

# Reducing carbon in investments with low-carbon indices

STOXX®, in partnership with CDP, developed a comprehensive Low Carbon index family to help investors decarbonise their portfolios

Climate change is the central sustainability challenge of our century, therefore reducing carbon emissions has become a global objective. Last year's Paris Climate Conference concluded with the adoption of a momentous agreement between nearly 200 countries to keep global warming below 2°C, clearly signalling that the world is ready to take a step in the right direction to manage climate change.

## Investors' role in addressing climate change

Global investors are mobilising to action as they become increasingly aware of the long-term risks climate change presents to their investments. No less challenging is the issue of how the carbon exposure of portfolio holdings should be reported. France introduced mandatory carbon reporting for pension funds, insurance companies and other institutional investors in 2015. Other governments are also pushing hard, introducing or threatening legislation.

Investors are facing the challenges, but also opportunities, the transition to a low-carbon economy represents and are looking at solutions to achieve more sustainable returns. For instance, pensions funds consider low-carbon strategies with a low tracking error, to acknowledge their fiduciary duty without deviating from the benchmark they are mandated to follow. Tailored low-carbon indices provide a solution to decarbonise a portfolio and reduce those risks.

## Strictly rules-based, transparent methodology and a reliable data source

Reliable and certified data is the basis of an effective low-carbon strategy. Over 800 investors, who represent more than a third of the world's invested capital, use the research of CDP (formerly Carbon Disclosure Project) – the leading international non-profit organisation working with shareholders and companies to systematically change market behaviour.

STOXX uses CDP's dataset of corporate environmental information as a high-quality source to calculate the STOXX® Low Carbon index family. The index family provides various strategies from re-weighting broad benchmark and blue chip



indices such as EURO STOXX 50® and STOXX® Europe 600 by overweighting low-emitters and tilting away from high-emitters, all the way to options to divest from high-carbon-emitting companies.

## Innovative STOXX® Global Climate Change Leaders Index based on CDP's 'A list'

CDP research has uncovered a key insight: Climate risks are often hidden in a company's supply chain – the so-called "Scope 3 emissions". There is a small group of companies that besides implementing programmes to reduce emissions in direct and indirect operations, also employ strategies to reduce emissions in their supply chains. These companies are rewarded with a place on CDP's A list, based on their emissions reduction actions and results.

The STOXX Global Climate Change Leaders Index is the first ever global index tracking CDP's A list and complements the STOXX Low Carbon index family. It includes forward-



looking companies with the most advanced and effective climate change mitigation strategies that are publicly committed to reducing their carbon footprint.

#### **Reducing a portfolio's carbon footprint and performance**

The various approaches applied in the STOXX Low Carbon index family allow to reduce the carbon footprint of a portfolio without changing the overall risk and return profile. As an example, the STOXX Global Climate Change Leaders Index outperforms the benchmark in both performance and carbon footprint: It achieved a carbon footprint 74% lower than the STOXX Global 1800®, while maintaining similar risk-return characteristics. This shows that companies with a strong governance on climate change can be beneficial for returns. ■

**You want to learn more about the STOXX Low Carbon index family? Please visit [stox.com/lowcarbon](https://stox.com/lowcarbon)**

#### **About STOXX**

STOXX Ltd. is a global index provider, currently calculating a global, comprehensive index family of over 7,500 strictly rules-based and transparent indices. Best known for the leading European equity indices EURO STOXX 50, STOXX Europe 50 and STOXX Europe 600, STOXX Ltd. maintains and calculates the STOXX Global index family, which consists of total market, broad and blue-chip indices for the regions Americas, Europe, Asia/Pacific and sub-regions Latin America and BRIC (Brazil, Russia, India and China) as well as global markets.

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