

SELECTING THE RIGHT INDEX FOR YOUR SUSTAINABLE INVESTMENT OBJECTIVES

FTSE
Russell

The future of investment is
sustainable investment



An LSEG Business



Sustainable investment is key to the successful transition to a world that is sustainable, but achieving this critical shift across financial markets requires committed momentum and conviction. As a global index provider FTSE Russell, an LSEG business, is a key enabler of this massive, ongoing capital shift.

Based on research that shows a strong correlation between sustainability/ESG consideration and performance – a shift from previous investor sentiment — today's institutional investors consider sustainability issues when making major portfolio allocations. According to our annual Sustainable Investment survey that takes the pulse of global asset owner thinking, 88% of respondents were implementing or evaluating sustainable investment in 2022.¹

For over 20 years, our deep relationships throughout the investment value chain have enabled us to facilitate collaborative action between issuers, investors and policymakers. Our broad range of indices, data and analytics cover thousands of corporates and the main sovereign issuers globally – a world of investment influence and choice.

We understand that benchmarks and indices need to be designed to meet investors' diverse sustainability objectives so our clients can choose anything from a simple ready-made to a sophisticated custom-made index solution.

"I want to integrate my sustainability objectives into a simple index design that aligns with my passive investment objectives."

Sustainable investment considerations are firmly embedded in the investment decision-making process. As a result, asset owners and managers have been moving to integrate sustainability into index designs for new mandates on core passive portfolios.

1. FTSE Russell Sustainable Investment: 2022 global survey findings from asset owners

THERE IS NO SINGLE APPROACH TO SUSTAINABILITY

Whatever your sustainability objectives, FTSE Russell offers a comprehensive range of environmental, social and governance (ESG) and climate indices. We provide investors with a broad set of tools to measure and analyse global markets across asset classes, styles or strategies and designed to help investors integrate their sustainability view into their investment strategies.

These indices, covering thousands of companies and the main sovereign issuers globally, are designed to meet diverse investor objectives and themes — e.g, climate, ESG and sustainable factor overlays.

FTSE Russell provides both next-generation and long-serving sustainable investment indices, based on widely tracked FTSE Russell benchmarks to help clients stay one step ahead.

Our key sustainable investment principles

Quantitative

Trust indices built with credible ESG and climate data, quantitative methodologies, tested frameworks and next-generation forward-looking metrics

Material

Measure and quantify the materiality of ESG and climate issues based on deep knowledge of the sustainability challenges

Consistent

Rules-based methodology allows for replicable index approaches, building selective portfolios and adherence to market regulation or policy guidance



SOLUTIONS AND EXPERTISE FOR A CHANGING WORLD

Well-known index families

The FTSE Global Equity Index Series, FTSE UK Index Series, Russell US Indexes, FTSE Fixed Income indices and FTSE Canada Universe Bond Index Series reflect how investors see the world as well as their objectives and investment criteria. By defining markets and securities on the basis of quantifiable, measurable attributes, we deliver an unbiased representation of capital markets and a reliable way for investors to gain targeted exposure to market opportunities.

Rules-based methodology

Our sustainable investment indices are constructed through a transparent, rules-based methodology that includes the versatility required to meet diverse investor needs.

Open architecture

To fully reflect specific investment strategies, we rely on an open architecture that mobilises the best and most-adapted sustainability data, index methodologies and design approach, using our proprietary or third-party data. Data and disclosure are key to any index methodology.

Innovation to capture market developments

Sustainable investment is a fast-evolving space with a widening spectrum of topics to be addressed. Through our team of sustainable investment experts and our unique index construction capabilities, we innovate continuously to develop index solutions that reflect this evolution. Our presence in local markets presents opportunities to work directly with investors and apply this collective perspective to index innovation.

Index partnerships and client collaboration

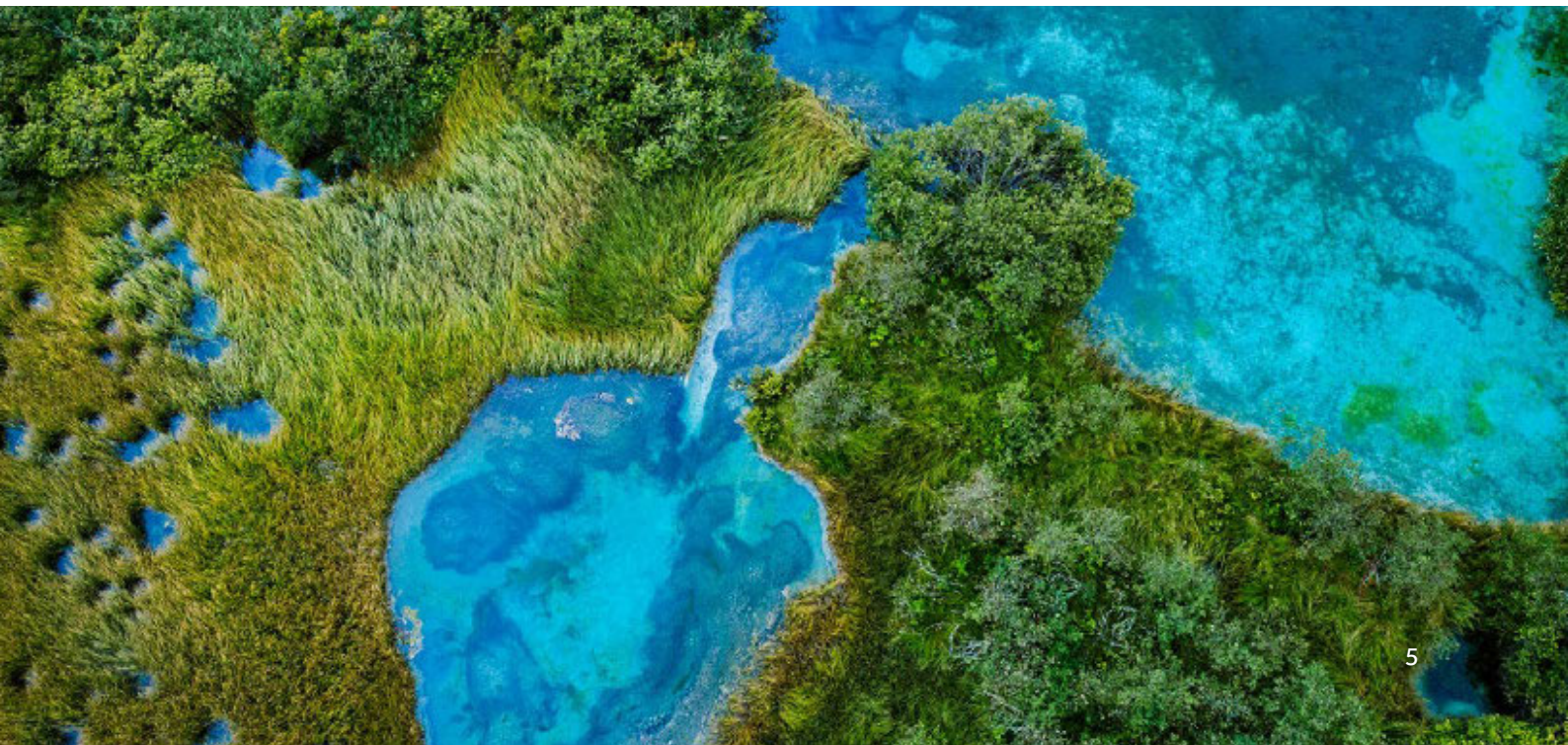
We have a culture of working closely with clients, in particular with asset owners, to develop precisely the tools they need, such as indices aligned with specific climate targets. This collaborative way of working also extends to our index partners who have the industry intellectual property or data inputs that together build the right indices behind the funds, e.g., the Transition Pathway Initiative (TPI) partnership.

Strong governance

Robust governance, transparency and integrity have always been at the foundation of our business. To ensure that FTSE Russell indices are constructed, maintained and operated to the highest standards, FTSE Russell employs a robust governance framework to approve new indices and changes to the methodologies of existing indices with specialist decision-making bodies. The framework is supported by independent external advisory committees formed of market practitioners with specialist expertise on benchmark methodologies, input data and the underlying market. This includes the FTSE Russell Sustainable Investment Technical Advisory Committee and the FTSE Russell Sustainable Investment Strategic Advisory Committee.

Proprietary Target Exposure methodology

Some of our sustainable investment indices are tilted using the innovative Target Exposure methodology to address concerns about liquidity, capacity, diversification and turnover. This next-generation factor methodology removes the noise, targets certain exposure or sets objective outcomes. This may include, for example, a carbon emissions decrease year-on-year such as the FTSE ESG Low Carbon Target Exposure Indices or FTSE EU Climate Benchmarks Index Series.



WHAT ELSE CAN YOU EXPECT FROM YOUR SUSTAINABLE INVESTMENT INDICES?

Looking ahead to meet regulatory requirements

We work closely with regulators, policymakers, industry associations and other key players within the sector to help shape the market and support our clients. As a committed financial services firm we have contributed considerably to shaping the sustainable investing environment via our expertise and connections with the investment community. As sustainable investment is a fast-evolving environment, we are constantly innovating to offer new data, analytics solutions and indices that will contribute to complying with upcoming regulations and address emerging trends in the industry.

We take into account major regulatory developments such as the EU's Sustainable Finance Disclosure Regulation (SFDR), EU Climate Benchmark regulation, EU Green Taxonomy, the FSB Task Force on Climate-Related Financial Disclosures (TCFD), UN Sustainable Development Goals (SDGs) and national green bond guidelines in Asia.

Climate-driven investing is heating up

Investors are increasingly recognising the impact of climate change as one of the greatest investment risks — and the transition to a low-carbon economy as one of the greatest opportunities — of our times.

As the climate has shifted swiftly to the front and centre of public dialogue, we work closely with the investment community to provide climate-informed indices.

Our forward-looking data models, index partnerships and work with asset owners have led to next-generation indices in the equity and fixed income asset classes, most notably the FTSE TPI Climate Transition Index Series, FTSE EU Climate Benchmarks Index Series and FTSE Climate Risk-Adjusted Government Bond Index Series.

Smart sustainability: overlay of alternative-weighted methodology

Smart beta strategies offer investors a low-cost means of taking a view on factors they believe will generate outperformance over time. By using a series of predetermined rules an index can be tilted based on particular factors such as value, quality, volatility, momentum or yield.

More recently, the smart beta and sustainability trends have come together. Over the last couple of years we've found that a growing number of institutional investors are taking the opportunity to integrate certain sustainability parameters – usually climate-related but sometimes covering other ESG measures, too – when they award new smart beta mandates.

Smart Sustainability funds tracking a FTSE Smart Sustainability index amount to \$46 billion AUM.²

Passive doesn't have to be inactive

In terms of investor engagement, sustainable investment indices are powerful tools for engaging with constituents, especially in equity portfolios, on their journey towards sustainability. FTSE Russell plays an important role in providing visibility on what is expected from these issuers from an sustainability perspective.

Research experts

With around 35 sustainable investment research professionals making up six sub-teams with sustainability, investing and data science experience, our multi-disciplinary, cross-asset class team publish regular applied finance research, test and prototype new and next-generation evolving data and modelling.

Custom index solutions

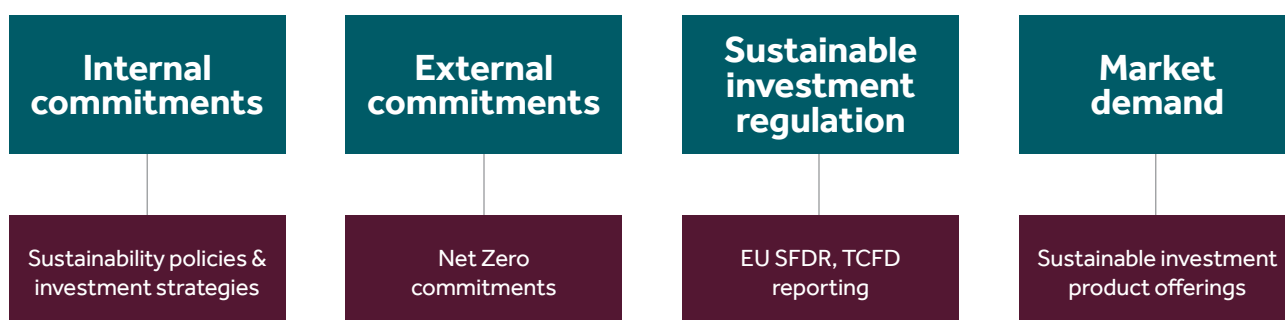
Sustainable investing itself is very diverse and there are different ways of implementing these strategies depending on the client's profile and need. Therefore, our index solutions can be customised to meet a wide variety of clients' needs, including buy-side, sell-side, custodians, asset owners, exchanges, investment consultants and ETF providers.

2. Source: AUM data as of 30 December 2021. These assets include separate accounts, commingled funds, retail and institutional mutual funds and ETFs as reported directly from index licensed passive and ETF clients and their websites; third-party data sources such as Morningstar and eVestment are used in cases when clients did not report assets.

MEETING YOUR SUSTAINABLE INVESTMENT INDEX NEEDS

What are our clients trying to solve for?

Like us, our clients are trying to scale up their climate and ESG activities



We define sustainable investment as investment approaches that take into account ESG and/or climate considerations – forming an umbrella term for topics that can be the source of both investment risks and opportunities. We simplify our sustainable investment index approach into two core frameworks to mirror our clients' objectives and convictions.

Firstly, looking at an investor's objectives towards incorporating the risks and opportunities of climate change, we align our indices with three clear climate investment strategies:

- 1 Accelerating the green economy
- 2 Transitioning to a low-carbon economy
- 3 Aligning with external commitments brought on by climate regulations and policies that are constantly shaping standards

Secondly, again with the investor's broader view of environmental, social and governance issues in mind, we align our indices with three clear ESG investment strategies:

- 1 Selective investments including positive and negative screening
- 2 Integrating ESG into investment strategy with the aim of maintaining financial performance
- 3 Aligning with regulatory objectives with broader ESG considerations, such as the EU's SFDR and the UN's SDGs

FTSE RUSSELL SUSTAINABLE INVESTMENT INDEX FRAMEWORK EXPLAINED: THROUGH THE LENS OF THE INVESTOR OBJECTIVE



FTSE Russell Climate Indices

ACCELERATE to a green economy

Build investment strategies with exposure to the green opportunities generated by climate challenges

FTSE Environmental Markets	Equity
Russell Green America	Equity
FTSE Green Impact Bond	Fixed Income

TRANSITION to a low carbon economy

Seek exposure in your investment strategy to securities that might prevail in a low carbon economy, based on past and forward looking trends

FTSE ex Fossil Fuels	Equity
FTSE EPRA Nareit Green	Equity
FTSE Global Climate	Equity
FTSE Smart Sustainability	Equity
FTSE TPI Climate Transition	Equity
FTSE Climate Risk Adjusted Gov't Bond	Fixed Income
FTSE Fixed Income ex Fossil Fuels Enhanced	Fixed Income

ALIGN with regulatory objectives

Align your investment strategy with climate regulation, reporting, and policy developments

FTSE EU Climate Benchmarks including PAB & CTB	Equity
FTSE JPN Net Zero Japan	Equity



FTSE Russell ESG Indices

SELECT investments

Build investment strategies based on your specific exclusions/inclusions needs

FTSE Global Choice	Equity
FTSE4Good	Equity
FTSE Blossom Japan	Equity
FTSE Impact Bond	Fixed Income
FTSE Fixed Income Global Choice	Fixed Income

INTEGRATE ESG in investment strategy

Include ESG criteria in your investment strategy

Russell US ESG	Equity
FTSE ESG	Equity
FTSE ESG Low Carbon Select	Equity
FTSE Women on Boards Leadership	Equity
FTSE ESG Gov't Bond	Fixed Income

ALIGN with regulatory objectives

Align your investment strategy with regulations and policies that have ESG/sustainable objectives

FTSE Euro Credit SDG-Aligned Bond (custom)	Fixed Income
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BREAKING IT DOWN – WHAT'S IN AN INDEX?

Climate Indices Standard frameworks

Objective	FTSE Russell Indices	Asset Class	Index features			Implementation approach			Sustainability data inputs					
			Decarbonisation Pathways	Market Cap	Tilted	Target Exposure	Factor Weighted	Controversies	Product Involvement	Green Certification	Green Revenues	Carbon Emissions	Fossil Fuel Reserves	Transition Alignment
Accelerate to a green economy	FTSE Environmental Markets	Equity	●						●					
	Russell Green America	Equity	●					●	●					
	FTSE Green Impact Bond	Fixed Income	●											●
Transition to a low carbon economy	FTSE ex Fossil Fuels	Equity	●					●			●			
	FTSE EPRA Nareit Green	Equity		●					●		●			
	FTSE Global Climate	Equity		●					●	●	●			
	FTSE Smart Sustainability	Equity				●			●	●	●			
	FTSE TPI Climate Transition	Equity		●				●	●	●	●	●	●	
	FTSE Climate Risk Adjusted Gov't Bond	Fixed income	●	●					●	●			●	
	FTSE Fixed Income ex Fossil Fuels Enhanced	Fixed income		●			●	●						
Align with regulatory objectives	FTSE EU Climate Benchmarks	Equity	●		●				●	●	●	●		
	FTSE JPX Net Zero Japan	Equity	●		●		●	●	●	●	●	●	●	

ESG Indices Standard frameworks

Objective	FTSE Russell Indices	Asset Class	Implementation approach			Sustainability data inputs				
			Market Capitalisation	Tilted	Target Exposure	Factor Weighted	Controversies	Product Involvement	ESG Ratings	Carbon Emissions
Select investments	FTSE Global Choice	Equity	●				●	●		
	FTSE4Good	Equity	●				●	●	●	
	FTSE Blossom Japan	Equity		●				●		
	FTSE Impact Bond	Fixed Income	●							
	FTSE Fixed Income Global Choice	Fixed Income	●			●	●			●
Integrate ESG in investment strategy	Russell US ESG	Equity			●		●	●	●	
	FTSE ESG	Equity		●				●		
	FTSE ESG Low Carbon Select	Equity		●			●	●	●	
	FTSE Women on Boards Leadership	Equity		●				●		
	FTSE ESG World Government Bond	Fixed Income		●				●		●
Align with regulatory objectives	FTSE Euro Credit ESG-Aligned Bond (custom)	Fixed Income		●			●	●		●

[Find out more >](#)

DIVERSE APPROACHES FOR DIVERSE NEEDS

What constitutes a view of sustainability within an investment strategy may vary, as the objective can be different based on investors' desired outcomes and convictions.

Whatever your sustainability objectives, we offer a wide range of ready-made indices, as well as custom-made indices to include different regions, countries, industries, sectors, asset classes, data inputs, factors, sustainability tilts or targeted outcomes.

Building blocks available for index design & construction

Universes (Selection)

Equity

FTSE UK
FTSE All-World
FTSE GEIS
Russell US
FTSE China A
Blossom Japan

Fixed Income

FTSE WGBI
FTSE WORLDBIG
FTSE EUROBIG
FTSE USBIG

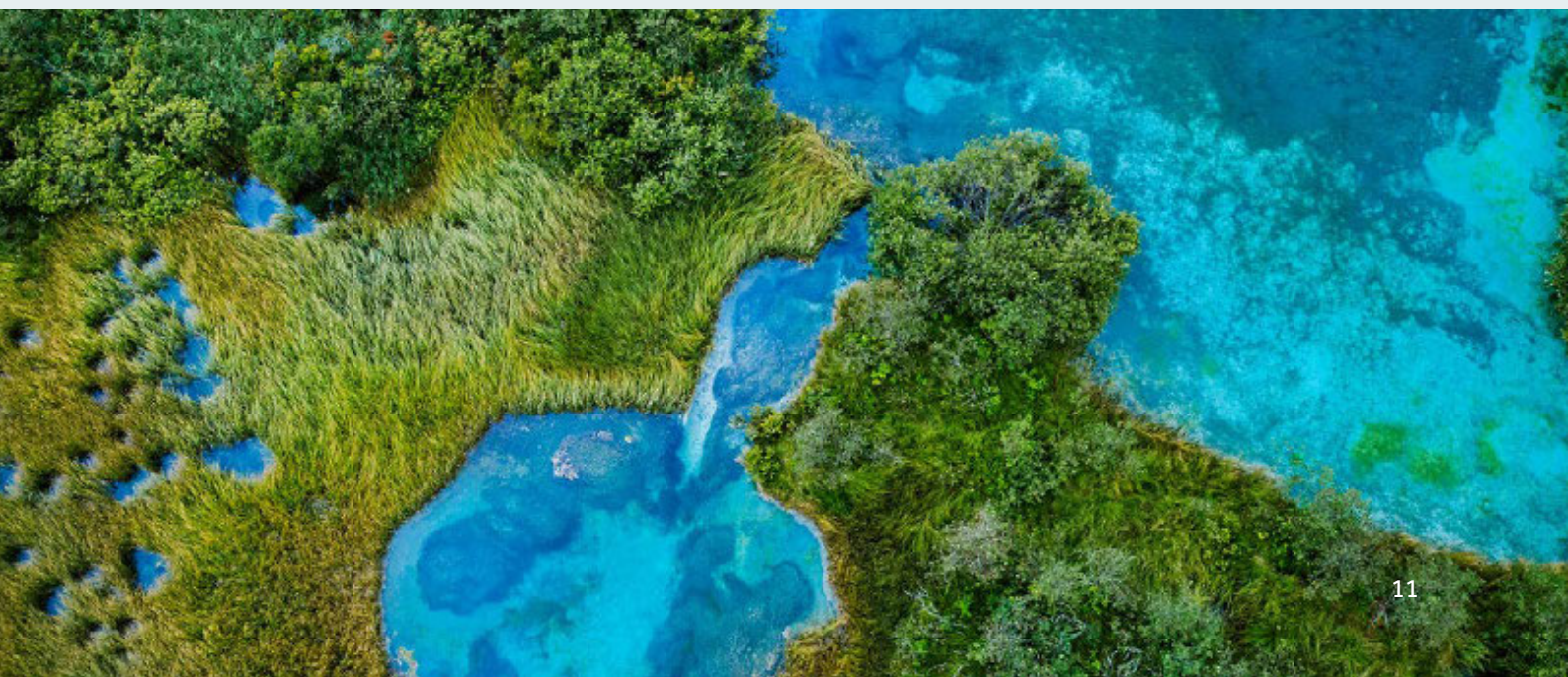
Thematic

EPRA NAREIT
FTSE4Good
Global Choice

Data Inputs



Index Rules & Methodologies



There's a sustainable investment index for that ...

Indices can be used by market participants to benchmark the performance of active ESG funds, as a replacement for core market capitalisation-weighted passive portfolios and to create exchange traded funds (ETF), structured products and index-based derivatives.

- Sustainable investment indices as the basis for ETFs and exchange traded products (ETP)
- Sustainable investment indices as the basis for futures
- Sustainable investment indices as the basis for passive mandates

Sustainable investment passive assets under management (AUM) are growing: more than \$260 billion in passive AUM track our sustainable investment indices – a 110% increase since December 2020.³

Available for local and global markets

Our platform of sustainable investment indices cover virtually every investable region and market including: Global, Americas, EMEA and APAC across multiple universes of underlying indices, as well as multiple asset classes.

How to access our data and solutions

Are you looking to implement a sustainable investment view in an ever-changing world?

Discover how to access our data and solutions.

We are empowering clients through:

- Third-party vendors such as FactSet and Rimes
- Proprietary channels such as FTSE Russell's Sustainable Investment Data (SID) platform or Refinitiv® Workspace. Refinitiv® is an LSEG business.

3. AUM data as of December 30, 2021. These assets include separate accounts, commingled funds, retail and institutional mutual funds and ETFs as reported directly from index licensed passive and ETF clients and their websites; third party data sources such as Morningstar and eVestment are used in cases when clients did not report assets.

About us

FTSE Russell is a global index leader that provides innovative benchmarking, analytics and data solutions for investors worldwide. FTSE Russell calculates thousands of indices that measure and benchmark markets and asset classes in more than 70 countries, covering 98% of the investable market globally.

As a pioneer of sustainable investment solutions for 20 years, through direct client engagement, FTSE Russell has delivered a range of transparent data models and associated indices, including the FTSE4Good Index Series. FTSE Russell also takes an active role in all the major regional sustainable investment industry associations and is a proud founding signatory of the Principles for Responsible Investment.

FTSE Russell is part of London Stock Exchange Group, which has been involved in the Sustainable Stock Exchanges initiative as a Partner Exchange. In June 2019, London Stock Exchange Group acquired Beyond Ratings, a highly regarded provider of ESG data solutions, climate change research and modelling across asset classes.

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