

# REFINITIV AFE LOW CARBON SELECT INDEX

## Index Methodology

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## Intended Readership

This document provides details on the construction and maintenance of the Refinitiv AFE Low Carbon Select Index.

## Document Publication

This document is available on the Refinitiv website and on request.

## Feedback

Your questions about the document, suggestions, and contributions are welcome. Please address enquiries to: [IndexManagers@thomsonreuters.com](mailto:IndexManagers@thomsonreuters.com)

# 1. INTRODUCTION

## 1.1 Refinitiv Indices

Serving more than 40,000 institutions in over 190 countries, Refinitiv provides information, insights and technology that drive innovation and performance in global financial markets. Our heritage of integrity enables our customers to make critical decisions with confidence while our best-in-class data and cutting-edge technologies enable greater opportunity.

We enable the financial community to trade smarter and faster, overcome regulatory challenges, and scale intelligently.

Refinitiv provides trusted and innovative indices and index-related services to the investment community. Whether one requires indices for benchmarking, or for the development of investment vehicles, Refinitiv offers a range of index solutions to satisfy the requirements.

## 1.2 The Index

Refinitiv AFE Low Carbon Select Index offers an innovative benchmark for investors wishing to commit capital to companies that actively invest in and promote low carbon activities in the running of their businesses. Since the index includes those companies as constituents that are investing to reduce energy consumption and hence contributing to lower the carbon footprint of the region, it is the best fit and generates the high interest and demand among investors. The index utilizes reported CO2 levels of constituents of starting universe and the final index selection reflects the principles and impact of CO2 levels.

The index tracks the price and total return of selected 30 publicly traded equities in selected countries as defined in starting universe.

## 1.3 Constituent Universe

The constituents' universe includes equities traded on Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Saudi Arabia, Qatar, and the United Arab Emirates. To construct the parent index, the universe then follows rules applied to Refinitiv Global Equity Indices (RGEI), which are free float adjusted market capitalization weighted indices, with the following inclusion criteria:

- A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
- A minimum of 3 months trading history;
- Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, Refinitiv uses the security's primary listing to determine membership.
- Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:

- Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
- Be part of the top 99.5% of the trading value of the exchanges under consideration;
- Trade on at least 90% of trading days; and
- Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The parent index is rebalanced biannually every April and October.

For a complete description of the index rules, please refer to the methodology for Refinitiv Global Equity indices, [here](#)

## 2. CONSTRUCTION METHODOLOGY

### 2.1 Universe

The Index Universe is made of companies as described in section 1.3

The universe is as observed on the rebalance effective date.

### 2.2 Data

All stocks in the base universe are first screened for the following indicators:

- i) Price available as of rebalance date
- ii) Share Type
- iii) TRBC
- iv) ESG Analytic Estimated CO<sub>2</sub> Total
- v) ESG CO<sub>2</sub> Estimation Method
- vi) Average Traded Value (182 calendar days)

### 2.3 Composition list

- i) Remove all companies where price is not available as of rebalance date.
- ii) Ensure that all candidates are classified as Ordinary Shares.
- iii) Remove all companies without ESG coverage (i.e., NA value for ESG Analytic Estimated CO<sub>2</sub> Total)
- iv) Identify the economic sectors represented, and calculate the corresponding thresholds
  - Identify sector counts in starting universe, following the screens identified above.
  - Threshold for each sector is calculated as ceiling ( $\text{MAX\_CONSTITUENTS} * \text{SECTOR\_COUNT} / \text{SUM}(\text{SECTOR\_COUNTS})$ ). As an example, if the starting universe has 39 candidates, and Financials sector has 20 candidates, the threshold for Financials in the final portfolio would be:  $\text{ceiling}(30 * 20 / 39) = 16$ .
- v) Order the candidates by ESG Analytic Estimated CO<sub>2</sub> Total (ascending) and add the top equity for each country to the index.
- vi) The remaining constituents in the final portfolio of 30 constituents are then selected by the following method:
  - ESG Analytic Estimated CO<sub>2</sub> Total are examined, considering the CO<sub>2</sub> Estimation Method (possible values are "Reported", "CO<sub>2</sub>", "Energy", and "Median"). Priority is given to all companies that have a "Reported" CO<sub>2</sub> value, meaning that they have provided a current number.
  - If the 30 constituent threshold has not been reached using companies with reported values, the selection is then repeated using values based upon "CO<sub>2</sub>" model estimation. The process is

repeated as necessary, using “Energy”, and then “Median” (a model based only upon on peer group reporting)<sup>1</sup>.

- Constituents are added subject to the sector and country thresholds established above.
- vii) Determine weight based upon free float market cap.
- Check individual weight capping--maximum 10% for any individual equity—and adjust weight as necessary. Any excess weight is allocated proportionally to individual constituents that have not been capped.

## **2.4 Security types**

Only common stocks trading on exchanges stated in Section 1.3 are included in the Index.

## **2.5 Base values and Inception date**

100, on 30/6/2015

## **2.6 Index live date**

31/8/2020

## **2.7 Index types, currencies, calculation frequency**

Price and Total return, Currency: USD. Ticks real time, pricing every 15 seconds, calendar: Saudi Arabian Trading Calendar.

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<sup>1</sup> Carbon Estimation methods are discussed in detail in [https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/fact-sheets/esg-carbon-data-estimate-models-fact-sheet.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/fact-sheets/esg-carbon-data-estimate-models-fact-sheet.pdf).

### **3. CALCULATION METHODOLOGY**

The index follows the methodology of Refinitiv Global Equity Indices. For details on data requirement, construction and calculation methodology of Refinitiv Global Equity Indices, please refer Refinitiv Global Equity indices Methodology document [here](#).

## **4. MAINTENANCE**

### **4.1 Daily Index Maintenance**

The securities which form the Index are re-weighted due to changes in the price of the underlying securities change.

The index is maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Refinitiv Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in the Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Refinitiv Corporate Action Methodology that is available [here](#).

### **4.2 Index Rebalance**

Refinitiv AFE Low Carbon Select Index rebalances bi-annually i.e. after close of business on last trading day of June and December.

This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the re-balance process.

## **5. Quality Control**

### **5.1 Quality Control**

Refinitiv has quality control procedures in place to monitor any prices, whether they are obtained from a regulated exchange or other market, prior to calculation of indices as well as prior to publication.

### **5.2 Re-Statement Policy**

A retrospective recalculation will only be made when a manifest and material error has been identified. Any retrospective recalculation will be notified to users via the alert system on Refinitiv Eikon.

### **5.3 Insufficient Data and Market Disruptions**

Refinitiv endeavors to develop and publish indices only where Refinitiv has a high level of confidence of long-term availability and access to the necessary data to administer the indices.

A “Market Emergency” is herein defined as any unscheduled and extraordinary condition in which liquidity in the markets used to source input data is interrupted (such as an event resulting in the unscheduled closing of futures exchanges). Should a Market Emergency occur, Refinitiv reserves the right to take such action with respect to the Index as it deems appropriate given the circumstances and after consulting with the Index Action Committee as appropriate.

Refinitiv will attempt to notify interested parties of any such actions as well in advance as is practicable. There is no assurance, however, that following a Market Emergency, the actions taken in response to such Market Emergency, or any other force majeure event, will not have an adverse effect on the value of the Index or the way it is calculated.

## 6. GOVERNANCE

There is a committee to oversee the Index at Refinitiv Index Business that constructs the index, and ensures that the attributes the index claims to possess are indeed present. This committee also owns index rebalances.

### 6.1 Index Action Committee

There is an internal index action committee (IAC) at Refinitiv Indices. The IAC reviews country and region indices and rebalances. It is composed of the Refinitiv Equity Indices Benchmarks Manager, Refinitiv Commodity Indices Benchmarks Manager, Head of FX Benchmarks Research & Design, Development Manager and Head of Data Operations.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – the necessary liquidity, capitalization assignment (large, mid or small-cap) or style considerations – are indeed present. These reviews take place at each rebalance and at each quarterly review. The Index Action Committee also deals with unusual corporate actions which are not handled by the pricing methodology or by the internal data management team that makes hand- adjustments to the index for items such as mergers and delistings. These reviews take place on a monthly or more frequent basis. Finally, as each index needs a minimum number of constituents in order for its price to be computed, the Index Committee decides if an index should be discontinued or possibly resurrected. This decision will normally be made during the rebalance period but could happen more often.

### 6.2 Benchmark Manager

The Benchmark Manager is a subject matter expert and is responsible for the integrity and quality of the Index which includes the following specific responsibilities:

- Interpreting the Index Methodology and implement the change procedure (if any)
- Reviewing feedback received from the Index stakeholders.
- Developing and implementing changes to the Index Methodology pursuant to feedback from Index stakeholders or in response to market events, subject to Section 7.2, Cessation of an Index.
- Managing interaction with Index stakeholders

### 6.3 Index Stakeholder Feedback

The Benchmark Manager may seek the views of market participants and other Index stakeholders on a bilateral basis from time to time or through one or more Index Advisory Groups. Issues on which the Benchmark Manager may consult Index stakeholders include conditions in the underlying markets that the Index represents, the representativeness of the input data used in the determination of the Index, the performance of the index with respect to the underlying markets that it represents, potential changes to the index calculation methodology, the weight calculation algorithm and exceptional market events.

## **7. METHODOLOGY REVIEWS AND CHANGE PROCEDURES**

### **7.1 Review of the Methodology**

The Refinitiv AFE Low Carbon Select Index Methodology is reviewed once a year and, if required by market events, more frequently. Any potential changes to the Methodology are reviewed by the Index Action Committee and AFE.

### **7.2 Cessation of An Index**

Refinitiv aims not to stop the publication of any index that is used as a benchmark.

For those cases where Refinitiv does decide to stop the publication of an index, Refinitiv will look to find a suitable successor to its role as Administrator of the index. Should no successor be found, Refinitiv will conduct a consultation with any relevant stakeholders, the Index Action Committee and the Refinitiv Independent Oversight Committee. Refinitiv will publish a notice on its website about the possibility of stopping the publication of the Index and inviting anyone to provide feedback.

Such notice will be posted at least 6 months, where possible, prior to cessation of publication of the index, or on a best efforts basis for circumstances beyond the control of Refinitiv. After the consultation period, Refinitiv will publish externally the timeline for cessation. Internally, detailed operating procedures will be drafted to ensure a managed cessation.

**CONTACT US:**

[IndexManagers@thomsonreuters.com](mailto:IndexManagers@thomsonreuters.com)