

**Update on the FTSE ESG data model - RC5  
(2018/2019)**

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# 'Trending' in Sustainability



The trust deficit (Edelman Trust Barometer) – trust of civil society in business, governments and NGO's continues to deteriorate

The 'divest' movement – move to divest from fossil fuel-related assets

Millennials and ethical investing – millennials are prizing “doing good” over doing well

The plastic pollution disaster – surge in global awareness

Circular economy – emergent model for sustainable development

TCFD – substantial acceptance that climate change disclosure in relation to financial implications must be done, and using the TCFD framework

ESG regulation – slew of regulation/codes in the last 4 years compelling greater ESG disclosure

Smart beta – using ESG factors for performance differentiation

Growth in ESG integration (26% of professionally-managed AUM globally)

# What is informing investor decision-making in ESG

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- Greater awareness of the magnitude of ESG risks
  - Climate change (TCFD)
  - Corporate failures
    - BP, VW etc.
- Increasing ability to quantify ESG factors
  - ESG rating frameworks, laws on disclosure, reporting requirements
- Social media
  - Millennials
  - Speed of communication

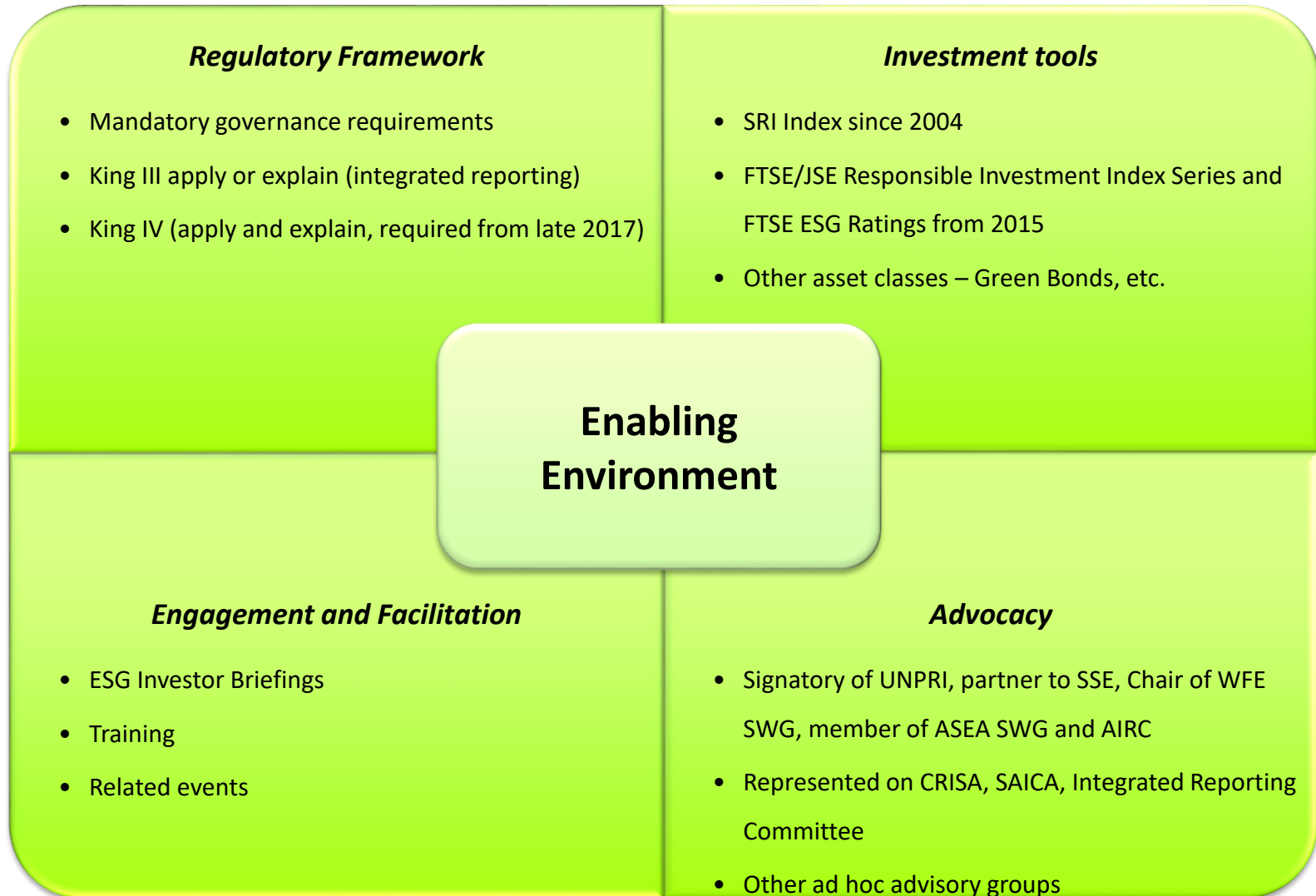
# What investors are looking for from corporates locally

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- Good governance first and foremost
  - Robust processes
  - PEP's
  - Conflicts of interest
- Integrated thinking
  - Meaningful data
  - Comparability
  - Balanced reporting
- Quantification of risks as well as opportunities
- Investible products

# JSE's hybrid approach to sustainability



# FTSE/JSE Responsible Investment Indices



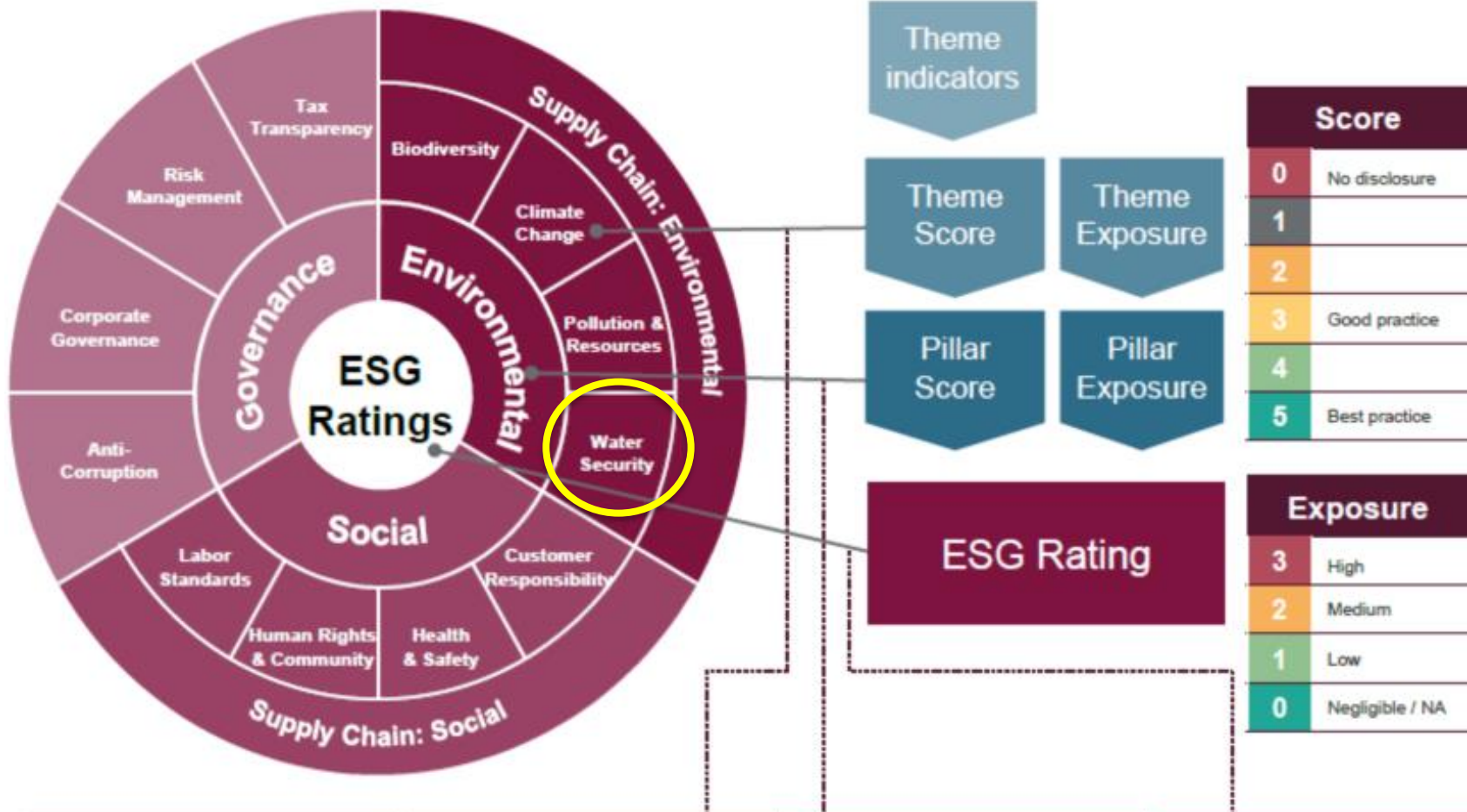
- **Index Series launched October 2015**
  - ❑ Aspirational benchmark
  - ❑ Evolution of SRI index to meet investor demands and expand value proposition
- **Broad sustainability assessment**
  - ❑ ESG foundation – based on adoption of FTSE Russell ESG Ratings
  - ❑ Focus on investor usability and access to data
- **Two indices in series at present**
  - ❑ FTSE/JSE Responsible Investment Index
    - ✓ Benchmark, weighted by market capitalisation
    - ✓ 76 constituents as at June 2018
  - ❑ FTSE/JSE Top 30 Responsible Investment Index
    - ✓ Tradable, equally weighted

# Eligibility for FTSE/JSE RI Indices



- **Base universes:**
  - ❑ FTSE All World Index AND
  - ❑ FTSE/JSE Shareholder Weighted (Swix) All Share Index
- **Ineligible if excluded from either index at any time during process or after quarterly reviews**
- **If eligible, assessment against the FTSE ESG Ratings methodology is conducted**
  - ❑ Each company assessed once per year
  - ❑ ESG Rating applied at semi-annual index reviews in June and December
  - ❑ Minimum inclusion for benchmark index is currently 2.5 overall ESG Rating

# FTSE ESG Ratings Model: snapshot



Score	
0	No disclosure
1	
2	
3	Good practice
4	
5	Best practice

Exposure	
3	High
2	Medium
1	Low
0	Negligible / NA

- >300 Indicators**  
Individually researched aspects which focus on key operational issues
- 14 Themes**  
A Score and Exposure for the issues in each ESG Pillar, such as Climate Change / Anti-Corruption
- 3 Pillars**  
A cumulative Score and Exposure for each of Environment / Social / Governance
- 1 ESG Rating**  
A cumulative calculation of total ESG performance



# Score and exposure levels



Score	
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1	
2	
3	Good practice
4	
5	Best practice

Exposure	
3	High
2	Medium
1	Low
0	Negligible / NA

- **Scoring: theme, pillar and overall**
  - ❑ Covers six levels from 0 to 5
  - ❑ A score of 3 is considered good practice
- **Theme exposure**
  - ❑ Measures the relevance / risk exposure of the company relative to the theme
  - ❑ Considers factors such as industrial sector, geographic presence and revenue generated from secondary / subsidiary activities
  - ❑ If not applicable, theme not assessed
  - ❑ Impacts weighting of theme in scoring at pillar and overall level – higher exposure themes have larger impact on rating – therefore advisable to focus on areas with high exposure and low score

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**MODEL UPDATES**

# Why update the model?

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- Sustainability imperatives are evolving
- Gives companies a robust and helpful framework for ESG disclosure on an on-going basis
- Help alleviate “framework fatigue”
  - Align with emerging best practice and global trends
  - Considers other more widely-used frameworks
    - CDP
    - GRI
    - TCFD
    - WBCSD etc.

# ESG methodology enhancements 2018

For 2018 – 2019 Research Cycle

## Environmental Pillar

Biodiversity (EBD) No changes

Water Security (EWT) Major enhancements to improve relevance for investors and better align with other disclosure frameworks

Pollution & Resources (EPR) No changes

Climate Change (ECC) 3 new indicators applicable to high impact subsectors aligning with Climate Action 100

Environmental Supply Chain (ESC) No changes

## Social Pillar

Customer Responsibility (SCR) No changes

Health & Safety (SHS) No changes

Human Rights & Community (SHR) No changes

Labour Standards (SLS) 2 new indicators

Social Supply Chain (SSC) 2 new indicators

## Governance Pillar

Anti-Corruption (GAC) No changes

Corporate Governance (GCG) 1 new indicator

Risk Management (GRM) No changes


Tax Transparency (GTX) No changes

# Water Security theme - re-named from Water Use (EWT)

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- Water increasingly considered a risk and investors need more information to be able to assess the risks
- Key changes affect high and medium impact sectors
- Changes relate to:
  - governance, strategy, risk management, metrics and targets
  - focus on withdrawal and discharge over consumption





Full details available  
in handouts

## Labour Standards Theme (SLS)



To reflect the trend on diversity the following 2 indicators have been added to the theme.

			Applicability:	
legend	Indicator type	Indicator description	Subsectors	Exposure:
SLS32	Quantitative	Percentage of global staff with a disability.		
SLS33	Quantitative	Percentage of women in the global workforce.		

# Social Supply Chain theme (SSC)



To reflect focus on animal welfare the following indicator has been added for companies in the food and pharmaceutical sectors.

legend	Indicator type	Indicator description	Applicability:	
			Subsectors	Exposure:
SSC56	Qualitative	Supplier policy addresses animal welfare:	3573	Farming, Fishing & Plantations
		a. Statement addressing the issue / comply with local laws	3577	Food Products
		b. Policy / Principles / Code	5337	Food Retailers & Wholesalers
			5757	Restaurants & Bars
			4577	Pharmaceuticals
			4573	Biotechnology

The following indicator has been added for companies in the banking sector.


legend	Indicator type	Indicator description	Applicability:	
			Subsectors	Exposure:
SSC57	Qualitative	Evidence of green or sustainable bond issuance and lending mechanism:	8355	Banks
		a. Evidence of at least one green / sustainable bonds / lending mechanism.		
		b. Evidence of multiple green / sustainable bond issuances or of multiple lending mechanisms.		

Source: FTSE Russell

# Governance theme (GCG)



To reflect growing focus on equal opportunities the following indicator has been added to the Theme.

			Applicability:	
legend	Indicator type	Indicator description	Subsectors	Exposure:
GCG50	Quantitative	Percentage of women on the Executive committee or equivalent.		



# Climate Change theme (ECC)



The following 3 indicators have been added to the Theme for high impact subsectors.

legend	Indicator type	Indicator description	Applicability: Subsectors	Exposure:
ECC73	Qualitative	The company discloses: a. Its memberships of trade associations that engage on climate-related issues. b. Its involvement in these trade associations.		H
ECC74	Qualitative	The company has a stated policy or commitment to ensuring: a. Consistency between its climate change policy and the positions taken by the trade associations of which they are members. b. For responding appropriately in those instances where the trade association position is significantly weaker than or contradicts that of the company.		H
ECC75	Qualitative	Does the company's remuneration for senior executives incorporate climate change performance? a. CEO. b. At least one other senior executive.		H

Source: FTSE Russell

# Key points

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- FTSE process of updating the model has changed
  - Cycle is June to June
  - Governance process enhanced to include advisory committee sign-off
  - Model shared with all assessed companies
- Model updates already effective for the current research cycle
  - Companies being assessed for the Dec 2018 index review already affected

## NEW FEATURES ON YOUR FTSE QSD PORTAL

# Useful information for Company Review

Please also see “Resources” for some useful information

Please click **Resources**> **Guides & Contacts**> **Further information**

You can access details on the review process via your **company** user access to the FTSE QSD portal in this way



Research Review | **Resources** | Tools

## Company Review Resources

Review Overview

### About FTSE Russell

FTSE Russell is a leading global provider of benchmarks, analytics and data solutions for investors worldwide, giving a precise view of the markets relevant to any investment process. A comprehensive range of reliable and accurate indexes provides investors with the tools they require to measure and analyze markets across asset classes, styles or strategies. FTSE Russell manages the FTSE4Good Index Series, a pioneering group of sustainable benchmarks established in 2001 and designed to highlight good corporate ESG performance and disclosure. Further information about the FTSE4Good Index Series can be found [here](#). Please click through the sections below for more information about the company review process and the use of the data.

Click title to expand or hide information box

- Using the Platform
- ESG Company Review Overview
- ESG Company Review Process
- Finishing the Review Process
- Using the ESG Data
- Further Information**

### Resources:

- [FTSE Russell ESG Ratings Methodology Changes Summary](#)
- [FTSE Russell ESG Ratings Methodology](#)
- [FTSE4Good Index Series and ESG Rating – Frequently Asked Questions](#)
- [Company ESG Assessment Review User Guide](#)
- [FTSE Russell ESG Ratings Overview](#)

London Stock Exchange Group has issued guidance for companies, setting out recommendations for good practice in Environmental, Social and Governance reporting (ESG).

# New features on FTSE QSD portal - CPC



CPC refers to a new feature called Corporate Peer Comparison

Log off



Research Review

Resources

Tools

CPC

FTSE4Good Certificate

Your company name

FTSE Industry Classification Benchmark (ICB): Your company ICB classification details

Home

Welcome

Company Summary

Export Report

ESG Rating

Rating & Pillar Scores

Theme Scores

Data

Green Revenues

Classification

Data

Welcome to the Corporate Peer Comparison tool (CPC)

FTSE Russell's CPC provides:

1. The most recent ESG Rating for your company
2. Comparative ESG Rating data for your company versus its peers, and
3. Our assessment of your company's Green Revenues

**Note:** No actions are required. This site is separate from the Company Review process

The information provided is confidential and intended for the use of this audience only. Additional distribution is prohibited.

<< Please use the menu on the side to navigate the CPC

# Company vs. sub-sector and industry averages (using dummy data)



Your company name

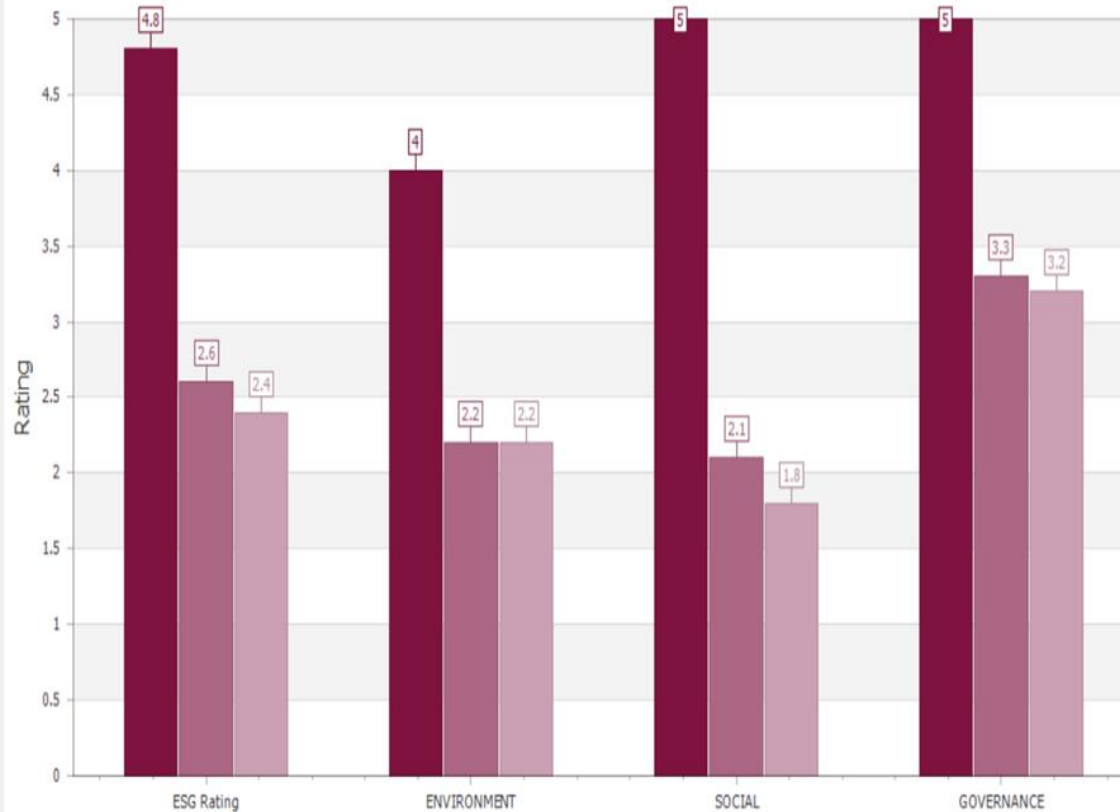
Company vs SubSector and Industry averages

Data

Green Revenues

Classification

Data



Company

SubSector Average:

Industry Average:

This refers to the global average scores for your sub-sector and Industry globally (i.e. compared to your global peers as assessed by FTSE Russell)

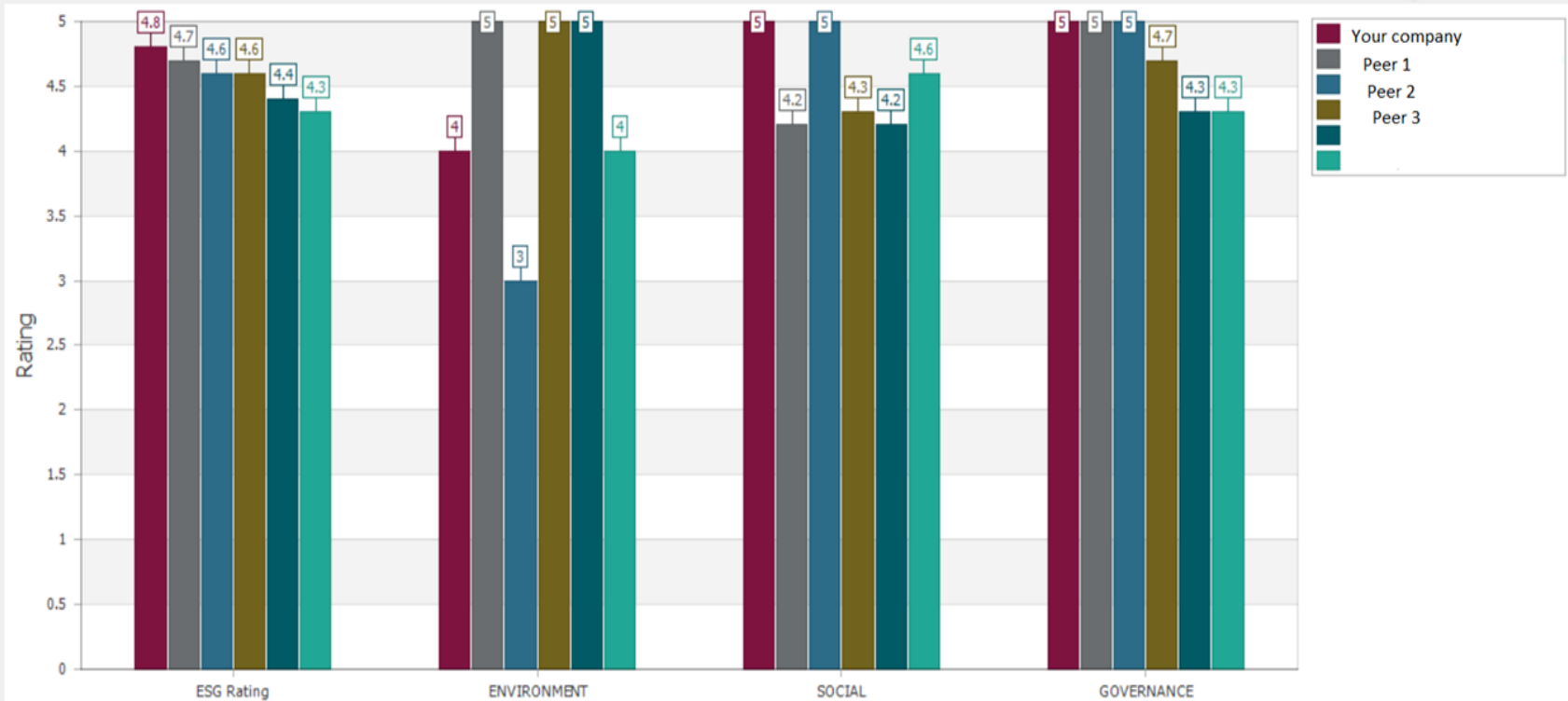
# Company vs. top 5 global peers



Your company name

A comparative view of your company vs. its top 5 peers in the same sub-sector globally. Each peer is named.

Company vs Top 5 SubSector Peers



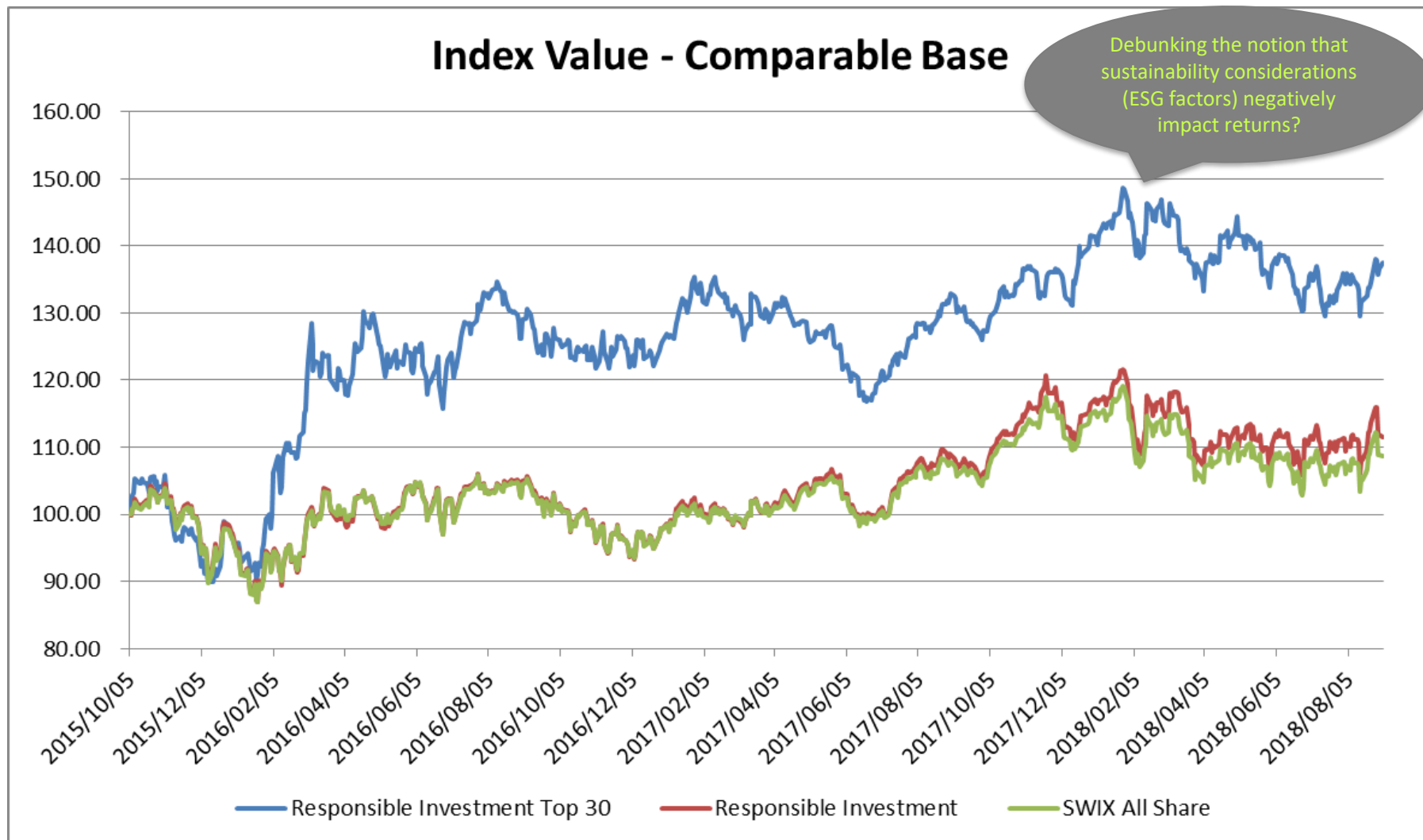
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**PARTING SHOTS**



# Index performance – SWIX All Share vs FTSE/JSE RI Benchmark and FTSE/JSE RI Top 30 indices



# Key messages

- **Climate change risk** is front and centre – pressure for disclosure and mitigation action growing exponentially
- **Water risk** is an issue of rapidly growing concern
- **ESG integration** in investments is here and is growing AND debunking the notion that it negatively impacts returns
- **ESG disclosure is a key part of communicating** a credible story to stakeholders in a society that is mistrustful

JSE



Tracking the link between ESG & corporate financial performance



Source: Friede, Busch, Bassen (December 2015)



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