Press Release

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FTSE Russell

Global rise in asset owners using smart beta indexes as the basis for sustainable investment strategies

- FTSE Russell 2020 survey finds 58% of asset owners globally anticipate applying sustainability considerations to smart beta strategies, up from 44% in 2019
- EMEA still leads in sustainable smart beta interest, with North America a fast follower
- Asset owners favour re-weighting based on sustainability criteria over negative screens
- Among asset owners evaluating or implementing sustainability, there is significant interest in equity (85%), fixed income (58%) and multi-asset (31%) approaches

FTSE Russell, the global index, data and analytics provider, has published results of a survey examining the convergence of smart beta strategy and Sustainable Investment (SI); *Smart Sustainability: 2020 global survey findings from asset owners*.

Jaakko Kooroshy, Head of Sustainable Investment Data & Methodologies, FTSE Russell:
"Since we first started fielding questions about sustainable investment four years ago, it has attracted a great deal of interest in a short period of time and we realized that it warranted deeper analysis. In 2020, we have noted a significant uptick among asset owners worldwide interested in applying sustainability considerations to their smart beta strategies—what we call Smart Sustainability. This is reflected in our work with our clients, who are increasingly looking to integrate these parameters into smart beta indexes to underlie their portfolio strategies."

David Harris, Group Head of Sustainable Business, London Stock Exchange Group:
"The first half of 2020, shaped by a number of factors including the COVID-19 pandemic and increased focus on social justice, is leading asset owners to re-evaluate investment strategies and priorities. Recent events have heightened investors' focus on environmental and social factors, international cooperation and their potential impact on the financial markets. Given these large-scale shifts, combining smart beta with climate and sustainability priorities could become an even bigger trend for asset owners, as evidenced by this survey."

A rising global trend
More than 7 in 10 asset owners globally are evaluating and implementing sustainable investment considerations in their investment strategies in 2020. Furthermore, among those using and/or evaluating smart beta strategies globally, 58% anticipate applying SI considerations to their smart beta strategy, up from 44% in 2019. Nearly half of respondents who anticipate applying these considerations to their smart beta strategies expect to increase their allocation to SI smart beta over the next year or two.

While evaluation and adoption of sustainability considerations grew for asset owners across the entire AUM spectrum, appetite was notably higher among larger asset owners. Eighty percent with AUM of

USD10 billion or higher have evaluated or adopted sustainability considerations, compared to 54% in 2019.

EMEA still leads, with North America a fast follower
In 2020, the rate of sustainable investment evaluation and adoption among asset owners in EMEA (85%) remains higher than that of North America (63%). In addition, EMEA still leads the way in applying sustainability considerations to smart beta: over 80% of EMEA asset owners evaluating or using smart beta expect to apply sustainability considerations to smart beta, up from 73% last year.

However, the regional differences highlighted in 2019 are narrowing. In North America, the evaluation and implementation of sustainable investment approaches broadly within asset owner portfolios increased over 20 percentage points since last year, to 63%. Among North American asset owners evaluating or using smart beta, the percentage that expect to apply sustainability considerations to smart beta increased notably, from 17% in 2019 to 42% in 2020.

Environmental factors top the worry list with reweighting replacing negative screening
Climate risk is a ‘hot’ topic for asset owners in 2020: among those who anticipate applying sustainability to their smart beta strategy, Climate risk/Carbon tops the list of sustainability themes at 64%, with Environmental considerations close behind at 59%, while Governance and Social themes are also widely considered, both at 55%.

In addition, the most common application of SI data has shifted in favour of re-weighting. There is a notable decline in interest in negative screens, from 64% in 2019 to 48% in 2020, coinciding with a growth in the more sophisticated approach of re-weighting based on SI criteria, 55% in 2020, compared with 36% in 2019.

Growing interest across asset classes
Globally, among asset owners evaluating or implementing SI, there is significant interest in equity (85%), followed by fixed income (58%) and multi-asset (31%). Fixed income applications of sustainable investment considerations, which have historically trailed the equity market, are particularly strong in EMEA where 75% of respondents are currently implementing or evaluating sustainability considerations for this asset class, compared with 45% in North America.

The 2020 survey was conducted in January and February, with 139 global asset owners participating. The majority of participants were located in North America (37%), EMEA (37%), and Asia Pacific (21%). A wide mix of organization types are represented, including government organizations (28%), corporations or private businesses (18%), unions or industry-wide pension schemes (12%), and non-profit organizations or universities (12%). The rest is a mix of insurance companies, sovereign wealth funds, health-care organizations and family offices.

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About FTSE Russell:

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

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately $16 trillion is currently benchmarked to FTSE Russell indexes. 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 ETFs, structured products and index-based derivatives.

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 applying the highest industry standards in index design and governance and embraces the IOSCO Principles. FTSE Russell is also focused on index innovation and customer partnerships as it seeks to enhance the breadth, depth and reach of its offering.

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FTSE Russell AUM figures as of December 31, 2019