May 2023

Investing for Asia's low-carbon transition

"We chose the FTSE Asia Pacific Low Carbon Select index for our new ESG ETF to help our clients benefit from the growing trend in the Asia-Pacific region towards low-carbon investments. Governments are playing a significant role in driving this trend and we see a lot of companies increasing their low-carbon expenditures."

Chen Wang, Head of Product and Client Strategy, CSOP Asset Management

CSOP ASSET MANAGEMENT 南方東英

About the client

Profile

CSOP was founded in Hong Kong in 2008. The firm now employs over 100 professionals and had over $13.5bn in assets under management as of 31 March 2023. CSOP is an ETF leader in the Asian market, known for its innovative and sizeable ETF products.

Objectives

CSOP wished to launch an equity ETF that would help investors capture the Asia-Pacific economic growth opportunity, as well as benefiting from the accelerating trend towards a low-carbon future.

Investment criteria

The FTSE Asia Pacific Low Carbon Select index aims to shift the stock and sector weights of the starting index away from more energy-intensive industrial and manufacturing businesses and towards the technology, service and consumerfocused businesses that are likely to benefit from the low-carbon transition.

Client profile

CSOP Asset Management Limited ("CSOP") was founded in Hong Kong in 2008, the first offshore entity to be set up by a regulated mainland Chinese asset manager. In 2018, CSOP extended its business to Singapore. The firm now employs more than 100 professionals in Hong Kong and Singapore. As of 31 March 2023, CSOP had over $13.5bn in assets under management.1

As well as managing active funds, CSOP is an ETF leader in the Asian market, known for its innovative and sizeable ETF products in diverse asset classes and product categories. CSOP has worked with FTSE Russell for over a decade and launched the pioneering CSOP FTSE China A50 ETF in 2012, the first physically replicated ETF to track the largest 50 Chinese domestic shares ("A shares").

In 2019, CSOP officially became a signatory of UN Principles for Responsible Investment (UNPRI), committing the firm to incorporate responsible investments into its investment decisions. In 2021, CSOP became a public supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Client objectives

Since 2020 and despite the disruption associated with the coronavirus pandemic, the Asia-Pacific region has demonstrated the highest and most resilient growth rates in the world, reflecting the huge capacity of local markets, powerful trade networks, technological innovations and the efficiencies of regional (rather than global) supply chains.

CSOP wished to launch an equity ETF that would help investors capture the Asia-Pacific economic growth opportunity, as well as benefiting from the accelerating trend towards a low-carbon future.

There are several factors supporting this trend:

- Amongst global regions, Asia-Pacific is considered the most vulnerable to climate change from an economic perspective
- Government policy is a big driver for the low-carbon transition
- Companies are growing their low-carbon expenditures in response, potentially generating the largest-ever capital investment cycle
- The region's pension and sovereign wealth funds are turning to low-carbon investment.

The FTSE Asia Pacific Low Carbon Select index offers exposure to around 200 stocks in 11 developed and emerging Asia-Pacific equity markets.

The index excludes companies involved in controversial product and conduct categories and then allocates higher weights to companies with zero or lower fossil fuel reserves and lower carbon emissions intensity.

Drivers of APAC low-carbon investment demand
The Asia Pacific Region is Prone to Climate Change McKinsey expects Asia makes up more than **two-thirds** of the annual global GDP loss from climate impact.*
Government Policy is A Big Driver for Low Carbon **Japan, New Zealand, South Korea** have set net -zero emissions targets by 2050 in law, and **Australia, Singapore** have targeted 2050 to realize carbon neutrality in policy document.^
Companies Expanding Expenditure for Carbon Neutrality Net zero in 2050 require global capital spending of **~US$275 trillion, the biggest capital cycle** the world has ever seen.#
Pension and Sovereign Wealth Funds Turning to Low Carbon Investment For example, **Australian Superannuation Fund** strives to reduce carbon emissions in the fund's investment portfolio by 45% by 2030.

* Source: McKinsey Global Institute "Climate risk and response in Asia". November 2020.

^ Source: Energy & Climate Intelligence Unit. United Nations.

Source: McKinsey "The net-zero transition: What it would cost, what is could bring". January 2022.

Solution

In 2022, CSOP teamed up with FTSE Russell to launch the CSOP CGS-CIMB FTSE Asia Pacific Low Carbon Index ETF. Listed in Singapore, the ETF aims to replicate (before fees) the performance of the FTSE Asia Pacific Low Carbon Select index.

Drawing from the constituent list of the FTSE Asia Pacific index, FTSE Russell's principal regional equity benchmark, the FTSE Asia Pacific Low Carbon Select index is built using transparent, easy-to-understand steps.

First, we exclude companies involved in thermal coal and other specified business activities (controversial weapons and tobacco), as well as companies deemed non-compliant with the United Nations Global Compact (UNGC) principles (these set minimum standards for human rights, labour, the environment and combating corruption).

Then, we set the index constituents' weights based on a scoring system for fossil fuel reserves and operational carbon emissions: for companies with fossil fuel reserves, we progressively underweight those with higher reserve intensity; and we progressively underweight those companies with a higher carbon emissions intensity.

The index rules aim to shift the stock and sector weights of the starting index away from more energy-intensive industrial and manufacturing businesses and towards the technology, service and consumer-focused businesses that are likely to benefit from the low-carbon transition.

To ensure diversification, the weight of any individual company is capped at 10 percent and the aggregate weight of China A shares is capped at 20 percent.

The result of this construction approach is a low-carbon index offering exposure to around 200 stocks in 11 developed and emerging Asia-Pacific economies.

How the FTSE Asia Pacific Low Carbon Select index is built

FTSE Asia Pacific Index

(c. 2000-2500 constituents)

Exclusion

Companies involved in controversial product and conduct categories are excluded, including:

1. Controversial weapons
2. Tobacco
3. Thermal Coal
4. UN Global Company (UNGC) Controversies

Weighting Methodology

Companies with zero or lower fossil fuel reserves and those with lower carbon emissions intensity will have higher index weights. For example, we are underweighting companies with fossil fuel reservices, this is to reduce fossil fuel exposure in the index. For emissions, we are overwe3ighting companies with relatively low emission intensity (more carbon efficient) and underweighting companies with relatively high emissions intensity (less carbon efficient).

FTSE Asia Pacific Low Carbon Select Index

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

North America +1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 6441 1430

Sydney +61 (0) 2 7228 5659

Disclaimer

FTSE RUSSELL
An LSEG Business

SUSTAINABLE GROWTH