

An Introduction to the STOXX® Europe 600 ESG-X Index

The STOXX Europe 600 ESG-X index employs a straightforward exclusion methodology that allows investors to eliminate certain types of exposure, without significant performance deviation from the parent benchmark.

The STOXX Europe 600 ESG-X index, with its straightforward approach to index construction, includes product involvement screening for controversial weapons, tobacco and thermal coal as well as norms-based screening that follows the Ten Principles of the UN Global Compact, which cover human and labour rights, the environment, business ethics and anti-corruption. The STOXX Europe 600 ESG-X index delivers a risk-return performance profile that is, statistically, not significantly different to the STOXX Europe 600 index, but at the same time achieves compliance with the typical exclusion-based SRI approaches.

The STOXX Europe 600 ESG-X shares the same rules, sector composition and methodology (including the same transparent free-float market-cap weighting scheme) as the STOXX Europe 600 index, which is a broad pan-European equity index containing the largest and most frequently traded equity securities. A 'Fast Exit' rule in the new index secures a swift response to any severe ESG controversy by quickly removing offenders, thus limiting investors' risks.

Key Points

- Compliant with typical exclusion-based SRI approaches¹
- Tier-1 ESG data provider, Sustainalytics
- Risk-return profile similar to STOXX Europe 600
- No strong unintended biases or exposures resulting from exclusions, enabling investors to easily implement and adopt index as ESG-screened benchmark
- Simplicity of methodology makes index suitable as underlying for derivatives and structured products
- Innovative 'Fast Exit' feature allows index to adapt quickly to major controversies
- Liquid futures traded, with appx. \$832 million open interest²

¹ Source: Global Sustainable Investment Alliance.

² Source: Deutsche-Boerse, as of 9 July 2019.

Figure 1
Index Methodology

Index Name	STOXX Europe 600 ESG-X
Parent Index	STOXX Europe 600
Parent Index Selection Criteria	The STOXX Europe 600 index represents large, mid and small capitalisation companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.
Weighting Scheme	Free-float market capitalisation
ESG Strategy	Exclusionary
ESG Data Provider	Sustainalytics
Rebalancing Frequency	Quarterly: Mar, Jun, Sep, Dec
Ticker	SXXRESGX

	Exclusion	Criteria — (Defined by ESG Data Provider)	Specific Filter — (Defined by ESG Data Provider)
Exclusion 1	Non-compliance with UN Global Compact Principles ³	ESG risk level 5 (very high risk) deemed non-compliant	Companies with ESG risk level 5
Exclusion 2	Controversial Weapons ⁴	Involved with controversial weapons	(i) Internal production or sale of controversial weapons (ii) Ultimate holding company owns > 10% of voting rights of involved company (iii) > 10% of voting rights of a company owned by involved company
Exclusion 3	Tobacco	Tobacco producers	0% revenue threshold
Exclusion 4	Thermal Coal	Derive revenues from Thermal Coal extraction or exploration, or, have power generation capacity that utilises thermal coal	(i) > 25% revenues from thermal coal extraction (ii) > 25% power generation capacity from coal-fired electricity, heat or steam generation capacity/thermal coal electricity production
Other Features	Fast Exit: if an index constituent experiences an increase in ESG risk level to 5, that constituent will be deleted from the index 2 business days after the announcement.		

Source: STOXX, as of 31 July 2019.

³ The Ten Principles of UN Global Compact cover human rights, labour rights, environment, business ethics and anti-corruption.

⁴ Controversial weapons: Anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus (market standard/in line with international conventions).

Figure 2
Characteristics

	STOXX Europe 600	STOXX Europe 600 ESG-X
Number of Stocks	600	581
Tracking Error (5y Annualised) vs. STOXX Europe 600 (%)	[N/A]	0.48
Fundamentals		
Price/Book 1Y (trailing)	1.70	1.70
P/E incl. negative (trailing)	17.30	17.20
Return on Equity (%)	9.83	9.88
Annual One-way Turnover (%)		
2013	3.10	4.60
2014	2.80	5.70
2015	2.80	5.80
2016	2.60	5.60
2017	3.00	4.00
2018	3.20	5.90
2019	1.00	1.50
ESG Exclusions (# Stocks)		
UNGC principle non-compliant	0	5
Controversial Weapons	0	7
Tobacco	0	3
Thermal Coal	0	4
Total excluded in ESG-X version	0	19
ESG Exclusions (Weight) (%)		
UNGC principle non-compliant	0.00	3.10
CW involvement	0.00	2.10
Tobacco	0.00	1.20
Thermal Coal	0.00	0.30
Total excluded in ESG-X version	0.00	6.70

Source: STOXX, as of 31 July 2019. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Figure 3
Sector Weights

ICB Sector	STOXX Europe 600 (%)	STOXX Europe 600 ESG-X (%)	(+/-) (%)
Oil & Gas	6 . 56	7 . 01	0 . 45
Basic Materials	7 . 10	7 . 58	0 . 48
Industrials	14 . 54	13 . 15	- 1 . 39
Consumer Goods	19 . 08	18 . 79	- 0 . 29
Health Care	14 . 14	12 . 46	- 1 . 68
Consumer Services	6 . 29	6 . 71	0 . 43
Telecommunications	3 . 03	3 . 25	0 . 22
Utilities	4 . 01	4 . 09	0 . 08
Financials	19 . 78	21 . 10	1 . 32
Technology	5 . 46	5 . 86	0 . 40

Source: STOXX, as of 31 July 2019. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Figure 4
Back-Tested Historical Performance

	Return		Volatility (Annualised)			
	STOXX Europe 600 (%)	STOXX Europe 600 ESG-X (%)	STOXX Europe 600 (%)	STOXX Europe 600 ESG-X (%)	Correlation	Tracking Error (Annualised) (%)
1 month	0 . 33	0 . 13	8 . 40	8 . 40	0 . 9970	0 . 70
3 month	- 0 . 11	- 0 . 35	10 . 60	10 . 70	0 . 9987	0 . 50
1 Y	2 . 10	1 . 80	11 . 90	12 . 00	0 . 9988	0 . 60
3 Y (Annualised)	7 . 80	7 . 70	10 . 80	10 . 90	0 . 9990	0 . 50
5 Y (Annualised)	6 . 40	6 . 40	15 . 60	15 . 60	0 . 9995	0 . 50
Since Inception (Annualised)	8 . 80	8 . 90	14 . 80	14 . 90	0 . 9994	0 . 50

Source: STOXX, as of 31 July 2019. Past performance is not a guarantee of future results. The inception date for the STOXX Europe 600 ESG-X index was 15 November 2018. Results prior to this date were calculated by using available data at the time in accordance with the Index's current methodology. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. **BACKTESTED PERFORMANCE:** This document contains index performance data based on backtesting, i.e. calculations of how the index might have performed prior to launch if it had existed using the same index methodology and based on historical constituents. Backtested performance information is purely hypothetical and is provided in this document solely for information purposes. Backtested performance does not represent actual performance and should not be interpreted as an indication of actual performance.

Figure 5
Example Exclusions

Company Name	Exclusion Category	STOXX Europe 600 Weight (%)
Novartis	UN Global Compact	2 . 52
British American Tobacco	Tobacco	0 . 90
Airbus	Controversial Weapons	0 . 88
Safran	Controversial Weapons	0 . 56
Volkswagen Pref	UN Global Compact	0 . 33
Imperial Brands	Tobacco	0 . 27
BAE Systems	Controversial Weapons	0 . 23
Rolls Royce Hldg	Controversial Weapons	0 . 22
RWE	Thermal Coal	0 . 16
Atlantia	UN Global Compact	0 . 13
Thales	Controversial Weapons	0 . 13
Danske Bank	UN Global Compact	0 . 11
Swedish Match	Tobacco	0 . 07
Leonardo	Controversial Weapons	0 . 05
Uniper	Thermal Coal	0 . 04
G4S	UN Global Compact	0 . 04
KGHM	Thermal Coal	0 . 04
Dassault Aviation	Controversial Weapons	0 . 03
Polish Oil and Gas	Thermal Coal	0 . 03

Source: STOXX, as of 31 July 2019. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

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