FTSE

RESPONSIBLE INVESTMENT FTSE PUBLICATIONS

FTSE4GOOD.
10 years of impact & investment.

BEIJING DUBAI FRANKFURT HONG KONG LONDON MILAN MUMBAI NEW YORK PARIS SAN FRANCISCO SHANGHAI SYDNEY TOKYO

FTSE

FTSE Group is the world leader in the creation and management of index solutions. Investors worldwide trust our indices to help them analyse investments, measure performance, and hedge portfolios, and to create derivatives, funds, and structured products.

FTSE is a pioneer in responsible investment. For over a decade, we have calculated responsible investment indices and play active roles in all the major regional sustainable investment industry associations. As a founding signatory, we also helped develop the United Nations-backed Principles on Responsible Investment (PRI).

EIRIS

EIRIS (Experts in Responsible Investment Solutions) is a leading global provider of independent research into the environmental, social, governance (ESG) performance of companies.

As an independent not-for-profit organisation, EIRIS has over 27 years' experience promoting responsible investment and helping consumers, charities and advisers invest responsibly. For more information, visit www.eiris.org

Foreword.

When we introduced the FTSE4Good Index Series in 2001 it marked the beginning of a journey for FTSE Group. FTSE had been a standard setter in benchmark indices and index methodologies such as defining the nationality of securities, or defining countries and their markets as developed, emerging or frontier. However the launch of the FTSE4Good indices also led to us developing standards in much more challenging areas such as environmental management, human rights and countering bribery.

At times it has led to much controversy and there have been many instances when Chief Executives and Chairman have been in dialogue to understand why their companies are excluded from the indices. Equally we have had many instances when civil society groups have voiced concerns over companies that are included in the indices. This is important as it demonstrates that both companies and NGOs are taking the issues seriously and allows us to develop dialogue between all stakeholders on how to define ESG risks, and identify internationally appropriate corporate responses to these issues and therefore standards.

What we aimed to create in 2001 was a transparent and measurable benchmark that would capture companies environmental, social and governance practices, and evolve over time with an increasingly comprehensive framework of criteria challenging companies to improve. This has been achieved in excess with a number of new criteria themes being added over the years and many hundreds of companies around the world engaging with FTSE's dedicated Responsible Investment Unit and improving their practices as a direct result.

The scope of relevant ESG issues has evolved considerably in the last 10 years and the FTSE4Good Series has endeavoured to reflect that. I am most grateful to the FTSE4Good Policy Committee, who has expertly and independently overseen the continued strengthening of the selection standards and their application across a growing segment of global markets. Our partners EIRIS also have met the challenging demands of providing ESG data with professionalism and expertise that is unmatched in the industry.

This Report not only looks back at the impact the FTSE4Good Series has had in improving ESG company practice and investment decision-making, it also looks to the future of ESG analysis and integration.

I am very excited to introduce the next evolution for FTSE4Good: the FTSE4Good ESG Ratings – a new system for quantitatively measuring the risk and performance characteristics of ESG factors, based on the established FTSE4Good methodology. These will be available through the FTSE Analytics portal and integrated with other investment management tools and data.

Using the FTSE4Good ESG Ratings we have presented a view of current performance trends across countries and sectors, highlighting the leaders and exploring the degree to which ESG has been accounted for by the market. I think you'll find the results intriguing.

It is a very exciting time to be at the forefront of Responsible Investment. FTSE's desire to provide ESG data solutions is matched by the rising interest of asset owners and managers worldwide. The experience of the last 10 years of the FTSE4Good Series have equipped us well to address the growing uses of ESG data and I look forward to the next 10 years and beyond.

Mark Makepeace
Chief Executive
FTSE Group

Contents.

United Nations Principles for Responsible Investment.

Message from the Chair.

One of the major investment trends in the decade ahead will be the integration of environmental, social and corporate governance (ESG) into investment analysis, decision-making and stewardship.

In the last five years PRI has grown to 870 global signatories with over US$ 25 trillion in assets under management. When looking at the investment industry globally, ESG issues are being integrated successfully into equities and there is strong momentum in other asset classes too. Responsible investment is now commonly seen as an investment approach that enables investors to make more informed investment decisions across their whole portfolios, thereby protecting shareholder value and enhancing long-term returns.

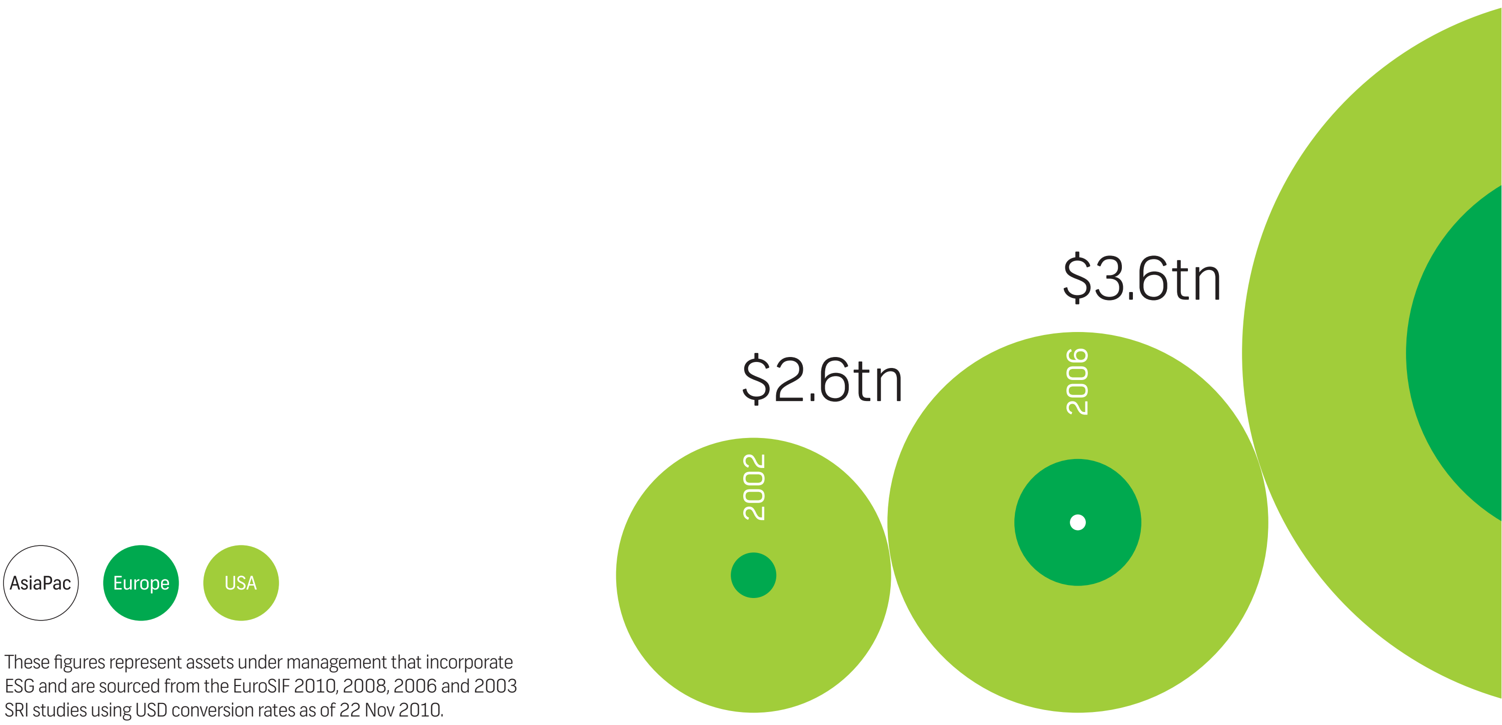
Although responsible investment has seen significant growth, we are still at an early stage. Index and data providers play a central role in this. I therefore welcome the launch of the FTSE4Good ESG Ratings, which will allow these issues to be accurately measured, considered and applied in a manner consistent with conventional investment analysis.

The need for broader and deeper ESG data and measurement tools will only grow as approaches evolve and learning is shared. For the debate on responsible investment to move from 'why' to 'how', asset owners, managers and service providers must all play their parts.

Wolfgang Engshuber
Chair
UN PRI

The six PRI principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



These figures represent assets under management that incorporate ESG and are sourced from the EuroSIF 2010, 2008, 2006 and 2003 SRI studies using USD conversion rates as of 22 Nov 2010.

Investment.

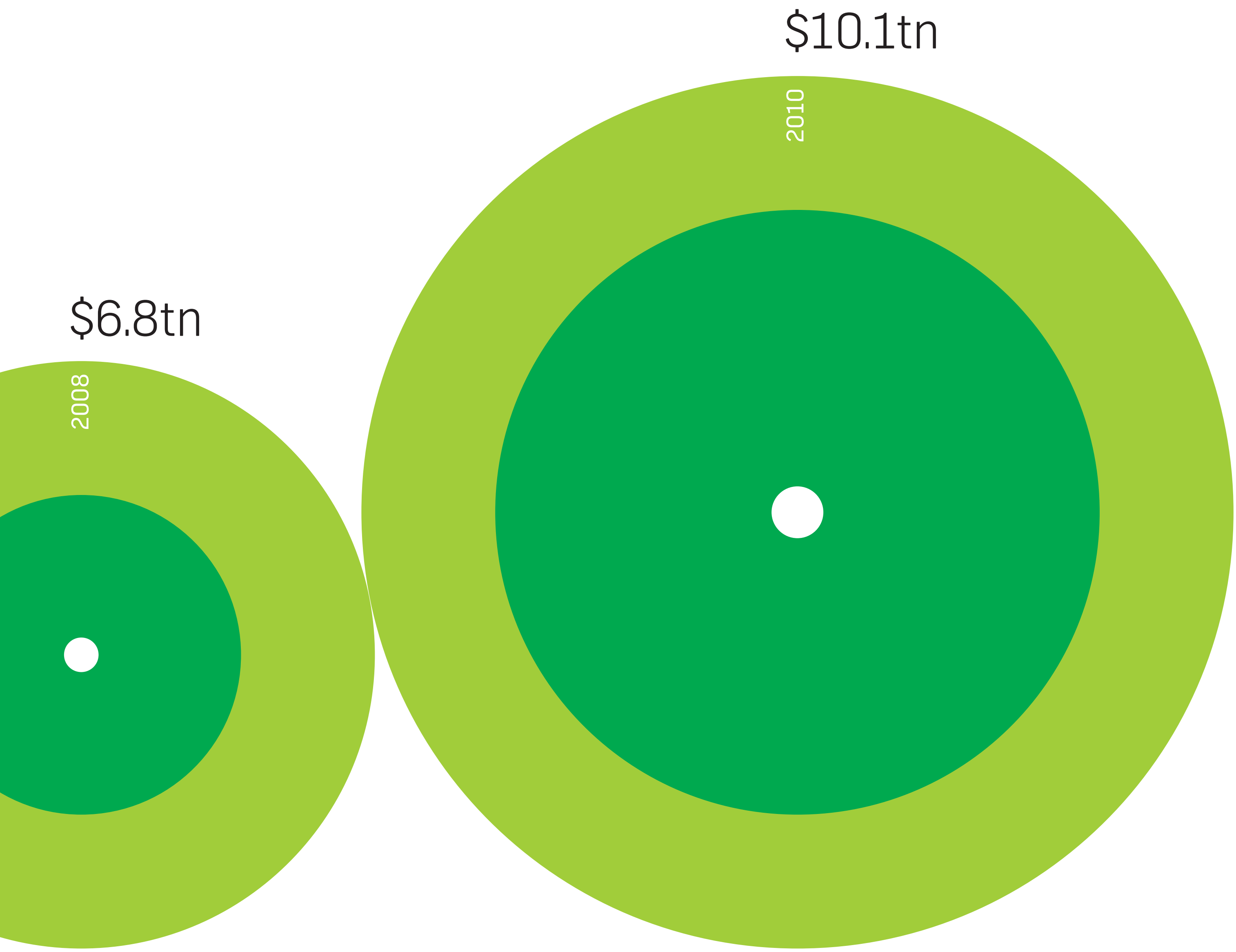
ESG in a new Millennium.

The growth in assets under management that incorporate ESG is hard to ignore, currently over $10.1 trillion, a four-fold increase since 2006. This growth has been driven by institutional investors, government regulation, transnational investor-led initiatives, increased retail investor interest, and heightened external scrutiny, such as NGOs and the media.

The rise of international investor-led initiatives like the UN Principles for Responsible Investment (PRI) and the Carbon Disclosure Project (CDP) have demonstrated the significance asset owners and managers place on these issues. The PRI now has over 870 signatories representing $25 trillion and CDP has 551 institutional investors representing $71 trillion.

"The market is gradually merging into mainstream as providers of financial services expand their lines of product as well as channels of distribution and more and more institutional and retail investors integrate extra-financial criteria in their investment decisions."

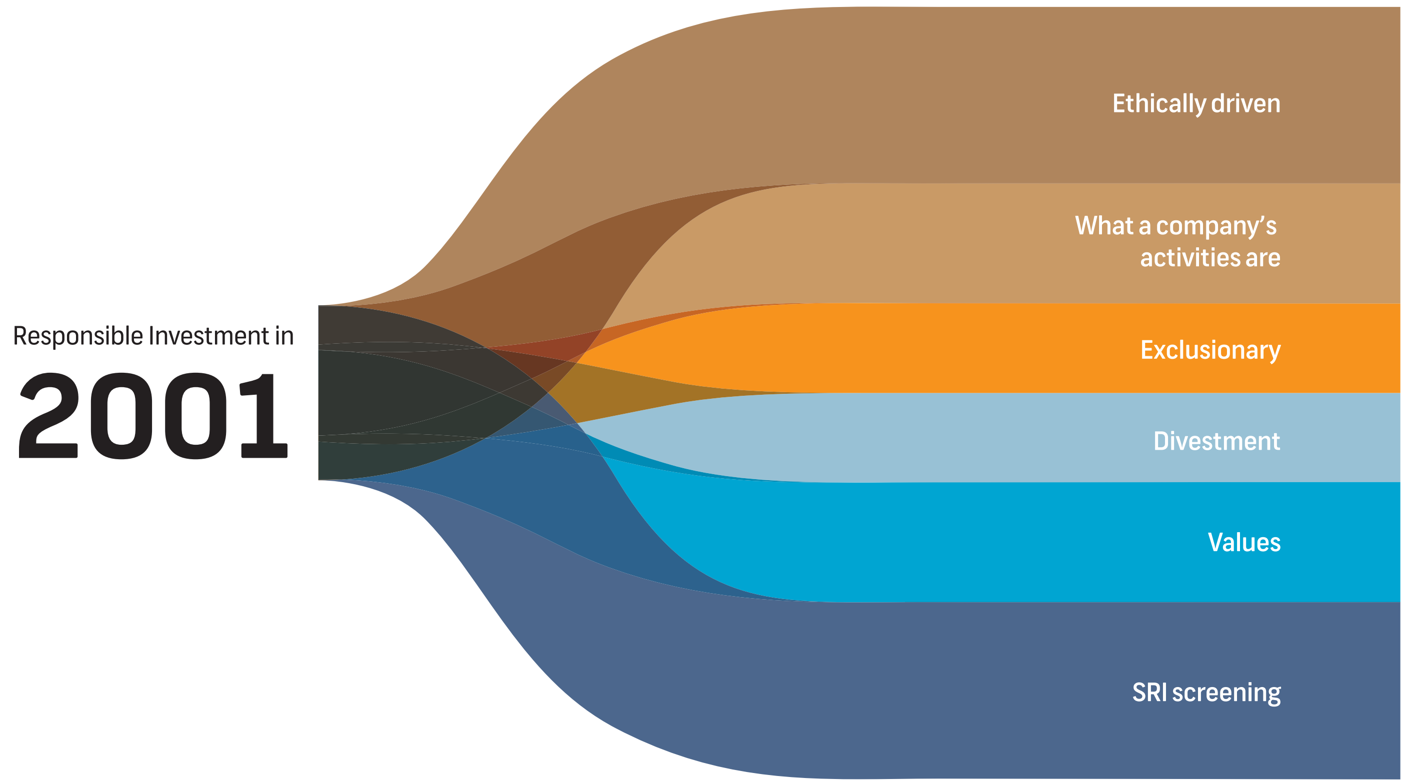
Deutsche Bank Research
Responsible Investments: A new investment trend here to stay (2010)



Responsible Investment has evolved over the past 10 years.

The upward trend in AUM that incorporate ESG over the last ten years has been mirrored by a lowering of theoretical barriers. The long-held misconceptions regarding Responsible Investment; that it causes a performance drag and is contrary to fiduciary duty, have been turned on their heads. The United Nations Environmental Programme Finance Initiative (UNEP-FI) has provided research, conducted by Freshfields Bruckhaus Deringer[1] and Mercer[2] respectively that has offered convincing evidence against these hypotheses.

The scope for considering ESG in the investment decision-making process has likewise widened since 2001. Whether it is portfolio construction, asset allocation, stewardship, engagement, or stock analysis, ESG factors are now relevant at multiple levels of the investment cycle. This growth has been accompanied by a considerable shift in the language, tactics, and motivations of investors. There is an increasing focus on the notion that ESG factors are material to developing a complete understanding of risk and opportunity which is needed to succeed in achieving long-term, sustainable investment returns.



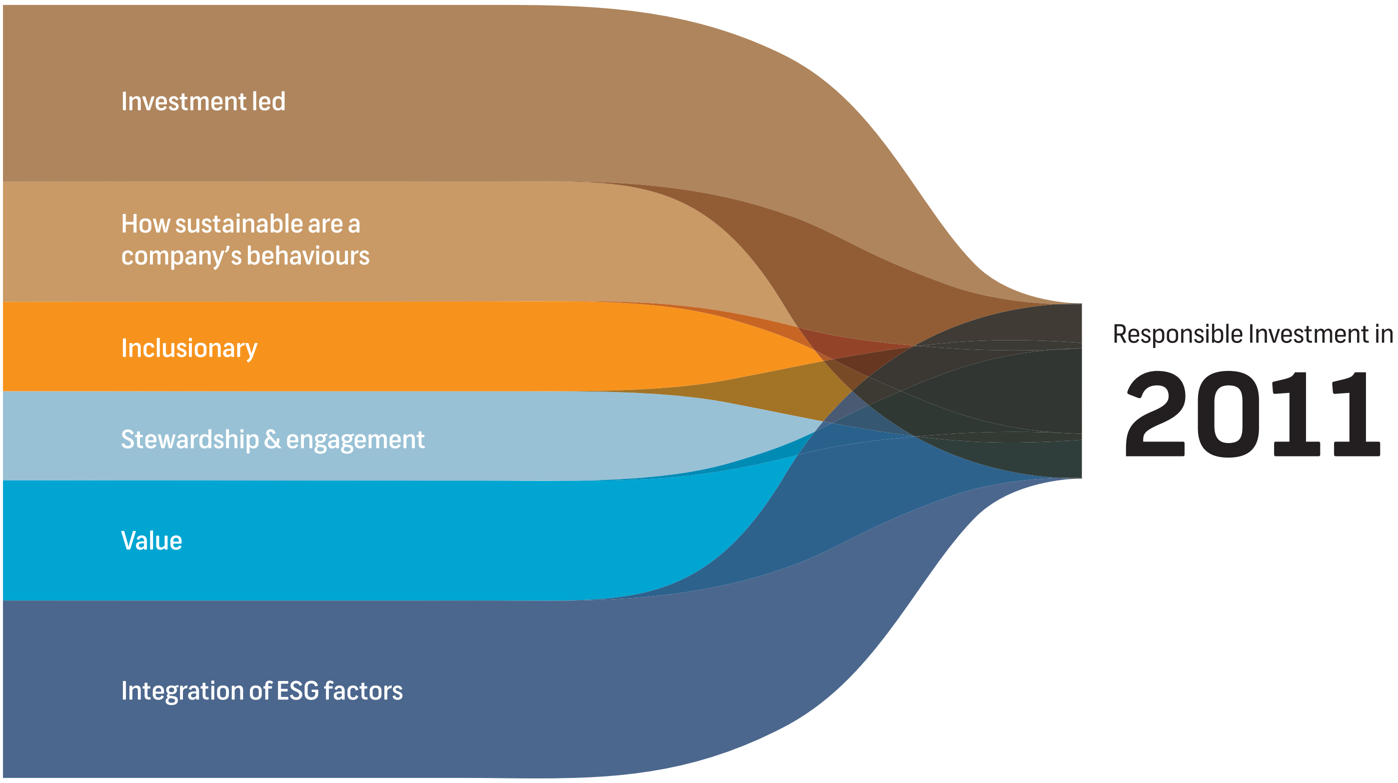
[1] A Legal Framework for the integration of Environmental, Social, and Governance Issues into Institutional Investment (2005); Fiduciary responsibility – Legal and practical aspects of integrating environmental, social and governance issues into institutional investment (2009)

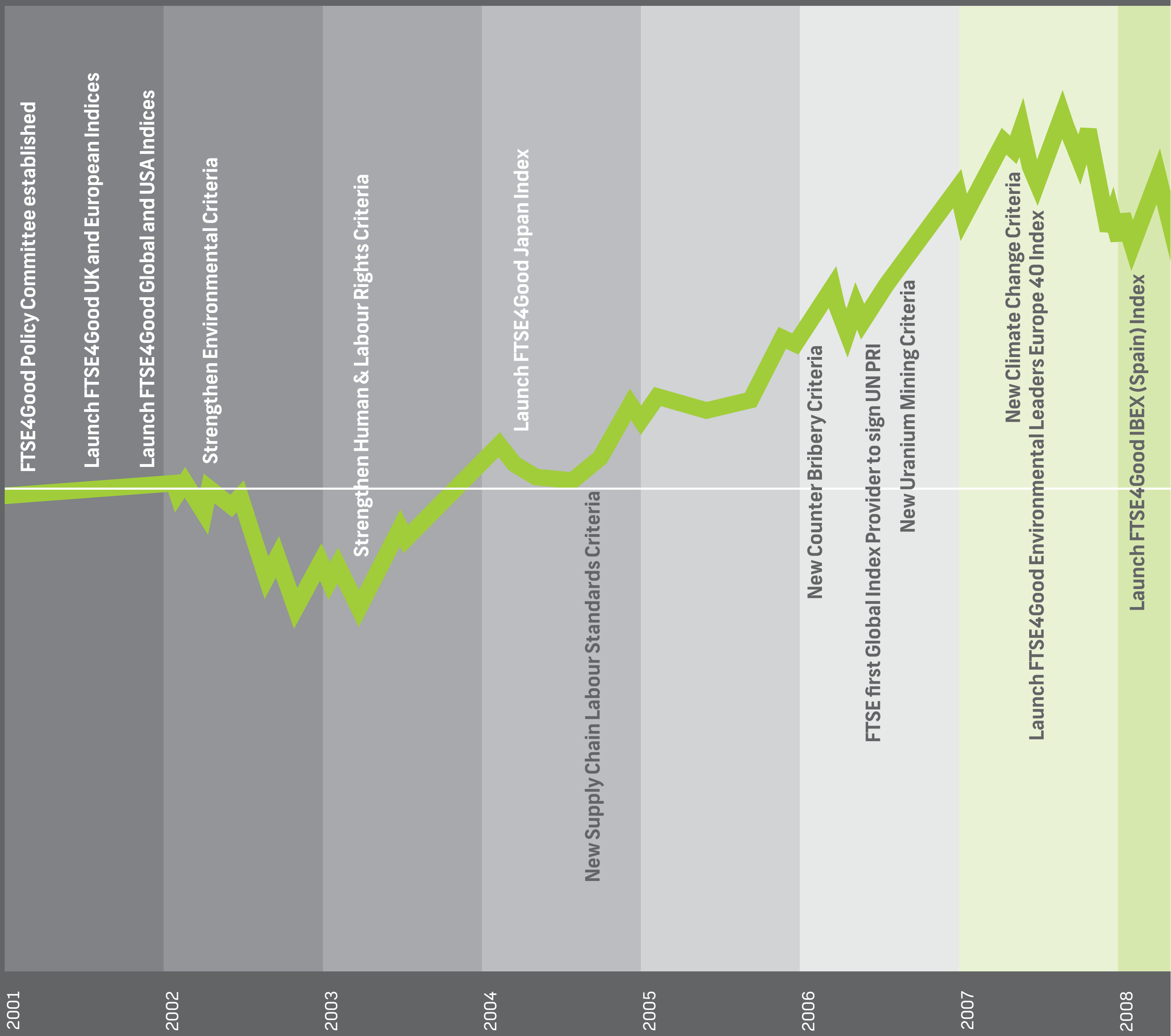
[2] Demystifying Responsible Investment Performance (2007)

“Companies had better make sure their house is in order from an ESG point of view because pension fund trustees can’t carry out their duty to you [the beneficiary] without taking account of ESG issues”

Professor Mervyn King
Chairman of the Global Reporting Initiative

Quote from article by Pauline Skypala, Financial Times, Get with the zeitgeist and embrace ESG, Published: March 6 2011





Growth.

10 Years of the FTSE4Good Index Series.

FTSE4Good in numbers since 2001:

- 52.3% return for FTSE4Good Global Index (USD total return since launch)
- 288 companies deleted for failure to meet inclusion standards
- 793 companies added to the indices since launch
- 743 companies in the FTSE4Good Global Index at launch
- 894 current (as of March 2011) constituents in the FTSE4Good Global Index
- Over 1000 company engagements regarding new FTSE4Good criteria
- 60% success rate of companies meeting new criteria with FTSE support
- 5 original industry exclusions (Tobacco, Weapons, Nuclear power, Infant formula, Uranium mining), now down to 2 existing industry exclusions (Tobacco and Weapons)

Since 2001, FTSE4Good has been the world's leading index of companies demonstrating strong environmental, social, and governance performance. Overseen by an independent, expert Policy Committee and supported by an evolving criteria platform and direct company engagement programme, FTSE4Good has made a significant and measurable impact on the behaviour of companies worldwide while providing investors with a tool for benchmarking and tracking ESG-driven funds.

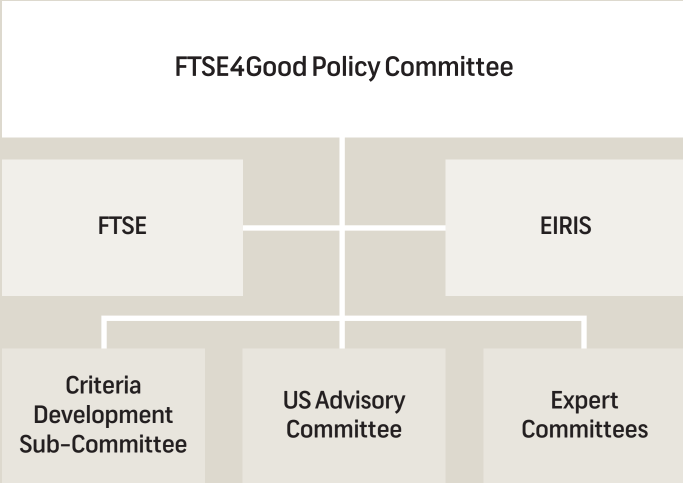
FTSE4Good has evolved significantly since launch to include an ever increasing range of material ESG issues. This challenges the companies in the index to continually improve or risk removal. The graphic above highlights key milestones in the history of the index series, mapped against the performance of the headline FTSE4Good Global Index.

Committee.

Independent oversight and governance is a key feature of FTSE indices. The FTSE4Good series has benefited from the contribution of the independent experts and senior practitioners from across the world. Around half of the Committee represent FTSE's clients, the investment community, and the remaining members are drawn from the fields of academia, the business community, unions and NGOs. The FTSE4Good Policy Committee has the support of two specialist sub-committees and an advisory US committee.

The Committee's role is to:

- Act as an independent judge that EIRIS and FTSE follow the criteria and methodology
- Approve deletions and additions to the FTSE4Good indices
- Oversee the consultation process undertaken to develop new criteria
- Approve criteria revisions or new criteria



Left to right, back row:
David Bull, Craig Mackenzie, Richard Spencer, Simon Williams, Will Oulton, Toby Shillito

Left to right, front row:
Masaru Arai, Reg Green, Helen Wildsmith, Andy Banks

Not pictured:
Sir Mark Moody-Stuart, Tom Donaldson, David Harris, Mark Makepeace, Christopher Sutton, Peter Webster

Engagement.

The Responsible Investment Unit at FTSE undertakes a global company engagement programme around the environmental, social and governance criteria that the FTSE4Good index employs. As new standards and requirements are introduced FTSE informs affected companies to help them understand the changes they need to make, and by when, in order to maintain inclusion in FTSE4Good. This takes the form of letters, emails, calls and meetings to provide guidance and support as they work towards meeting the tougher ESG standards. The result of a company not keeping pace with the new criteria – deletion from the FTSE4Good index – is also made clear.

To date the engagement programme has been a remarkable success. Five times in the last 10 years FTSE has strengthened the inclusion requirements for the FTSE4Good indices and each time undertaken dialogues with constituent companies about the new standards. Approximately 60% of the over 1000 engagements FTSE has had with companies in the last 10 years have resulted in, or coincided with, improvements to ESG disclosure and practices.

Two recent academic studies have assessed the impact of the FTSE4Good engagement programme and have found that it has been a significant contributing factor to improving company ESG behaviours.

Nottingham University Business School
International Centre for Corporate Social Responsibility

Companies value and promote their inclusion in the FTSE4Good index to demonstrate good environmental, social, and governance (ESG) practices to customers, investors, employees and other stakeholders.

In order to determine how companies use their inclusion in the FTSE4Good index, and in particular how they react to engagement from FTSE, a series of interviews have been conducted. Interviews with 40 managers (e.g. Sustainability or Investor Relations) from FTSE4Good constituent companies that have had direct engagement with FTSE's Responsible Investment Unit generated the following initial findings:

- Inclusion in FTSE4Good increases pressures to improve ESG practices – three-quarters of interviewed companies have strengthened their public commitments, internal monitoring systems and/or external reporting frameworks in order to maintain inclusion in FTSE4Good.
- The risk of deletion from FTSE4Good raises ESG issues to the attention of senior management – 70% of the companies reported direct involvement or awareness of senior management. One-third of the managers that were interviewed have personal performance objectives that are linked to inclusion in an ESG index such as FTSE4Good.
- More research is currently ongoing to examine these trends on a larger scale; however the initial findings from a sample of 40 interviews indicate that inclusion in the FTSE4Good index series has played a role in bringing ESG issues to the attention of senior management in constituent companies and has resulted in improved practices.

Rieneke Slager
PhD candidate, International Centre for Corporate Social Responsibility, Nottingham University Business School

The research is funded by the Economic and Social Research Council (ESRC) and the International Centre for Corporate Social Responsibility (ICCSR) with support from FTSE Group.

University of Edinburgh Business School
The role of FTSE4Good in motivating improvements in corporate ESG practice.

Five times in the last 10 years FTSE has strengthened the ESG inclusion requirements for the FTSE4Good indices, twice on environmental issues: environmental management and climate change. On each occasion a large number of companies in the index faced a choice – meet the new standards or risk deletion. FTSE undertakes a programme of direct engagement to provide support and guidance for such companies to make the necessary improvements to ESG practices.

How has this affected company behaviour? A team at the University of Edinburgh Business School have analysed the historical evidence. As the table shows, large numbers of companies met new FTSE4Good criteria for the first time over the time when FTSE is engaging with them. For example, 77% of the 280 companies FTSE contacted about needing to meet the climate change criteria met the full standards by the 2010 deadline.

But is FTSE4Good the driver of these changes, or would companies have adopted the required practices anyway? To test this, the researchers created a control group comprised of companies who did not face the threat of deletion from the index and were not included in FTSE's engagement programme. The results (see table) provide strong evidence that ongoing inclusion in FTSE4Good and the FTSE engagement process has played a significant part in driving improvements in ESG practice among companies in the indices.

Craig Mackenzie
craig.mackenzie@ed.ac.uk

Tatania Rodionova

		FTSE4Good Constituents		Control Group	
		FTSE engaged with these companies		FTSE did not engage with these companies	
FTSE4Good criteria enhancements	**Period**	Number of companies	Percent of companies met new criteria over period	Number of companies	Percent of companies met new criteria over period
Environmental Management	2002-05	390	49%	760	25%
Climate Change	2007-10	208	77%	502	24%

Introducing the FTSE4Good ESG Ratings.

Ten years after the launch of the FTSE4Good Index Series, FTSE and EIRIS are unveiling the next evolution for FTSE4Good: a quantitative measurement system of ESG risk and performance based on the established selection criteria that have been developed for the index.

The FTSE4Good ESG Ratings will for the first time offer a comparable ESG risk and performance profile of companies in the FTSE All World Developed Index. The Ratings will cover not just those in the FTSE4Good index, but all of the approximately 2400 stocks worldwide that FTSE defines as being large or mid cap and listed in developed markets. Users will be able to identify which companies are leaders, which are laggards, and those facing the greatest ESG related risks.

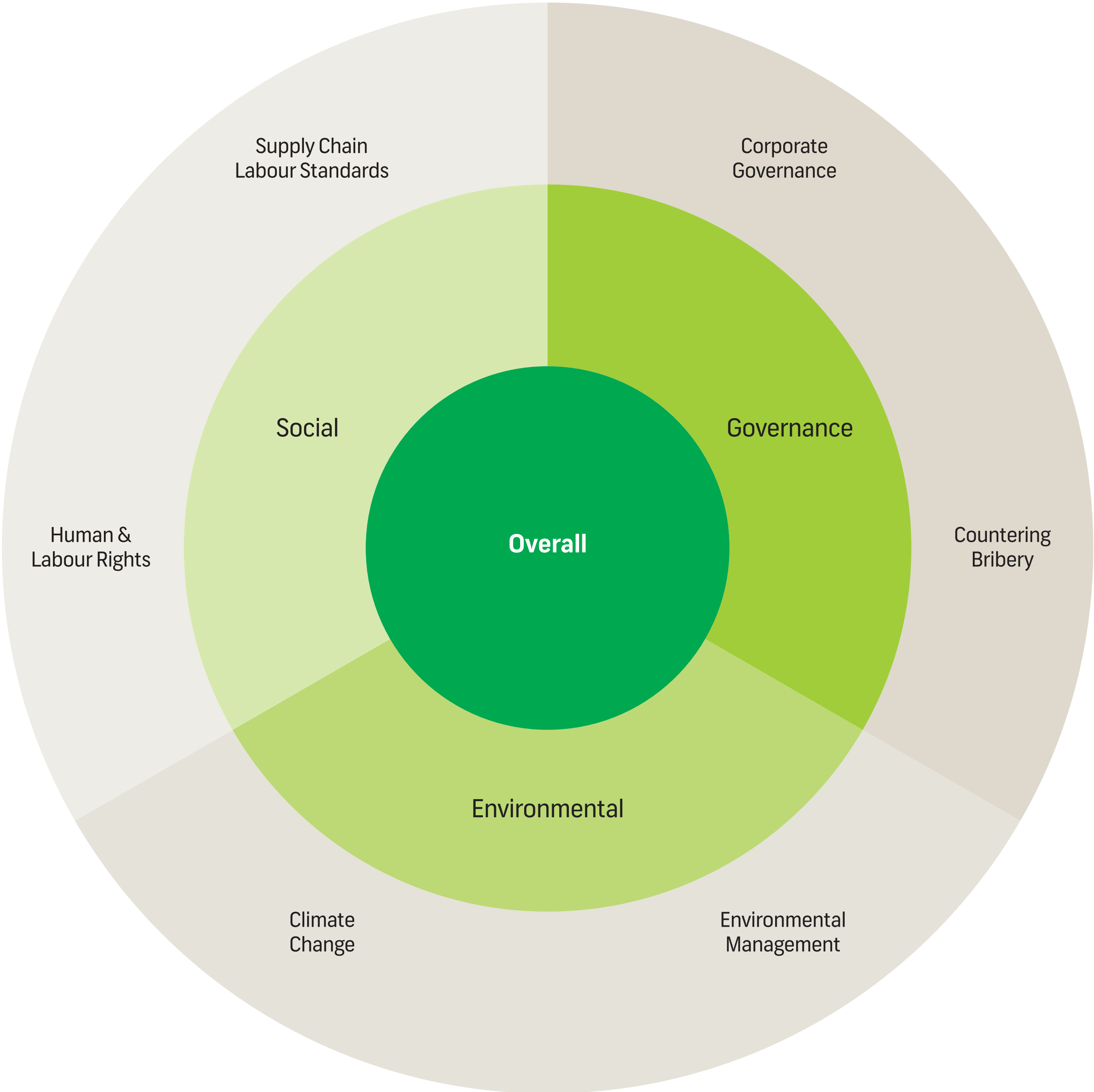
Methodology

A sector and geography risk-relativity matrix is used to determine the risk profile for each company in the eligible universe. Using this, companies are assessed against a set of comprehensive indicators by the research providers, EIRIS. This is used to determine a performance score. A company with a high risk profile will need to do considerably more to achieve a high score than a company with a low risk profile.

This process is repeated across six themes within the three pillars of ESG. Data is compiled at multiple levels, allowing for a high-level 'overall' score, as well as more granular measures at the pillar (i.e. Environmental, Social, Governance) level, or at the most detailed level of theme (Supply Chain Labour Standards, Climate Change).

"The practice of assessing environmental, social, and governance matters has evolved in the last 10 years towards an investor-led exercise that is part of conventional analysis. The tactics of integrating ESG will continue to improve as more sophisticated tools, such as the FTSE4Good ESG Ratings are developed and standards are established. Daiwa uses the FTSE4Good ESG Ratings to help inform investment decision-making for the Daiwa Global Environment Stock Fund and Daiwa Global Environment Stock/Foreign Bond Balance Fund, which select only companies with leading environmental practices."

Masaru Arai
Advisor to the Board
Daiwa Asset Management



The assessment and scoring methodology can be viewed at: **www.ftse.com/analytics/ftse4good-esgratings**

FTSE4Good ESG Ratings in practice.

The FTSE4Good ESG Ratings offer an objective and flexible service integrating ESG considerations into investments and stewardship approaches. The FTSE4Good ESG Ratings can be used in a variety of ways, building a basis for active portfolio management, company engagement, customised indices, ESG risk analysis or research and analysis.

Manager selection and evaluation.
When selecting and evaluating asset managers, institutional investors are increasingly assessing how far they integrate ESG factors into their processes. The FTSE4Good ESG Ratings can help you assess the range, average and variance of asset manager portfolios against ESG themes, and their exposure to different ESG risks.

Example
The ratings reveal a portfolio manager's exposure to companies with poor countering bribery scores. This allows the asset owner to raise a concern with their asset manager.

Engagement and stewardship.
As part of their stewardship responsibilities, an increasing number of fund managers and pension funds are engaging investee companies regarding their ESG practices. The FTSE4Good ESG Ratings provide an independent and objective measure to identify companies for engagement and track progress.

Example
Identifying high-risk companies with low scores on supply chain labour standards as priority engagement.

Risk management.
The ratings enable you to identify where the greatest ESG risks exist in a portfolio by revealing securities with the highest risks and poorest scores. Through these insights, you may wish to analyse the securities further, engage with the companies, or exclude them from the portfolio. You can also use the ratings alongside conventional risk analysis to provide a complementary perspective on risk.

Research and analysis.
When identifying and measuring the risk and return relationships of different ESG factors, the FTSE4Good ESG Ratings provide a comprehensive data set for research and analysis. The three-year data history enables you to perform statistical analysis of historical trends and correlations.

Example
Identifying which Industry Classification Benchmark (ICB) Supersectors have historically had correlations between lower market beta or higher returns and environmental management scores.

Custom solutions.
The ratings allow you to create indices by theme, pillar, geography, score, risk impact, or any combination of these, according to investor needs. Additionally, they help you create quantitative ESG indices, such as a customised weighted index based on a particular ESG risk factor. ESG factors can also be used alongside fundamental or risk efficient methodologies.

Example
A client wishes to use a fundamentally weighted index that includes climate change scores as an additional factor.

Active portfolio management.
You may use the scores to define an eligible investment universe or apply the data into a propriety quant or fundamental model.

Example 1
Defining an investment universe limited to companies scoring best practice in environment management and achieving at least good practice in other themes.

Example 2
Including the human and labour rights score within an inhouse security evaluation model to determine a buy, hold or sell decision.

FTSE4Good ESG Ratings Analytics.

There is a growing expectation that understanding and integrating environmental, social and governance (ESG) considerations into the investment process helps deliver better long term, risk-adjusted returns.

A decade ago there was a belief by many in the investment community that there was a cost associated with investments that considered environmental or social factors. However this view has been turned on its head with some law firms[1] suggesting that not considering appropriate ESG issues could be regarded as a breach of fiduciary duties. This is borne out by the growing number of institutional investors that are becoming signatories to the United Nations backed Principles for Responsible Investment (UN PRI) and are asking their managers to consider ESG factors in their investments.

There have been a number of studies looking at SRI funds and indices to test how they perform against the broader market. One of the most comprehensive was from the investment consultant Mercer[2], which considered 20 separate academic studies. Of these, ten had found a positive correlation, seven a neutral effect, and three a negative correlation. While the results of the studies varied the conclusion was that there was no evidence of a performance penalty. There has also been some independent academic analysis of the FTSE4Good indices.

Academics from the University of Dundee were commissioned by the ACCA (Association of Certified and Chartered Accountants) to carry out analysis of the FTSE4Good indices and they produced a report called FTSE4Good Perceptions and Performance[3]. Their conclusion was 'it would appear that there is little evidence that the FTSE4Good indices underperform in relation to the financial performance of their base universes, indeed some indices slightly outperformed their base universes.'

However, the notion that ESG issues should be integrated into investment decision-making is a step away from the historic notion of 'Socially Responsible Investment'. Integration refers to a process in which ESG does not replace conventional investment analytical techniques, but rather is brought within the scope of those processes in order to provide a more complete view of risk and opportunity. In this regard, the FTSE4Good ESG Ratings allow investors to understand the varying degrees of ESG risk and performance across different themes within particular industrial sectors and geographies.

FTSE Analytics has carried out a series of exercises using the FTSE4Good ESG Ratings that offer a guide on integration, which are explored in more detailed in the following sections.

Findings

Companies with high Environmental and Social risks are associated with greater market beta.

Within industry groups results are mixed; certain industries (e.g. Industrials) and ESG themes (e.g. Environment) suggest a positive relationship between ESG performance and excess returns, whilst the reverse pattern is observed in others.

[1] See Freshfields Bruckhaus Deringer (2005) 'A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment' (UNEP Finance Initiative).
[2] Demystifying Responsible Investment Performance (2007)
[3] This can be found in full on the ACCA website (http://www.accaglobal.com/pubs/general/activities/research/research_archive/rr-088-001.pdf)

The impact of ESG on returns

Case Study

FTSE Analytics looked at returns of the FTSE All-World Developed Index constituents over six years. Looking within Industries and ESG themes the universe was narrowed into High and Low score baskets using the FTSE4Good ESG Ratings. The returns of High scoring companies were then measured against the Low scoring companies.

Findings

The relationship among returns by industry and theme does vary. The table identifies industries and themes where the ESG leaders outperformed (green), and vice versa (grey), and where there was no correlation (blank). In some industries for particular themes there is a positive historical correlation with excess returns and the reverse is true for others. This may for example support a focus on specific themes for different industrial groups.

FTSE All-World Index Industries & ESG Themes	Environmental Management	Climate Change	Human & Labour Rights	Supply Chain Labour Standards	Countering Bribery	Corporate Governance
Oil & Gas	grey	grey	grey		grey	
Basic Materials	grey	grey	green		green	green
Industrials	green		grey		grey	grey
Consumer Goods	green	green	grey	grey		green
Health Care	grey		grey			green
Consumer Services		grey	green	grey		green
Telecoms	grey				grey	
Utilities	green	grey	grey			
Financials			grey			grey
Technology	grey				grey	green

High score defined as: score 3 to 5 (out of 5) in the theme (e.g. Climate Change)

Low score defined as: score of 0 to 2 (out of 5) in the theme
Period of analysis 31/08/2004 to 31/01/2011 – USD

- green: High score companies outperformed low score by more than 1% p.a.
- grey: Low score companies outperformed high score by more than 1% p.a.

Conclusions:

- High corporate governance performance is correlated to better share price returns across a number of industries and this is reversed for high social performance.
- This would support an approach that considers specific ESG themes for different industries.
- The future will be different to the past: macro-economic trends such as climate change, increased global competition for talent, population growth, resource constraints, population growth, and a globalised media, are likely to act as drivers for companies with stronger environmental and social performance.

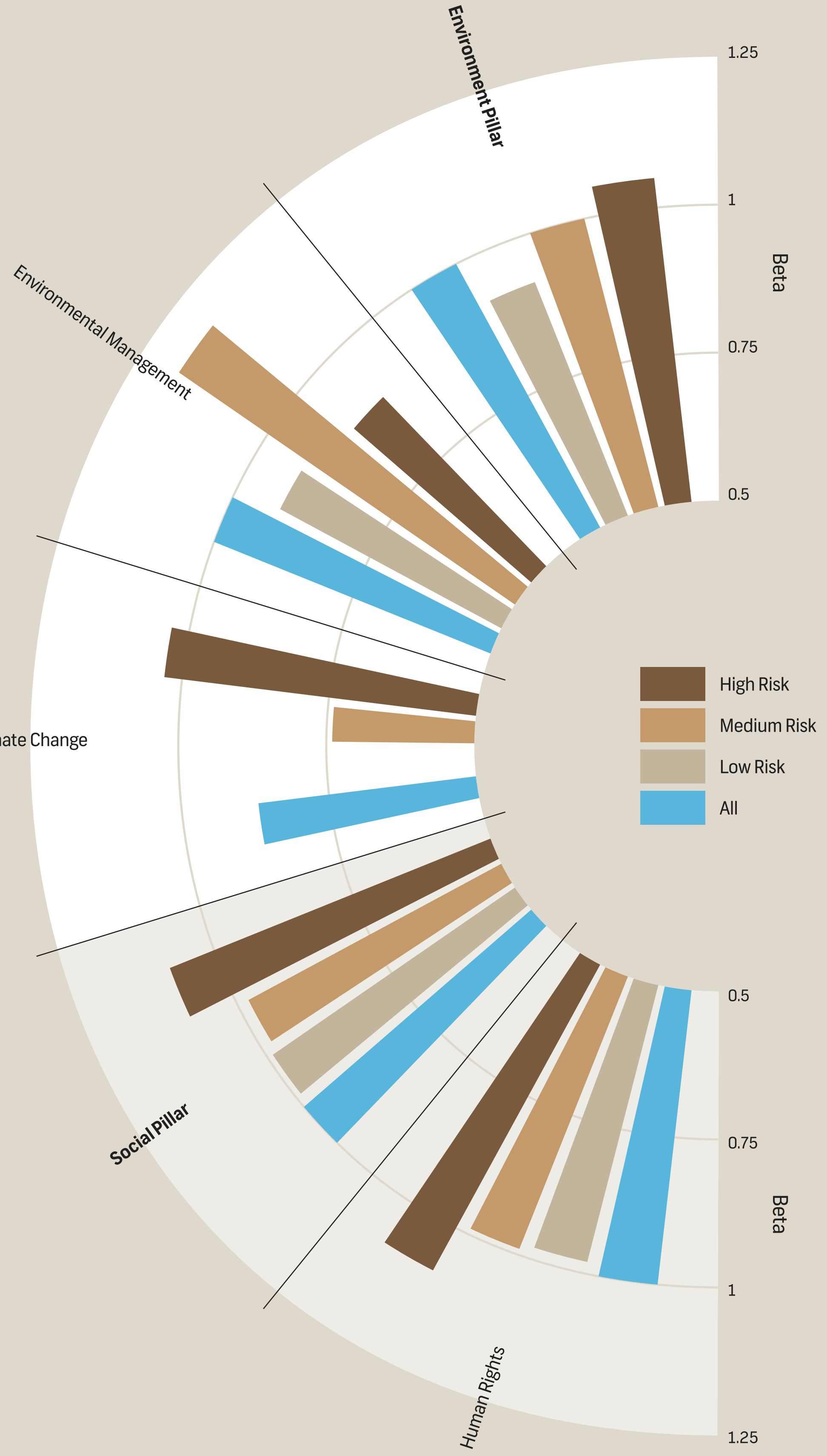
The relationship of ESG and Beta

Case Study

FTSE Analytics looked at beta with respect to the FTSE All-World Developed Index over six years. The universe was categorised into High, Medium, and Low Risk baskets using the FTSE4Good ESG Ratings. This analysis did not include the Corporate Governance, Countering Bribery and Supply Chain Labour Standards themes as they do not have different risk baskets.

Findings

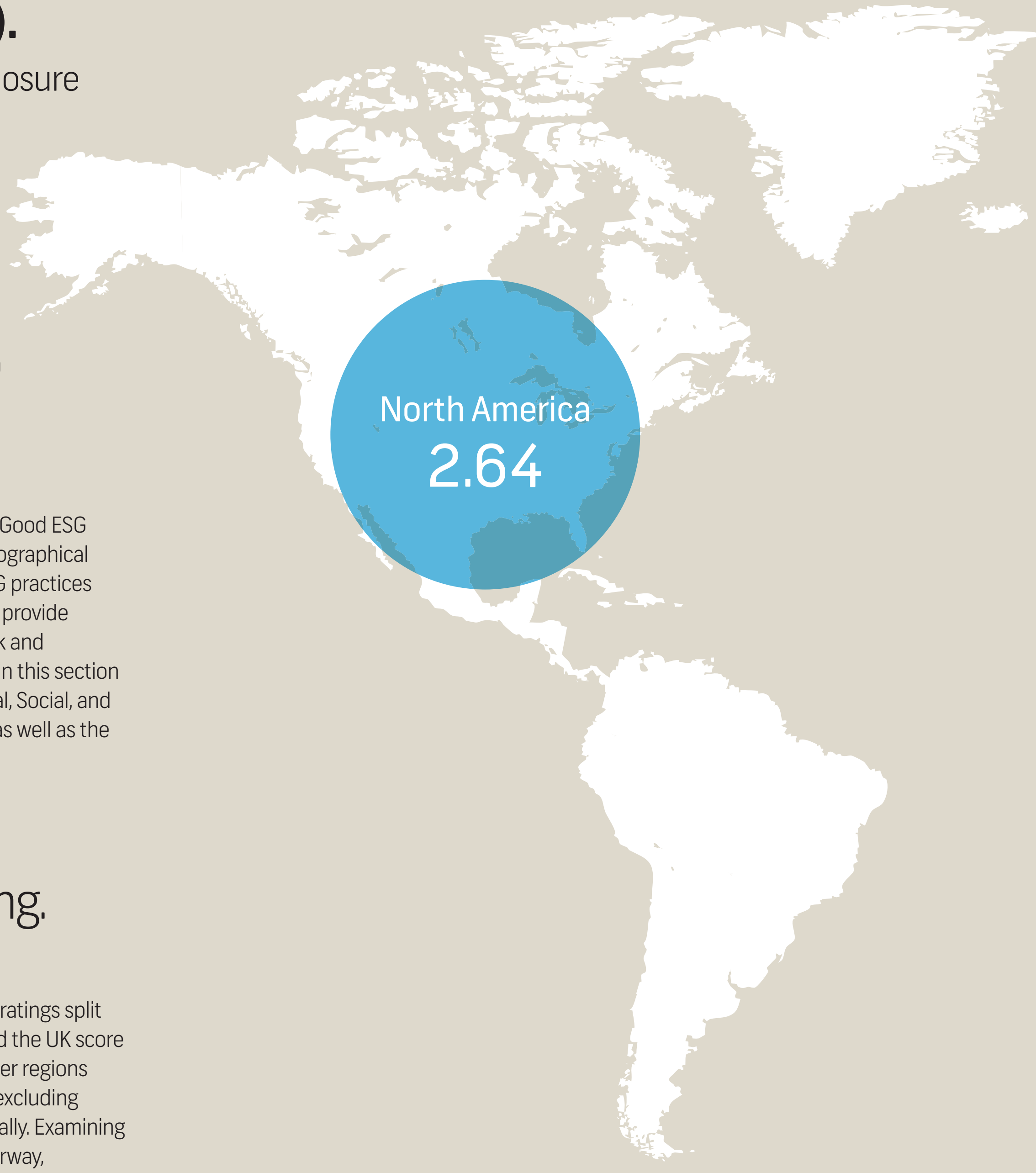
Higher ESG risk correlates to higher market beta at the environmental and social pillars. This can be seen in the figure to the right where the high risk (darker) bars are longer than the low risk (lighter) bars. The high risk baskets exhibit a significantly higher beta than low risk baskets at the climate change theme level and environmental pillar level. The other categories show the same relationship apart from Environmental Management, but the relationship is not statistically significant. This appears to make intrinsic sense: that there is a relationship between ESG risk and market risk and shows that the FTSE4Good ESG Ratings offer an alternative and complementary approach to considering portfolio risk.



Period of analysis 31/08/2004 to 31/01/2011 – USD

Average Overall ESG Ratings (scored 0 to 5).

0 = poor practice/disclosure
3 = good practice
5 = best practice



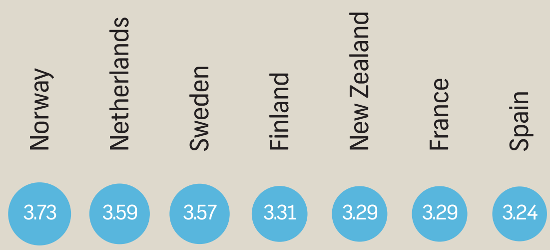
FTSE4Good ESG Ratings Trends.

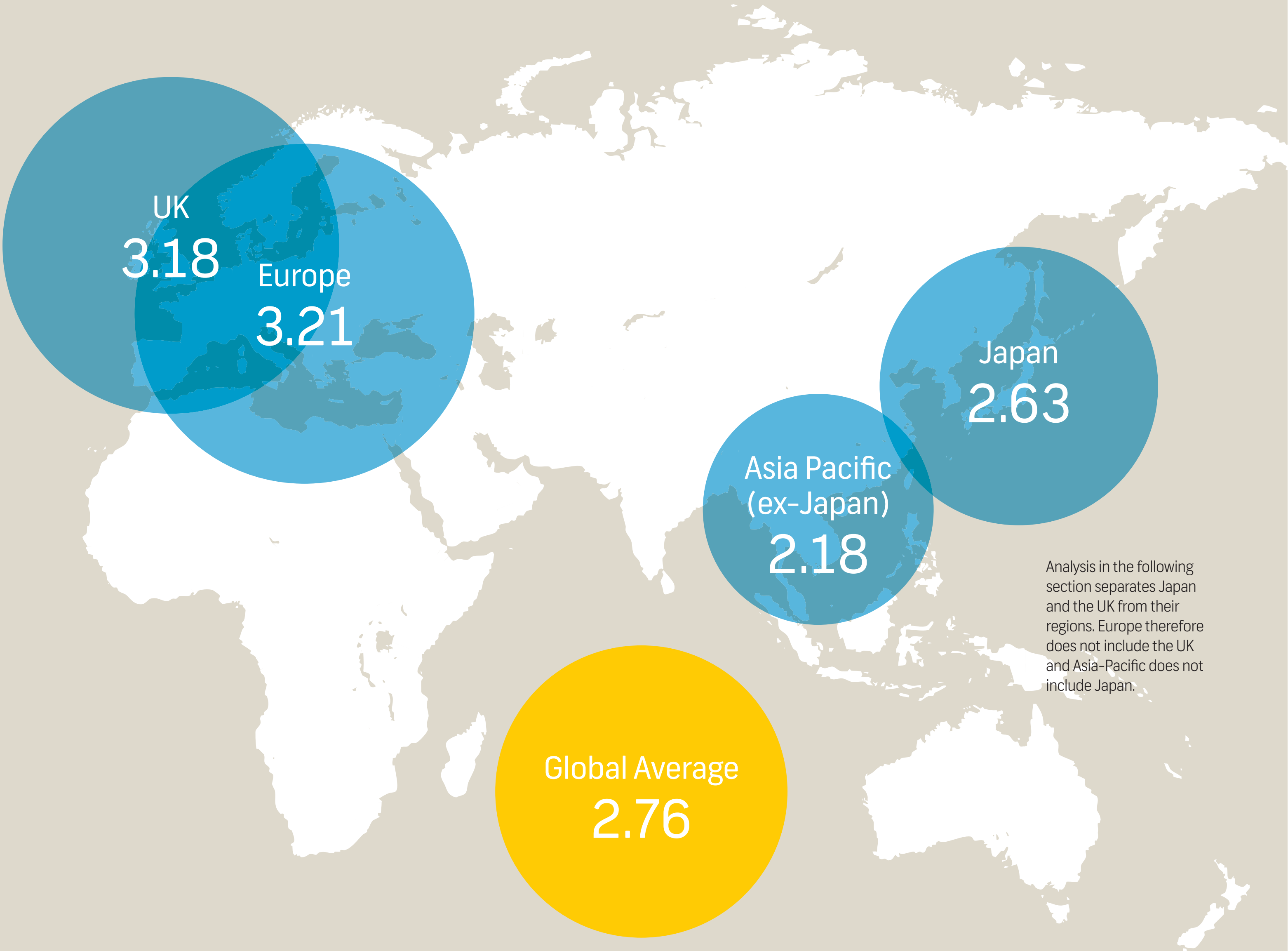
With the introduction of the FTSE4Good ESG Ratings, this section delves into geographical and industry trends to see how ESG practices vary around the world. The Ratings provide a framework for measuring ESG risk and performance in multiple ways and in this section overall (ie. combined Environmental, Social, and Governance) scores are assessed as well as the individual E, S, and G pillars.

Overall ESG Rating.

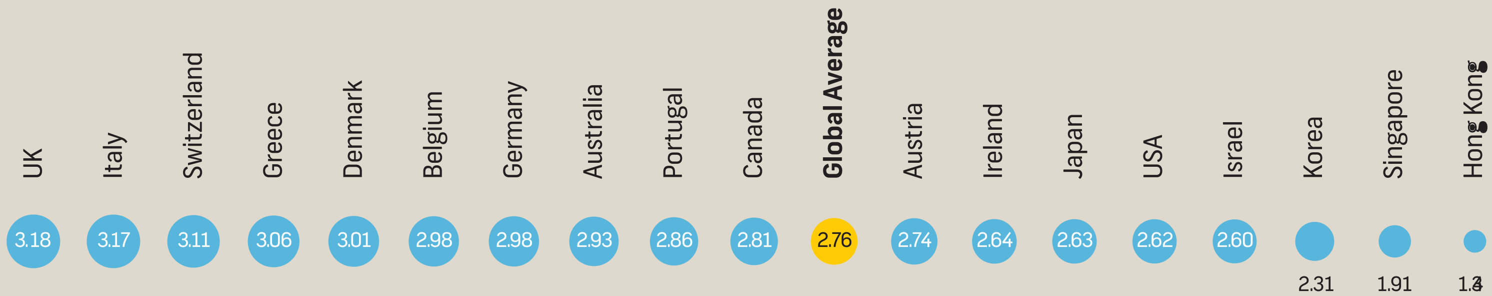
Looking at the average overall ESG ratings split by region, companies in Europe and the UK score above the global average, as all other regions score below this with Asia Pacific (excluding Japan) with the lowest scores globally. Examining these scores on a country level, Norway, Netherlands and Sweden are the top scoring countries. With the exception of Ireland, all countries within Europe and the UK have an average ESG rating above the global average. It is interesting to note that the companies in the world's first and third largest economies – USA and Japan – have an average overall ESG rating that is nearly identical. Korea, Singapore and Hong Kong are the three countries globally with the lowest overall ratings, which is also reflected in the low scores of the Asia Pacific region despite the fact that New Zealand is the fifth highest scoring country overall and Australia scores above the global average.

Average Overall ESG Rating by Country.





Analysis in the following section separates Japan and the UK from their regions. Europe therefore does not include the UK and Asia-Pacific does not include Japan.



ESG Trends – Environmental.

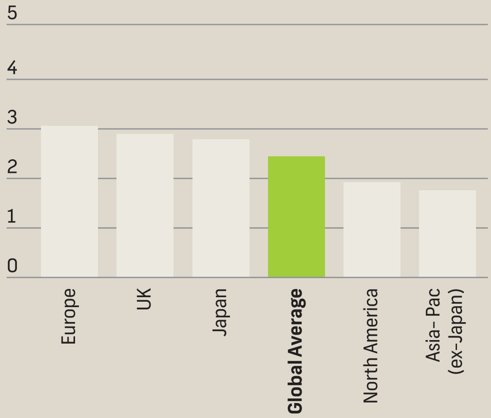
Environmental Management

Europe, UK and Japan score above the global average on the environmental management theme, with North America and Asia Pacific lagging behind. On a country level, Norway, Finland and Spain lead the way while Ireland, Singapore and Hong Kong have the lowest scores. Japan and New Zealand are the only non-European or UK countries to score above average.

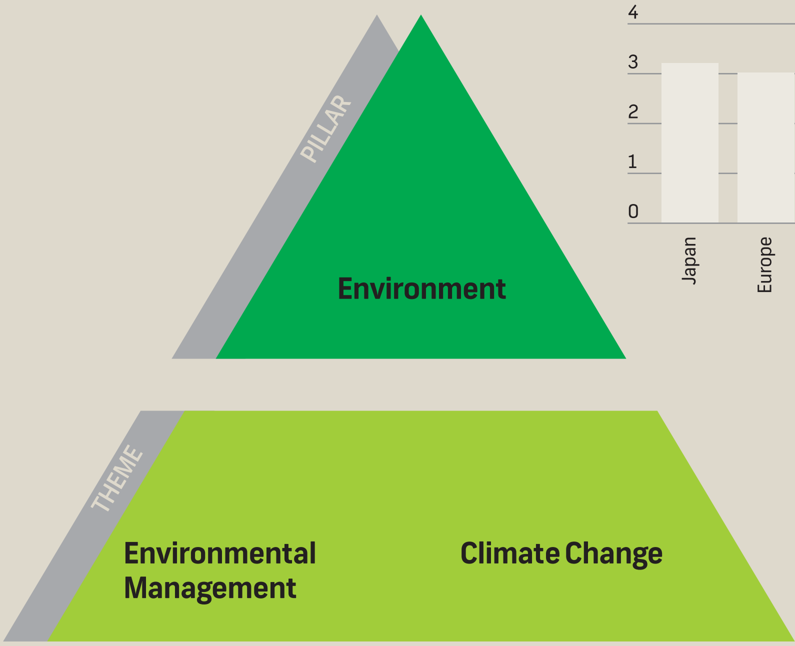
Climate Change

Norway, Denmark and the Netherlands score highest on a country level. The North America and Asia Pacific regions again score below the global average, with Hong Kong, Singapore and Israel showing the lowest average climate change scores.

Average of Environmental Management Score (0 to 5)



Average of Climate Change Score (0 to 5)



TRENDS

European and Japanese companies lead on environmental practices, and the take up of international environmental standards such as ISO14001 is highest in these markets. Practices are significantly lower outside of Japan in Asia Pacific, and in the USA. This reflects in part a US focus on legal compliance, rather than aiming to exceed regulatory requirements through continual improvements. It also represents a relative reluctance to disclose environmental targets and performance data.

Japanese and European businesses are the highest scoring on climate change. In Europe there has been much political focus on the issue and Japan, having hosted the 1997 UN climate meeting that saw the Kyoto Protocol signed, has a high level of focus from the corporate community. The US has a wide diversity of scores with a number of high and low scorers. This reflects the polarised climate change debate in the USA. In Asia Pacific, outside of Japan there are few high scoring companies.

ESG Trends – Social.

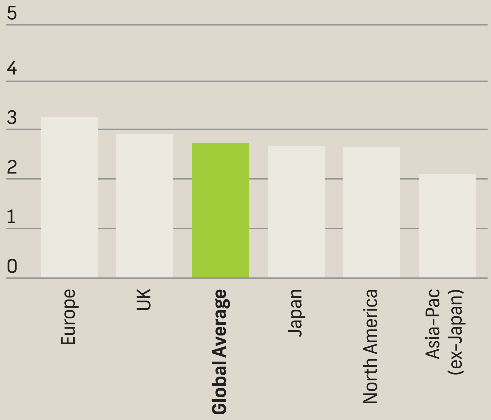
Human & Labour Rights

Europe is the top scoring region with Spain, Italy, Belgium and Greece the top country scorers. This particular theme sees the least amount of variance between the highest and lowest scoring country, with the exception of Singapore and Hong Kong where the average scores dip significantly below the global average.

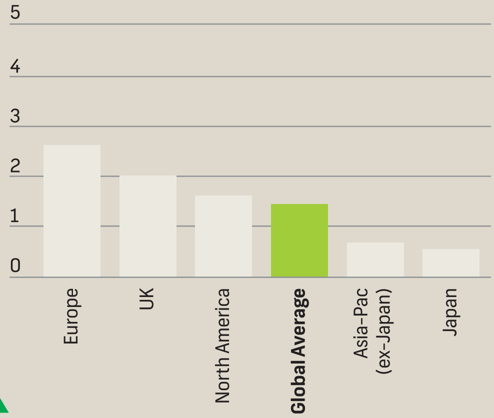
Supply Chain Labour Standards

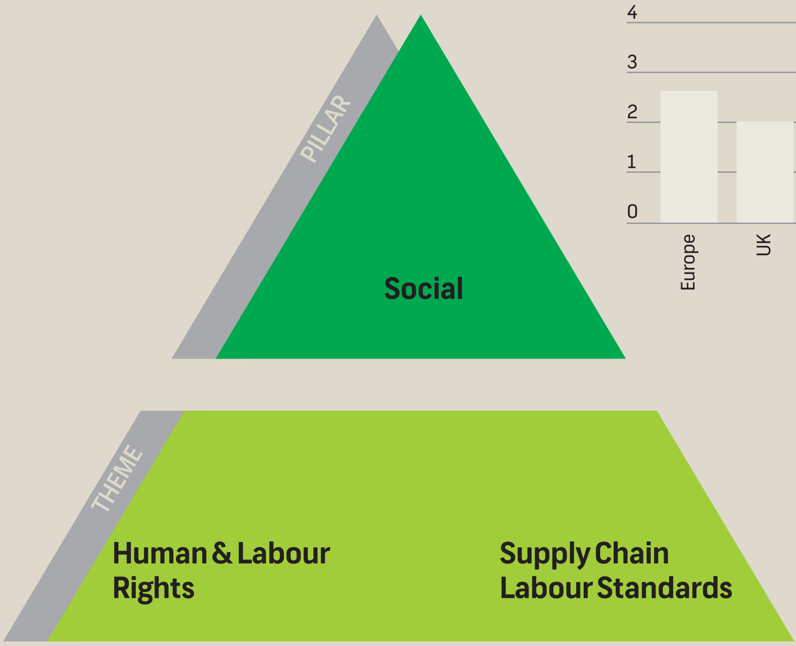
Europe and North America score above the global average with Finland, Germany, and Spain leading in country scores. Although Japan and the Asia Pacific region generally score lower, New Zealand is one of the top 5 countries in this theme. Japan and Hong Kong are the two lowest scoring countries.

Average of Human and Labour Rights Score (0 to 5)



Average of Supply Chain Labour Standards Score (0 to 5)





TRENDS

European companies are the highest scorers by a long way on this theme. UK companies are slightly behind their continental peers and outside of Europe there are very few top scoring companies. The International Labour Organisation core labour standards, and the Universal Declaration of Human Rights enjoy very strong European government support and are also taken seriously by European corporates. The new UN Guiding Principles for the Implementation of the United Nations 'Protect, Respect and Remedy' Framework, is likely to catalyse improvements in company practices around the world on this theme.

This is the lowest scoring theme globally with only about 20% of companies scoring '3' (out of 5) or above. As with human and labour rights, European companies dominate the top scoring categories. The US has a higher proportion of top scorers than the UK, but also has many more bottom scorers. Japanese companies score particularly badly here, which is a consequence of the low profile this issue has in the country. Conversely in the US and Europe high profile NGO campaigns and media coverage have led to increased focus on this issue.

ESG Trends – Governance.

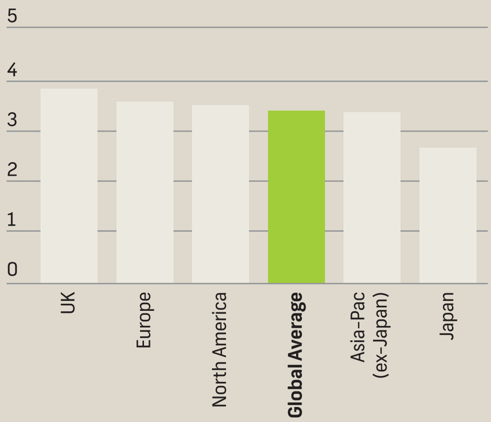
Corporate Governance

The UK, Europe, and North America all have scores above the global average. While Norway, Finland, Netherlands and Sweden are the highest scoring countries, Singapore is ahead of regional peers and scores above the global average in this theme. Japan is the lowest scoring country in this theme.

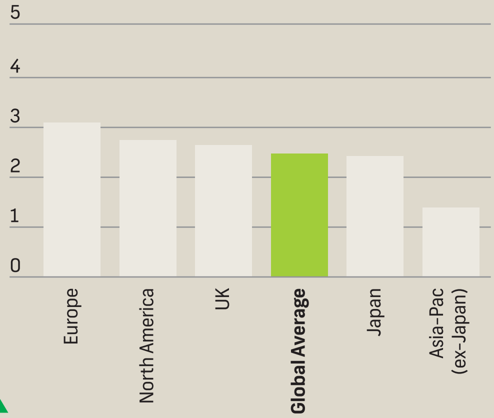
Countering Bribery

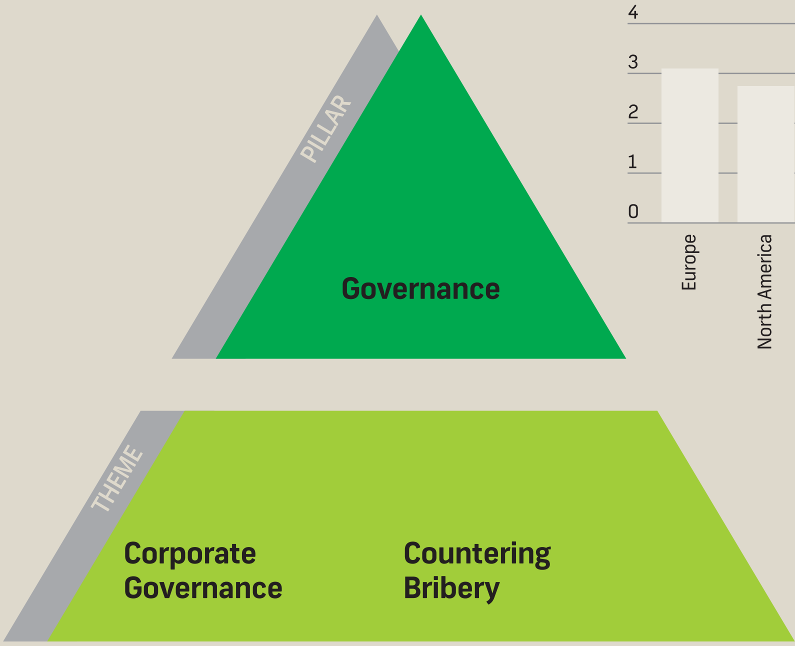
While Europe, North America and UK score above the average, Asia-Pacific as an entire region sees lower scores with Korea, Hong Kong and Singapore the bottom three countries. Ireland, Italy and Germany have the highest average scores, with Greece as the only European or North American country below the global average.

Average of Corporate Governance Score (0 to 5)



Average of Countering Bribery Score (0 to 5)





TRENDS

For most regions the score distributions are similar. The exception to this are Japanese companies who score less well than other regions due to having fewer independent board directors and lack of women on the board.

There are very significant differences in corporate anti-bribery controls across the regions and Asia-Pacific scores particularly badly. The Sarbanes-Oxley regulations in the US have meant that companies have had to meet legal requirements in relation to anti-bribery mechanisms. These have meant that American companies have had to meet legal requirements in relation to anti-bribery mechanisms. It follows that while some companies in other countries get bottom scores for this theme, corporates in US tend to score at least 3 out of 5. Asia ex-Japan scores very badly. However it is also interesting to note that companies in Europe have the highest proportion of top-scores, and have the highest average, despite also having a significant number of bottom scores.

ESG Trends – Supersectors.

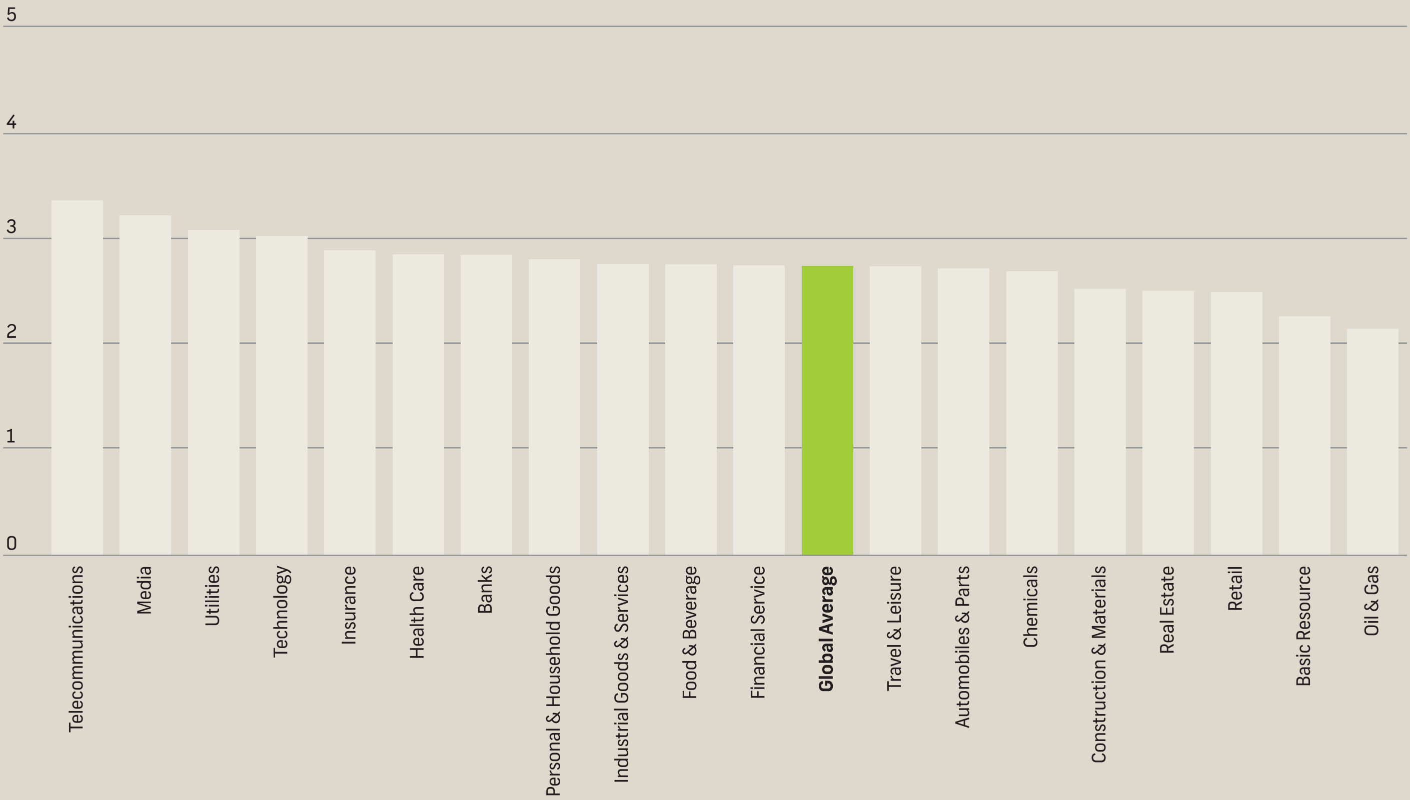
Looking at the average overall ESG scores across the 19 global Supersectors (using the Industry Classification Benchmark methodology) it is apparent that those with higher ESG risks mostly score below the global average. Conversely, Supersectors with lower ESG risks make up the majority of those scoring above the global average.

Telecommunications, Media and Utilities are the Supersectors with the highest overall ESG scores. Telecommunications is also leading in the Environmental and Social Pillars.

Real Estate, Basic Resources and Oil & Gas rank as the bottom Supersectors in terms of overall rating. While the Automobile & Parts Supersector scores below the global average in overall rating and in the bottom four for Social and Governance Pillar, they are number two for average Environmental Pillar Score.

Retail scores below average overall and in the Social Pillar, is the third highest scoring Supersector when it comes to Governance, but is last in the Environmental Pillar.

Average of Overall ESG Rating – Absolute (0 to 5)



Top Scoring Supersectors

Environment
- Telecommunications
- Automobile & Parts
- Technology

Social
- Telecommunications
- Utilities
- Banks

Governance
- Media
- Insurance
- Financial Services

Bottom Scoring Supersectors

Environment
- Retail
- Financial Services
- Oil & Gas

Social
- Oil & Gas
- Automobile & Parts
- Basic Resources

Governance
- Chemicals
- Automobile & Parts
- Basic Resources

FTSE4Good Policy Committee

Sir Mark Moody-Stuart (Chair)
Chairman,
UN Global Compact
Foundation

Dr Craig Mackenzie (Deputy Chair)
Head of Sustainability,
Scottish Widows
Investment Partnership

Masaru Arai
Advisor to the Board,
Daiwa Asset
Management

Andy Banks
Head of Corporate
Governance,
Legal & General
Investment Management

David Bull
Executive Director,
UNICEF UK

Tom Delfgaauw
Independent
former Chair,
AccountAbility Council

Prof. Tom Donaldson
Chair, FTSE4Good US
Advisory Committee,
The Wharton School

Reg Green
Chair, FTSE4Good BMS
Expert Committee
former Chair, Henderson
Global Investors SRI
Advisory Committee

Will Oulton
Head of Responsible
Investment, EMEA
Mercer

Toby Shillito
Director, CR Index and
Advisory Services
Business in the
Community

Christopher Sutton
Senior Investment
Consultant,
Towers Watson

Helen Wildsmith
Head of Ethical and
Responsible Investment,
CCLA

Simon Williams
Independent
former Director of
Corporate Affairs,
Co-operative Bank

Mark Makepeace (ex officio)
Chief Executive,
FTSE

Peter Webster (ex officio)
Executive Director,
EIRIS

FTSE Responsible Investment Unit

David Harris
Director, Policy
Committee Secretary
david.harris@ftse.com

Jayn Harding
Principal Advisor
jayn.harding@ftse.com

Tony Campos
Senior Executive
tony.campos@ftse.com

Arisa Kishigami
Executive
arisa.kishigami@ftse.com

Stephanie Zhu
Analyst
stephanie.zhu@ftse.com

Victoria Barron
On secondment from CCLA
victoria.barron@ftse.com

EIRIS

Back row, left to right:
Mairead Hancock, Head of Client Services;
Carlota Garcia-Manas, Head of Research;
Emma Cahill, Client Relationship Manager

Front row, left to right:
Jaspreet Duhra, Client Relationship Manager;
Peter Webster, Executive Director

FTSE4Good US Advisory Committee: Prof. Tom Donaldson (Chair); Ron Berenbeim, The Conference Board; Joan Deneher, PineBridge; Adam Greene, US Council for International Business; Craig Metrick, Mercer Investment Consulting

FTSE4Good Breast Milk Substitutes Marketing Expert Committee: Reg Green (Chair); Laura Brooks, Independent; Yve Newbold, Global Ethics Initiative; Neville White, Ecclesiastical Investment Management