RAFI Indices™

RAFI™ Fundamental Carbon Neutral Index Series

BENEFITS OF FUNDAMENTAL INVESTING AT CARBON-INTENSITY LEVELS OF THE MARKET

The RAFI Fundamental Carbon Neutral Indices begin with the RAFI Fundamental Index™ and tilt constituent weights at each rebalance to be at or below the carbon-intensity levels of the market.

The series is designed for investors who seek both to retain the benefits associated with the Fundamental Index and to mitigate their exposure to high-emitting companies.

- Matches carbon intensity of the market
- Breaks the link between price and weight
- Engages in contrarian rebalancing, helping investors seek excess return

RAFI FUNDAMENTAL CARBON NEUTRAL INDEX METHODOLOGY

STARTING UNIVERSE

Start with the RAFI Fundamental Index

DETERMINE COMPANY LEVEL CARBON INTENSITY (CI)

Define Carbon Intensity as Carbon Footprint/Company Revenue
Apply 5% penalty to companies with estimated emissions data

INDUSTRY EXCLUSIONS

Global Carbon Neutral Index:

- No exclusions

Emerging Markets Carbon Neutral Exclusion Screened Index:

- Controversial Weapons
- Military Equipment
- UN Global Compact Violators
- Tobacco Production
- Fossil Fuel Exploration & Production

PORTFOLIO TILT

- Tilt toward carbon efficient companies (at the expense of less efficient companies) until target CI reached
- At each rebalance, ensure carbon intensity is equal to an equivalent cap-weighted index

CONSTRAINTS & REBALANCING

- 4x Volume weight constraint
- 10% maximum weight constraint
- Quarterly staggered rebalancing

INDEX OVERVIEW

Expected Outcomes and Benefits

1. The strategy applies a 5% carbon intensity penalty to companies with estimated emissions data and tilts toward carbon-efficient companies (at the expense of less efficient companies) until target carbon-intensity is reached.
2. Systematically rebalances using a company's fundamental weight as a rebalancing anchor, embedding a buy-low, sell-high approach.
3. At each rebalanace, the strategy ensures carbon intensity is equal to an equivalent cap-weighted index.
4. The strategy retains all the benefits of the Fundamental Index approach, including transparency, broad market exposure, and low implementation costs.

Investors can retain the benefits associated with the Fundamental Index methodology, while also maintaining carbon-intensity levels equal to that of the market.

Signatory of:

PRI Principles for Responsible Investment

RAFI Indices™

BENEFITS OF THE FUNDAMENTAL INDEX APPROACH

The RAFI Fundamental Index approach is founded on principles of contrarian investing and disciplined rebalancing. By using fundamental measures of company size to select and weight companies, the approach eliminates the performance drag associated with traditional passive investment vehicles.

The RAFI Fundamental Index strategy is a broadly diversified equity strategy built on the principles of contrarian investing and disciplined rebalancing.

RAFI Benefits

1. Demonstrated excess returns vs. cap-weight index
2. Broadly diversified and economically representative
3. Low tracking error relative to cap-weight index
4. High capacity
5. Low implementation costs

OUR FORECASTING TOOL

Asset Allocation Interactive
Expected returns & volatilities for 140+ assets over 40 countries, model portfolios and other strategies.
Visit researchaffiliates.com/aai.

RELATED RESEARCH

"Carbon Intensity for Climate Mitigation: Clearing Up 'Scaling' Confusion"
Brightman, Kalesnik, Polychronopoulos, Shim
July 2022

"Necessary Trade-Offs: Climate vs. Investment Objective for Value Strategies"
Chow, Li, Polychronopoulos
September 2022

"Fundamental Indexation"
Arnott, Hsu, Moore
March 2005
Financial Analysts Journal

"Green Data or Greenwashing? Do Corporate Carbon Emissions Data Enable Investors to Mitigate Climate Change?"
Kalesnik, Wilkens, Zink
January 2021

RESEARCH AFFILIATES

At a Glance

US$188B*

in assets managed worldwide using investment strategies developed by Research Affiliates.

400+ articles published

Important recognitions** include:

Graham & Dodd Awards
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"Reports of Value's Death May Be Greatly Exaggerated"

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Bernstein Fabozzi/Jacobs Levy Award
"Alice's Adventures in Factorland: Three Blunders That Plague Factor Investing"
"A Study of Low-Volatility Portfolio Construction Methods"

2002

Founded by Rob Arnott and based in Newport Beach, California.

FIRM LEADERSHIP

Average of **40+ years in industry experience**.

Rob Arnott
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Katrina Sherrerd, PhD, CFA
Partner, Vice Chair & Chief Executive Officer

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Partner, Chief Investment Officer

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