SIX ESG Indices

Webinar, 11 February 2021
Welcome

Marion Leslie
Head Financial Information
Member of the Executive Board, SIX
Three Fields of Activity, One Company

- As the **Operator of the Swiss Stock Exchange and the Spanish exchanges BME** we combine listing, trading, settlement, and custody of securities in one place. And with the SIX Digital Exchange (SDX) we are defining the Securities Value Chain of the future.

- As a **competence center for Swiss payment transactions**, SIX supports banks with innovative services in an increasingly digitalized world.

- As a **global provider of financial information**, SIX offers high-quality reference, pricing, and corporate action data, regulatory services, and indices.
Sustainability at SIX

Attractiveness, Stability & Security of the Financial Center
- Stability & security
- Innovation
- Sustainable Finance

Contribution of SIX to Society & the Environment
- Financial education
- Energy efficiency & reduction of carbon emissions
- Corporate volunteering projects

SIX as an Employer:
- Human capital development
- Diversity & inclusion
- Leading employee benefits and focus on wellbeing
ESG investments are increasingly mainstream

Investor action is driving change

EU Regulation to be expanded

Non-Financial indicators
Our Role in This

SIX Connects Financial and Real Economy

SIX Ensures Stable Financial Market Infrastructure

SIX Offers Reliable Financial Reference Data

To Be Meaningful, ESG Data Needs to Be Connected to Core Reference Data
Current Offering at SIX

- **35 Green Bonds**: listed on the Swiss Stock Exchange
- **Publishing of Sustainability Reports**
- **Alternative Data**: social media-based ESG metrics
- **ESG indices for the Nordics**
Coming in 2021

- **ESG Regulatory Data Roadmap**

- **Family of New ESG Indices for Switzerland**
  - SBI ESG Indices
  - SPI ESG Indices
The New SBI and SPI ESG Indices

Andreas Henke
Hansueli Müller
Senior Product Managers, SIX
Methodology
Methodology - Eligibility Criteria Overview

- SBI ESG is a subset of SBI and SPI ESG is a subset of SPI.
- SIX uses the same methodology to select the components of SBI ESG and SPI ESG.

Three pillars are used to determine eligible components:

- **ESG RATINGS** from Inrate
- **CRITICAL BUSINESS ACTIVITY REVENUE** from Inrate
- **NORMS-BASED SCREENING** i.e. SVVK exclusion list
# Methodology – Eligibility Criteria „ESG Rating“

**ESG rating of C+ or higher**

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<thead>
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<tbody>
<tr>
<td>A</td>
<td>A+</td>
<td>Sustainable or supports the transition towards sustainability</td>
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<tr>
<td></td>
<td>A</td>
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<td>A-</td>
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<tr>
<td>B</td>
<td>B+</td>
<td>On the path to sustainability</td>
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<td>B</td>
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<td>B-</td>
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<tr>
<td>C</td>
<td>C+</td>
<td>Not sustainable, but with less negative impact</td>
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<tr>
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<td>C</td>
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<td></td>
<td>C-</td>
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<tr>
<td>D</td>
<td>D+</td>
<td>Not sustainable</td>
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<tr>
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Through its practices, products or services, the company already contributes to the reduction of the social or environmental imbalances of the economy and supports the global transition towards a long-term sustainable economy.

The activity of the company is compatible with a long-term sustainable economy, but its products, services or practices do not meet all sustainability requirements yet. The company demonstrates the willingness and ability to improve its sustainability performance.

The activity of the company is currently not sustainable. Its products, services or practices exert a heavy social or environmental burden, but the company demonstrates the willingness and some ability to modify its products or practice in order to reduce the negative impact.

The activity of the company is not sustainable. Its products, services or practices contribute to a rapid deterioration of environmental and/or social conditions. The company has no possibility or demonstrates no willingness to reduce this impact.

*Source: Inrate, 2019*
### Methodology – Eligibility Criteria “Critical Business Activity”

Revenue must not reach or exceed a threshold of 5% (unless indicated otherwise)

<table>
<thead>
<tr>
<th>Category</th>
<th>Critical Business Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Production of fermented and distilled alcoholic products</td>
<td>- Tobacco products&lt;br&gt;- Goods related to tobacco&lt;br&gt;- Retail sales of tobacco products&lt;br&gt;- Tobacco distribution</td>
</tr>
<tr>
<td>- Retail sales and serving of alcoholic beverages</td>
<td>- Lethal defense equipment (combat vehicles, vessels of war)&lt;br&gt;- Non-lethal defense equipment (electronics, components and core parts of defense products)&lt;br&gt;- Defense services (communication, logistic services, training services)</td>
</tr>
<tr>
<td>- Retail of arms &amp; defense equipment</td>
<td>- Legal adult entertainment related products and services (operation of adult websites and shops, broadcasting of adult programs)&lt;br&gt;- Trading and retailing of adult products</td>
</tr>
<tr>
<td>- Sale of ammunition and guns</td>
<td>- Oil sands (threshold of 0%)</td>
</tr>
<tr>
<td>- Gambling and betting products and services</td>
<td>- Products and services for nuclear industry (uranium mining, nuclear waste transportation, construction of nuclear plants)&lt;br&gt;- Retail of purchased nuclear power&lt;br&gt;- Generation of nuclear power</td>
</tr>
<tr>
<td>- Manufacturing of equipment, software and facilities</td>
<td>- Genetic modifications of plant organisms (green GMO’s) (production, wholesale, distribution and R&amp;D of GM seeds)&lt;br&gt;- Genetic modification of animal and human organisms (red GMO’s) (gene pharming)</td>
</tr>
<tr>
<td>- Production of coal</td>
<td>- Use of coal energy generation</td>
</tr>
<tr>
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<td>- Legal adult entertainment related products and services (operation of adult websites and shops, broadcasting of adult programs)&lt;br&gt;- Trading and retailing of adult products</td>
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<td>- Use of coal energy generation</td>
<td>- Oil sands (threshold of 0%)</td>
</tr>
</tbody>
</table>

**Source:** Inrate, 2020
Methodology – Eligibility Criteria “Norms Based”

Not on the SVVK exclusion list in categories “anti-personnel mines”, “cluster munition”, “nuclear”, and “conduct-based”
SBI ESG Index
SBI ESG – Methodology

- Currently not eligible SBI constituents due to
  - ESG rating: 131 bonds / 61 issuer
  - Critical business activity: 3 bonds / 2 issuer
  - SVVK: 0 bonds / 0 issuer

- Reviewed on a monthly basis
- Each month-end, the then-current ESG data from Inrate will be used for the SBI constituents
- For new issues, where Inrate already covers the issuer, the issuer’s ESG rating will be used.
  For new issues, where Inrate does not currently cover the issuer, Inrate will try to provide an ad-hoc analysis to determine whether the bond will be eligible for the SBI ESG

Data as of 30 December 2020
SBI ESG – Data and Performance

- **ESG index name**: SBI ESG AAA-BBB Total Return
- **ISIN**: CH0543852013
- **Symbol**: SBESGT

- Slight underperformance until beginning of 2018, slight outperformance thereafter
- Overall, performance comparable to SBI
- Average ESG Score SBI is B (8.08) vs. B+ (8.65) for SBI ESG

Data as of 30 December 2020
SBI ESG – Data and Performance

Yield Index (SBI versus SBI ESG)

- **ESG index name:** SBI ESG AAA-BBB Yield
- **ISIN:** CH0543852039
- **Symbol:** SBESGY

Comparable yield to SBI

Duration Index (SBI versus SBI ESG)

- **ESG index name:** SBI ESG AAA-BBB Duration
- **ISIN:** CH0543852047
- **Symbol:** SBESGD

Slightly higher duration than SBI

Data as of 30 December 2020
SBI ESG – Data and Performance

**Number of Issuers by SBI Composite Rating (SBI versus SBI ESG)**

- Most exclusions in BBB bucket
- Leads to a higher weight of AAA bucket and a lower weight of BBB bucket in SBI ESG compared to SBI

**Number of Issuers by Segment (SBI versus SBI ESG)**

- Most exclusions in corporate bond segment
- Leads to a higher weight of government segment and lower weight of corporate segment in SBI ESG compared to SBI

Data as of 30 December 2020
SPI ESG Indices
SIX ESG Indices in the Equity Asset Class

Two indices: SPI ESG and SPI ESG Weighted
Both as Price Return and Gross Return Version
The index composition is reviewed once a year in September, weighting factors Quarterly
SPI ESG and SPI ESG Weighted - Data and Performance

**SPI ESG:**
- ISINs: CH0572577457 / CH0572577689
- Symbols: SPIE / SPIT
- Average ESG Score: SPI: B (8.16) SPI ESG: B (8.22)
- SPI ESG covers 98% of the SPI Market Cap
- Back Cast before 2014

**SPI ESG Weighted:**
- ISIN: CH0559841652/ CH0559841579
- Symbol: SPIEWP / SPIEWT
- Average ESG Score: SPI: B (8.16) SPI ESG: B (8.40)
- Back Cast before 2014
- Quarterly Weightfactor Review (Yearly before 2017)

1) Numeric Scale from 1 (D-) to 12 (A+). Data as of 30 December 2020
# Availability of SIX ESG Indices

## Equity Indices
- SPI ESG
- SPI ESG Weighted

## Fixed Income Indices

<table>
<thead>
<tr>
<th>Fixed Income Indices</th>
<th>SBI ESG AAA-BBB 1-5</th>
<th>SBI ESG Domestic AAA-BBB 1-5</th>
<th>SBI ESG Foreign AAA-BBB 1-5</th>
<th>SBI ESG Corporate AAA-BBB 1-5</th>
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<tr>
<th>Fixed Income Indices</th>
<th>SBI ESG AAA-BBB 1-10</th>
<th>SBI ESG Domestic AAA-BBB 1-10</th>
<th>SBI ESG Foreign AAA-BBB 1-10</th>
<th>SBI ESG Corporate AAA-BBB 1-10</th>
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<tr>
<th>Fixed Income Indices</th>
<th>SBI ESG AAA-A</th>
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Indices available via [SIX Website](#) and Data Vendors and investable via [Index-based products](#)

Business Support Index Sales, [Licensing and Data](#) T +41 58 399 2600 indexdata@six-group.com
Impact Ratings: From Data to Evaluation

Christoph Müller
CEO Inrate
ESG – Implement Sustainability

Implementing sustainability
• seeks alignment of investments with generally shared values of society and investors
• extends the data basis in asset management to include the extra financial dimension

An implementation of ESG criteria in the investment process can be
• a part of the management of reputational risks;
• a contribution to the implementation of general social values and goals;
• an improved investment decisions due to the extended data basis regarding ESG risks;
• a (future) requirement to meet the compliance requirements.

Inrate’s data on sustainability is collected and compiled with a view to implementing these goals.
Improved Sustainability, addressing fundamental Responsibilities

The rules of the indices include ESG ratings - whereby ratings are also based on the controversies - and norm-based screenings.

The content of the SIX ESG Indices is based on the following
• Fundamental responsibilities in the areas of human rights, labor, environment and anti-corruption*
• To contribute to the allocation of capital into business models showing an improved sustainability.

The ESG investment rules are set and implemented by SIX, Inrate provides the underlying data.

*See also the Ten Principles of the United Nations Global Compact and the Universal Declaration of Human Rights, the International Labor Organisation’s Declaration of Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention Against Corruption. See also SVVK ASIR.
What is included and what is not included

**Included in the ESG Indices**

Companies with improved sustainability

Companies with a positive, neutral or reduced negative impact. Companies which fulfill the characteristics of sustainable economic activity or represent an important intermediate step on the way to this (i.e. transition technologies).

**Not included in the ESG Indices**

**Involvements**

Companies are not part of SIX-Indices if they have a substantial involvement in the following businesses:
- Adult entertainment
- Gambling
- Alcohol
- GMOs
- Coal
- Nuclear energy
- Defense
- Oil sands
- Firearms
- Tobacco

**Controversial weapons**

Companies involved in the production and/or sale of anti-personnel mines, cluster munitions, nuclear weapons

**Companies with a negative impact**

Companies with a negative social and environmental impact, i.e. ESG Impact Rating of C or lower

- The SIX-indices cover companies whose business activities have a positive or at least a non-serious negative impact
- “Involvements” are related to health (addictions), climate (fossil fuel), risk issues (incalculable) and poor working conditions (see entertainment industry)
- Controversial weapons, banned by international conventions, have uncontrollable effects on civilians
Impact - Assessing Sustainability

Prerequisite for sustainable investing:
• Measuring the right thing, i.e. measuring the "sustainability impact" of invested companies, governments, real estate, etc.

What is “impact”?
• Impacts refer to the external, "extra-financial" effects on the environment and society that are not internalized in market prices due to market failures. They occur along entire value chains.
• Positive impact: Positive net impact – companies contribute to sustainable development.
• Negative impact: Negative net impact – companies hinder sustainable development.
• Impacts measure on a semi-quantitative level the footprint on the economic level (avoidance or elimination costs): The larger the footprint the higher the impact and, the more severe the impact and economic consequences of a footprint, the greater the impact.
# Impact Assessments - Elements

## What?
- Disclosed by the company

## How?
- Third party sources

### Elements of ESG-Impact-Rating

<table>
<thead>
<tr>
<th></th>
<th>Environment</th>
<th>Society</th>
<th>Corporate Governance</th>
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<tbody>
<tr>
<td>CSR</td>
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<tr>
<td>Product Impact</td>
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<td>Labor</td>
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<td>CSR</td>
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<tr>
<td>Social Impact</td>
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### Rating
- A+  | C+  | A-  | A+  | B+  | A+  |
- 0   | 0   | -1  | -3  | -3  | -3  |

### Controversies Grade
- 0   | 0   | -1  | -3  | -3  | -3  |

### Rating incl. Controversies
- A+  | C+  | B+  | B+  | C+  | B+  |

### Weight
- 20% | 20% | 16% | 16% | 20% | 8%  |

### ESG Impact Rating
- B+
- Positive Impact

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SIX ESG Indices/ Feb 2021

- Sensitivity: C1 Public
Inrate – Sustainability Specialist

- Swiss-based company with a strong position in the home market
- Our clients are asset owners and asset managers
- 30 years of experience as independent sustainability specialist
- Focused on measuring sustainability outcomes and impact, taking into account targets and policies of companies within portfolios
- Providing data and services for major asset classes using the same standards
- Unique business model that combines expertise on key sustainability issues with analyses of issuers and financial products

We enable the alignment of portfolios with the values of asset owners and provide extra financial data for financial analysis.
Inrate Data Process

- **Company**
  - Disclosed company data
  - Annual report, Sustainability report, websites, company news

- **News**
  - Information about companies
  - News, notices, websites

- **Impact-Data Macro-Level**
  - Sustainability issues
  - Official statistics, studies, academic research

- **Rating**
  - Assessment of issuers
  - Official Statistics, Studies, academic Research

- **PMC**
  - Product and Methodological Committee
  - Decision on rating

**Sustainability Data Team**
- Sourcing, classifying, assigning grades [tools]
- Websites, data platforms
- Refinitiv, Bloomberg

**Research Team**
- Studies, sector analysis
- Websites, data platforms
- News service Factiva, NGO’s

**Sustainability Data Team**
- Sourcing, classifying, assigning grades [tools]
- Websites, data platforms
- News service Factiva, NGO’s

**Sustainability Analyst Team**
- Rating model
- IOT Exiobase, IPCC Reports, Worldbank, WHO, etc.
Inrate’s ESG Data

• The ESG Impact Rating
  • allows comparisons across all sectors of the economy and over time
  • is taking into account the economic context and therefore based on the value chain (up- and downstream) by a model based approach
  • values excess footprints with avoidance or elimination costs
  • Indicates the long term ESG risk.

• Our own database, built up over many years of experience, enables the identification of investments that conflict with the guidelines of international conventions, fundamental ethical principles and general social values (“controversies”) and/or that represent excessive risks (“critical product screening”).
Your contact

http://www.esg-indices-six.inrate.com/

Jasmin Gehrig
Senior Clients Relation Manager
+41 58 344 00 10
jasmin.gehrig@inrate.com

Christoph Müller
CEO
+41 58 344 00 00
christoph.mueller@inrate.com