Press Release Boston, London, Nice, Paris, Singapore, Tokyo, February 25, 2020

Unsustainable Proposals

By failing to represent investors' interests and through its deficiencies, the proposal for the new European regulation on sustainable benchmarks is not the right answer to climate transition

In a comprehensive analysis of the recent proposals from the Technical Expert Group (TEG), which the European Commission mandated to assist it in drawing up delegated acts implementing the Regulation on Climate Benchmarks and Sustainability Disclosures of Benchmarks (2019/2089), Scientific Beta underlines that these proposals go against the legislator's goal of an ambitious reorientation of investment flows in support of climate transition and sustainability.

Where the Regulation was calling for explanations of how ESG dimensions are incorporated into sustainable benchmarks, the TEG champions the imposition of extensive and expensive ESG disclosures. These onerous reporting requirements would discourage the offering and adoption of benchmarks that pursue Climate Change or other ESG objectives. In addition, the proposed disclosures would fail to promote informed decision-making in terms of sustainability. This is both because they centre on ESG ratings whose inherent divergence frustrates the possibility of meaningful comparisons and because the TEG fails to standardise disclosures in respect of ESG metrics that could have relevance. Hence, the TEG proposals set out strong ambitions on ESG disclosure and allow each benchmark administrator to use its own definitions, for example in respect of controversial activities. In this, the TEG proposals not only do little to promote sustainability but also and most perversely allow ESG-washing to be performed under the falsely protective mantle of sustainability regulation.

Scientific Beta also questions the relevance and adequacy of the exotic carbon exposure metric introduced by the TEG. The recommendation of the TEG to deviate from the generally-accepted carbon exposure metric is supported neither by a literature review nor a cost/benefit analysis. In addition, Scientific Beta shows that this alternative metric suffers from significant biases and flaws and that it may lead to disregarding the efforts made by companies to mitigate their greenhouse gas emissions. This final effect is a pathetic travesty of the design of the regulation.

Last but not least, by anchoring the construction of Climate Benchmarks to cap-weighted references, the proposal fails to take account of the variety of benchmarks used by institutional investors and their desire, which has been expressed for many years, to distance themselves from inefficient cap-weighted indices. Here too, the poor quality of the proposals will be a hurdle to broad adoption of Climate Benchmarks by investors, who will be forced to choose between meeting fiduciary and ESG objectives.

In conclusion, Scientific Beta regrets that this text was drawn up hastily by a working group that was dominated by providers of ESG data and services and did not include pension funds and that it puts forward pointless and costly reporting obligations for which no impact study was carried out by the Commission.

The Scientific Beta white paper can be accessed through the link below:

Unsustainable Proposals, February 2020, Scientific Beta Publication

Contact:
For more information, please contact: **Séverine Cibelly**
Tel.: **+33 493 187 863** – E-mail: severine.cibelly@scientificbeta.com
To visit our web site: www.scientificbeta.com

About Scientific Beta

Scientific Beta aims to be the first provider of a smart beta indices platform to help investors understand and invest in advanced beta equity strategies. Established by EDHEC-Risk Institute, one of the top academic institutions in the field of fundamental and applied research for the investment industry, Scientific Beta shares the same concern for scientific rigour and veracity, which it applies to all the services that it offers investors and asset managers. On January 31, 2020, Singapore Exchange (SGX) acquired a majority stake in Scientific Beta. SGX will maintain the strong collaboration with EDHEC Business School, and principles of independent, empirical-based academic research, that have benefited Scientific Beta's development to date.

The Scientific Beta offering covers three major services:

- **Scientific Beta Indices**
  Scientific Beta Indices are smart beta indices that aim to be the reference for the investment and analysis of alternative beta strategies. Scientific Beta Indices reflect the state-of-the-art in the construction of different alternative beta strategies and allow for a flexible choice among a wide range of options at each stage of their construction process. This choice enables users of the platform to construct their own benchmark, thus controlling the risks of investing in this new type of beta (Smart Beta 2.0).

  Within the framework of Smart Beta 2.0 offerings, Scientific Beta provides access to smart factor indices, which give exposure to risk factors that are well rewarded over the long term while at the same time diversifying away unrewarded specific risks. By combining these smart factor indices, one can design very high performance passive investment solutions.

- **Scientific Beta Analytics**
  Scientific Beta Analytics are detailed analytics and exhaustive information on its smart beta indices to allow investors to evaluate the advanced beta strategies in terms of risk and performance. The analytics capabilities include risk and performance assessments, factor and sector attribution, and relative risk assessment. Scientific Beta Analytics also allow the liquidity, turnover and diversification quality of the indices offered to be analysed. In the same way, analytics provide an evaluation of the probability of out-of-sample outperformance of the various strategies present on the platform.

- **Scientific Beta Fully-Customised Benchmarks and Smart Beta Solutions** is a service proposed by Scientific Beta, and its partners, in the context of an advisory relationship for the construction and implementation of benchmarks specially designed to meet the specific objectives and constraints of investors and asset managers. This service notably offers the possibility of determining specific combinations of factors, considering optimal combinations of smart beta strategies, defining a stock universe specific to the investor, and taking account of specific risk constraints during the benchmark construction process.

With a concern to provide worldwide client servicing, Scientific Beta is present in Boston, London, Nice, Singapore and Tokyo. As of December 31, 2019, the Scientific Beta indices corresponded to USD 59.2bn in assets under replication. Scientific Beta has a dedicated team of 52 people who cover not only client support from Nice, Singapore and Boston, but also the development, production and promotion of its index offering. Scientific Beta signed the United Nations-supported Principles for Responsible Investment (PRI) on September 27, 2016.

On November 27, 2018, Scientific Beta was presented with the Risk Award for Indexing Firm of the Year 2019 by the prestigious professional publication Risk Magazine. On October 31, 2019, Scientific Beta received the Professional Pensions Investment Award for "Equity Factor Index Provider of the Year 2019."

Risk Awards 2019 Winner
Scientific Beta
Indexing firm of the year

PROFESSIONAL PENSIONS
INVESTMENT AWARDS 2019
WINNER
Equity Factor Index Provider of the Year
Scientific Beta