FTSE TPI Climate Transition Index

Capturing the climate transition within a global equity portfolio
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Overview

FTSE TPI Climate Transition Index
Integrating climate considerations
An evolving landscape

Investor approaches to climate integration are increasing in sophistication

Managing risks…

Managing risks & opportunities…

Transition alignment
## FTSE TPI Climate Transition Index

### Objectives

Design a global equity index that:

| Explicitly incorporates the TPI framework i.e. company assessments of: | • Management Quality  
| | • Carbon Performance |
| Significant improvements in index climate characteristics vs benchmark: | • Climate risk exposure (Emissions; FF Reserves)  
| | • Transition-related opportunities (Green Revenues) |
| Provides investors with an engagement tool: | • Potential for signalling 2DC transition progress / performance to constituent companies |
FTSE TPI Climate Transition Index
Overview – Climate criteria

- **Fossil fuel reserves**
  - Underweight companies with fossil fuel reserves

- **Carbon emissions**
  - Over or underweight companies according to their GHG emissions

- **Green revenues**
  - Overweight companies engaged in the transition to a green economy

- **Management quality**
  - Over or underweight companies according to their management quality (“climate governance”)

- **Carbon performance**
  - Over or underweight companies according to their carbon performance (“2DC/1.5DC pathways”)
FTSE TPI Climate Transition Index
Overview – Index construction

FTSE Developed Index

Apply CW exclusion

FTSE Russell climate tilts
• Carbon Emissions
• Fossil Fuel Reserves
• Green Revenues

Management Quality tilt
• Strong tilt applied to emphasise MQ performance

Carbon Performance tilt
• Meaningful over / under weights applied to carbon intensive companies

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Management Quality (MQ) – “climate governance”

- TPI assesses company “climate governance”
- Companies are assigned Management Quality (MQ) scores from low to high (0-4)

MQ scores are over emphasised in the Index via stronger tilts
Index weights shift significantly towards companies with higher MQ scores

Source: FTSE Russell. For illustrative purposes only. Data as at 30/09/19. See the end of the presentation for important legal disclosures.
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Carbon Performance – pathways to 2DC / 1.5DC

- TPI assesses company commitments to 2DC/1.5DC emissions pathways
- Focus: Most carbon intensive companies globally
- Significant adjustments applied to Aligned vs Not Aligned companies

Index weight of “Aligned” companies: x3
Index weight of most carbon intensive stocks: -33%

Source: FTSE Russell. Data as at September 2019

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