.0022%
	AGL Energy Ltd	25%	Drop	0.0295%
	Adaro Energy Tbk PT	25%	#N/A	-
	Ameren Corp	25%	#N/A	-
	American Electric Power	25%	Drop	0.1210%
	Banpu Public Co Ltd	25%	Drop	0.0030%
	Bukit Asam (Persero) Tbk PT	25%	Drop	0.0024%
	China Coal Energy Co Ltd H Shares	25%	Drop	0.0026%
	China Resources Power Holdings Co. Ltd.	25%	#N/A	-
	China Shenhua Energy Co Ltd H Shares	25%	#N/A	-
	CLP Holdings Ltd.	25%	Drop	0.0591%
	Coal India Ltd	25%	Drop	0.0142%
	Tata Power Co Ltd	25%	#N/A	-
	Washington H Soul Pattinson & Company Limited	25%	#N/A	-
	Yanzhou Coal Mining Co Ltd H Shares	25%	#N/A	-
	Datang International Power Generation Co Ltd H Shares	25%	Drop	0.0021%
	DMCI Holdings Inc	25%	Drop	0.0025%
	Electric Power Development Co	25%	Drop	0.0115%
	Polska Grupa Energetyczna SA	25%	#N/A	-
	PPL Corp	25%	Not Added	0.0645%
	Public Power Corp	25%	#N/A	-
	NTPC Ltd	25%	Not Added	0.0131%
	OGE Energy Corp	25%	#N/A	-
	Origin Energy Ltd	25%	Drop	0.0261%
	Semirara Mining and Power Corp	25%	Drop	0.0017%
	Eergy Inc.	25%	#N/A	-
	Exxaro Resources	25%	Drop	0.0082%
	HK Electric Investments Ltd	25%	Drop	0.0064%
	Hokuriku Electric Power Co	25%	#N/A	-
	Huadian Power International Corp Ltd H Shares	25%	#N/A	-
	Huaneng Power International Inc H Shares	25%	#N/A	-
	China Longyuan Power Group Corporation Ltd. - H Shares	10%	Drop	0.0061%
	Chubu Electric Power Co	10%	Drop	0.0300%
	Chugoku Electric Power Co Inc	10%	#N/A	-
	CMS Energy Corp	10%	Drop	0.0451%
	DTE Energy Co	10%	#N/A	-
	Duke Energy Corp	10%	Drop	0.1899%
	Electricity Generating PCL	10%	Drop	0.0063%
	Emera Inc	10%	Not Added	0.0250%
	Endesa SA	10%	Drop	0.0227%
AES Corp	10%	Drop	0.0325%	
Aboitiz Equity Ventures Inc	10%	#N/A	-	
Aboitiz Power Corp	10%	#N/A	-	
Enel SpA	10%	Drop	0.1398%	
Energias de Portugal SA	10%	Drop	0.0265%	
FirstEnergy Corp	10%	#N/A	-	
Jastrzebska Spolka Weglowa SA	10%	#N/A	-	
Kansai Electric Power Co Inc	10%	Drop	0.0280%	
Korea Elec Power Corp	10%	Drop	0.0178%	
Kyushu Electric Power Co Inc	10%	#N/A	-	
Malakoff Corporation Bhd	10%	Drop	0.0008%	

Index	Thermal Coal Exclusions	Exclusion Level (% of Revenue)	Impact	Weight
S&P Global LMC ESG (continued)	Metro Pacific Investments Corp	10%	Not Added	0.0032%
	Nisource Inc	10%	Drop	0.0297%
	Pinnacle West Capital (AZ)	10%	Drop	0.0306%
	Shikoku Electric Power Co Inc	10%	Drop	0.0060%
	South32 Limited	10%	Drop	0.0346%
	Southern Co	10%	#N/A	-
	Taiwan Cement Corp	10%	Not Added	0.0171%
	Tenaga Nasional Bhd	10%	Drop	0.0218%
	Tohoku Electric Power Co	10%	#N/A	-
	Vistra Energy	10%	#N/A	-
	Anglo American Plc	10%	Drop	0.1041%
	CEZ-Ceske Energeticke Zavody	10%	Drop	0.0107%
	WEC Energy Group Inc	10%	Not Added	0.0709%
	Xcel Energy Inc	10%	Drop	0.0833%
	Fortis Inc	5%	#N/A	-
	GS Holdings Corp	5%	#N/A	-
	Guangdong Investment Ltd.	5%	#N/A	-
	EVN-Energie Versorg Nieder AG	5%	#N/A	-
	Inter RAO OJSC	5%	#N/A	-
	Power Assets Holdings Ltd	5%	Drop	0.0260%
	Orsted	5%	#N/A	-
	Ratchaburi Electricity Generating Holding PCL	5%	Drop	0.0020%
	RWE AG	5%	#N/A	-
	RWE AG Nvtg Prf	5%	#N/A	-
	Sembcorp Industries	5%	Drop	0.0051%
	Dominion Energy Inc	5%	Drop	0.1784%
	OCI Company Ltd	5%	Drop	0.0046%
	COLBUN SA	5%	Drop	0.0045%
	Enel Chile S.A.	5%	Not Added	0.0079%
	BHP Group Ltd	5%	Drop	0.2221%
BHP Group Plc	5%	Not Added	0.1428%	
S&P/ASX 200 ESG	AGL Energy Ltd	25%	Drop	1.1853%
	Whitehaven Coal Ltd	25%	#N/A	-
	New Hope Corp	25%	#N/A	-
	Origin Energy Ltd	25%	Drop	1.0498%
	Washington H Soul Pattinson & Company Limited	25%	#N/A	-
	South32 Limited	10%	Drop	1.3908%
	BHP Group Ltd	5%	Drop	8.9204%

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the proposed methodology change, if adopted, in conjunction with the 2021 annual rebalancing, which takes effect prior to the market open on Monday, May 3, 2021.

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. Do you agree with the proposed change to exclude thermal coal companies from the aforementioned index families?
2. If you agree with the proposed change, which revenue threshold for thermal coal involvement is most appropriate?
 - Option 1 – 25% of revenue
 - Option 2 – 10% of revenue
 - Option 3 – 5% of revenue

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3. **If the proposed change is adopted, do you agree with the proposed implementation date?**
4. **Are there any additional energy-related product involvement areas you would like to see excluded (e.g. oil sands extraction, shale energy exploration and production, etc.)?**
5. **Do you have any other comments or feedback regarding the proposed change outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **May 29, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

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