

## Low Carbon Index Investing

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# Topics

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- **Developing Low Carbon Indices**
- **Investing for real people**

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# Low Carbon Indices

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# Developing Low Carbon Indices - 1

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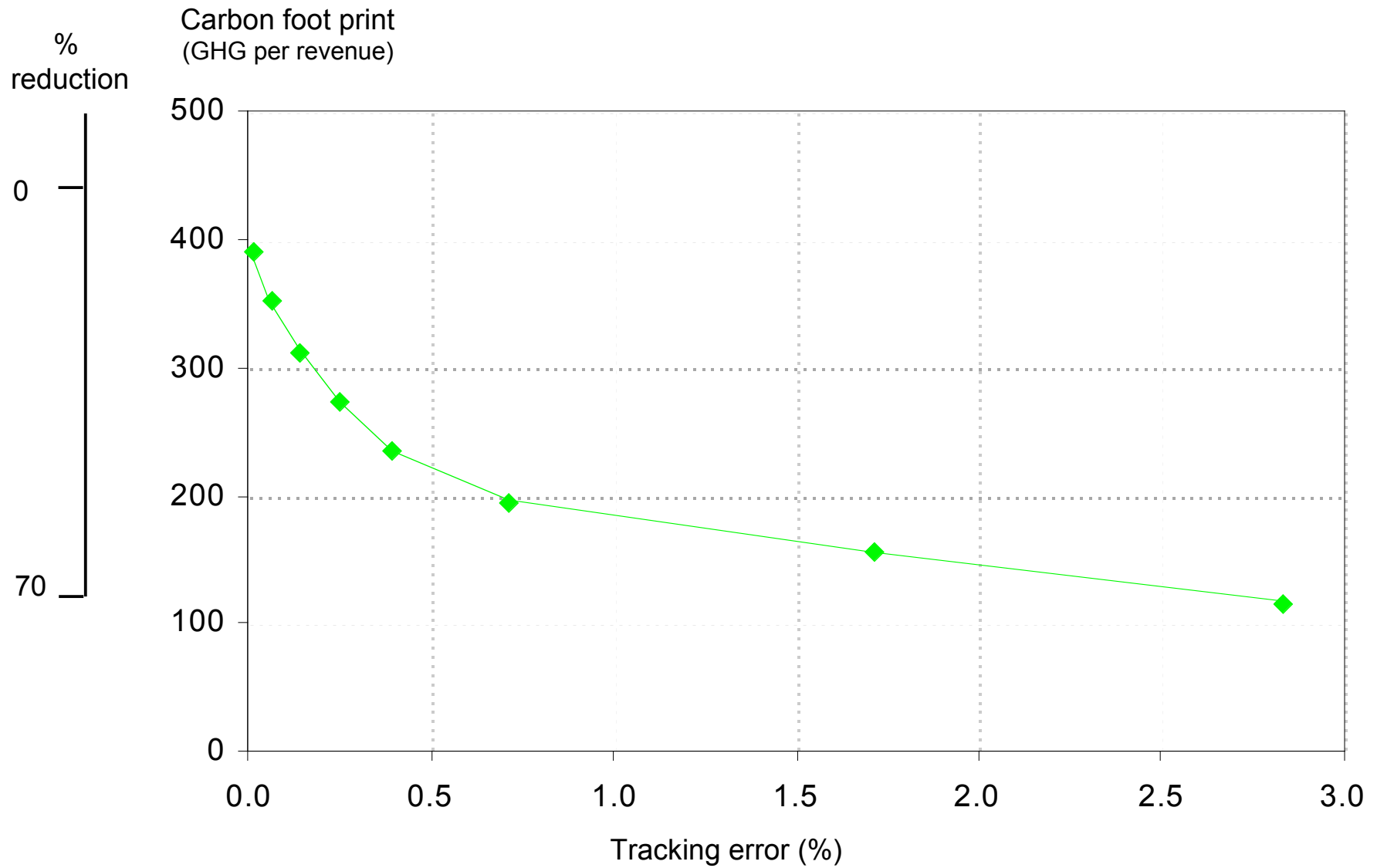
- **Stock screening/elimination**
  - Stocks with high carbon footprints are removed from the portfolio while maintaining approximate sector neutrality
  - Between 20% and 35% of the names are dropped
- **Tracking Error Optimization**
  - Remaining stocks are re-weighted using an optimizer to minimize tracking error against the original portfolio
- **Based on the S&P 500 model**
  - Carbon reduction of 48%
  - Tracking error of 96 bp

## Developing Low Carbon Indices - 2

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- **Optimizer is used to achieve a targeted reduction in the average carbon foot print across the index**
- **Results are tabulated to generate a trade-off curve between carbon reduction and increased tracking error.**
- **The investor can choose the degree of tracking error to accept in achieving the carbon reduction.**

# Trade off between carbon reduction and tracking error



## Low Carbon Indices

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- **On March 9th, S&P launched the S&P U.S. Carbon Efficient Index based on the S&P 500**
- **Deutsche Bank licensed the index from S&P to create financial products offering carbon efficient investments**
- **S&P is developing a Low Carbon investable index covering emerging markets based on the S&P/IFCI Investable Index**
- **The emerging market index is supported by the International Finance Corporation of the World Bank.**
- **Carbon data provided by Trucost Ltd.**

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## Investing with Indices

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## Indices Outperform Active Managers

	Indices Outperformed Actively Managed Funds		
	One Year	3 Years	5 Years
<b>Large Cap U.S. stocks</b>	<b>54.3%</b>	<b>64.8%</b>	<b>71.9%</b>
<b>Mid Cap U.S. stocks</b>	<b>74.7</b>	<b>70.1</b>	<b>79.1</b>
<b>Small Cap U.S. stocks</b>	<b>83.8</b>	<b>78.0</b>	<b>85.4</b>
<b>Global stocks</b>	<b>59.8</b>	<b>64.0</b>	<b>63.2</b>
<b>Non-U.S. stocks</b>	<b>64.0</b>	<b>76.5</b>	<b>83.5</b>
<b>Non-U.S. Small Cap Stocks</b>	<b>50.0</b>	<b>48.8</b>	<b>58.8</b>
<b>Emerging Market stocks</b>	<b>65.1</b>	<b>83.9</b>	<b>89.8</b>

Source: Standard & Poor's Index vs. Active; see [www.SPIVA.Standardandpoors.com](http://www.SPIVA.Standardandpoors.com)

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## Indices Work

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- **Index investing offers lower costs and fees**
- **Investments are transparent**
- **Investments can be understood**

**Carbon indices offer investors an efficient way to reduce the carbon footprint of their portfolio**

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# Thank You

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