

SOLUTION OVERVIEW

FTSE ESG Government Bond Index Series

Improving the E, S and G performance of the sovereign bond asset class



Providing an innovative, flexible approach for sovereign bond investors looking to incorporate E, S and G risk factors in their government bond exposures

The FTSE ESG Government Bond Index Series measures the performance of sovereign bonds while incorporating a tilting methodology that adjusts index weights according to each country's relative Environmental, Social and Governance (ESG) performance.

The Series assigns weights to each country based on the market capitalisation of its index-eligible debt, as well as its relative ESG performance, measured across three distinct and quantitative pillars: Environmental, Social & Governance. The unique ESG performance assessment that underpins the Series is designed to improve ESG performance for the sovereign bond asset class by tilting index constituent weights towards each of the three ESG pillars.

The Series includes*:

FTSE ESG World Government Bond Index (FTSE ESG WGBI)

The underlying FTSE WGBI includes investment-grade, local currency, accessible sovereign bond markets, comprising over 20 countries.

FTSE ESG European Monetary Union (EMU) Government Bond Index (FTSE ESG EGBI)

The underlying FTSE EGBI tracks the WGBI markets that are part of the European Monetary Union.

FTSE ESG Emerging Markets US Dollar Government Bond Index (ESG EMUSDGBI)

The underlying FTSE EMUSDGBI tracks US dollar-denominated emerging market sovereign debt issued by over 50 countries from Latin America, Eastern Europe, Middle East, Africa, and Asia. The index offers geographical diversification without exposure to local currency fluctuations.

FTSE ESG Emerging Markets Government Bond Capped Index (ESG EMGBI-Capped)

The underlying FTSE EMGBI-Capped imposes a maximum country weight of 10% to limit individual market exposure in the FTSE Emerging Markets Government Bond Index. The FTSE Emerging Markets Government Bond Index comprises local currency government bonds from 16 countries.

*as at March 2022

From E, S and G Scores to Index Weights

1. Input Data: E, S & G Scores provided by LSEG Sovereign Risk Monitor

2. Normalise ESG scores
Pillar scores are converted to a z-score, calculated against the eligible country cohort each month

3. Transpose z-scores to tilts
Pillar tilts fall into the range 0.1-1.0

4. Apply geometric tilt approach
A multiplicative approach maintains the power of each pillar tilt. The tilt strength (powers α , β and γ) can be adjusted according to the desired deviation from market value weights.

$$E^{\alpha} \times S^{\beta} \times G^{\gamma} = \text{Country ESG}$$



**FTSE
RUSSELL**
An LSEG Business



**SUSTAINABLE
GROWTH**

FTSE ESG Government Bond Index Series

	FTSE ESG World Government Bond Index (ESG WGBI)	FTSE ESG European Monetary Union (EMU) Government Bond Index (ESG EGBI)	FTSE ESG Emerging Markets Government Bond Capped Index (ESG EMGBI-Capped)	FTSE ESG Emerging Markets US Dollar Government Bond Index (ESG EMUSDGBI)
Underlying Universe	FTSE WGBI. Fixed-rate, local currency, investment-grade sovereign bonds, comprising debt from over 20 countries.	FTSE EGBI. Fixed-rate, local currency, investment-grade sovereign bonds. Consists of the EMU participating countries eligible for the WGBI.	FTSE EMGBI-Capped. Fixed-rate, local currency emerging market sovereign debt from 16 countries. Imposes a maximum country weight of 10% to limit individual market exposure in the FTSE Emerging Markets Government Bond Index.	FTSE EMUSDGBI. Includes US dollar-denominated emerging market sovereign debt from over 50 countries in Latin America, Eastern Europe, Middle East, Africa and Asia.
Rebalancing	<p>The Series follows the monthly rebalancing mechanics of the underlying standard index with respect to universe membership, and then tilts market value weights for each country by its respective Index ESG score. Index ESG scores are calculated on a monthly basis using quarterly updated E, S and G pillar scores:</p> <ul style="list-style-type: none"> – Countries’ quarterly pillar scores are then compared on a relative basis versus the cohort of countries that will be included in the index universe in that following month – Relative pillar scores are combined to derive a single combined Index ESG score for each country for the following month – Country combined Index ESG scores are then used to reweight the country’s exposure in the index to provide higher exposures to countries that have a higher Index ESG score, and lower exposures to countries that have a lower Index ESG score 			
Geometric Tilt Power (α, β and γ)	Environmental Performance: 0.5 Social Performance: 0.5 Governance Performance: 0.5	Environmental Performance: 0.5 Social Performance: 0.5 Governance Performance: 0.5	Environmental Performance: 0.5 Social Performance: 0.5 Governance Performance: 2.0	Environmental Performance: 0.5 Social Performance: 0.5 Governance Performance: 2.0
Base Date	December 31, 2001	December 31, 2001	March 31, 2011	December 31, 2009.

Countries designated as “Consolidated Authoritarian Regime” or “Semi-Consolidated Authoritarian Regime” by the Freedom House are not eligible for the ESG EMUSDGBI or the ESG EMGBI-Capped. Freedom House classifies countries as such as part of its [‘Nations in Transit’](#) report.

For more information, please see the [FTSE ESG Government Bond Index Series Ground Rules](#).

For information regarding the underlying market value-weighted index, please see the [FTSE Fixed Income Index Guide](#).

Product highlights

Underpinned by robust, quantitatively assessed E, S and G factors developed by LSEG as part of the Sovereign Risk Monitor (SRM) model

ESG pillar scores assess a country's exposure to and management of ESG risk factors, and are taken from the sustainability profile of the LSEG Sovereign Risk Monitor. This profile includes quantitative assessments across Environmental, Social and Governance performance pillars. Each pillar contains multiple underlying indicators. Raw data inputs are normalised to ensure countries are scored between 0 and 100 for each indicator.

- Environmental performance: considers Energy, Climate, and Resources
- Social performance: considers Inequality, Employment, Human Capital, Health, and Societal Wellbeing
- Governance performance: considers Corruption, Government Effectiveness, Political Stability, Regulatory Quality, Rule of Law, and Voice & Accountability

For more information, please see the [Sovereign Risk Monitor methodology](#).

Flexible, highly customisable approach

The Series methodology is designed to be easily configurable, and can be tweaked to meet the requirements of different sovereign bond investors looking to incorporate Environmental, Social and Governance pillars into index design. For example, higher tilt strengths can be applied to deviate further from market value weights in order to achieve a higher index ESG performance.

Transparent, rules-based approach

Disclosed in a publicly available set of rules, the index design criteria and calculation methodologies are transparent and rules-based, facilitating ease of index use.

Rich datasets

The indexes are underpinned by a comprehensive set of daily and monthly, issue-level and index-level files. Each file contains a robust set of performance and analytics metrics, providing investors with the tools they need to track market dynamics from any angle.

Daily preview reports, available for the market value-weighted Government bond indexes underlying the FTSE ESG Government Bond indexes, provide visibility into the security-level adjustments to the index ahead of each month-end index rebalancing. They consist of dynamic bond universes that change intra-month on a daily basis, reflecting the latest information regarding the eligibility of bonds for the headline index for the following month's profile.

Rigorous governance framework

FTSE Russell is committed to global best practice standards in index governance. Objective index construction rules are publicly available on lseg.com/ftse-russell, and are continually evaluated to ensure the index remains a relevant and reliable performance measure for the market.

Disclaimer

© 2024 London Stock Exchange Group plc and its applicable group undertakings ("LSEG"). LSEG includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) FTSE (Beijing) Consulting Limited ("WOFE") (7) Refinitiv Benchmark Services (UK) Limited ("RBSL"), (8) Refinitiv Limited ("RL") and (9) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL, and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "Refinitiv", "Beyond Ratings®", "WMR™", "FR™" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index and/or rate returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index or rate inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index or rate was officially launched. However, back-tested data may reflect the application of the index or rate methodology with the benefit of hindsight, and the historic calculations of an index or rate may change from month to month based on revisions to the underlying economic data used in the calculation of the index or rate.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a licence from LSEG and/or its licensors.

About FTSE Russell

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

To learn more, visit lseg.com/ftse-russell; email info@ftserussell.com; or call your regional Client Service team office:

EMEA +44 (0) 20 7866 1810

Asia-Pacific

North America +1 877 503 6437

Hong Kong +852 2164 3333

Tokyo +81 (3) 6441 1430

Sydney +61 (0)2 7228 5659



**FTSE
RUSSELL**
An LSEG Business