

Responsible Investment in Passive Management Strategies

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Advantages of Passive Approaches

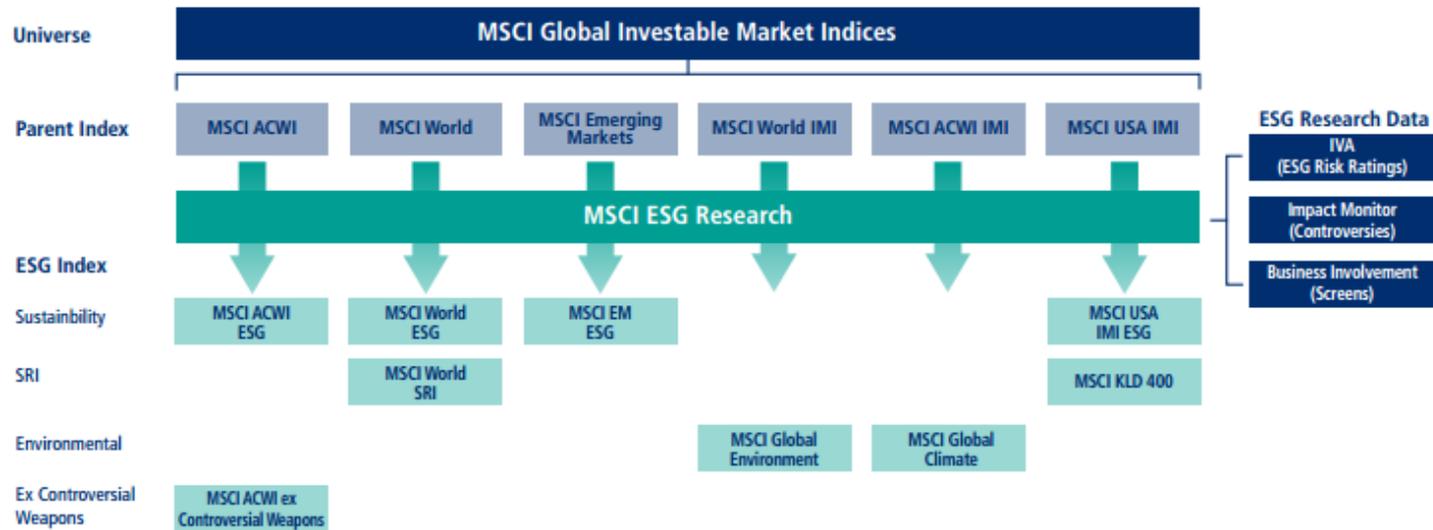
- Lower cost
- Performance
- Proof of concept

Considerations in Passive Investment Construction 1

- Broad market funds with ESG thresholds v. themed indexes
 - Purpose: to track a specific sector of the market, or to provide noncorrelated products to improve asset allocation?
 - To benefit from growing sustainability markets, or to boost sustainability?

Approaches to Passive RI: Broad Market

MSCI Index Framework



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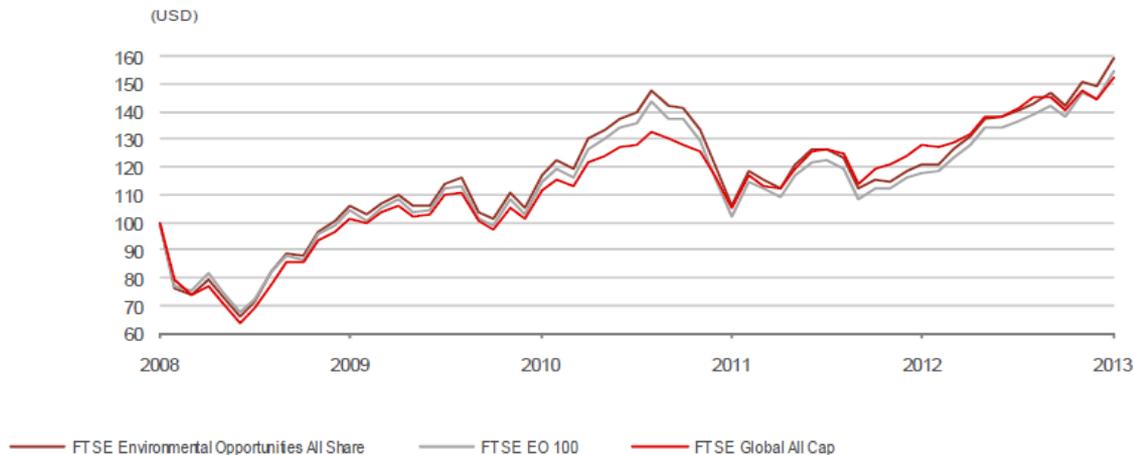
Source: http://www.msci.com/resources/factsheets/MSCI_ESG_Indices.pdf

Approaches to Passive RI: Themes

The FTSE Environmental Markets Index Series has been developed in collaboration with Impax Asset Management and under the direction of the independent FTSE Environmental Markets Committee, further enhancing FTSE's suite of ESG indices and providing investors with a robust set of Environmental Markets tools. The two headline indices within the FTSE Environmental Opportunities Index Series are:

- FTSE Environmental Opportunities All-Share Index - The headline benchmark index, comprising all of the companies that have significant involvement in environmental business activities and meet the environmental opportunities eligibility requirements
- FTSE EO 100 Index - The headline tradable index, focusing on the top 100 largest companies by market capitalisation in the FTSE Environmental Opportunities All-Share Index

5-Year Performance - Total Return



Source: <http://www.ftse.com/Analytics/FactSheets/Home/FactSheet/Regions/RESPINV/1/WRLD/1#?fromftse=true>

Considerations in Passive Investment Construction 2

- Cap weighting vs. fundamental weighting
- Advocacy
- Turnover
- Performance/tracking error
- Replication
- Asset allocation