

OCTOBER 2011 – STOXX GLOBAL ESG LEADERS INDICES

TRANSPARENCY AND FLEXIBILITY STAND OUT IN THE FLOOD OF “SUSTAINABLE” PRODUCTS



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Does the market really need another sustainability index? Numerous approaches and products promise investors sustainable investments. No question, proactive communication has illuminated the vast opportunities in the market for sustainable investments that – according to Eurosif, the European Sustainable Investment Forum – reached €5 trillion in Europe at the end of 2009. However, so far investors looking for a transparent, objective and flexible opportunity that reflects their own perspective on sustainability have had a hard job of finding an acceptable equivalent benchmark or sustainable fund.

For this reason STOXX introduced its new STOXX Global ESG Leaders indices in April 2011. The STOXX Global ESG Leaders Index and its three sub-indices for environmental, social and governance leaders make the rating of each company fully transparent. By mapping the rating model to the Key Performance Indicators (KPI) for the ESG 3.0 standard as defined by the DVFA, the German association for financial analysts and asset managers, and the European Federation of Financial Analysts Societies (EFFAS), these new indices ensure the highest standards of objectivity. The collaboration with the sustainability research expert, Sustainalytics, in sourcing all relevant data for evaluating the various companies, additionally supports the objective assessment process. Moreover, investors for the first time have the opportunity to weight environmental, social and governance criteria individually to follow their personal guidelines for sustainable investments.

To answer the original question; “yes, we do need new sustainability indices setting a new standard for transparent, objective and flexible investments.

Demonstrating – according to Eurosif’s European SRI study 2010 – a compound annual growth rate (CAGR) of 37 per cent in recent years, there is obviously a strong investment case for sustainability. For many institutional investors their commitment to sustainable investments is based on the investment guidelines and the ethical principles of their institution. However, sustainable investments also support their risk management. The assessment of sustainable standards ensures state-of-the-art processes and therefore, supports the selection of companies that efficiently reduce operational risks including cases such as corruption or bribery. This is really about corporate governance as much as ethics.

The case of BP has also underlined the importance of a fully transparent index composition and selection criteria, as well as the need for immediate index adjustments in case of unexpected events. Before the Deepwater Horizon disaster, BP had a strong reputation as being best-in-class with the image of being one of the most sustainable oil companies in operation. BP was therefore a member in many sustainability indices – and remained so for some time due to a gap until the next index adjustments. Investors looking for sustainable investments faced the problem of being exposed to indices that are lacking in flexibility when responding to such events or without a transparent index composition and methodology, making it harder for them to assess their position in BP or when it will be changed according to the index rules.

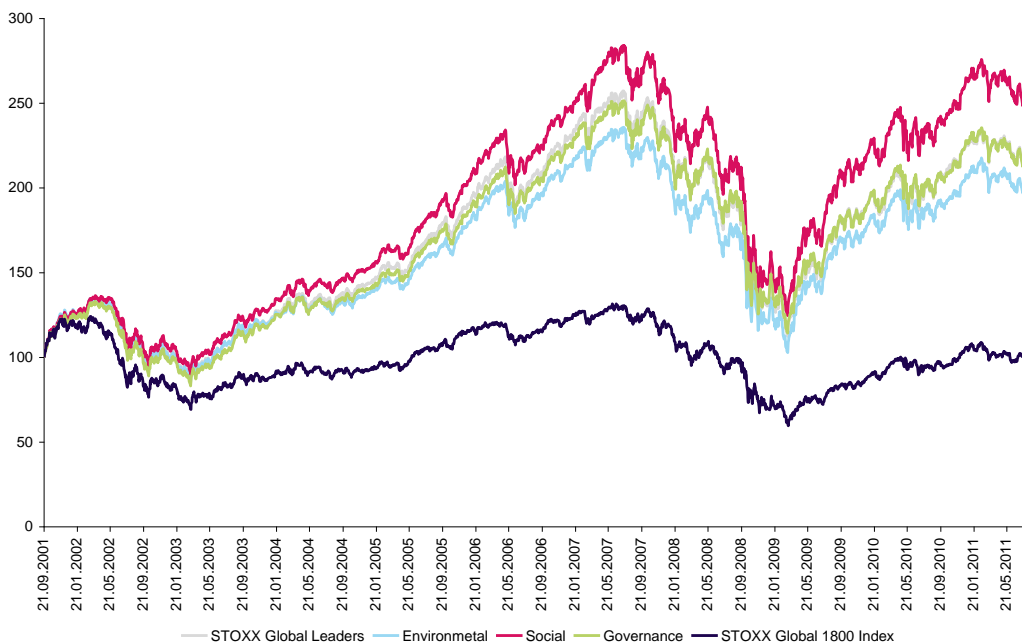
New indices address weaknesses of current concepts

The new STOXX Global ESG Leaders indices meet these requirements. Their methodology is based on transparent and clear rules for the selection of the most sustainable companies from the universe of 1.800 companies as represented by the STOXX Global 1800 Index. First, the companies that are not eligible for the sustainability index are removed from the range of possible investments based on the exclusion criteria. These affect companies that obtain more than 20 percent of their revenue from landmines, cluster bombs, or biological, chemical or atomic weapons. In addition, companies that are severely in breach of the UN Global Compact Compliance Principles are ruled out.

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In the second stage, the most sustainable companies in the areas of environmental and social performance, as well as in terms of best practices in corporate governance, are selected. This process is based on key performance indicators (KPI) that are based on data provided by Sustainalytics. In the governance area, for example, the anti-corruption policy of a company is investigated along with its tax transparency and whether a company has subscribed to the UN Global Compact. The environmental criteria includes the participation in the Carbon Disclosure project or carbon dioxide emissions. In the social area, experts assess indicators such as employee turnover or the quality of social standards for the value chain.

Overall, the indices consider more than 130 KPIs - with the environmental assessment including more than 50 criteria and embracing the whole value-added chain of the respective company. For inclusion in one of the three sub-indices, companies need to have a score of at least 50 points in each area, i.e. showing above average results. A score of 75 or more points in the environmental, social or governance area, indicates that the company ranks in the top quartile of its industry in this area. This rank is needed to be included in the respective index. The selected companies are weighted based on their overall score in each sub-index. If a company is among the top 25 percent in more than one area, it can also be included in two or in all three indices, leading to a stronger weight in the STOXX Global ESG Leaders Index, which is weighted equally among all three sub-indices.



Graphic: Outperformance of broad market indices (data, as of August 23, 2011)

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Highly transparent best-in-class selection

This weighting methodology leads to a best-in-class-selection among all eligible sectors with a slightly stronger weighting of companies from sustainable industries compared to conventional industries. Consequently, financials (18.6%) and consumer goods (14.3%) represent the industries with the strongest weighting, whilst the telecommunications sector only accounts for 4.2% of the index, as of 19. September 2011. STOXX has chosen the equal weighting as there is no common consensus in the ethical investment space as to which strata – environmental, social or governance performance – should get the strongest weighting. By offering the three sub-indices, investors can decide individually how they want to weight the performance in these three areas. As the example of BP has shown, timely adjustments to changed conditions are crucial. Therefore, the index composition can be reviewed extraordinarily. An independent index committee continuously monitors the adherence of all selected companies to the fundamental selection criteria, ensuring a fast reaction in case of a severe breach, let's say, of the Global Compact Principles.

The index methodology is fully transparent for the whole index model. STOXX publishes all indicators and all KPIs as well as the reached score in every area for all companies in the index selection list. Additionally, the calculation of the weightings, the weighting itself and the list of the excluded companies are also publicly available.

The comprehensive and transparent selection process of the new STOXX Global ESG Leaders Indices fosters the investment case for sustainable companies, as the indices clearly outperform the broad STOXX Global 1800 Index over the past 10 years and more than doubled the performance of the broad index. Transparency, a comprehensible and objective selection process with a strong data base, and the possibility for flexible weightings of the key aspects of sustainability, set a new standard for sustainable investments.

It was clearly about time to introduce the new STOXX Global ESG Leaders indices.

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About STOXX

STOXX Ltd. is a global index provider, currently calculating a global, comprehensive index family of over 3,700 strictly rules-based and transparent indices. Best known for the leading European equity indices EURO STOXX 50, STOXX Europe 50 and STOXX Europe 600, STOXX Ltd. maintains and calculates the STOXX Global Index family which consists of total market, broad and blue-chip indices for the regions Americas, Europe, Asia, and Pacific, the sub-regions Latin America and BRIC (Brazil, Russia, India and China), as well as global markets. STOXX indices are classified into four categories to provide market participants with optimal transparency: "STOXX", "STOXX+", "iSTOXX" and "STOXX Customized". STOXX's standard indices are branded "STOXX", all indices that replicate investment strategies and themes, but still follow STOXX's strict rules-based methodologies, are categorized as "STOXX+". The "iSTOXX" brand comprises less standardized index concepts that take into account individual customer and market requirements but are still completely rules-based. "STOXX Customized" covers indices that are specifically developed for clients and are not STOXX branded.

The STOXX indices are licensed to over 400 companies around the world as underlyings for Exchange Traded Funds (ETFs), Futures & Options, Structured Products and passively-managed investment funds.

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Three of the top Exchange Traded Funds (ETFs) in Europe and 30 percent of all assets under management are based on STOXX indices. STOXX Ltd. holds Europe's number one and the world's number three position in the derivatives segment. In addition, STOXX Ltd. is the marketing agent for the indices of Deutsche Boerse AG and SIX Group AG, amongst them the DAX and the SMI indices.