

Balancing equity factors and sustainability targets



“When selecting a smart beta index, we try to find one that performs quite regularly in different market conditions and which is balanced between the different factors we are seeking exposure to.”

Pierre-Olivier Billard, Head of Asset Allocation, Fonds De Réserve Pour Les Retraites



About the client

Profile

Fonds de Réserve pour les Retraites (FRR) is a state-funded agency set up in 2001 to help finance France's public sector pensions.

Objectives

FRR sought to award an equity index replication mandate aligned with the principles of the 2015 Paris Climate Agreement and offering balanced exposure to equity factors.

Solution

The FTSE Developed Eurozone Low Carbon Comprehensive Equal Factor index offers equal risk exposure to five equity factors and reduced fossil fuel reserves and carbon emissions.



Fonds De Réserve Pour Les Retraites

The Fonds de Réserve pour les Retraites (FRR) is a state-funded agency set up in 2001 to help finance France's pensions. As at end-2022, the FRR managed a total of €22 billion across bonds, equities and unlisted assets.

As a founding signatory (in 2005) of the United Nations' Principles for Responsible Investment, the FRR has a long-standing commitment to sustainable investment and to the acceleration of the green energy transition. Currently, 100 percent of the FRR's investments in listed equities aim to improve the environmental, social and governance criteria in a Paris aligned approach.

Between 2013 and 2021, the FRR reduced the overall carbon emissions in its listed equity portfolios by 53 percent.

Client Objectives

In 2021, the FRR issued a new tender for three asset managers to manage index-replicating portfolios and improve its socially responsible investment characteristics. Indeed, the final portfolios, said the FRR, should be consistent with the principles of the 2015 Paris Climate Accord (whose aim is to avoid dangerous climate change by containing planetary warming to a level well below 2°C, with continuing efforts to limit warming to 1.5°C).

According to the FRR, the final portfolios should also integrate, at a minimum, the following objectives:

- a gradual reduction in carbon footprint and fossil reserves in absolute terms;
- a reduction in carbon footprint and fossil reserves relative to the benchmark;
- an over-weighting of the "green share" of the investments;
- measurement of physical and transitional risks;
- an ESG score higher than that of the underlying benchmark;

Solution

In 2022, the FRR announced that it had chosen Candriam to manage an optimised, index-tracking equity portfolio based on the FTSE Developed Eurozone Low Carbon Comprehensive Equal Factor Risk Contribution Target Exposure index.

This index is one of FTSE Russell's family of "smart sustainability" indices, which are designed to integrate both a commitment to ESG and the sophistication of smart beta and factor indices.

Our smart sustainability indices are built using a tilting methodology that adjusts index weights according to a specific set of factor characteristics, climate change considerations and/or ESG practices.

Drawing on stocks in the starting index (the FTSE Developed Eurozone index), the FTSE Developed Eurozone Low Carbon Comprehensive Equal Factor Risk Contribution Target Exposure index achieves equal risk exposure to the following five equity factors (factors are systematic drivers of equity market returns and carry an associated risk premium):

- **Value** (Stocks that appear cheap tend to perform better than stocks that appear expensive)
- **Quality** (Higher quality companies tend to demonstrate higher performance than lower quality companies)
- **Size** (Smaller companies tend to demonstrate higher performance than larger companies)
- **Momentum** (Stock performance tends to persist, either continuing to rise or fall)

FTSE Developed Eurozone Low Carbon Comprehensive Equal Factor Risk Contribution Target Exposure index

The index is part of FTSE Russell's family of "Smart Sustainability" indices. The index offers equal risk exposure to five equity factors and a 30 percent reduction in fossil fuel reserves and operational carbon emissions.

- **Low Volatility** (Stocks that exhibit low volatility tend to perform better than stocks with higher volatility)

The index methodology also targets a 30 percent reduction in the fossil fuel reserves of the starting universe, as well as a 30 percent reduction in operational carbon emissions.

By balancing exposure to equity factors and sustainability goals, the index is helping the FRR meet its financial objectives, while making sure its managers can achieve Paris-aligned goals with low tracking error, in a firm commitment to the climate transition.

Additional information

For more information on the FTSE Developed Eurozone Index Series, [visit our website](#).

For more information on our range of products and services, visit lseg.com/ftse-russell;

No responsibility or liability can be accepted by any member of the FRR nor its 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 error (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. No member of the FRR nor its 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 the FRR nor its 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. Indexes cannot be invested in directly. Inclusion of an asset in an index 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 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.

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.

CONTACT US

To learn more, visit [lseg.com/ftse-russell](https://www.ftserussell.com); 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

Disclaimer

© [2023] 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.



**FTSE
RUSSELL**
An LSEG Business

