

An Introduction to the S&P 500 ESG Exclusions II Index

The S&P 500 ESG Exclusions II Index employs a straightforward exclusion methodology that allows investors to eliminate certain types of exposure whilst retaining similar risk-return characteristics to the parent benchmark.

The S&P 500 ESG Exclusions II Index, with its straightforward approach to index construction, includes product involvement screening for controversial weapons, civilian firearms, tobacco and thermal coal as well as norms-based screening that follows the Ten Principles of the UN Global Compact which cover human rights, labour standards, environment and anti-corruption. The S&P 500 ESG Exclusions II Index has delivered a risk-return performance profile that is, statistically, not significantly different to the S&P 500 Index, but at the same time achieves compliance with the typical exclusion-based SRI approaches.

The S&P 500 ESG Exclusions II Index shares similar rules, sector composition and methodology (including the same transparent free-float market-cap weighting scheme) as the S&P 500 Index, which is a broad US equity index containing the largest and most frequently traded equity securities.

A 'Fast Exit' rule in the new index secures a swift response to any severe ESG controversy by quickly removing offenders, thus limiting investors' risks. If a company is reported by RepRisk to have violated the RepRisk Index (RRI) Indicator threshold of 70, the impacted company will be removed from the index with two business days' notice on a best efforts basis from when S&P Dow Jones Indices is notified of the violation. A company removed as a risk will only be considered for addition to the index on any future rebalancing date if its RRI score is below 70 for all days since the previous rebalancing date.

Non-constituents may not be added to the index if their RRI has reached 70 or above any day since the previous rebalancing date.

Key Points

- Compliant with typical exclusion-based SRI approaches¹
- Incorporates ESG data providers Sustainalytics and RepRisk
- Risk-return profile similar to S&P 500
- No strong unintended biases or exposures resulting from exclusions historically exhibited, enabling investors to easily implement and adopt index as ESG-screened benchmark
- Simplicity of methodology makes index suitable as underlying for derivatives and structured products
- Innovative 'Fast Exit' feature allows index to adapt quickly to major controversies

¹ Source: Global Sustainable Investment Alliance.

Figure 1
Index Methodology

| | |
|--|---|
| Index Name | S&P 500 ESG Exclusions II Index |
| Parent Index | S&P 500 Index |
| Parent Index Selection Criteria | The S&P 500 Index tracks the US equity market performance of large cap equity securities. |
| Weighting Scheme | Free-float market capitalisation |
| ESG Strategy | Exclusionary |
| ESG Data Provider | RepRisk and Sustainalytics |
| Rebalancing Frequency | Quarterly: Mar, Jun, Sep, Dec |
| Index Ticker | SPXCX2UN |

| | Exclusion | Criteria — (Defined by ESG Data Provider) | Specific Filter — (Defined by ESG Data Provider) |
|-----------------------|---|---|---|
| Exclusion 1 | Non-compliance with UN Global Compact Principles ² | UNGC violators | UNGC violators |
| Exclusion 2 | Controversial Weapons ³ | Involved with controversial weapons | (i) Internal production or sale of controversial weapons (ii) Ultimate holding company owns >10% of voting rights of involved company |
| Exclusion 3 | Tobacco | Tobacco producers | 0% revenue threshold |
| Exclusion 4 | Thermal Coal | Derive revenues from thermal coal extraction or exploration, or from electricity generation | (i) >25% revenues from thermal coal extraction (including thermal coal mining and exploration) (ii) >25% revenues from electricity generation |
| Exclusion 5 | Civilian Firearms | Involved with civilian firearms | (i) Manufactures and sells small arms and assault weapons to civilians and military/law enforcement (ii) Companies with >10% revenue from small arms and assault weapons sales (iii) >10% of voting rights of a company are owned by the involved company |
| Other Features | Fast Exit: if a company is reported by RepRisk to have violated the RepRisk Index (RRI) Indicator threshold of 70, the impacted company will be removed from the index with two business days' notice on a best efforts basis from when S&P Dow Jones Indices is notified of the violation. | | |

Source: S&P, as of 31 December 2019.

² The Ten Principles of UN Global Compact cover human rights, labour rights, environment, business ethics and anti-corruption.

³ Controversial weapons: Anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus (market standard/in line with international conventions).

Figure 2
Characteristics

| | S&P 500 | S&P 500 ESG Exclusions II |
|--|---------------------------|---------------------------|
| No of Stocks | 505 (5 Multiple Listings) | 482 (5 multiple listings) |
| Tracking Error (5Y Annualised) vs. S&P 500 (%) | N/A | 0.66 |
| Fundamentals | | |
| Price/Book 1Y (Trailing) | 3.63 | 3.59 |
| P/E incl. Negative (Trailing) | 24.06 | 24.32 |
| Return on Equity (%) | 3.77 | 3.73 |
| Annual One-way Turnover (%) | | |
| 2013 | 1.17 | 1.29 |
| 2014 | 0.87 | 1.85 |
| 2015 | 1.48 | 1.45 |
| 2016 | 1.29 | 1.98 |
| 2017 | 1.22 | 2.78 |
| 2018 | 0.96 | 0.47 |
| 2019 | 2.15 | 4.01 |
| ESG Exclusions (# Stocks) | | |
| UNGC Principle Non-compliant | N/A | 4 |
| Controversial Weapons | N/A | 11 |
| Tobacco | N/A | 2 |
| Thermal Coal | N/A | 4 |
| Civilian Weapons | N/A | 0 |
| S&P 500 Add Since Last Rebalance | N/A | 2 |
| Total | 0 | 23 |
| ESG Exclusions (Weight) (%) | | |
| UNGC Principle Non-compliant | N/A | 2.34 |
| Controversial Weapons | N/A | 2.52 |
| Tobacco | N/A | 0.84 |
| Thermal Coal | N/A | 0.40 |
| Civilian Weapons | N/A | 0.00 |
| S&P 500 Add Since Last Rebalance | N/A | 0.08 |
| Total | 0.00 | 6.19 |

Source: S&P, as of 31 December 2019. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Figure 3
Sector Weights

| GIICS Sector | S&P 500 (%) | S&P 500 ESG Exclusions II (%) | (+/-) (%) |
|------------------------|-------------|-------------------------------|-----------|
| Information Technology | 23.20 | 24.73 | 1.53 |
| Health Care | 14.20 | 13.61 | -0.59 |
| Financials | 12.95 | 12.59 | -0.36 |
| Communication Services | 10.39 | 11.08 | 0.69 |
| Consumer Discretionary | 9.75 | 10.40 | 0.65 |
| Industrials | 9.05 | 7.20 | -1.85 |
| Consumer Staples | 7.20 | 6.78 | -0.42 |
| Energy | 4.35 | 4.63 | 0.28 |
| Utilities | 3.32 | 3.12 | -0.20 |
| Real Estate | 2.93 | 3.12 | 0.19 |
| Materials | 2.65 | 2.75 | 0.10 |

Source: S&P, as of 31 December 2019. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Figure 4
Backtested Historical Performance

| | Return (%) | | Volatility (Annualised, %) | | Tracking Error (Annualised, %) |
|--------------------|------------|---------------------------|----------------------------|---------------------------|--------------------------------|
| | S&P 500* | S&P 500 ESG Exclusions II | S&P 500 | S&P 500 ESG Exclusions II | |
| 1 month | 3.02 | 3.17 | N/A | N/A | N/A |
| 3 month | 9.07 | 9.42 | 9.39 | 9.66 | N/A |
| 1 Yr | 31.49 | 32.63 | 12.47 | 12.83 | 0.66 |
| 3 Yr (Annualised) | 15.27 | 15.69 | 12.10 | 12.26 | 0.69 |
| 5 Yr (Annualised) | 11.70 | 11.78 | 11.98 | 12.24 | 0.66 |
| 10 Yr (Annualised) | 13.56 | 13.67 | 12.46 | 12.62 | 0.59 |

Source: S&P, as of 31 December 2019. Past performance is not a guarantee of future results. The inception date for the S&P 500 Exclusions II Index is 26 August 2019. **Results prior to this date are backtested, calculated by using available data at the time in accordance with the Index's current methodology.** *Index returns reflect capital gains and losses, income, and the reinvestment of dividends. **BACKTESTED PERFORMANCE:** This document contains index performance data based on backtesting, i.e. calculations of how the index might have performed prior to launch if it had existed using the same index methodology and based on historical constituents. Backtested performance information is purely hypothetical and is provided in this document solely for information purposes. Backtested performance does not represent actual performance and should not be interpreted as an indication of actual performance.

Figure 5
Example Exclusions

| Company Name | Category (which exclusion) | S&P 500 Weight (%) |
|------------------------------------|----------------------------------|--------------------|
| Johnson & Johnson | UNGC Principle non-compliant | 1.43 |
| Wells Fargo & Co | UNGC Principle non-compliant | 0.77 |
| Boeing Co | Controversial Weapons | 0.65 |
| Philip Morris International | Tobacco | 0.49 |
| Honeywell Intl Inc | Controversial Weapons | 0.47 |
| Lockheed Martin | Controversial Weapons | 0.36 |
| Altria Group Inc | Tobacco | 0.35 |
| Raytheon Co | Controversial Weapons | 0.23 |
| BlackRock Inc | Controversial Weapons | 0.22 |
| Northrop Grumman Corp | Controversial Weapons | 0.20 |
| American Electric Power | Thermal coal | 0.17 |
| General Dynamics | Controversial Weapons | 0.15 |
| T Rowe Price Group Inc | Controversial Weapons | 0.11 |
| PPL Corp | Thermal coal | 0.10 |
| Freeport-McMoRan Inc | UNGC Principle non-compliant | 0.07 |
| Ameren Corp | Thermal Coal | 0.07 |
| Equifax Inc | UNGC Principle non-compliant | 0.06 |
| Evergy Inc. | Thermal Coal | 0.06 |
| Jacobs Engineering Group Inc | Controversial Weapons | 0.05 |
| Old Dominion Freight Line Inc | S&P 500 Add Since Last Rebalance | 0.05 |
| Huntington Ingalls Industries Inc. | Controversial Weapons | 0.04 |
| Textron Inc | Controversial Weapons | 0.04 |
| WR Berkley Corp | S&P 500 Add Since Last Rebalance | 0.04 |

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