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The growing environmental marketplace

FTSE OPINION PIECE

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welcome to ftsefocus

A word from Jerry Moskowitz, President, FTSE Americas Inc.

As the global financial outlook continues to worsen, investors are faced with economic conditions that haven't been seen in decades. In the US, the new Presidential administration must address the worst economic crisis since the Great Depression of 1929. Europe, Asia and other regions face similar challenges, and stabilisation of the financial markets is a shared global goal.

Despite these challenges, we believe the US will continue to be the world's largest economy and a source of innovation in financial markets. FTSE therefore remains committed to the US. We established our presence in the US in 1998, and have steadily increased the size of our US-based team, most recently relocating operational management of our North and Latin American indices to New York. We are therefore well placed to support the needs of US and Canadian

clients, as well as international investors seeking to gain exposure to those markets.

Through a combination of research, innovation, and strategic partnerships, FTSE has developed new solutions to help investors gain exposure to a wider variety of industry sectors, asset classes and geographic regions. For example, our partnership with KLD is enabling us to expand our range of responsible investment indices, and we are soon to launch a new IPO index series developed in partnership with a leading US IPO research firm.

We've also responded to market demand for more tailored performance measures with an extended custom index service, and announced partnerships with Borsa Italiana and Bursa Malaysia, which will expand the range of index tools available to investors in these markets.

ftseopinionpiece

The growing environmental marketplace

The new year brought little relief to equity markets as performance lagged around the globe. In the midst of the ongoing credit and market crises, investors are seeking new strategies in an attempt to bolster portfolio performance. The demand for innovative investment solutions is driving the design of new index construction – in particular, the environmental marketplace is emerging as an increasingly popular product segment among both institutional and individual investors.

Environmental markets include renewable energy, energy efficiency, water technology, and waste and pollution control. At the moment, these markets are estimated to represent around US\$250 billion in value, and are expected to grow in both size and scope over the long term, despite current financial market conditions. A number of socio-political factors, including proposed legislation by the US federal government and the European Union to limit emissions and encourage energy efficiency, as well as the United Nations' global 'Green New Deal', are helping to drive sustainable growth.

On 20 January 2009, the United States inaugurated President Barack Obama. In the new comprehensive 'New Energy for America' plan, Obama pledges to "make the US a leader in combating climate change around the world". The plan proposes to:

- Help create five million new jobs by strategically investing US\$150 billion over the next ten years to catalyse private efforts to build a clean energy future.
- Within 10 years save more oil than the United States currently imports from the Middle East and Venezuela combined.
- Put one million plug-in hybrid cars, which can get up to 150 miles per gallon, on the road by 2015.
- Ensure 10% of US electricity comes from renewable sources by 2012, and 25% by 2025.
- Implement an economy-wide cap-and-trade programme to reduce greenhouse gas emissions by 80% by 2050.

President Obama's proposals add momentum to similar initiatives advocated by the United Nations including a global 'Green New Deal', which the UN says could be a historical opportunity to rebuild economies debilitated by the credit crisis and target future investment for environmentally friendly markets. Achim Steiner, Executive Director of UNEP and a board member of the United Nations Principles for Responsible Investment, has said that the Green New Deal report prioritises the support of key sectors that it believes will generate the biggest transition in terms of economic returns, environmental sustainability and job creation. The success of this initiative stands to serve as a catalyst for future government and market-based investment into areas such as clean technology and renewable energy.

In January 2009, both Japan and the Republic of Korea announced new initiatives to encourage the growth of environmental markets. Japan has pledged to create up to one million new 'green business' jobs and offer zero-interest rate loans for environmentally friendly companies. South Korea plans to invest US\$38 billion over the next four years to promote eco-friendly projects and create 960,000 new jobs. Projects will include creating green transport networks and two million energy-saving 'green homes'. Meanwhile, the European Union finalised a legally binding agreement in December 2008 to cut European greenhouse gas emissions by 20%, establish a 20% share for renewable energy, and improve energy efficiency by 20% by 2020.

MARKET GROWTH

Meeting global environmental sustainability goals will require significant investment in both alternative/renewable energy sources and energy efficiency. The International Energy Agency (IEA) expects that US\$45 trillion will be needed to develop and deploy new technologies required to achieve a 50% reduction in emissions by 2050, effectively representing a 'low carbon industrial revolution.' According to environmental technology specialist and FTSE partner, Impax Asset Management, environmental markets are already growing at up to 30%, with aggregate revenues in excess of US\$200 billion per year. There is also greater opportunity for investment, as the number of publicly investable environmental market companies is close to 1,000 today, compared to several years ago when private equity was the primary means for accessing these markets.

INVESTOR DEMAND

Investor demand for access to environmental markets differs from traditional responsible investment mandates and strategies. Responsible investment (RI) requires issues such as climate change, human rights, labour issues and corporate governance to be integrated into the investment analysis and management process. Interest in climate change as part of a wider responsible investment agenda is evolving into investment opportunities in their own right, including environmental markets (EM).

An important distinction is that EM investment actively seeks to invest in companies that demonstrate strong financial performance, growth opportunities and sustainability while contributing to a low-carbon environment; whereas RI strategies tend to take an exclusionary approach based on ethical values (for example, divesting from companies that don't meet accepted social responsibility standards).

TRACKING THE ENVIRONMENTAL MARKETS

Indexes are a useful tool for investors looking for a means to identify, manage and gain exposure to environmental markets. They appeal to those concerned about the long-term effects of climate change, energy security and water scarcity on their portfolios, as well as those looking to capture the performance of those companies best positioned to operate in – and profit from – a future low-carbon economy.

In collaboration with Impax Asset Management, FTSE has developed a comprehensive Environmental Markets Index Series as a means of tracking these rapidly changing markets. The series is comprised of the FTSE Environmental Technology Index Series and the FTSE Environmental Opportunities Index Series. The former tracks environmental technology companies that derive more than 50% of revenue, technology invested capital or net income from environmental technologies. The latter represents over 470 companies globally that derive at least 20% of their business from environmental markets and technologies. These are further broken down by size and sector – isolating the world's largest 100 environmental companies as well as the water, renewable energy, energy efficiency, and water and pollution control sectors for investors seeking greater granularity.

As we experience a shift to a low-carbon economy over the coming decades, public concern, political initiatives and investor demand will continue to drive the growth of environmental markets.

Jerry Moskowitz

To comment on this article email us at ftsefocus@ftse.com

product focus

recent launches

FTSE Environmental Opportunities Index Series

17 November 2008

The FTSE Environmental Opportunities Index Series is part of our broader Environmental Markets Index Series. These indices offer investors a comprehensive set of tools to track the performance of environmental markets.

The expansion of the index series breaks the environmental market down into segments – renewable and alternative energy, energy efficiency, water, and waste and pollution control – and will appeal to investors looking to capitalise on the growing low-carbon economy.

The FTSE Environmental Opportunities Index Series measures the performance of global companies that are significantly involved in environmental business activities, including renewable and alternative energy, energy efficiency, water technology, and waste and pollution control. To qualify for inclusion in the index series, companies must derive at least 20% of their business from environmental markets and technologies. The new indices are:

- FTSE EO 100 Index (the largest 100 companies included in the FTSE EO All-Share Index)
- FTSE EO Water Technology 30 Index
- FTSE EO Water Technology Index
- FTSE EO Renewable and Alternative Energy 50 Index
- FTSE EO Renewable and Alternative Energy Index
- FTSE EO Energy Efficiency 50 Index
- FTSE EO Energy Efficiency Index
- FTSE EO Waste and Pollution Control 30 Index
- FTSE EO Waste and Pollution Control Index

FTSE Environmental Markets Index Series-linked products may appeal to a broad range of institutional and retail investors who are looking to:

- Invest in environmental markets via an investable and transparent FTSE index
- Maximise environmental growth opportunities within their portfolios
- Invest in companies that are best placed to succeed in a future low-carbon environment
- Support the growth and development of environmental markets

More information can be found at
www.ftse.com/environment

RECENT LAUNCHES

FTSE Short and Leveraged Indices 16 December 2008

The new FTSE 100 and FTSE 250 short and leveraged indices enable money managers to exploit the volatility in the UK market by allowing investors to go short the market or gear up, and will serve as the basis for ETFs and other index-linked financial products.

The new indices are an extension of our range of investment strategy indices, designed to help clients develop strategic investment tools that provide them with alpha returns relative to a standard market cap-weighted benchmark. They represent an active management strategy wrapped in an index with the advantages of passive management: high capacity, transparency and easy implementation. The new indices are:

- FTSE 100 Short Index (with -1 leverage)
- FTSE 250 Short Index (with -1 leverage)
- FTSE 100 Leveraged (leveraged with x2 gearing)
- FTSE 250 Leveraged (leveraged with x2 gearing)
- FTSE 100 Super Leveraged (leveraged with x3 gearing)
- FTSE 250 Super Leveraged (leveraged with x3 gearing)
- FTSE 100 Ultra Leveraged (leveraged with x4 gearing)
- FTSE 250 Ultra Leveraged (leveraged with x4 gearing)

Both sets of indices take into account the geared returns and the interest income element of running the short position or the cost of financing the leveraged positions.

More information can be found at
www.ftse.com/short_leveraged

FTSE EPRA/NAREIT Emerging Markets Index Series

12 January 2009

We have extended the coverage of our EPRA/NAREIT Global Real Estate Index Series – the leading global real estate benchmark – with the addition of 12 new emerging markets indices. The new indices allow investors to track the relative performance of listed property in emerging countries, and will combine with those existing indices covering developed markets to form an expanded FTSE EPRA/NAREIT Global Real Estate Index Series.

The FTSE EPRA/NAREIT Emerging Markets Index Series provides investors with a diverse representation of over 70 publicly traded equity REITs and listed property companies from 13 emerging markets across the Americas, Europe, the Middle East, Africa and Asia. The emerging markets were identified using our country classification system – a transparent approach to assigning market status – and include: Brazil, China, Egypt, India, Indonesia, Malaysia, Mexico, the Philippines, Poland, South Africa, Taiwan, Thailand and Turkey. The new headline indices are:

- FTSE EPRA/NAREIT Emerging Index
- FTSE EPRA/NAREIT Emerging EMEA Index
- FTSE EPRA/NAREIT Emerging Europe Index
- FTSE EPRA/NAREIT Emerging Middle East/Africa Index
- FTSE EPRA/NAREIT Emerging Americas Index
- FTSE EPRA/NAREIT Emerging Asia Pacific Index

More information can be found at
www.ftse.com/realestate

product focus launch horizon

FTSE Custom Indices January 2009

In response to growing investor demand for customised indices, we are extending our custom index service. Dedicated account managers in our new custom index team will provide a responsive, client-focused service. FTSE Custom Indices can be based on one of our existing indices, or on a tailored solution specific to customer requirements, based on FTSE's extensive database of over 65,000 stocks from 91 countries, and a wide range of screening criteria.

More information can be found at www.ftse.com/custom

FTSE Italia Index Series March 2009

We are pleased to announce that FTSE will shortly take over the calculation and dissemination of the existing equity indices for the Italian market on behalf of Borsa Italiana. We have worked closely with Borsa Italiana to identify and build a new and extended suite of indices, which will be renamed FTSE Italia Index Series. As part of this initiative, we will also take over the current S&P/MIB index, which will be renamed the FTSE MIB Index.

The FTSE Italia Index Series will provide greatly extended coverage of the Italian market, for the benefit of both domestic and international index users. FTSE and Borsa Italiana are working closely with investors between now and the new series live date to ensure a seamless transition.

More information can be found at www.ftse.com/italia



FTSE Colombia 20 Index Q1 2009

The FTSE Colombia 20 Index represents the performance of the 20 largest companies in one of the world's high growth emerging markets. The new index is designed to reflect the performance of the top 20 most liquid Colombian securities – ranked by six months' daily average traded value – and employs a unique capping methodology to ensure regulatory compliance in the listing of financial products on US exchanges.

For more information email us at ftsefocus@ftse.com

Market research on benchmark selection

We have conducted a survey among UK Pension Funds on their approach to investment performance measurement and benchmark selection. The findings showed that market indices were the most popular performance benchmark (used by 42% of all funds), followed by a scheme-specific or custom-built benchmark, an absolute return target, or a combination. Notably, only 7% of funds reported that they used peer group comparisons. To receive a full copy of the report please visit www.ftse.com/ftsefocus

ftse news & events

FTSE teams up with sustainability index leader KLD

We are expanding our commitment to delivering responsible investment-related indices by joining forces with KLD Research & Analytics, Inc – the leading provider of environmental, social and governance (ESG) research and indices – to offer a comprehensive suite of ESG indices.

As a long-standing participant in the responsible investment market, with 20 years' experience of developing and marketing ESG research, ratings and indices, KLD is the ideal choice for such a partnership. KLD Indexes is based in Boston, Massachusetts.



Malaysia's KLCI to adopt FTSE methodology

Malaysia's primary benchmark index is to adopt the FTSE global index standard on 6 July 2009. Currently known as the Kuala Lumpur Composite Index (KLCI) the index will become the FTSE Bursa Malaysia KLCI.

The new index will be based on the 30 largest companies in Bursa Malaysia's Main Board – by full market capitalisation – that meet the FTSE Bursa Malaysia eligibility requirements. The revised index will be free-float adjusted and liquidity-screened to provide a highly investable and tradable index that remains characteristic of the underlying market. The index will be calculated according to our publicly available rules, and overseen by a committee of independent market practitioners.

The FTSE Bursa Malaysia KLCI will enhance the existing FTSE Bursa Malaysia Index Series, a comprehensive range of indices designed to measure the performance of the major capital segments of the Malaysian market. More information can be found at www.ftse.com/bursamalaysia.

FTSE strengthens research capability

We recently expanded our in-house research capabilities with the recent acquisition of Pensions Benchmark Corporates (PBC) a US-based quant business. PBC owner, Tom Nadbielny, joins FTSE as Director of Quantitative Research, heading up our three regional research teams in London, New York and Hong Kong. The integration of PBC's data and expertise will enhance our ability to support clients' use of our indices, create new customised indices, and provide a range of performance and risk analysis.

FTSE events Q1 2009

Event name	Date	Location	FTSE participation
CFA Society of Hartford Annual Forecast Dinner	29 January 2009	Hartford, United States	Sponsor
Asset Allocation Conference Australia	23 to 26 February 2009	Sydney, Australia	Speaking role
Melbourne Financial Services Symposium	2 March 2009	Melbourne, Australia	Sponsor
FT Sustainable Business Conference	2 March 2009	New York, United States	Exhibit/speaking role
NAPF Investment Conference 2009	11 to 13 March 2009	Edinburgh, UK	Exhibit
Merrill Lynch and Taiwan Stock Exchange 'Taiwan, Technology & Beyond (TTB) Conference'	17 to 19 March 2009	Taipei, Taiwan	Speaking role
Chatham House CSR Conference	30 to 31 March 2009	London, UK	Exhibit/speaking role

Index review calendar

Announcement day	Index series	Review frequency/type	Effective (close of business)	Data cut-off
4 March	FTSE All-World Asia Pacific ex Japan	Annual review	20 March	31 December
11 March	FTSEurofirst 300 Index	Quarterly review	20 March	27 February
11 March	FTSE techMARK 100 Index	Quarterly review	20 March	27 February
11 March	FTSE eTX Index	Quarterly review	20 March	27 February
11 March	FTSE/Asean 40 Index	Annual review	20 March	28 February
11 March	FTSE Asiatop/Asian Sectors	Semi-annual review	20 March	28 February
11 March	FTSE/JSE Africa Index Series	Quarterly review	20 March	6 March
11 March	FTSE EPRA/NAREIT Global Real Estate Index Series	Quarterly review	20 March	6 March
11 March	FTSE UK Index Series	Quarterly review	20 March	10 March
12 March	FTSE4Good Index Series	Semi-annual review	20 March	27 February
12 March	STI and FTSE ST Index Series	Semi-annual review	20 March	27 February

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