

TalkingPoints

ESG Access Continues to Evolve in Mexico — Get to Know the S&P/BMV Total Mexico ESG Index



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To address the need for a broad market ESG benchmark in Mexico, S&P Dow Jones Indices (S&P DJI) and the Mexican Stock Exchange (BMV) joined forces to launch the [S&P/BMV Total Mexico ESG Index](#). S&P DJI’s Silvia Kitchener and BMV’s Rubén Perera sat down to discuss how this innovative index captures a more complete picture of ESG in Mexico and how it could be used to address growing demand for ESG solutions in the region.

1. We know that there are many types of environmental, social, and governance (ESG) indices. What is the objective of the S&P/BMV Total Mexico ESG Index?

Silvia: That is correct; there are various ESG indices with different objectives. Some indices use the “best-in-class” approach like the [Dow Jones Sustainability MILA Pacific Alliance Index](#), which selects the top 30% of companies by sustainability score within each GICS® sector. Then, we have the S&P ESG Indices, which are designed to provide improved ESG representation while maintaining similar overall industry group weights as their underlying indices as in the case of the [S&P 500® ESG Index](#) vis-à-vis the [S&P 500](#). In a way, the S&P/BMV Total Mexico ESG Index is a hybrid of the “best-in-class” approach and the S&P ESG Indices framework.

In essence, the index seeks to represent the Mexican equity market, featuring companies with the highest sustainability scores within each GICS sector, while also seeking to improve its ESG profile and maintain similar overall industry group weights as the [S&P/BMV Total Mexico Index](#).

2. Why are you launching an ESG index in Mexico now?

Silvia: We’ve found that in Mexico right now, there is great appetite for information on ESG. The concept of sustainable investing has been around for quite some time—our oldest ESG indices, the Dow Jones Sustainability Indices (DJSI), go back to 1999. Since then, there has been a growing interest in ESG, and it has especially picked up in the past few years. The BMV launched a sustainable index

in 2011 that helped bring the concept of sustainability to the market, but now issuers, asset managers, asset owners, and regulators are actively participating in the process. Many are looking for ESG tools that are sharper than the first generation of ESG indices. Thanks to advancements in ESG data and continued innovations in indexing, we're able to meet this demand with an index built on deeper datasets.

3. What has demand for ESG looked like in recent years, and how important do you think ESG will be moving forward?

Rubén: Demand has definitively increased in recent years. Global investors have integrated portfolios and investment strategies based around the three pillars of sustainability. Some of the largest firms have announced a series of initiatives to position sustainability at the center of their investment strategy, making it an integral piece in the construction of portfolios and risk management, so there is a change in the collective consciousness. Nowadays, not only are companies' returns evaluated, but there is also a legitimate conscious effort to examine how companies gained their returns and the impact of their activities on our society and the environment. There is a genuine concern from companies to manage resources wisely, because that is what many investors are looking for.

Specifically, at BMV, we have a full commitment to corporate responsibility. We are a benchmark within the Mexican financial market, and we have developed various ESG initiatives including: launching the S&P/BMV IPC Sustainable Index and green, social, and sustainable bonds, creating the first sustainability guide, strengthening the financial culture, and becoming members of the UN Global Compact and Sustainable Stock Exchanges Initiative.

4. Can you explain in more detail how the different parties are participating in the process?

Silvia: The S&P Global Corporate Sustainable Assessment (CSA) is conducted annually for each company in our ESG indices and serves as the data foundation in determining its S&P DJI ESG Score. Issuer participation is voluntary, and it has increased year after year. Many companies attend annual workshops to learn about the CSA and about how to improve their ESG scores.

Recently, the Mexican government issued a new resolution that requires public pension funds to incorporate ESG processes into their investment strategy starting Jan. 1, 2022. Because of this, pension funds are looking at different tools (such as indices and company ESG scores) to help meet the requirements set by the National Commission for the Pension System (CONSAR). Likewise, asset managers that are aware of the growing interest in ESG are looking for instruments that meet their clients' objectives and mandates. In many cases, the institutional clients are the pension funds, so the demands for ESG policies, programs, and tools are coming from all members of the financial community.

5. How involved are regulators with ESG and why do you think companies participate in the S&P Global Corporate Sustainability Assessment?

Rubén: In Mexico, regulators have shown their commitment and alignment with sustainability, to the extent that economic systems are adjusting to the reality of climate change, the scarcity of natural resources, and the consequent social pressures. Those responsible for financial and regulatory policies are pressuring economic agents to incorporate these issues into their business and risk evaluation models.

Meanwhile, issuers' participation in the CSA has been proactive. They have adopted it positively, as they understand and recognize that it is in their best interest to meet international standards.

Issuers are active participants because they are confident about the experience of the global evaluator and recognize S&P Dow Jones Indices and S&P Global as experts in this field. The CSA updates serve as a guide for each of the companies to define their roadmap and allow them to formulate a strategy based on the needs of the company and any internal changes necessary to improve their scores.

In addition, the CSA has helped improve how and what companies report, makes the information publicly available, and has helped a number of companies elevate reporting practices to meet international disclosure standards.

6. What are you hoping to accomplish with this index?

Silvia: We hope to accomplish several goals with the S&P/BMV Total Mexico ESG Index. First, we would like to promote the concept of sustainable investment in general. Second, we hope that the index will serve as the country's premier ESG benchmark, seeking to measure the performance of companies with strong ESG programs. Likewise, we hope the index will serve as the underlying base for financial products, whether active or passive. Fourth, we expect to motivate listed companies to continue to participate in the evaluation process and, thereby, improve their ESG programs each year. Finally, from an idealistic standpoint, we hope that all companies will establish responsible practices to manage their ESG goals with the highest standards and undertake responsibility for the sake of the environment, human capital, and good corporate governance.

7. How is the S&P/BMV Total Mexico ESG Index aligned with BMV's commitment to ESG?

Rubén: The S&P/BMV Total Mexico ESG Index is a key element of BMV's sustainability strategy. Since 2011, BMV has been recognized as a leader in Latin America for the implementation of ESG practices and a pioneer in the development of sustainable indices; we even built a roadmap for sustainability practices going forward. In 2014, we became an active member of the Sustainable Stock Exchanges Initiative, part of the World Federation of Exchanges, and we developed MexiCO₂, a carbon platform for the issuance of green bonds. In 2016, we introduced a sustainability guide for local issuers and reviewed our anti-corruption and anti-money-laundering policies. More recently, we joined the UN Global Compact, the Principles for Responsible Investment (PRI), and reinforced our commitment to society with a new museum and educational programs.

One of our core values is innovation, and with the latest development of the S&P/BMV Total Mexico ESG Index, we can offer global investors a renovated and modern benchmark based on international best practices that can be easily replicated with financial securities such as ETFs.

8. What makes this a stronger index than your initial foray into ESG, and how have companies reacted to the index so far?

Rubén: The new index represents a natural evolution in accordance with international best practices and standards with the inclusion of an international evaluator. The previous index, the S&P/BMV IPC Sustainable Index, was the first element of our sustainability strategy back in 2011. Since then, several initiatives have been implemented within BMV, as mentioned previously.

We've also been working with issuers since 2011 to build the Issuers Sustainability Committee, strengthen ESG knowledge within organizations, and help with the adoption of the sustainability guide for companies to follow. We are currently developing a guideline for standardized reporting to make access to ESG information more available. All of these initiatives are part of the evolution that our issuers requested to improve alignment with higher standards.

For Mexican issuers, the launch of the new index had a positive impact, arousing a lot of interest to delve deeper into ESG issues. The index puts ESG issues back in the center of the sustainability strategy for many issuers, with the involvement of senior management and the board of directors helping to align all levels of the company.

It is important to recognize that there are different levels of maturity across the issuers. The requirements to enter the new index bring to light to what needs to be done internally and provide a better understanding of the index methodology. The CSA serves as a standard against which companies can compare themselves to evaluate their advancement.

Companies that are entry level in ESG or whose market cap is not big enough to be considered for the index can look to the CSA as the international standard.

9. What were the challenges of creating this index and what did you find surprising?

Silvia: With every index, there is an initial objective at the start of the design phase, and as it develops, this objective sometimes needs to be revised. In the case of the S&P/BMV Total Mexico ESG Index, we worked closely with the market. Initially, we had thought of making an index similar to the S&P 500 ESG Index, which seeks to maintain similar industry group weights as the S&P 500. This approach did not work as well in Mexico, because the country's flagship index, the [S&P/BMV IPC](#), is relatively narrow, with just 35 stocks. The investment community needed something broader and more inclusive. Low tracking error is not necessarily as prioritized in Mexico as it is in other markets. So then the challenge became how to create a representative, liquid index that would also display an improved ESG profile.

In terms of surprises, I have to admit that I was surprised that we achieved this balance. It took some trial and error, but in the end, we have an ESG index with a strong methodology that meets its objectives. I am also surprised at the increasing number of companies that participate in the evaluation process every year. I think this is a promising trend.

Additionally, though it shouldn't come as a surprise, it is always nice to confirm when an ESG index outperforms its broad benchmark, as the back-tested data show in Exhibit 1.

Exhibit 1: Hypothetical Back-Tested Performance of the S&P/BMV Total Mexico ESG Index versus Benchmarks

Category	S&P/BMV Total Mexico ESG Index	S&P/BMV IRT*	S&P/BMV Total Mexico Index
Returns (%)			
1-Month	0.57	-0.23	-0.05
3-Month	6.49	2.57	3.29
YTD	-15.60	-14.43	-13.84
12-Month	-9.97	-11.87	-11.10
Annualized Returns (%)			
3-Year	-6.86	-8.24	-7.54
5-Year	-0.91	-1.15	-0.89
Since Inception (April 30, 2014)	1.63	0.51	0.67
Risk (Standard Deviation)			
3-Year	20.87	17.10	17.09
5-Year	17.34	14.32	14.24
Since Inception (April 30, 2014)	16.22	13.61	13.44
Risk-Adjusted Returns			
3-Year	-0.330	-0.480	-0.440
5-Year	0.050	-0.080	-0.060
Since Inception (April 30, 2014)	0.101	0.038	0.050
Other Categories			
Tracking Error against the S&P/BMV Total Mexico Index (%)	5.32	1.39	-
60-Month Correlation to the S&P/BMV Total Mexico Index (%)	96.40	95.29	-

* The S&P/BMV IRT is the total return version of the S&P/BMV IPC.

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2020. The S&P/BMV Total Mexico ESG Index was launched on June 22, 2020. All data prior to that date is back-tested. Index performance based on total return in MXN. 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.

10. What remains to be done to further promote ESG in the region and how can the new index help those efforts?

Rubén: In Mexico, an increasing number of financial institutions are using standards that consider ESG factors in their investment processes. For example, some pension funds already adhere to the PRI. However, many market participants require continuous education and training, preparation and delivery of reports beyond financial statements, fulfilment of sustainability reports with international standards, and development of products and services with a focus on ESG. In this sense, the index helps as a reference for what the Mexican market and its issuers have achieved, reinforcing the efforts made so far.

Silvia: To learn more about the index, including specifics on the scoring methodology and ways to access the data, read the [FAQ](#) and [index methodology](#).

Performance Disclosure

The S&P/BMV Total Mexico Index and S&P/BMV Total Mexico ESG Index were launched June 22, 2020. 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.spdji.com. 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.

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