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The S&P BSE 100 ESG Index: A Strategy for the Socially Responsible Market Participant

In recent years, socially responsible investing has gained importance worldwide. There has been an increase in the number of market participants who have become socially conscious and want their investments to go to businesses that acknowledge the relevance of environmental, social, and governance (ESG) factors in doing business.

Traditionally, market participants have used publically available records like balance sheets, income statements, and annual reports to analyze the long-term value proposition of companies. However, they have started to give importance to ESG aspects when assessing companies' long-term strategies for wealth creation. Globally, ESG factors are also taken into account in mainstream investment strategy, which acknowledges the relevance of ESG for long-term value creation. Many market participants now believe that the long-term financial sustainability and value creation of a company are dependent on how a company manages its ESG aspects in the long run.

COMPONENTS OF ESG

There are three components of ESG—namely environmental, social, and governance.

- Environmental criteria analyze a company based on its policies on green technologies, climate change, greenhouse gas emissions, renewable or alternate energy sources, waste management, pollution control, water management, natural resource conservation, deforestation, etc. Risks associated with these environmental aspects are looked into, and the company's management of these risks is assessed. Green market participants believe that it is important for companies to manage these risks to remain relevant in the long run. In recent years, issues around climate change have made companies suffer from large liabilities and litigation.
- Social criteria look at a company's policies regarding social factors like consumer protection, human rights, working conditions, health and safety measures, employee relations and diversity, supplier relationships, etc. The nature of the business is also considered, as many market participants avoid businesses that are involved in

alcohol, tobacco products, gambling, pornography, the military, weapons, fossil fuels, and other industries they may not consider socially acceptable. If these social aspects are not looked at, there may be a negative impact on the functioning of a company.

- Governance criteria look at transparency in accounting methods, board independence, bribery, corruption, political party donations, executive compensation, disclosures under various regulations, rights of minority shareholders, etc. These governance aspects have a direct impact on the health of a company's management.

THE STATE OF ESG INVESTMENT IN INDIA

Globally, ESG investments have matured, and many fund managers are tracking various ESG indices like the [S&P 500® ESG Factor Weighted Index](#) and [S&P Global 1200 ESG Factor Weighted Index](#).

The S&P BSE 100 ESG Index considers ESG factors when selecting its constituents.

India has also aligned itself with this global trend and become more sensitive to the ESG aspects of doing business. India's decision to ratify the Paris Agreement with the U.N. is proof that the country has become sensitized to environmental issues. The government of India has also set an ambitious target of building 175 gigawatts of renewable energy capacity by 2022, which will require intensive fundraising. Some financial institutions and banks have already issued green bonds in India, which have been accepted well by green market participants.

Previously, S&P BSE Indices had two investible indices in the sustainable investment space—namely, the [S&P BSE CARBONEX](#) and the [S&P BSE GREENEX](#). The S&P BSE CARBONEX seeks to track the performance of the companies in the [S&P BSE 100](#), based on their commitment to mitigating risks arising from climate change in the long run. The S&P BSE GREENEX comprises the top 25 stocks in the S&P BSE 100 that adopt relatively better energy-efficient practices.

THE S&P BSE 100 ESG INDEX

S&P BSE Indices launched the [S&P BSE 100 ESG Index](#) on Oct. 26, 2017. The index considers ESG factors when selecting its constituents. The salient features of the index are as follows.

1. **Objective:** The S&P BSE 100 ESG Index is designed to measure exposure to securities that meet sustainability investing criteria while maintaining a risk and performance profile similar to the S&P BSE 100.
2. **Universe:** Companies must be part of the S&P BSE 100.

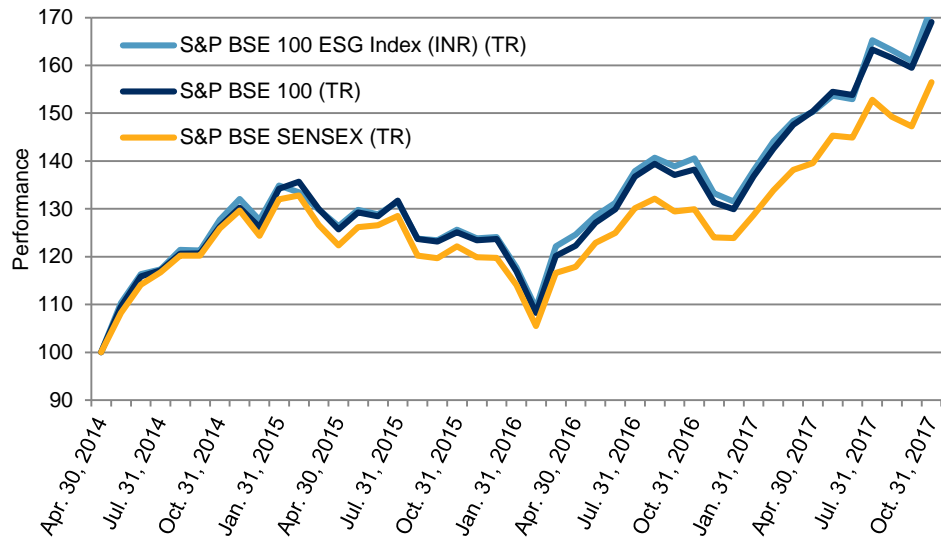
3. **Screening for Exclusion From Index:** The following screens are considered in the exclusion of companies.
 - a) **Tobacco.** All tobacco-producing companies as well as companies with tobacco sales or related products and services greater than 10% are excluded.
 - b) **Controversial Weapons.** All companies producing cluster bomb systems and key parts, landmines, or nuclear weapons are excluded.
 - c) **U.N. Global Compact Score.** All companies at or below the bottom 5% of the S-RAY™ universe are excluded from the index.
4. **Constituent Selection:** The selection of index constituents is as follows.
 - a) The companies in the eligible universe are sorted by GICS sector, and then ranked by ESG score in decreasing order.
 - b) For each GICS sector, companies are selected in decreasing order of ESG score until 65% of the six-month, float-adjusted market capitalization (FMC) is reached.
 - c) Existing constituents that are ranked between 65% and 85% are selected until the target 75% six-month FMC coverage is reached.
 - d) If the 75% target six-month FMC coverage has not been reached, companies in the eligible universe are selected in decreasing order of ESG score until the 75% target is reached.
5. **Rebalancing:** The index will be rebalanced annually in June.
6. **Weighting:** The index is weighted by FMC.
7. **Base Date:** The base date of the index is April 30, 2014.
8. **Base Value:** The base value of index is 100.
9. **Currency:** The index is published in Indian rupees and U.S. dollars.
10. **Return Versions:** The index will be available in price return and total return versions.

All companies producing cluster bomb systems and key parts, landmines, or nuclear weapons are excluded.

Index Performance

Exhibit 1 compares returns of the [S&P BSE 100 ESG Index \(INR\)](#) with its benchmark (the [S&P BSE 100](#)) and the [S&P BSE SENSEX](#), which is one of the most-tracked indices in India.

Exhibit 1: Performance of S&P BSE Indices



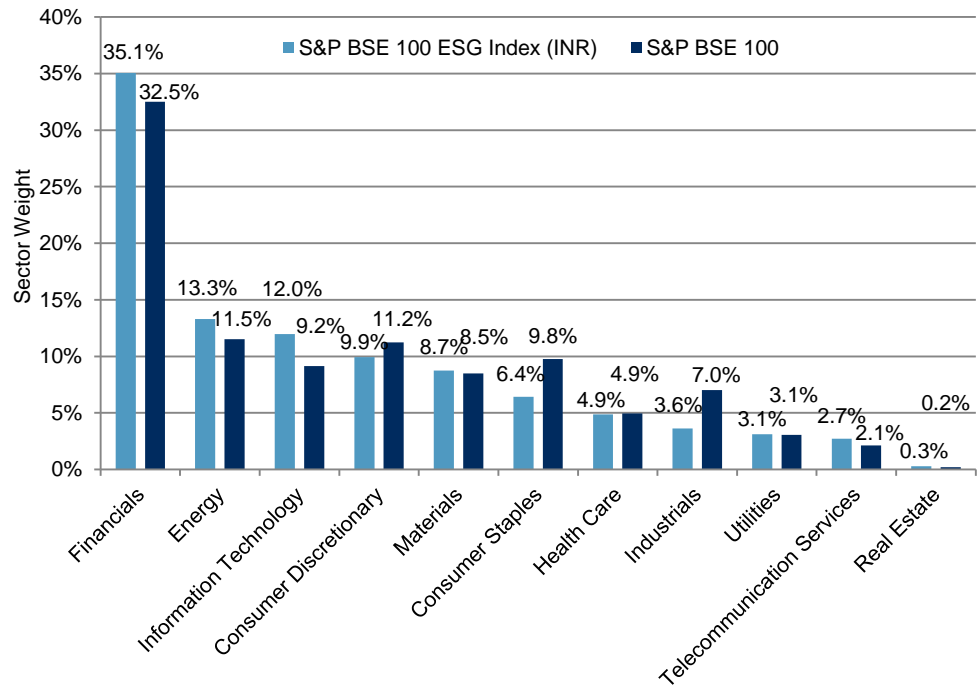
Source: S&P Dow Jones Indices LLC. Data from April 30, 2014, to Oct. 31, 2017. Index performance based on total return in INR. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Financials had the highest weight in the S&P BSE 100 ESG Index at 35.1%, followed by energy and information technology at 13.3% and 12.0%, respectively.

Sector Breakdown

The index covers the 11 major GICS sectors. Exhibit 2 lists the sector breakdown with weightages of the [S&P BSE 100 ESG Index \(INR\)](#) and the [S&P BSE 100](#).

Exhibit 2: Sector Weights of the S&P BSE 100 ESG Index (INR) and S&P BSE 100

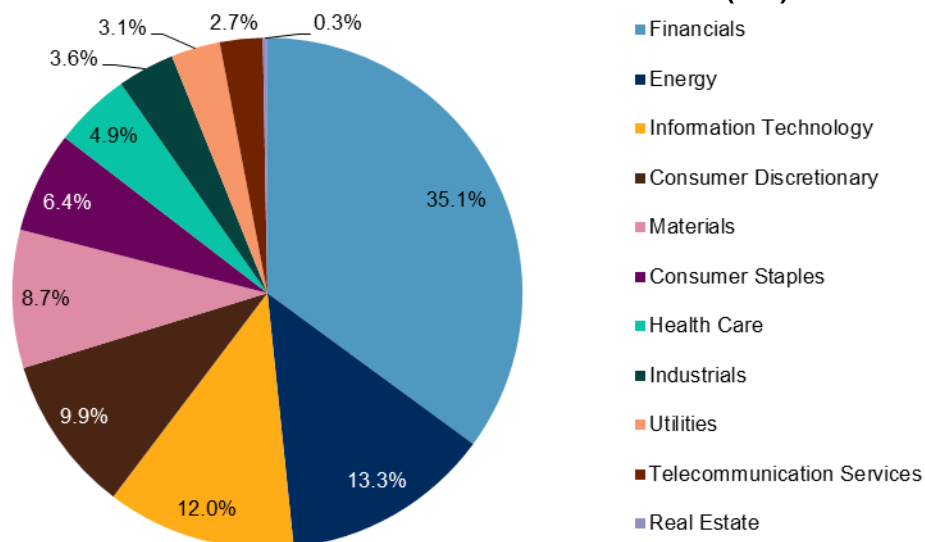


Source: S&P Dow Jones Indices LLC. Data as of Oct. 31, 2017. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Financials had the highest weight in the [S&P BSE 100 ESG Index](#) at 35.1%, followed by energy and information technology at 13.3% and 12.0%, respectively.

Exhibit 3 further illustrates the sector breakdown of the index.

Exhibit 3: Sector Breakdown of the S&P BSE 100 ESG Index (INR)



Source: S&P Dow Jones Indices LLC. Data as of Oct. 31, 2017. Chart is provided for illustrative purposes.

As of Oct. 31, 2017, the top 10 constituents made up nearly 50% of the index weight.

Constituents

The index had 67 constituents as of Oct. 31, 2017. The top 10 are listed in Exhibit 4.

Exhibit 4: Top 10 Constituents of the S&P BSE 100 ESG Index (INR)

COMPANY	SECTOR	WEIGHT
Reliance Industries Ltd	Energy	9.78%
Housing Development Finance Corp	Financials	8.53%
ICICI Bank Ltd	Financials	6.03%
Infosys Ltd	Information Technology	5.77%
Tata Consultancy Services Ltd	Information Technology	4.08%
Kotak Mahindra Bank Ltd	Financials	3.79%
State Bank of India	Financials	3.56%
Axis Bank Ltd	Financials	2.79%
Hindustan Unilever Ltd	Consumer Staples	2.77%
IndusInd Bank Ltd	Financials	2.60%
Total		49.71%

Source: S&P Dow Jones Indices LLC. Data as of Oct. 31, 2017. Table is provided for illustrative purposes.

As of Oct. 31, 2017, the top 10 constituents made up nearly 50% of the index weight. Reliance Industries Ltd had the highest weight in the index, at 9.78%, followed by Housing Development Finance Corp., at 8.53%.

Risk/Return Profile

Exhibit 5 shows the risk/return profile of the [S&P BSE 100 ESG Index \(INR\)](#) and the [S&P BSE 100](#).

Exhibit 5: Risk/Return Profile of the S&P BSE 100 ESG Index (INR) and S&P BSE 100		
YEAR	S&P BSE 100 ESG INDEX (INR)	S&P BSE 100
COMPOUND ANNUAL GROWTH RATE (%)		
1-Year	22.55%	22.32%
2-Years	17.08%	16.25%
3-Years	10.49%	10.20%
Since Inception	16.81%	16.18%
RISK (%)		
1-Year	13.55	12.15
2-Years	14.97	14.37
3-Years	13.95	13.78
Since Inception	14.25	13.95
RISK-ADJUSTED RETURN		
1-Year	1.66	1.84
2-Years	1.14	1.13
3-Years	0.75	0.74
Since Inception	1.18	1.16

Source: S&P Dow Jones Indices LLC. Data from April 30, 2014, to Oct. 31, 2017. Past performance is no guarantee of future results. 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.

The risk/return profile of the S&P BSE 100 ESG Index (INR) was similar to that of its benchmark over the period studied.

CONCLUSION

ESG investing in India is a new concept. Traditionally, Indian companies have had poor ESG disclosure compared with their global peers. In recent years, some global market participants have pulled their investments from Indian companies because they did not comply with international ESG standards. Recently, corporations and market participants in India have started to accept the importance of ESG factors in doing business. On Oct. 26, 2017, S&P BSE Indices launched its first ESG index, the S&P BSE 100 ESG Index.

ESG investing in India is expected to evolve and align itself with global market trends. This shift is expected to gain momentum in the next few years in India, and more market participants will likely integrate ESG aspects into mainstream investment decisions, with the ultimate goal of long-term value creation.

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PERFORMANCE DISCLOSURE

The S&P BSE 100 ESG Index (INR) was launched on October 26, 2017. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at www.asiaindex.co.in.

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Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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