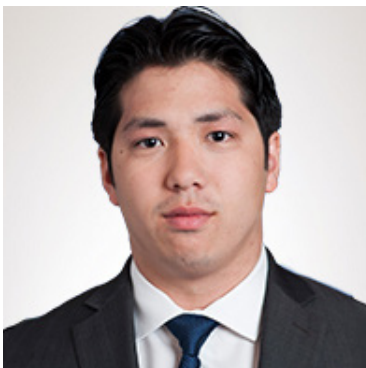


TalkingPoints

The Path of an Institutional Investor: How Indices Are Fueling GPIF's Green Objectives



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Institutional investors are increasingly shifting their strategies to incorporate environmental factors into their portfolios. Beyond their important commitment to addressing climate change directly, data continue to mount on the performance impact of environmental risks at the company level. To exemplify this trend, on Sept. 24, 2018, Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, selected new environmental benchmarks launched by S&P Dow Jones Indices (S&P DJI) to achieve its green objectives.

1. How did S&P DJI become GPIF's carbon efficient index provider?

Kana: In November 2017, GPIF released a request for proposal for global environment investment strategies. After many collaborative discussions with S&P DJI, Trucost ESG Analysis, Japan Exchange Group, and GPIF, S&P DJI was able to create an index series that serves to promote not only environmental disclosures in Japan but also in companies around the world. We also developed new carbon efficient indices, and GPIF selected the S&P/JPX Carbon Efficient Index for the Japanese equity portion and the S&P Global Ex-Japan LargeMidCap Carbon Efficient Index for the non-Japanese equity portion to serve as benchmarks for ESG business strategies. These strategies were created in collaboration with Trucost ESG Analysis, which is an environmental research company that is part of S&P Global and has expanded their coverage to cover all of TOPIX.

2. Why did GPIF and S&P DJI undertake this project in the first place?

Ryan: S&P DJI was able to align our index methodology with GPIF's mission of achieving long-term returns while reducing environmental risk. As signatories of the Principles for Responsible Investment, GPIF and S&P DJI are committed to promoting responsible investment. As the leading index provider, S&P DJI's partnership with Trucost puts it in the best position to be able to provide the E portion of environmental, social, and governance (ESG) criteria in the index methodologies.

To see the original interview, visit:

<https://spindices.com/multimedia-center/the-path-of-an-institutional-leader-how-indices-are-fueling-gpif-s-green-objectives>

3. What was the key focus when creating these indices for GPIF?

Kana: We had to make sure that the indices' objectives were in line with GPIF's mission—not only at the time of their creation, but going forward as well. As the largest pension fund in the world and an active leader in the ESG investment space, GPIF's commitment to this sort of investment could have a trickle-down effect to other asset owners, as well as institutional investors around the world.

4. What is so unique about this relationship, and what were the final results of this collaboration between GPIF and S&P DJI?

Ryan: The 1.2 trillion Japanese yen investment by GPIF is the largest of its kind for an environmentally focused index. One of the unique aspects of these indices is the S&P Carbon Global Standard, a proprietary classification system that allows companies to compare their respective carbon emissions to a global standard. Companies can use this not only as a competitive gold standard, but also to compare themselves to over 2,200 other companies within their respective index. There's a firm-wide commitment by S&P Global to provide full coverage of environmental data for all of TOPIX, and we feel that's one of the key drivers that led GPIF to choose these indices.

5. Why does the creation of these carbon efficient indices for the Japanese market matter to investors?

Kana: These strategies especially minimized the tracking error to their underlying indices and significantly decreased the greenhouse gas (GHG) emissions exposure. The reduction of GHG emissions for the S&P/JPX Carbon Efficient Index is at about 25%, and for the S&P Global Ex-Japan LargeMidCap Carbon Efficient Index, it is over 40%, which is a significant reduction. In other words, the indices provide a similar risk/return profile as the benchmark with a meaningful reduction in carbon emissions. As we continue to develop the S&P Carbon Efficient Indices and more products are created based on these strategies, market participants will be provided more opportunities to add environmentally friendly building blocks to their portfolios.

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