

FTSE EU Climate Benchmarks Index Series

Building decarbonization trajectories into the next generation of climate indexes

Overview

Climate transition benchmarks have become a focal point for investors looking to integrate climate risks and opportunities into their portfolios and align them with the goals of the Paris Agreement.

The EU has introduced minimum requirements for climate benchmarks to encourage standardization and transparency regarding funds seeking to demonstrate alignment with these goals. The two benchmark standards, the Paris Aligned Benchmark (PAB) and the Climate Transition Benchmark (CTB) both help investors reach their net zero objectives through two slightly different decarbonization trajectories.

The **FTSE EU Climate Benchmark Index Series** combine FTSE Russell's expertise in climate data and index design with the Transition Pathway Initiative (TPI)'s data. The TPI analyzes how the world's largest and most carbon exposed/intensive public companies are managing the climate transition. Both the PAB and CTB indexes are designed to align with EU Low Carbon Benchmarks requirements and a 1.5°C warming scenario. They also aim to meet the needs of investors looking to support a net zero strategy.

Benefits

Exceeds the minimum requirements of the EU Climate Benchmarks Regulation via:

- Targets on increased exposure to companies with Green Revenues, high climate governance, and emission reductions that are in line with the goals of the Paris Agreement
- Exclusions applied to 'pure play' (companies deriving >50% of revenues from) oil sands and thermal coal extraction as well as thermal coal power generation companies, for the Climate Transition (CTB) indexes
- Limits on weights of companies within the Banking sector

Combines market-leading insights and data from FTSE Russell and the Transition Pathway Initiative

Offers global and diversified exposure whilst addressing multiple climate objectives including index decarbonization consistent with a 1.5°C warming scenario.

Features

The index methodology is designed to reflect the performance of a global and diversified basket of securities where their weights are varied to account for risks and opportunities associated with the transition to a low carbon economy.

The methodology aligns to the minimum standards for EU Low Carbon Benchmark Requirements¹ and supports investors' decarbonization strategies.

FTSE Russell data inputs capture company exposure to:

- Green Revenues
- Fossil Fuel Reserves
- Carbon Emissions

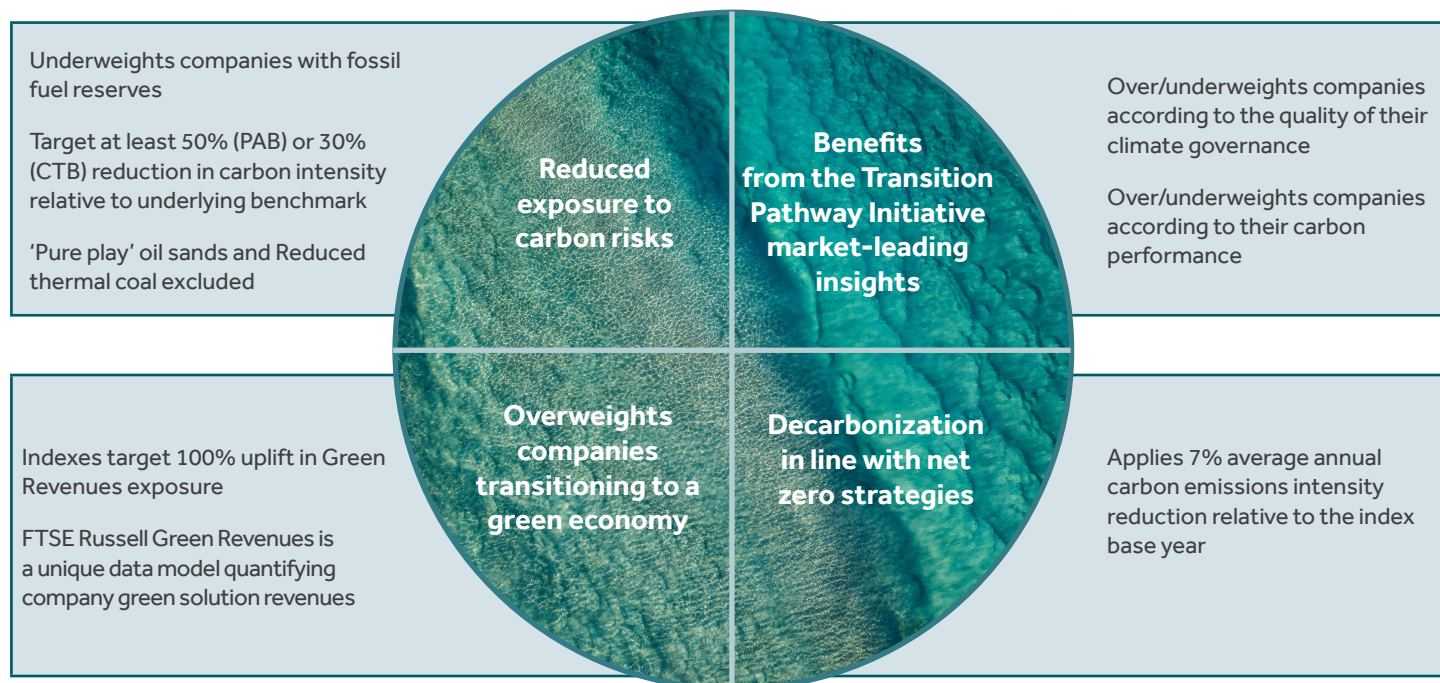
Includes forward-looking views on company alignment with the climate transition via the TPI Management Quality and Carbon Performance assessments.

Facilitates investment products' alignment with the EU Sustainable Finance Disclosure Regulations Article 8/9 categories.

Constructed with the FTSE Target Exposure Framework, which allows a transparent tilt exposure towards and away from index constituents.

1. [Commission Delegated Regulation 2020/1818 of 17 July, 2020](#), European Commission, 17 July 2020.

Key climate change parameters



Aligning an index with the climate transition

The result is a broad offering of global and domestic equity markets across flagship benchmarks — including the well-known FTSE Global Equity Index Series (FTSE GEIS), and the FTSE UK Index Series — which provide clients with a comprehensive foundation for both their global and local market investing needs.

FTSE Paris-aligned Benchmark (PAB) Indexes	FTSE Climate Transition Benchmark (CTB) Indexes
FTSE All-World Paris-Aligned (PAB) Index	FTSE All-World Climate Transition (CTB) Index
FTSE Developed Paris-Aligned (PAB) Index	FTSE Developed Climate Transition (CTB) Index
FTSE Developed ex Korea ex Poland Paris-Aligned (PAB) Index	FTSE Developed ex Korea ex Poland Climate Transition (CTB) Index
FTSE Emerging Paris-Aligned (PAB) Index	FTSE Emerging Climate Transition (CTB) Index
FTSE Emerging with Korea & Poland Paris-Aligned (PAB) Index	FTSE Emerging with Korea & Poland Climate Transition (CTB) Index
FTSE All-Share Paris-Aligned (PAB) Index	FTSE All-Share Climate Transition (CTB) Index

Index construction process

Starting Universe

Start with market capitalization weighted index (e.g. FTSE All-World, FTSE Developed Index, FTSE All-Share Index).

Step 1

Exclude companies

Baseline exclusions

Controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons), tobacco production and companies identified as being non-compliant with UN Global Compact (UNGC) principles.

Do No Significant Harm (DNSH)

To align to the EU concept of DNSH, companies are also excluded if they have UNGC “watchlist” status in relation to UNGC Environment principles (principles 7, 8, 9).

Paris-aligned (PAB) activity exclusions

- Companies producing thermal coal
- Companies generating 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil & gas (including oil sands)
- Companies generating 50 % or more of their revenues from electricity generation from thermal coal or oil & gas

Climate Transition (CTB) activity exclusions

- Companies generating 50 % or more of their revenues from the exploration, extraction, distribution or refining of oil sands or thermal coal
- Companies generating 50 % or more of their revenues from electricity generation from thermal coal

Step 1

Step 2

Translate scores into tilts

Adjustments to constituents to meet the minimum requirements of the EU's Climate Benchmarks with decarbonization goals of 7% average annual carbon intensity, in addition to a minimum 50%/30% reduction respectively in carbon emissions and equal active weight in High Climate Impact Sector relative to the underlying index.

In addition to EU minimum requirements, the FTSE EU Climate Benchmarks indexes incorporate the following targets:

- 100% increase in exposure to green revenues relative to a reference benchmark
- No overweight relative to benchmark weight for companies in the ICB Sub-Sector Banks (30101010)
- Improvements in Climate governance and commitments to 'Paris aligned' carbon emissions pathways based on the TPI's Management Quality and Carbon Performance assessments, respectively

In addition, companies identified as not aligned to the objectives of the Paris Agreement are removed from the index (but remain eligible for inclusion and can be re-admitted once 'Paris aligned' commitments are evident).

Index targets are achieved using 'tilts' (over or under weights to constituents) based on a range of constituent-level data.

Step 1

Step 2

Step 3

Narrow index and constrain final weights

Remove stocks which do not contribute to the overall factor objective, whilst ensuring that diversification constraints are not breached. The index methodology also includes country, industry, and stock level constraints in order to limit concentration issues and aim to achieve a diversified outcome.

Step 1

Step 2

Step 3

Step 4

Publish and Review index

The indexes are reviewed annually in September (FTSE Global Equity Index Series, FTSE UK Index Series).

For more information about our indexes, please visit ftserussell.com.

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