Press Release

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FTSE Russell expands FTSE TPI climate index range to Japan's equity market

- The FTSE Japan TPI Climate Transition Index offers exposure to Japan's equity market while achieving alignment with the climate transition
- Transition Pathway Initiative (TPI) analyses show Japanese companies underperform developed market counterparts on climate performance, but gap is narrowing

FTSE Russell, a leading global index, data and analytics provider, has expanded its FTSE TPI Climate Transition Index offering launched in 2020 to include dedicated coverage of Japan's domestic equity market. The index series combines FTSE Russell's expertise in climate data and sustainable investment index design with the Transition Pathway Initiative's (TPI) forward looking analysis of how public companies are managing the climate transition.

Two indexes have been launched for Japanese investors, the FTSE Japan TPI Climate Transition Index and the FTSE All-World ex-Japan TPI Climate Transition Index,

The FTSE Japan TPI Climate Transition Index is based on the FTSE Japan Index, a market-capitalisation weighted index representing the performance of Japanese large and mid-cap stocks. To achieve alignment with the low carbon transition to keep global warming below 2 degrees, the index is reweighted using transparent criteria.

The criteria are designed to capture both climate risks using carbon emissions and fossil fuel reserves data, while also including climate opportunities by measuring a company's green revenues using FTSE Russell's Green Revenue Data Model 2.0. Finally, the incorporation of TPI's assessments on management quality provides the index with a forward-looking capability by assessing companies on their plans for transition to a low carbon economy. Relevant indicators for assessment include company policy, emissions reporting and verification, targets, strategic risk assessment and executive remuneration.

TPI management quality analyses of almost 500 Japanese companies included in the FTSE Japan Index found that the market underperformed over 1,500 counterparts in the FTSE Developed ex Japan Index over the last three years, yet this gap has narrowed. FTSE Japan constituents scored an average of 1.87 in 2019, rising to 2.07 in 2021.

By contrast, FTSE Developed ex Japan constituents scored an average of 2.23 in 2019, declining marginally to 2.20 in 2021. Strong support among Japanese companies for the climate disclosure recommendations set out by the Task Force on Climate-Related Financial Disclosures (TCFD) is expected to have driven recent improvement in TPI management quality scores.

At a sector level, Japanese technology, real-estate and energy companies outperform sector peers in the FTSE Developed ex Japan Index, while Japanese companies in the industrials, consumer staples, financials, consumer discretionary and utilities sector all underperform other developed market companies in the same sectors. Please see below for a summary of the scoring methodology. The full TPI methodology can be found here.

TPI is led by a global initiative led by asset owners and supported by asset managers, in partnership with the Grantham Research Institute at the London School of Economics and with FTSE Russell. It is backed by 108 investors globally with over $29 trillion in combined assets under management and advice. TPI data is also used by Climate Action 100+ to assess the action taken on climate change by the world's largest corporate greenhouse gas emitters.

Atsuhito Mori, Head of Sustainable Investment, Japan, FTSE Russell comments:
"We are pleased to extend the innovative FTSE TPI Climate Transition Index Series to the Japanese market. These benchmarks offer investors an efficient way to align portfolios with a 2-degree pathway, while retaining broad equity market exposure. Constructed using transparent criteria, the indexes act as an effective corporate engagement tool by reweighting indexes towards companies that move to decarbonize and integrate climate considerations into operational decision making. Japanese companies have demonstrated greater engagement in climate issues of late particularly in their endorsement of TCFD climate reporting standards, something that is starting to be reflected in the TPI's management quality scores. We have already seen strong interest in this index series among regional asset owners."

Adam Matthews, Chair of TPI and Chief Responsible Investment Officer for the Church of England Pensions Board said:
"Investors in the Japanese market want to clearly see which companies have credible strategies for the low-carbon transition and which do not. By harnessing the comprehensive, rigorous and impartial analysis that TPI provides on high-emitting companies, the extension of the FTSE TPI Climate Transition Index Series to the Japanese market will be a significant step in addressing this challenge.

"TPI provides transparent data on how corporates' low carbon strategies align with the goals of the Paris Agreement, that is necessary for investors to make informed investment decisions. The decade of transition is well underway, and this is an important development to meet the increasing demand from equity and debt investors for high-quality data on which companies are serious about climate action both in Japan and beyond."

To find out more about the FTSE Japan TPI Climate Transition Index, please click here. For details on the FTSE TPI Climate Transition Index, please click here

Notes

The TPI's Management Quality framework tracks the progress of companies through the following five levels:

Level 0 – Unaware of (or not Acknowledging) Climate Change as a Business Issue.

Level 1 – Acknowledging Climate Change as a Business Issue: the company acknowledges that climate change presents business risks and/or opportunities, and that the company has a responsibility to manage its greenhouse gas emissions. This is often the point where companies adopt a climate change policy.

Level 2 – Building Capacity: the company develops its basic capacity, its management systems and processes, and starts to report on practice and performance.

Level 3 – Integrating into Operational Decision-Making: the company improves its operational practices, assigns senior management or board responsibility for climate change and provides comprehensive disclosures on its carbon practices and performance.

Level 4 – Strategic Assessment: the company develops a more strategic and holistic understanding of risks and opportunities related to the low-carbon transition and integrates this into its business strategy and capital expenditure decisions.

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Notes to editors:

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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