



India Index Services & Products Ltd.

NIFTY100 ESG Indices Methodology Document

March 2018

Table of Contents

Introduction.....	2
Highlights.....	2
Methodology.....	3

Introduction

India Index Services & Products Ltd. (IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

Environmental, Social and Governance based investment strategy has gained popularity among investors globally. The underlying drive behind ESG theme based investing lies in generating superior risk adjusted returns from socially responsible, environment friendly and ethical firms. The construct of NIFTY100 ESG indices results in portfolio with similar sector exposure vis-à-vis NIFTY 100 (parent index), but with stock level ESG tilt. This results in portfolio with higher weightage towards companies with better ESG performance.

Highlights

- Designed to reflect the performance of companies that are part of NIFTY 100 index, based on Environmental, Social and Governance score.
- The companies that are involved in any major Environmental, Social or Governance controversy shall not be considered for selection in the index
- Companies engaged in the business of tobacco, alcohol, controversial weapons and gambling operations shall be excluded
- Sector weights are based on free float market cap. Each index constituent within sector is tilt weighted based on ESG score and is capped at 10%.
- The indices has a base date of April 01, 2011 and a base value of 1000.

Methodology

Eligibility criteria

To form part of NIFTY100 ESG Index and NIFTY100 Enhanced ESG Index, stocks should qualify the following eligibility criteria(s). The ESG and controversy research is provided by Sustainalytics.

Universe:

- Stock should form part of NIFTY 100 at the time of index review
- Only ordinary equity shares will be considered.

ESG Score:

ESG performance of a company is measured on three pillars: environmental, social and governance. Sustainalytics has defined set of indicators which evaluate the company's performance within each criterion. On each applicable indicator, a company is assigned a score of 0 to 100. The weight of each indicator depends on the relevance and importance of the indicator in the sector in which the company operates. Based on the raw score and weight of all applicable indicators across E, S and G pillar, a weighted average company level ESG score is determined, which ranges from 0 to 100.

The companies are assessed annually by Sustainalytics based on annual filings & other sources. Additionally, companies are monitored on an ongoing basis for any controversy pertaining to ESG.

Based on ESG scores following companies are eligible for inclusion in NIFTY100 ESG Indices:

- Companies should have an ESG score at the time of review
- For inclusion in NIFTY100 Enhanced ESG Index, the company should have normalized ESG score of at least 50%.

Controversy:

A key component of Sustainalytics ESG research focuses on assessing a company's involvement in incidents and controversies which may potentially imply higher risk to the investors. Events are classified into 10 areas across E, S and G pillars and are scored on a scale from one to five, depending on the reputational risk to the company and potential impact on stakeholders. "Category 1" controversy event has low impact whereas "Category 5" controversy event has the highest, indicating a severe impact on the involved stakeholders.

- Companies with controversy category of 4 and 5 shall be excluded (scale: 1-5, category 1 being least controversial)

Business Involvement:

Companies engaged in the business of tobacco, alcohol, controversial weapons and gambling operations are excluded. Controversial Weapons include chemical weapons, biological weapons, anti-personnel mines and cluster bombs

Information for excluding companies based controversial weapons is provided by Sustainalytics.

Reconstitution & Rebalancing criteria

- Index will be reconstituted semi-annually in June and December.
- Stocks that meet the above eligibility criteria will be considered eligible
- Stocks that do not form part of NIFTY 100 at the time of review are excluded
- An existing constituent is compulsorily excluded if it has controversy category of 4 or 5 (scale: 1-5, category 1 being least controversial)
- For constituents of 'NIFTY100 Enhanced ESG Index', if the normalized ESG score falls below 49%, such stocks shall be excluded from the index
- Apart from the scheduled review, additional ad-hoc reconstitution and rebalancing of the index will be initiated in case of
 - the index constituents ceases to form part of NIFTY 100 due to suspension, delisting or scheme of arrangement
 - If an index constituent is flagged for controversy category 5.

Weight and Capping:

- Weight of sectors will be based on free float market capitalization of the eligible constituents.
- Sector with weight > 25% in the parent index, will be capped at the same weight in the ESG indices.
- Sector with weights < 25% in the parent index, will be capped at 25% in the ESG Indices (in case of breach)
- Each constituent within sector is tilt weighted based on ESG score i.e. the constituent weight is derived from its free float market capitalization and ESG score
- Constituent weight is capped at 10%
- The weights may drift between rebalancing due to the movement in stock prices

Calculation Frequency:

The index is calculated on an end of day basis for all days National Stock Exchange of India is open for trading in equity shares.

Index Governance:

IISL Board has constituted the Index Policy Committee (IPC) to formulate policies governing IISL indices. In addition to IPC, two committees viz. Index Maintenance Sub Committee (IMSC) and Debt Index Management Committee (DIMC) have been constituted. The IMSC is responsible for periodic review of equity indices based on the policies/ guidelines formulated by the IPC. DIMC takes decisions on the debt indices at IISL.

Each of these committees is represented by the industry experts. None of the member in the above committee except the exchange representative(s) (who coordinates between IPC and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained. The Committees comprises representatives from financial market such as asset management company, insurance company, academicians, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website.

About National Stock Exchange of India Limited (NSE):

The National Stock Exchange (NSE) is the leading stock exchange in India and the fifth largest in the world by equity trading volume Year to Date (YTD), according to World Federation of Exchanges (WFE) data as on August 2017. NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data.

NSE has a fully-integrated business model comprising our exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange.

NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: www.nseindia.com

About India Index Services & Products Ltd. (IISL):

India Index Services & Products Ltd. (IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. IISL focuses on the index as a core product. IISL owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. IISL equity Indices comprises broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. IISL also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on IISL indices have been developed within India and abroad. These include index based derivatives traded on NSE, Singapore Exchange Ltd. (SGX), Chicago Mercantile Exchange Inc. (CME), Osaka Exchange Inc. (OSE), Taiwan Futures Exchange (TAIFEX) and a number of index funds and exchange traded funds. The flagship 'NIFTY 50' index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: www.niftyindices.com

Disclaimer:

The ownership and all intellectual property rights in Sustainalytics' environmental, social and governance ("ESG") data points and information contained in the ESG profile are vested exclusively in Sustainalytics and/or its suppliers. Unless otherwise expressly agreed in writing between you and Sustainalytics, you will not be permitted to use this information otherwise than for internal use, nor will you be permitted to reproduce, disseminate, comingle, create derivative works, furnish in any manner, make available to third parties or publish this information or parts thereof in any form or in any manner, be it electronically, mechanically, through photocopies, recordings. The Sustainalytics' environmental, social and governance ("ESG") data points and information contained in the ESG profile are based on information that reflects the situation as on the date of its elaboration. Such information has – fully or partially – been derived from third parties and is therefore subject to continuous modification. The information herein is provided solely for informational purposes and therefore are not an offer to buy or sell a security. Neither Sustainalytics nor all its third-party suppliers provide investment advice (as defined in the applicable jurisdiction) or any other form of (financial) advice and nothing within this information constitutes such advice. Sustainalytics observes the greatest possible care in using information, however the information is provided "as is" and neither Sustainalytics nor its suppliers accept any liability for damage arising from the use of this information in any manner whatsoever. Moreover, Sustainalytics and all its third-party suppliers disclaim any and all warranties and representations, express or implied, including any warranties of merchantability, completeness, accuracy or fitness for a particular purpose.

Contact Details

Analytical Contact

Aman Singhanian, CFA, FRM

Head – Products (IISL)

+ 91-22-26598214

asinghanian@nse.co.in

Business Development contact

Rohit Kumar, FRM

Chief Manger– Business Development

+ 91-22-26598386

rohitk@nse.co.in

Contact:

Email: iisl@nse.co.in

Tel: +91 22 26598386

Address: Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai- 400 051 (India)