Table of Contents

Introduction ......................................................................................................................... 2

Highlights ............................................................................................................................ 2

Methodology ....................................................................................................................... 3

About Us .............................................................................................................................. 6
Introduction

NSE Indices Limited (formerly known as India Index Services & Products Limited-IISL), a NSE group company provides a variety of indices and index related services and products for the Indian capital markets.

Environmental, Social and Governance based investment strategy has gained popularity among investors globally. The underlying drive behind ESG theme based investing lies in generating superior risk adjusted returns from socially responsible, environment friendly and ethical firms. The construct of NIFTY100 ESG indices results in portfolio with similar sector exposure vis-à-vis NIFTY 100 (parent index), but with stock level ESG tilt. This results in portfolio with higher weightage towards companies with better ESG performance.

Highlights

- Designed to reflect the performance of companies that are part of NIFTY 100 index, based on Environmental, Social and Governance score.
- The companies that are involved in any major Environmental, Social or Governance controversy shall not be considered for selection in the index
- Companies engaged in the business of tobacco, alcohol, controversial weapons and gambling operations shall be excluded
- Sector weights are based on free float market cap. Each index constituent within sector is tilt weighted based on ESG score and is capped at 10%.
- The indices has a base date of April 01, 2011 and a base value of 1000.
Methodology

Eligibility criteria
To form part of NIFTY100 ESG Index and NIFTY100 Enhanced ESG Index, stocks should qualify the following eligibility criteria(s). The ESG and controversy research is provided by Sustainalytics.

Universe:
• Stock should form part of NIFTY 100 at the time of index review
• Only ordinary equity shares will be considered.

ESG Score:
ESG performance of a company is measured on three pillars: environmental, social and governance. Sustainalytics has defined set of indicators which evaluate the company’s performance within each criterion. On each applicable indicator, a company is assigned a score of 0 to 100. The weight of each indicator depends on the relevance and importance of the indicator in the sector in which the company operates. Based on the raw score and weight of all applicable indicators across E, S and G pillar, a weighted average company level ESG score is determined, which ranges from 0 to 100.

The companies are assessed annually by Sustainalytics based on annual filings & other sources. Additionally, companies are monitored on an ongoing basis for any controversy pertaining to ESG.

Based on ESG scores following companies are eligible for inclusion in NIFTY100 ESG Indices:
• Companies should have an ESG score at the time of review
• For inclusion in NIFTY100 Enhanced ESG Index, the company should have normalized ESG score of at least 50%.
Controversy:
A key component of Sustainalytics ESG research focuses on assessing a company's involvement in incidents and controversies which may potentially imply higher risk to the investors. Events are classified into 10 areas across E, S and G pillars and are scored on a scale from one to five, depending on the reputational risk to the company and potential impact on stakeholders. “Category 1” controversy event has low impact whereas “Category 5” controversy event has the highest, indicating a severe impact on the involved stakeholders.

- Companies with controversy category of 4 and 5 shall be excluded (scale: 1-5, category 1 being least controversial)

Business Involvement:
Companies engaged in the business of tobacco, alcohol, controversial weapons and gambling operations are excluded. Controversial Weapons include chemical weapons, biological weapons, anti-personnel mines and cluster bombs

Information for excluding companies based controversial weapons is provided by Sustainalytics.

Reconstitution & Rebalancing criteria
- Index will be reconstituted semi-annually in June and December.
- Stocks that meet the above eligibility criteria will be considered eligible
- Stocks that do not form part of NIFTY 100 at the time of review are excluded
- An existing constituent is compulsorily excluded if it has controversy category of 4 or 5 (scale: 1-5, category 1 being least controversial)
- For constituents of ‘NIFTY100 Enhanced ESG Index’, if the normalized ESG score falls below 49%, such stocks shall be excluded from the index
- Apart from the scheduled review, additional ad-hoc reconstitution and rebalancing of the index will be initiated in case of
  - the index constituents ceases to form part of NIFTY 100 due to suspension, delisting or scheme of arrangement
  - If an index constituent is flagged for controversy category 5.
• Further, on a quarterly basis indices will be screened for compliance with the portfolio concentration norms for ETFs/ Index Funds announced by SEBI on January 10, 2019. In case of non-compliance, suitable corrective measures will be taken to ensure compliance with the norms.

**Weight and Capping:**

• Weight of sectors will be based on free float market capitalization of the eligible constituents.
• Sector with weight > 25% in the parent index, will be capped at the same weight in the ESG indices.
• Sector with weights < 25% in the parent index, will be capped at 25% in the ESG Indices (in case of breach)
• Each constituent within sector is tilt weighted based on ESG score i.e. the constituent weight is derived from its free float market capitalization and ESG score
• Constituent weight is capped at 10%
• The weights may drift between rebalancing due to the movement in stock prices

**Calculation Frequency:**

The index is calculated on an end of day basis for all days National Stock Exchange of India is open for trading in equity shares.

**Index Governance:**

A professional team at NSE Indices Limited manages the index. NSE Indices Limited has constituted the Index Advisory Committee (Equity), which provides guidance on macro issues pertaining to equity indices. The Index Maintenance Subcommittee makes all decisions on additions and deletions of companies in equity indices and Index Advisory Committee (Debt) provides guidance on macro issues pertaining to fixed income indices. The Committees comprises of representatives from financial market such as Asset Management Company, insurance company, rating agency etc. In order to maintain transparency, the names of the committee member are publicly displayed on the website. None of the member in the above committee except the exchange representative(s) (who co-ordinates between the Index Advisory Committee - Equity and IMSC) represent more than one committee and thereby the independence of each of the committees is maintained.
About Us

About National Stock Exchange of India Limited (NSE):
National Stock Exchange of India Ltd. (NSE) is the leading stock exchange in India and the second largest in the world by nos. of trades in equity shares from January to December 2018, according to World Federation of Exchanges (WFE) report. NSE was the first exchange in India to implement electronic or screen-based trading. It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on SEBI data. NSE has a fully-integrated business model comprising exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions and financial education offerings. NSE also oversees compliance by trading and clearing members with the rules and regulations of the exchange. NSE is a pioneer in technology and ensures the reliability and performance of its systems through a culture of innovation and investment in technology. NSE believes that the scale and breadth of its products and services, sustained leadership positions across multiple asset classes in India and globally enable it to be highly reactive to market demands and changes and deliver innovation in both trading and non-trading businesses to provide high-quality data and services to market participants and clients.

For more information, please visit: www.nseindia.com

About NSE Indices Limited:
NSE Indices Limited (formerly known as India Index Services & Products Ltd. - IISL), a subsidiary of NSE, provides a variety of indices and index related services for the capital markets. The company focuses on the index as a core product. The company owns and manages a portfolio of indices under the NIFTY brand of NSE, including the flagship index, the NIFTY 50. NIFTY equity indices comprises of broad-based benchmark indices, sectoral indices, strategy indices, thematic indices and customised indices. NSE Indices Limited also maintains fixed income indices based on Government of India securities, corporate bonds, money market instruments and hybrid indices. Many investment products based on NIFTY indices have been developed within India and abroad. These include index based derivatives traded on NSE, NSE IFSC and Singapore Exchange Ltd. (SGX) and a number of index funds and exchange traded funds. The flagship ‘NIFTY 50’ index is widely tracked and traded as the benchmark for Indian Capital Markets.

For more information, please visit: www.niftyindices.com
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