S&P Dow Jones Indices

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Sustainable Investment in the Global Space

INTRODUCTION

In recent years, sustainable investing has moved to the forefront of the global agenda. This shift has been spurred by two global events. The first is the Paris Agreement, which was launched at COP 21 in 2015, and ratified at COP 22 in November 2016. The Paris Agreement's aim is to keep global temperatures from rising above 2 degrees Celsius, as a way to combat climate change and preserve the Earth's current state. The second (somewhat simultaneous event) was the creation of the U.N. Sustainable Development Goals, which were launched in January 2016 and consist of 17 different goals in which "countries will mobilize efforts to end all forms of poverty, fight inequalities, and tackle climate change." These increases in interest in environmental, social, and governance are well- timed, given that the World Meteorological Organization (WMO) recently found that "concentration of CO2 in the Earth's atmosphere reached record highs in 2016."[1]

SUSTAINABLE INVESTING'S SHIFT TO THE MAINSTREAM

Beyond government and policy actions, there has also been a financial shift toward sustainable investing. The Global Sustainable Investment Alliance found that between 2014 and 2016, socially responsible investment (SRI) assets grew by 25% in Asia, Australia, U.S., and Europe. Japan led the way, with a growth of more than 6,600% over the two-year period, while Europe experienced the lowest growth, of only 12%.[2] This may not be so surprising, given that Europe already had close to USD 11 trillion in SRI assets in 2014.

The spread of sustainable investment into the mainstream has been largely led by asset owners. Only 20% of institutional investors in North America and Asia do not include sustainable investments in their process. In Europe, only 10% neglect to incorporate ESG.[3]

In addition to asset owners, market participants have continued to show a passion for the market. Schroder's 2017 global investor study focused on

[1] McGrath, Matt. Record surge in atmospheric CO2 seen in 2016. Oct. 30, 2017. http://www.bbc.com/news/science-environment-41778089.

[2] Global Sustainable Investment Review: 2016. http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf.

[3] Mooney, Attracta. Investors fear ESG investing will hurt returns. Oct. 11, 2017. https://www.ft.com/content/112dd68a-ad01-11e7-beba-5521c713abf4.

The S&P/Hawkamah ESG Pan Arab Index has outperformed its benchmark, the S&P Pan Arab Composite Index, over the past nine-year period.

sustainable investing found that millennials were more likely to invest in sustainable funds than older generations—implying that this trend may be here to stay. The survey also found that 78% of people value sustainable investing more today than they did five years ago.[4]

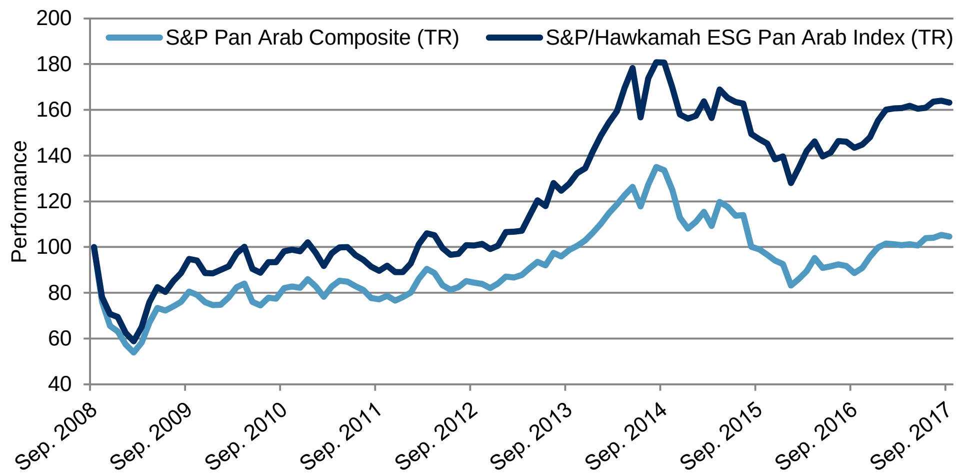
This movement toward the mainstream has also been recognized by S&P Dow Jones Indices, which now publishes carbon metrics on its website, along with typical financial metrics like market capitalization.

Sustainable Investing in the Pan Arab Region

The Middle East and North Africa region (MENA) has continued to show leadership in the ESG marketplace—currently, all countries measured by the S&P/Hawkamah ESG Pan Arab Index have ratified the agreement including: United Arab Emirates, Saudi Arabia, Qatar, Oman, Kuwait, Bahrain, Lebanon, Jordan, Morocco, and Egypt. Of course, the S&P/Hawkamah ESG Pan Arab Index was innovative at its time of launch and continues to be a key aspect of ESG investing in the MENA region today.

The S&P/Hawkamah ESG Pan Arab Index has outperformed its benchmark, the S&P Pan Arab Composite Index, over the past nine-year period (see Exhibit 1).

Exhibit 1: Overall Index Performance



Source: S&P Dow Jones Indices LLC. Data as of Sep. 29, 2017. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is 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.

As illustrated in Exhibit 2, the S&P/Hawkamah ESG Pan Arab Index has outperformed the benchmark by a maximum of nearly 6% and a minimum of 3.5%. The ESG index has a slightly higher risk, though never more than 0.4% as compared to the benchmark.

[4] Schroders: Global investor study. Global perspectives on sustainable investing 2017. http://www.schroders.com/en/sysglobalassets/digital/insights/2017/pdf/global-investor-study-2017/schroders_report_sustainable-investing_final.pdf.

The index also exhibits a high tracking error (around 6%), which is not surprising as the index is not designed to be a benchmark-hugging index.

ESG investing has seen a spike in interest in recent years—in both government policy and financial investment.

Exhibit 2: Risk/Returns

PERIOD	S&P PAN ARAB COMPOSITE	S&P/HAWKAMAH ESG PAN ARAB INDEX
ANNUALIZED RETURN (%)		
1-Year	18.13	13.73
3-Year	-7.80	-3.34
5-Year	4.40	10.13
7-Year	3.54	7.53
ANNUALIZED RISK (%)		
3-Year	15.94	13.10
5-Year	14.74	14.99
7-Year	14.08	14.48
TRACKING ERROR (%)		
3-Year	-	6.17
5-Year	-	6.43
7-Year	-	5.74

Source: S&P Dow Jones Indices LLC. Data as of Sept. 29, 2017. Index performance based on total return in USD. 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.

CONCLUSION

ESG investing has seen a spike in interest in recent years—in both government policy and financial investment. We look forward to seeing the space grow on a global basis and within the MENA region.

PERFORMANCE DISCLOSURE

The S&P/Hawkamah ESG Pan Arab Index was launched on January 31, 2011. 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.spdji.com.

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 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. 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 datafeed 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.

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.spdji.com 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.

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