“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.
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.

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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.

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