

CONTRIBUTOR

Ved Malla
Associate Director
Asia Index Private Limited
ved.malla@spglobal.com

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.

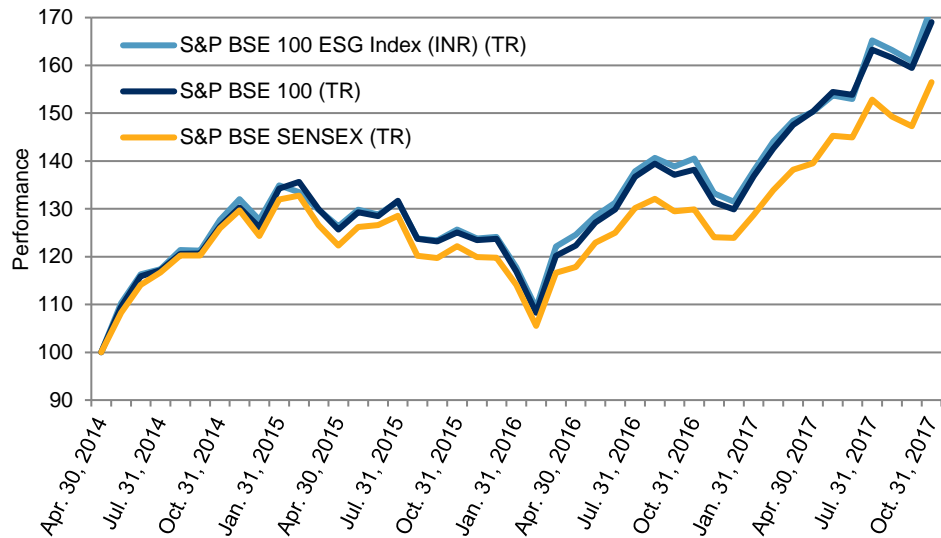
3. **Screening for Exclusion From Index:** The following screens are considered in the exclusion of companies.
 - a) **Tobacco.** All tobacco-producing companies as well as companies with tobacco sales or related products and services greater than 10% are excluded.
 - b) **Controversial Weapons.** All 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



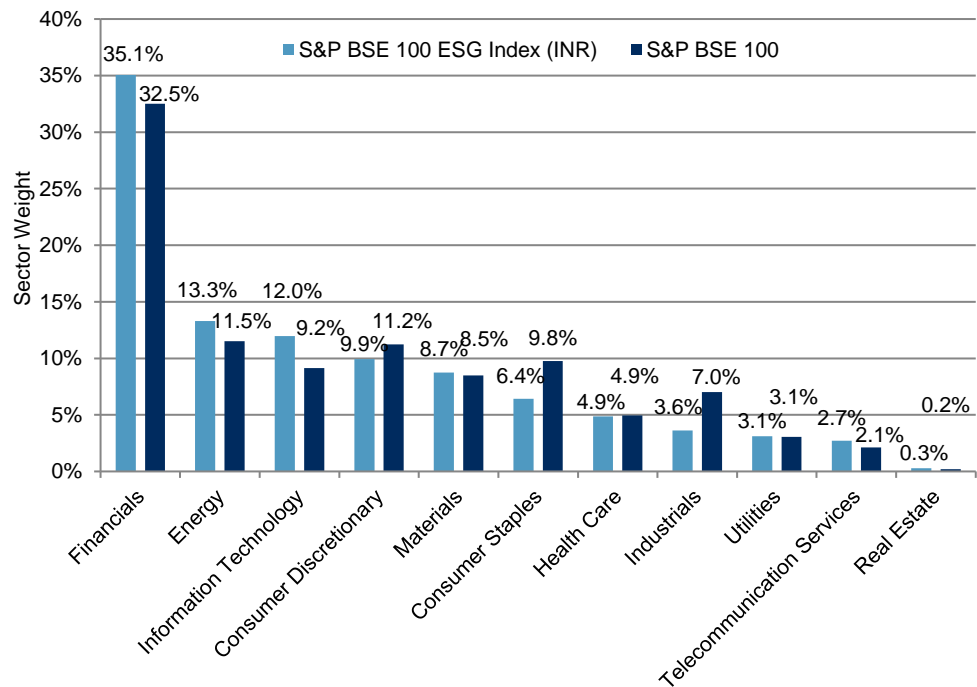
Source: S&P Dow Jones Indices LLC. Data from April 30, 2014, to Oct. 31, 2017. Index performance based on total return in INR. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure 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

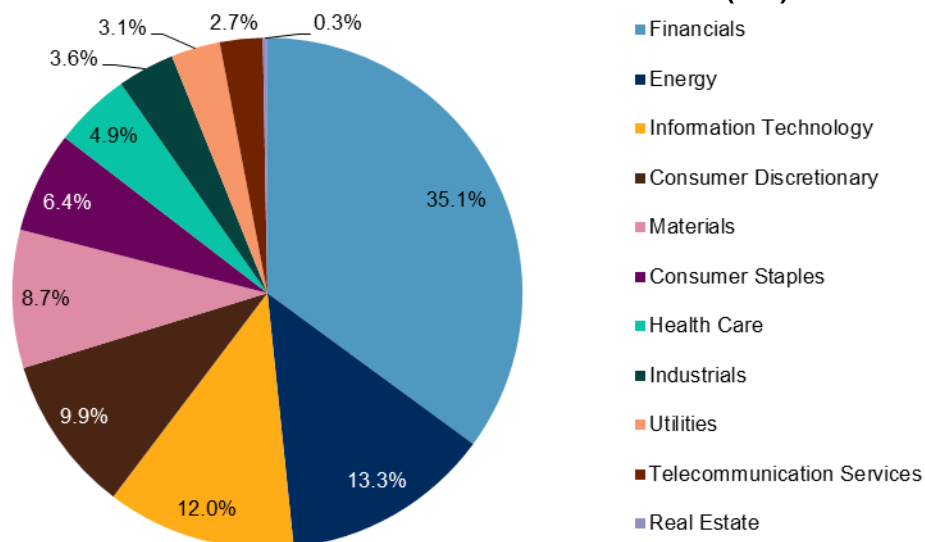


Source: S&P Dow Jones Indices LLC. Data as of Oct. 31, 2017. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

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.

The shift to ESG investing 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.

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.

AIPL defines various dates to assist our clients in providing transparency on their products. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. AIPL defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.asiaindex.co.in for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

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.

The Index returns shown do not represent the results of actual trading of investable assets/securities. AIPL or its agent maintains the S&P BSE Indices and calculates the Index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

GENERAL DISCLAIMER

© Asia Index Private Limited 2017. All rights reserved.

The S&P BSE Indices (the "Indices") are published by Asia Index Private Limited ("AIPL"), which is a joint venture among affiliates of S&P Dow Jones Indices LLC ("SPDJI") and BSE Limited ("BSE"). Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). BSE® and SENSEX® are registered trademarks of BSE. These trademarks have been licensed to AIPL.

Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where AIPL, BSE, S&P Dow Jones Indices LLC or their respective affiliates (collectively "AIPL Companies") do not have the necessary licenses. All information provided by AIPL Companies is impersonal and not tailored to the needs of any person, entity or group of persons. AIPL Companies receive compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. AIPL Companies does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. AIPL Companies makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. AIPL Companies is not an investment advisor, and AIPL Companies makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by AIPL Companies to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of AIPL Companies. The Content shall not be used for any unlawful or unauthorized purposes. AIPL Companies and its third-party data providers and licensors (collectively "AIPL Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. AIPL Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall AIPL Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

AIPL Companies keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of AIPL Companies may have information that is not available to other business units. AIPL Companies has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, AIPL Companies provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.