

# Ex Fossil Fuel Equity Suite

Over the last decade, we have seen significant development and interest in fossil fuel divestment. According to data published by 350,<sup>1</sup> a global environmental nongovernmental organization, the number of institutional investors and AUM committed to fossil fuel divestment has risen dramatically over that last several years (Figure 1). Within this group of investors, more than 80% are mission-driven institutions such as faith-based entities, as well as large insurance companies and pension plans.

Figure 1 **Current Decade Sees Significant Increase in Commitment to Fossil Fuel Divestments**

	Institutional Investors Committed	Global Assets Committed
Year 2014	180	\$50 billion
Year 2020	1,200	\$14.6 trillion

Source: 350.

## Overview of ex Fossil Fuels Index Strategies

One common and simple way an institutional investor can address climate change is to invest in a fossil fuel free index strategy that either fully or partially divests from companies that are involved in the extraction, refining and/or ownership of fossil fuels. Depending on the strategy or index, companies associated with fossil fuel extraction can be identified via revenues or reserves using various thresholds.

Within State Street Global Advisors, we offer three fossil fuel free index strategies that use fossil fuel reserves as the primary way to identify companies to divest from. Each strategy is conveniently linked to several marquee equity indexes, making them an easy replacement for non-climate-aware strategies.

Our three offerings are as follows:

- The MSCI World ex USA ex Fossil Fuels Index Strategy
- The MSCI Emerging Markets ex Fossil Fuels Index Strategy
- The S&P 500 Fossil Fuel Free Index Strategy

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## Strategy and Index Details

The primary objective of these strategies is to minimize or eliminate exposure to fossil fuels, while still maintaining exposure to a broad market capitalization weighted index. To accomplish this, each strategy begins with a broad index universe (e.g., the MSCI World ex USA Index, the MSCI Emerging Markets Index and the S&P 500 Index) and then divests from companies that have fossil fuel reserves using a screening methodology provided by the respective index provider.

In the case of MSCI, their screening framework is built by MSCI ESG Research and identifies companies with fossil fuel reserves using MSCI's ESG climate change metrics. Similarly, S&P Global obtains fossil fuel reserves data from Trucost, which generates data by reviewing publicly available company reports and disclosures.

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## Screening Methodologies

MSCI's Global Fossil Fuels Exclusion Indexes series uses proprietary screening factors to identify companies that have evidence of owning fossil fuel reserves, regardless of their industry. This includes companies providing the exact volume of reserves, as well as companies that provide general statements around reserves. Companies identified as having coal reserves with a 50% or above probability level of commercial extraction and oil or natural gas reserves with a 90% or above probability level of commercial extraction used for energy purposes are excluded from the starting market capitalization weighted index universe. The remaining holdings are then reweighted according to their market capitalization weight.

Comparably, S&P uses Trucost data, which applies a threshold for companies with a 50% or higher probability of commercial extraction for coal, as well as oil and gas reserves. The companies identified are then excluded from the starting market capitalization weighted index universe. The remaining holdings are then reweighted according to their market capitalization weight similar to the MSCI suite.

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## Index Changes

Similar to our conventional index funds, the fossil fuel free strategies rebalance when there are meaningful changes to the underlying indexes that make up the starting universe. Rebalance activities specific to each fund and index are as follows:

- MSCI ex Fossil Fuels Indexes and exclusions are reviewed on a quarterly basis to coincide with the semiannual and quarterly reviews of the MSCI Global Investable Market Indexes. Changes are implemented as of the close of the last business day of February, May, August and November.
- S&P Fossil Fuel Free Index portfolios are rebalanced quarterly after the close of business on the third Friday of March, June, September and December. Index changes, including additions and deletions, are applied quarterly as part of the standard rebalancing process, although ad hoc constituent changes due to corporate actions such as spin-offs and mergers and acquisitions can be implemented outside of quarterly share rebalances if certain criteria are met and approved by the index committee.

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## Facts and Takeaway

Climate change is arguably one of the most challenging threats of our time, impacting not only how we live but also how we invest. This has been a call to action for some investors. As noted, many institutions are implementing systemic solutions such as fossil fuel free strategies to address climate change, as these solutions are a simple way to effectively minimize or eliminate exposure to fossil fuels within their portfolios.

For additional information, please contact a State Street Global Advisors Account Representative.

1 <https://gofossilfree.org/divestment/commitments/>

## About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third-largest asset manager with US \$3.05 trillion\* under our care.

\* This figure is presented as of June 30, 2020 and includes approximately \$69.52 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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