

# Spotlight on the S&P/BMV ESG Indices

## Contributor

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Since 2015, S&P Dow Jones Indices (S&P DJI) has had a proud partnership with La Bolsa Mexicana de Valores (BMV Group). Together, we develop, license, distribute and manage co-branded indices, including equity, debt and multi-asset indices, with the aim of bringing a more extensive line-up of index choices to the Mexican and global financial markets.

One area of increasing interest in the indexing space is sustainability indices, which are built to provide benchmarks focused on companies demonstrating strong environmental, social and governance (ESG) credentials compared with their peers. In recent years, S&P DJI has built up its catalogue of sustainability indices to over 200, offering investors a suite of solutions ranging from simple exclusionary screening approaches all the way to net zero climate-focused strategies.

In partnership with BMV Group, we have two main equity sustainability indices focusing on Mexican equities with a sustainability lens, the [S&P/BMV Total Mexico ESG Index](#) and [S&P/BMV IPC ESG Tilted Index](#) (see Exhibit 1). We also provide sustainable versions of certain factor and thematic indices.

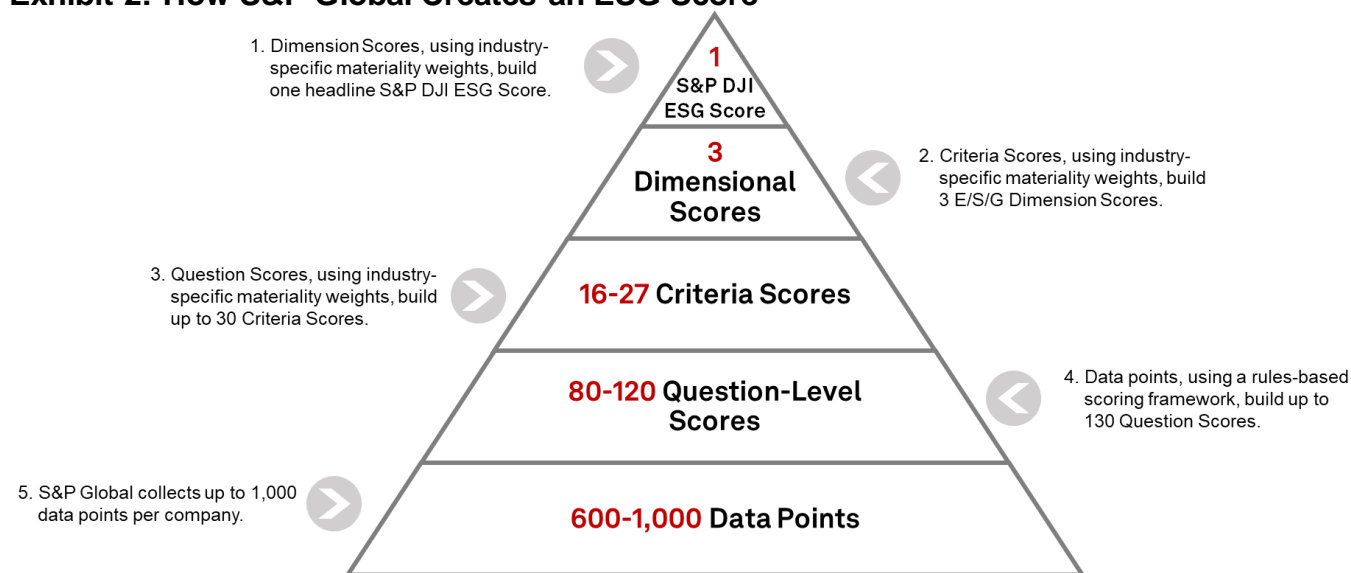
### Exhibit 1: Principal S&P/BMV Equity Sustainability Indices

Index Name	Index Objective
S&P/BMV Total Mexico ESG Index	The S&P/BMV Total Mexico ESG Index is designed to measure the performance of stocks within the S&P/BMV Total Mexico Index that meet sustainability criteria. The index applies exclusions based on business activities and United Nations Global Compact (UNGC) scores and is weighted by S&P DJI ESG Score.
S&P/BMV IPC ESG Tilted Index	The S&P/BMV IPC ESG Tilted Index is designed to measure the performance of constituents in the S&P/BMV IPC that meet sustainability criteria, while attempting to improve the overall S&P DJI ESG Score with respect to the S&P/BMV IPC by over- or under-weighting companies based on their S&P DJI ESG Scores.

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

A key input into each of these indices is the use of [S&P DJI ESG Scores](#).<sup>1</sup> S&P DJI ESG Scores robustly measure ESG risk and performance factors for corporations, with a focus on financial materiality. The fundamental research process is outlined in Exhibit 2.

### Exhibit 2: How S&P Global Creates an ESG Score



Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

In addition, both indices incorporate business activity exclusions including tobacco, controversial weapons and thermal coal to avoid exposure to companies involved in these undesirable activities. Furthermore, each of these indices includes a screen that excludes companies that violate the principles of the UNGC. These exclusionary criteria represent some of the baseline standards expected by an investor wishing to select an ESG benchmark.

<sup>1</sup> See the [S&P Global ESG Scores brochure](#) for more details on the score collection approach.

Finally, the indices incorporate controversy monitoring to robustly assess where risk incidents and controversial activities may be significant enough to cause the removal of a company from the index in question. In cases where risks are presented, S&P Global releases a Media and Stakeholder Analysis (MSA), which includes a range of issues such as economic crime and corruption, fraud, illegal commercial practices, human rights issues, labor disputes, workplace safety, catastrophic accidents and environmental disasters.

S&P Global's approach to ESG scores is driven by materiality, meaning that criteria are weighted based on the magnitude of impact to the company, the magnitude of impact on stakeholders and the natural environment, and the probability of such impact on the company. An example of this weighting is shown in Exhibit 3.

### Exhibit 3: An Illustration of How Materiality Drives ESG Scoring

Criteria	Magnitude of Impact on Company	Magnitude of Impact on Stakeholders and Natural Environment	Probability of Impact on Company	Criteria Weight
<b>Environmental Criteria</b>				
Environmental Policy and Management Systems	3.6	1.7	0.8	5
Environmental Reporting	2.1	1.6	0.9	3
Operational Eco-Efficiency	3.8	3.7	0.5	7
<b>Social Criteria</b>				
Corporate Citizenship and Philanthropy	1.5	2.2	0.6	2
Human Rights	2.2	2.6	0.7	4
Occupational Health and Safety	3.4	2.2	0.8	6
<b>Governance and Economic Criteria</b>				
Corporate Governance	3.7	2.7	0.8	8
Information Security/ Cybersecurity and System Availability	1.5	1.5	0.9	2
Supply Chain Management	2.8	3.1	0.7	6

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

As outlined in Exhibit 4, the S&P/BMV ESG Indices exhibited stronger performance on a range of selected ESG and carbon characteristics. Not only were the overall S&P DJI ESG Scores stronger at an index level, each of the E, S and G Dimensional Scores were improved. In addition, although not part of the specific index objective, both ESG indices achieved an index-level carbon intensity improvement.

**Exhibit 4: Comparison of Key Index Characteristics**

Metric	S&P/BMV Total Mexico ESG Index (MXN) TR	S&P/BMV Total Mexico Index (MXN) TR	S&P/BMV IPC ESG Tilted Index (MXN) TR	S&P/BMV IRT
3-Year Return (%)	18.6	17.8	17.2	17.7
5-Year Return (%)	6.3	5.5	3.6	5.0
5-Year Volatility (%)	20.0	18.4	19.2	18.5
3-Year Tracking Error (%)	5.0	-	2.8	-
5-Year Tracking Error (%)	5.6	-	3.0	-
Stock Count	24	48	35	36
Weight in Top 5 Companies (%)	28.9	49.1	59.1	52.8
S&P DJI ESG Score	81.8	71.4	77.2	71.2
Environmental Score	79.7	70.9	76.9	71.1
Social Score	82.4	73.6	78.4	73.0
Governance Score	77.3	65.8	71.7	65.6
Overall ESG Score Improvement	10.4	-	6.0	-
Weighted Average Carbon Intensity (tCO <sub>2</sub> e/USD 1 Million)	348.1	398.0	377.7	422.4
Weighted Average Carbon Intensity Improvement (%)	12.5	-	10.6	-

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2023. The S&P/BMV Total Mexico ESG Index was launched June 22, 2020. The S&P/BMV Total Mexico Index was launched June 22, 2020. The S&P/BMV IPC ESG Tilted Index was launched Nov. 22, 2021. All data a prior to index launch date is back-tested hypothetical data. 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 main difference in approach is that the S&P/BMV Total Mexico ESG Index uses ESG scoring as the criteria for selecting stocks—seeking to select the top 80% of stocks by S&P DJI ESG Score, and then targeting the top 75% within each GICS® sector—while the S&P/BMV IPC ESG Tilted Index applies a tilt scaling factor across industry groups to overweight companies with better S&P DJI ESG Scores than their peers. The latter does not select based on relative S&P DJI ESG Score, but rather attempts to overweight the best performers from a sustainability perspective, reflecting the benchmark index sector make-up.

These two different approaches provide choice in how to integrate sustainability into decision-making. Through thoughtful index construction, the range of sustainability indices available in the marketplace has grown significantly in recent years.

## Performance Disclosure/Back-Tested Data

The S&P/BMV Total Mexico ESG Index was launched June 22, 2020. The S&P/BMV Total Mexico Index was launched June 22, 2020. The S&P/BMV IPC ESG Tilted Index was launched Nov. 22, 2021. 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. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji). Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index 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. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. 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 to a fixed value for calculation purposes. The Launch Date designates the date when 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. S&P Dow Jones Indices 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. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the [FAQ](#). The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

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