

S&P Dow Jones Indices

A Division of **S&P Global**

S&P Dow Jones Indices Response to Department of Labor Employee Benefits Security Administration Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk

May 16, 2022

Submitted Electronically

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue NW
Washington DC 20210
Attn: Request for Information Possible Agency Actions

Re: **Z-RIN 1210-ZA30**

S&P Dow Jones Indices LLC (“S&P DJI”) welcomes the opportunity to provide comments on questions raised in the department of Labor (“DOL”) Benefits Security Administration Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk dated February 14, 2022 (the “Request for Information”), as more particularly set out below. We appreciate the DOL’s solicitation of stakeholder views.

If you have any questions or if you would like to discuss any information provided below, please contact us via index_services@spglobal.com.

About S&P Dow Jones Indices

S&P DJI is a leading producer and distributor of benchmarks used by global financial markets. S&P DJI was formed in 2012 by combining the S&P Indices business of S&P Global Inc. and Dow Jones Indexes business of the CME Group. S&P DJI is an independent index provider and separate from market participants, product providers and government entities. S&P DJI does not participate in the markets which our benchmarks measure, is not an investment adviser, investment product issuer or asset manager.

The Role, Function, and Value of Financial Indices

As you know, financial indices have enabled investment advisers and asset managers to offer investors access to a diversified portfolio of investments at low cost and effort. Indices are designed to measure specified markets objectively so that users of market information, particularly investors and their advisers, can make informed decisions that align with their goals. With that in mind, we would like to provide the following information in response to the DOL's Request for Information:

Question 15. The TSP's fund offerings rely on passive index investing. Is there evidence that the indices relied upon by the TSP systematically underestimate or overestimate the risks associated with climate change, or that the market fails to appropriately factor in the risks associated with climate change in pricing publicly-traded assets?

- The S&P 500 and the Dow Jones U.S. Completion Total Stock Market Index (referenced in the Request for Information) are designed to measure, respectively, the performance of the large-cap segment of the broad U.S. equity market and the broad U.S. equity market as a whole. As such, the methodology of the S&P 500 Index and the Dow Jones U.S. Completion Total Stock Market Index does not expressly factor in climate-related data. However, to the extent investors are factoring climate related issues in their investment decisions, those decisions would be reflected in the performance of the overall market and the individual constituents of those indices. In addition, S&P DJI publishes an ESG version of the S&P 500 -- the S&P 500 ESG Index. The S&P 500 ESG Index is a broad-based, market-cap weighted index that is expressly designed to measure the performance of securities meeting sustainability criteria, including climate related risks, while maintaining similar overall industry group weights as the S&P 500. The S&P 500 ESG Index history has demonstrated a similar risk-return profile to the S&P 500.
- In addition, S&P Dow Jones Indices has long recognized the impact that climate change could potentially have in the underlying constituents of such indices and have designed several index strategies that explicitly address such challenges. S&P DJI publishes climate-focused index strategies that range from divestment approaches like the S&P Fossil Fuel Free Indices, to systematic carbon reduction strategies like the S&P Carbon Efficient Indices, to those that target an absolute decarbonization trajectory aligned with 1.5 degree scenario like the S&P PACT® Indices (i.e., S&P Paris-Aligned & Climate Transition Indices).

Question 16. What analysis could FRTIB undertake to inform whether other possible indices may better take into account the risks posed by climate change? What analysis could FRTIB perform to weigh this feature against other characteristics of these indices such as their fees? What actions could FRTIB take to consider climate change and other material ESG factors in directing investment selection decisions for the TSP, consistent with FERSA's statutory requirement that indices be "commonly recognized" and a "reasonably complete representation" of the market?

- We have included descriptions of additional climate-related indices for your analysis. The S&P PACT Indices, which aim to align with a 1.5°C scenario, the EU's minimum standards for Climate Transition Benchmarks ("CTB"s) and Paris-aligned Benchmarks

(“PAB”s) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), launched in April 2020. The S&P PACT Indices go beyond the EU’s minimum standards for CTBs and PABs by using pioneering, forward-looking carbon and physical risk data provided by S&P Global Trucost, as well as incorporating Science Based Targets in its approach. Through this approach, the S&P PACT Indices explicitly address the risks as well as the opportunities posed by climate change. These indices are designed to not only uphold their climate-related objectives but do so while maintaining a similar sector and industry composition to their benchmarks, minimizing active risk. The below chart examines the risk and return characteristics of the S&P PAC Indices relative to their parent indices.

| | S&P Eurozone LargeMidCap | S&P Eurozone LargeMidCap Net Zero 2050 Paris-Aligned Index | S&P Eurozone LargeMidCap Net Zero 2050 Climate Transition Index | S&P Europe LargeMidCap | S&P Europe LargeMidCap Net Zero 2050 Paris-Aligned Index | S&P Europe LargeMidCap Net Zero 2050 Climate Transition Index | S&P 500 | S&P 500 Net Zero 2050 Paris-Aligned Index | S&P 500 Net Zero 2050 Climate Transition Index | S&P Developed ex-Korea LargeMidCap | S&P Developed ex-Korea LargeMidCap NetZero 2050 Paris-Aligned Index | S&P Developed ex-Korea LargeMidCap NetZero 2050 Climate Transition Index | S&P United Kingdom BMI | S&P UK NetZero 2050 Paris-Aligned Index | S&P UK NetZero 2050 Climate Transition Index |
|--------------------------------|--------------------------|--|---|------------------------|--|---|---------|---|--|------------------------------------|---|--|------------------------|---|--|
| Historical Return (%)* | 8.04 | 8.51 | 8.57 | 8.78 | 9.44 | 9.42 | 15.94 | 17.41 | 16.86 | 13.24 | 14.47 | 14.55 | 6.36 | 6.24 | 6.79 |
| Historical Excess Return (%)* | - | 0.47 | 0.53 | - | 0.66 | 0.64 | - | 1.47 | 0.92 | - | 1.23 | 1.32 | - | -0.13 | 0.43 |
| Historical Risk (%)* | 18.66 | 18.29 | 18.12 | 16.36 | 15.60 | 15.77 | 15.41 | 15.70 | 15.62 | 14.89 | 14.92 | 14.95 | 17.15 | 17.13 | 16.69 |
| Historical Tracking Error (%)* | - | 47.92 | 44.83 | - | 67.73 | 60.16 | - | 45.42 | 39.67 | - | 50.74 | 44.77 | - | 108.54 | 79.78 |
| Historical Return/Risk* | 0.43 | 0.47 | 0.47 | 0.54 | 0.61 | 0.60 | 1.03 | 1.11 | 1.08 | 0.89 | 0.97 | 0.97 | 0.37 | 0.36 | 0.41 |
| Active Share (%) | - | 22.82 | 15.13 | - | 19.11 | 12.99 | - | 25.54 | 17.55 | - | 20.06 | 15.33 | - | 20.72 | 22.18 |
| Stock Count | 247 | 148 | 191 | 472 | 311 | 373 | 505 | 279 | 370 | 1699 | 818 | 931 | 378 | 224 | 261 |

Source: S&P Dow Jones Indices LLC. Data as of February 2022. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. The S&P Eurozone LargeMidCap Net Zero 2050 Paris-Aligned ESG Index was launched April 20, 2020. The S&P Europe LargeMidCap Net Zero 2050 Paris-Aligned ESG Index was May 04, 2020. The S&P Developed Ex-Korea LargeMidCap Net Zero 2050 Paris-Aligned Index was launched Feb. 7, 2022. The S&P 500 Net Zero 2050 Paris-Aligned ESG Index was launched June 1, 2020. The S&P UK Net Zero 2050 Paris-Aligned ESG Index was launched Oct. 25, 2021. *Data from December 2016 to February 2022.

S&P DJI is constantly innovating to develop new indices to respond to changing market environments and demands. We would be happy to discuss market-related index needs and the matters described herein with you as you refine your thinking in this area. More information about the S&P ESG Indices can be found here:

<https://www.spglobal.com/spdji/en/index-family/esg>. Information about S&P Global’s capabilities, research and analytics related to climate and ESG data can be found here: <https://www.spglobal.com/esg/>.

We remain at your disposal to discuss our response and to provide further insights.

Respectfully submitted,

S&P Dow Jones Indices