

S&P ESG Index Series and S&P ESG Titled Index Series Consultation on Thermal Coal Exclusion

NEW YORK, MARCH 23, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on a potential change to the S&P ESG Index Series and S&P ESG Titled Index Series.

S&P DJI is considering modifying the index eligibility rules to exclude companies that generate a certain amount of revenue from thermal coal, specifically thermal coal extraction and power generation. The table below summarizes the proposed change.

Proposed Change	Current	Methodology	Proposed
Index Eligibility for Thermal Coal Companies	--		Companies must generate less than 25% of revenue from thermal coal.

For more information on the impacted index families, please refer to the [S&P ESG Index Series Methodology](#) and [S&P ESG Titled Index Series Methodology](#).

BACKGROUND

Recently, the ESG space has seen a shift toward divestment from thermal coal companies at certain levels of involvement. Many institutions have publicly stated their intention to divest from thermal coal companies by the end of 2020. Given that these specific indices currently exclude companies with product involvement in tobacco and controversial weapons, two areas which are considered to be highly controversial, S&P DJI is considering adding thermal coal to the list of excluded product areas.

In order to properly frame the potential impact of this exclusion, the individual index objectives must be considered. Indices in both the S&P ESG Index Series and the S&P ESG Titled Index Series aim to maintain similar overall industry group weights to their benchmark index. Given that many thermal coal companies are part of the Energy sector, it holds that these particular index families may be more heavily impacted by excluding thermal coal companies, especially at more restrictive revenue thresholds.

IMPACT ANALYSIS

Using data from the April 2019 rebalancing up to the end of February 2020, Table 1 on the following page shows the total return, annualized volatility, and tracking error (versus the non-ESG headline index) for the headline ESG indices, as well as the hypothetical results that would have occurred had the thermal coal (“TC”) methodology change been in effect.

Table 1:

	Headline Index	ESG Index / Methodology	
		Current (incl. TC)	Hypothetical (excl. TC)
	S&P 500	S&P 500 ESG	
Total Return	7.97%	9.75%	9.69%
Annualized Volatility	13.36%	13.45%	13.45%
Tracking Error (versus headline)		0.79%	0.73%
	S&P 500	S&P 500 ESG Tilted	
Total Return	7.97%	8.23%	7.91%
Annualized Volatility	13.36%	13.43%	13.46%
Tracking Error (versus headline)		1.06%	1.08%
	S&P Global 1200	S&P Global 1200 ESG	
Total Return	6.01%	7.21%	7.20%
Annualized Volatility	10.78%	10.76%	10.79%
Tracking Error (versus headline)		1.06%	1.05%
	S&P Global LMC	S&P Global LMC ESG	
Total Return	5.45%	6.28%	6.21%
Annualized Volatility	10.33%	10.41%	10.46%
Tracking Error (versus headline)		0.53%	0.56%
	S&P/ASX 200	S&P/ASX 200 ESG	
Total Return	5.35%	4.30%	4.53%
Annualized Volatility	12.52%	12.65%	12.70%
Tracking Error (versus headline)		1.27%	1.36%

Using data from the April 2019 rebalancing, Table 2 below shows the actual one-way turnover as well as the hypothetical one-way turnover that would have resulted if the previously described methodology change had been in effect at that time.

Table 2:

Index	Turnover		
	Actual (incl. TC)	Hypothetical (excl. TC)	Difference
S&P 500 ESG Index	13.76%	13.98%	-0.22%
S&P 500 ESG Tilted Index	13.73%	13.74%	-0.01%
S&P Global 1200 ESG Index	12.42%	12.53%	-0.11%
S&P Global LargeMidCap ESG Index	12.50%	12.66%	-0.16%
S&P/ASX 200 ESG Index	8.72%	10.33%	-1.61%

Using data from the April 2019 rebalancing, the Table 3 below and on the following page show the rebalancing changes and their weight impact that would have resulted had the previously described methodology change been in effect at that time. Companies marked as N/A are stocks in the headline index that are involved in thermal coal, but were not included in the respective ESG index.

Table 3:

Index	Thermal Coal Exclusions	Impact	Weight
S&P 500 ESG	Ameren Corp	N/A	-
	American Electric Power	Drop	0.2283%
	Evergy Inc.	N/A	-
	PPL Corp	N/A	-
S&P 500 ESG Tilted	Ameren Corp	Drop	0.0366%
	American Electric Power	Drop	0.1271%
	Evergy Inc.	Drop	0.0206%
	PPL Corp	Drop	0.0587%

Table 3 (continued):

Index	Thermal Coal Exclusions	Impact	Weight
S&P Global 1200 ESG	AGL Energy Ltd	Drop	0.0338%
	Ameren Corp	N/A	-
	American Electric Power	Drop	0.1385%
	CLP Holdings Ltd.	Drop	0.0677%
	Evergy Inc.	N/A	-
	Origin Energy Ltd	Not added	0.0300%
	PPL Corp	N/A	-
S&P Global LMC ESG	Adaro Energy Tbk PT	N/A	-
	AES Gener S.A.	Drop	0.0022%
	AGL Energy Ltd	Drop	0.0295%
	Ameren Corp	N/A	-
	American Electric Power	Drop	0.1210%
	Banpu Public Co Ltd	Drop	0.0030%
	Bukit Asam (Persero) Tbk PT	Drop	0.0024%
	China Coal Energy Co Ltd H Shares	Drop	0.0026%
	China Resources Power Holdings Co. Ltd.	N/A	-
	China Shenhua Energy Co Ltd H Shares	N/A	-
	CLP Holdings Ltd.	Drop	0.0591%
	Coal India Ltd	Drop	0.0142%
	Datang International Power Generation Co Ltd H Shares	Drop	0.0021%
	DMCI Holdings Inc	Drop	0.0025%
	Electric Power Development Co	Drop	0.0115%
	Evergy Inc.	N/A	-
	Exxaro Resources	Drop	0.0082%
	HK Electric Investments Ltd	Drop	0.0064%
	Hokuriku Electric Power Co	N/A	-
	Huadian Power International Corp Ltd H Shares	N/A	-
	Huaneng Power International Inc H Shares	N/A	-
	NTPC Ltd	Not added	0.0131%
	OGE Energy Corp	N/A	-
	Origin Energy Ltd	Drop	0.0261%
	Polska Grupa Energetyczna SA	N/A	-
	PPL Corp	Not added	0.0645%
	Public Power Corp	N/A	-
	Semirara Mining and Power Corp	Drop	0.0017%
Tata Power Co Ltd	N/A	-	
Washington H Soul Pattinson & Company Limited	N/A	-	
Yanzhou Coal Mining Co Ltd H Shares	N/A	-	
S&P/ASX 200 ESG	AGL Energy Ltd	Drop	1.1853%
	New Hope Corp	N/A	-
	Origin Energy Ltd	Drop	1.0498%
	Washington H Soul Pattinson & Company Limited	N/A	-
	Whitehaven Coal Ltd	N/A	-

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the proposed methodology change, if adopted, in conjunction with the subsequent rebalancing, which takes effect prior to the market open on Friday, May 1, 2020.

CONSULTATION

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. **Do you agree with the proposed change to exclude thermal coal companies from the aforementioned index families?**
2. **If you agree with the proposed change, do you agree that the revenue threshold for thermal coal involvement should be 25%?**
3. **If the proposed change is adopted, do you agree with the proposed implementation date?**
4. **Are there any additional energy-related product involvement areas you would like to see excluded (e.g. oil sands extraction, shale energy exploration and production, etc.)?**
5. **Do you have any other comments or feedback regarding the proposed change outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Please respond to this survey by **April 13, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at SPDJI_Index_Governance@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

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CONSULTATION