



## Call for Applications for Global Environmental Stock Index

### 1. Background and Objectives

Government Pension Investment Fund (hereinafter, “GPIF”) has promoted ESG investment for the purpose of improving long-term portfolio returns by reducing negative impacts of corporate activities on the environment and society. Following the previous call for proposals concerning ESG indices associated with domestic equities, GPIF selected three ESG indices, but decided to put on hold the selection an environmental index.

However, GPIF holds the view that environmental issues such as climate change represent a cross-border challenge, and has decided to call for applications for the environmental index for global equities.

### 2. Qualification

Applicants are required to meet all of the following conditions. Co-sponsored applications are possible, as long as one of the applicants satisfies all the conditions.

- ① Have sufficient track records in index construction and ESG research, or have a sufficient track record of index calculation using data of external institutions of ESG evaluation with a proven track record.
- ② Have track records of investment using an index developed in-house.
- ③ An office in Japan.
- ④ In the event that the index is selected and publicized, the applicant must be well prepared for inquiries from companies and media, etc., regarding the evaluation methods.

### 3. Requirements

The environmental index required by GPIF should satisfy all the following requirements. Applicants are allowed to propose more than one index, or an index involving several environmental themes (e.g., climate change and water security, etc.).

- ① Considering that environmental issues including climate change constitute global challenges, applicants should propose two indices based on the same concept, one for (i) international equities (excluding Japanese equities) and one for (ii) Japanese equities. For the purpose of comparative analysis, it is desirable that an additional index consisting of global equities (including Japanese equities) also be submitted.
- ② The index should be based on the concept that encourages to seek the solution of environmental issues, rather than uniformly excluding companies in specific industries or types of business (so-called negative screening).
- ③ Provide the same level of returns as their capitalization-weighted index (Parent index) and improve their risk-adjusted return in the long run. Prove that through past performance and back test.
- ④ Select equities based solely on ESG factors, focusing on the environment.
- ⑤ The evaluation methodology should be highly objective, neutral and transparent.
- ⑥ Disclose data necessary for passive investment.
- ⑦ Avoid bias towards any specific company, business styles, etc.
- ⑧ Have a capacity for considerable investment.

GPIF expects innovative ideas based on the abundant expertise of applicants in terms of evaluation and index construction methodology. For example, GPIF expects applicants to propose indices that may help lift overall stock markets both in Japan and worldwide, such as those that evaluate the amount of carbon dioxide emissions from corporate activities as well as the degree of improvement, those that acknowledge companies contributing to the transition to a low-carbon economy among the same industry and/or the same type of business, and those that promote disclosure of environment-related companies.

### 4. Application Period

November 1, 2017 to January 31, 2018

## 5. Documents Required

Documents to be submitted must include the following items in any format, except for the quantitative data, etc., which should be provided in an Excel format.

- ① Evidence of qualifications.
- ② Organizational structure and personnel (department/division to evaluate ESG, to construct index, to handle the inquiries, etc.)
- ③ Reason for application (why GPIF should select the proposed index, etc.)
- ④ Outline of the index and index construction methodology.
- ⑤ Characteristics of the ESG evaluation data used for index construction (coverage, strengths and weaknesses)
- ⑥ Actual performance or back testing of the index (At least three years or more. Five years or more is desirable.)
- ⑦ Capacity impact analysis assuming actual operation (Please specify the scale that allows operations with the proposed index, and make sure to avoid any excessive bias towards specific equity.)
- ⑧ Your theory and countermeasures based on possible scenarios in which the significance of each ESG factor changes or varies due to environmental changes or the introduction of regulations, etc.
- ⑨ Data required for the verification including backtesting by GPIF or a third-party (Index constituents, the weight allocated, TSE securities code, and other data used for selecting constituents)

## 6. Selection Process

The first screening of the submitted documents will be performed by GPIF's Investment Committee based on the viewpoints stated in "3. Outline of the Call for Proposals." The indices that pass the first screening will be subject to a presentation by the applicant as the second screening. Subsequently, field research concerning the governance system, etc. will be conducted, and the final screening will be performed based on the results of the field research. The applicant will be informed of the results after the individual screening. It should be noted that more than one index may be selected.

Please note that the relevant field research will not, in principle, be conducted for applicants that were subject to the field research associated with the recent "Call for Applications for ESG Index for Japanese Equities".

## 7. Contact

For inquiries and submission, please email the following:

chosa@gpif.go.jp

## 8. Important Notice for Submission

- ① Additional data and/or supplementary information necessary for verification of performance, etc. may be requested.
- ② The performance may be verified by a third-party that has signed a non-disclosure agreement with GPIF.
- ③ After a proposed index is selected, such index must be managed (computed, announced, etc.) on a continuous basis at the developer's own responsibility and cost.
- ④ Any costs incurred in the preparation of proposal documents, etc. will be borne by the applicant.
- ⑤ The submission must remain confidential until the GPIF gives permission to do otherwise.