Index overview

FTSE Russell

FTSE Climate Risk-Adjusted World Government Bond Index

Accounting for climate risk in sovereign bond portfolios

Overview

Sovereign debt investors are now able to consider climate change risks in their investment portfolios.

The global sovereign debt market is one of the largest asset classes in the world, yet fixed income markets have typically lagged other asset classes in relation to ESG integration activities. Sovereign debt investors are exposed to a range of climate change risks that are typically not well understood or incorporated in the investment process. Part of the challenge has been the lack of sustainable investment products and viable climate data.

The FTSE Climate Risk-Adjusted World Government Bond Index (Climate WGBI) offers a solution that investors can viably implement into their investment process. The index measures the performance of fixed-rate, local currency, investment-grade sovereign bonds, incorporating a tilting methodology that adjusts index weights according to each countries' relative climate risk performance.

Quantitative climate risk assessments are made across three climate risk pillars covering:

Transition risk	The impact on the economy from the required efforts to mitigate climate risk as measured by modelled emissions needed to meet 2 degree alignment
Physical risk	The climate related risk to the country and its economy from the physical effects of climate change
Resilience	A country's preparedness and actions to cope with climate risk

Features

Representative

- Based on the FTSE World Government Bond Index (WGBI), a widely used benchmark that currently includes sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available
- Incorporates a forward-looking assessment of the climate risks sovereigns face at a country level
- Tilts country weights on a relative basis to the three pillars of climate risk

Best-in-class climate risk modelling

- Comprehensive sovereign climate risk assessments with history available from 2002
- Climate risk modelling provided by Beyond Ratings, part of the London Stock Exchange Group, and a highly regarded provider of ESG data solutions, and climate change research and modelling across asset classes

Benefits

- Meaningful climate risk reduction compared to the conventional market value weighted WGBI
- Closely matches the index characteristics of the conventional market value weighted index, whilst achieving minimal tracking error and turnover
- Quantitative and transparent approach to climate risk modelling and assessment
- Highly configurable methodology supports custom versions that further reduce the index's climate risk profile

Index inclusion and methodology summary

Coupon	Fixed-rate
Currency	Multiple
Minimum maturity	At least one year
Securities included	Fixed rate non-callable bonds. Sovereign debt denominated in the local currency
Weighting	Alternatively weighted
Rebalance frequency	Monthly on final business day of the month
Climate risk pillars	Each country is assessed by three core climate change pillars (each with multiple sub- indicators) • **Transition risk** represents the impact on the economy from the required efforts to mitigate climate risk as measured by modelled emissions needed to meet 2 degree alignment • **Physical risk** represents the climate related risk to the country and its economy from the physical effects of climate change • **Resilience** represents a country's preparedness and actions to cope with climate risk
Climate pillars and tilts calibration	Transition risk: 0.25 Physical risk: 1 Resilience: 1
Country climate scores	Updated annually and applied from the end of April rebalance
Base date	December 31, 2001

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About FTSE Russell

FTSE Russell is a leading global index provider creating and managing a wide range of indexes, data and analytic solutions to meet client needs across asset classes, style and strategies. Covering 98% of the investable market, FTSE Russell indexes offer a true picture of global markets, combined with the specialist knowledge gained from developing local benchmarks around the world.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for asset allocation, investment strategy analysis and risk management.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on index innovation and customer partnership applying the highest industry standards and embracing the IOSCO Principles. FTSE Russell is wholly owned by London Stock Exchange Group.

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To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office:

EMEA

+44 (0) 20 7866 1810

North America

+1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 4563 6346

Sydney +61 (0) 2 8823 3521