

FTSE Russell launches first climate risk government bond index

- FTSE Climate Risk-Adjusted World Government Bond Index allows sovereign debt investors to incorporate climate change risk considerations into their portfolios
- First time that a quantitative measure of climate risk has been applied to sovereign debt
- Countries are weighted in the index according to their 'Climate Score' - the higher the index weight, the lower the Climate Risk exposure
- Index utilises climate risk modelling developed by Beyond Ratings, respected ESG analytics provider recently acquired by LSEG

FTSE Russell, the global index, data and analytics provider, has launched the first government bond index to adjust index weights based on each country's preparedness and resilience to climate change risk. The FTSE Climate Risk-Adjusted World Government Bond Index ("Climate WGBI") is derived from the FTSE World Government Bond Index, a widely used benchmark of investment-grade sovereign bonds of 22 developed economies. The index will be available to investors going forward as a portfolio performance measurement tool as well as for the basis of an investment portfolio.

The index incorporates a forward-looking assessment of the climate risks sovereigns face and tilts towards government markets that, on a relative basis, demonstrate a greater degree of resilience and preparedness to the risks of climate change. Using climate risk modelling developed by Beyond Ratings, the respected ESG analytics provider, this is the first time that a quantitative measure of climate risk has been applied to sovereign debt. The higher the index-weighted Climate Score, the lower the climate risk exposure. The objective of the index is to reduce climate risk compared to the standard FTSE World Government Bond index (WGBI) while minimising tracking error. Each country is assessed by three core climate risk pillars:

- **Transition risk** - the impact on the country and its economy from the required efforts to meet the Paris Accord 2.0°Celsius target, measured on 15 variables including GDP per capita, energy intensity of GDP and carbon intensity of energy production
- **Physical risk** - the climate-related risk to the country and its economy from the physical effects of climate change including sea level rise, exposure of the economy to potential agricultural damages and climate-related natural disasters such as extreme weather
- **Resilience** - a country's preparedness and actions to cope with climate change, measured based on the strength of national institutions, level of social and economic development



Waqas Samad, Group Director of Information Services, LSEG said:

“Governments are at the forefront for catalysing and enabling the economic transition to a low carbon economy. The integration of economic and financial risk considerations linked to climate and sustainability into sovereign bond portfolios is still nascent. The launch of this index will allow the market, for the first time, to access a quantitative climate risk assessment for sovereign debt. Investors can now incorporate climate change risk considerations into their fixed income portfolios, and this could also inform their engagement with sovereigns. We are delighted to incorporate the expertise of the Beyond Ratings team, now as part of FTSE Russell’s extended ESG capabilities, on this ground-breaking index.”

Rodolphe Bocquet, CEO, Beyond Ratings said:

“Climate change and the efforts required to mitigate its impact carry numerous risks that have not historically been incorporated into investment grade government debt. However, these issues have a direct and long-term impact on government finances, with projected expenditure on climate mitigation expected to reach almost \$1 trillion a year for the next 30 years according to the United Nations’ Intergovernmental Panel on Climate Change. Beyond Ratings has developed a quantitative and transparent approach to climate risk modelling and assessment that will help investors mitigate these risks.”

Index methodology:

The FTSE Climate Risk-Adjusted World Government Bond Index ‘Climate WGBI’ follows the rebalancing mechanics of the standard WGBI with respect to universe membership. However, the standard WGBI market value weights updated every month are then also tilted by their respective country’s climate scores. Climate scores are calculated based on a transparent methodology and updated on an annual basis each April month-end (with input data cut-off on April 1). The country climate scores are derived by assessing each country’s relative climate risk across three core climate risk pillars (each with multiple sub-indicators):

- **Transition risk** represents the impact on the country and its economy from the required efforts to mitigate climate change encompassed by GHG emission reduction needed to meet the Paris Accord/Agreement target of less than 2°C of global warming and the recent trend of historical carbon emissions
- **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 change

Countries are scored across each of the pillars and a single combined score is derived for each country. Country scores are then used to reweight the country’s exposure in the index to provide higher exposures to countries that are better prepared for climate change risks and lower exposures to countries that are more threatened by climate change risks.

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Press Release



Notes to editors:

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