A reference index for China’s offshore green bond market

“When looking for a partner to develop a green bond index, FTSE Russell’s long-standing experience in building sustainable indices was attractive for us. We also valued FTSE Russell’s ability to customise a green bond index to meet our requirements, while adhering to global standards.”

Gabriel Yu, Portfolio Manager, Ping An of China Asset Management (Hong Kong) Company Limited

About the client

Profile
Ping An of China Asset Management (Hong Kong) Company Limited (“PAAMC (HK)”) is the overseas investments and asset management platform of Ping An Group.

Objectives
PAAMC (HK) required a new reference index, aligned with global standards, for its investments in the rapidly growing Chinese offshore green bond market.

Solution
The FTSE APAC-Select Investment-Grade Green Impact USD Bond Index helped PAAMC (HK) benchmark the returns of the Chinese and Asian investment grade offshore green bond market.
Client Profile

Ping An Insurance (Group) Company of China, Ltd. ("Ping An") is a world-leading integrated finance and healthcare services provider. In 2022, Ping An ranked 25th in the Fortune Global 500 list (an annual ranking of the world’s top 500 companies by revenue) as well as 4th among global financial services companies1.

Ping An has committed to becoming carbon-neutral at the operational level by 2030 and at the asset level by 2060, in line with China’s green transition targets. These aim to achieve a peak in the country’s greenhouse gas emissions by 2030 and carbon neutrality by 2060.

In 2019, Ping An became a signatory to the United Nations-supported Principles for Responsible Investment (UN PRI), the first asset owner in mainland China to do so. In 2019, Ping An also became the first Chinese asset owner to join Climate Action 100+, an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take necessary action on climate change.

Ping An of China Asset Management (Hong Kong) Company Limited ("PAAMC (HK)") is the overseas investments and asset management platform of Ping An Group. PAAMC (HK) offers investment products, asset management and consulting services, including open- and closed-end funds, ETFs and mandates in equity, fixed income, hedge funds, AI and quantitative investments, as well as other alternative investments.

Client Objectives

The transition to a sustainable global economy requires an increase in the provision of finance to projects that deliver positive outcomes for the environment and society.

The bond market plays a critical role in attracting and directing private capital towards such outcomes and so-called ‘green bonds’ are a type of bond designed to produce a measurable and positive climate or environmental impact.

Since the first green bonds were issued in 2007, the market has grown to nearly US$2.5trn in aggregate issuance. Within this total, China is playing an increasingly important role, with the country issuing more green bonds in 2022 than any other national economy. China’s green bond market includes both bonds issued domestically (in yuan) and those issued offshore (in foreign currency).

1 https://fortune.com/company/ping-an-insurance/global500/
In 2022, PAAMC (HK) wished to appoint a new reference index provider for its range of green bond funds and products. It set the following requirements for the provider:

- **Experience**—the reference index provider should have long-standing experience in offering and managing sustainable investment indices;
- **Representativeness**—the index provider should have access to and the ability to price all components of the China green bond market;
- **Alignment**—the index methodology should be aligned with key global standards for the green bond market, such as the Climate Bonds Initiative’s Climate Bonds Standard (CBS) and the International Capital Market Association’s (ICMA’s) Green Bond Principles (GBP);
- **Ability to customise**—the provider should offer PAAMC (HK) the ability to customise the index, for example by setting constraints for geographical focus, credit rating, currency of issue, liquidity and minimum diversification.

**Solution**

PAAMC (HK) decided to select the FTSE APAC-Select Investment-Grade Green Impact USD Bond index as a reference index for its investments in Chinese and Asian green bonds. This index is part of the FTSE Green Impact Bond index series, which provides a comprehensive measure of the global green bond market across fixed income asset classes and credit sectors.

The index series measures the performance of both investment-grade and high-yield multi-currency green debt issued by governments, government-sponsored entities, supranational institutions, collateralised bond issuers and corporations.

A bond is eligible for the index series if its issuance proceeds are earmarked for projects that have an environmental and/or climate benefit and it has been labelled as ‘green’ by the Climate Bonds Initiative (CBI) and is aligned with the International Capital Markets Association’s (ICMA) Green Bond Principles (GBP).

Under the CBI taxonomy and the GBP, four core components ensure the transparency and governance of green bond issuance:

- **Use of proceeds**—the issuance proceeds of a green bond must achieve specific environmental objectives, such as climate change mitigation or pollution prevention and control;
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- **Process for project evaluation and selection**—an issuer’s process for project and selection should be supplemented by an external review;
- **Management of proceeds**—issuers should verify the internal tracking process and the allocation of funds from the bond issue;
- **Reporting**—the annual report should include projects to which green bond proceeds have been allocated, the amounts and expected impact.

### Four-pillar requirements for a green bond issue

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<td>Climate Bond Standard (CBS)</td>
<td>Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; Reporting</td>
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<td>Green Bond Principles (GBP)</td>
<td>Under both CBS and GBP, a Green Bond issuer should meet the four-pillar requirements</td>
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As well as complying with these design features of the FTSE Green Impact Bond index series, PAAMC (HK)’s chosen green bond reference index (the FTSE APAC-Select Investment-Grade Green Impact USD Bond index) also met specific criteria, including:

- **Geographical focus**—Greater China, defined to be mainland China, Macau, Hong Kong, and Taiwan, will make up no less than 60% of the index by market value weight, with 40% of the index represented by green bonds from other Asian markets (India, Indonesia, South Korea, New Zealand, Philippines, Vietnam, Singapore, Pakistan, Australia, Malaysia and Thailand);
- **Credit rating**—the index only includes bonds with an investment-grade credit rating (BBB- or above);
- **Currency**—only USD-denominated green bonds are included;
- **Liquidity and diversification**—the minimum green bond issue size for index inclusion is $300m and individual issuers’ index weights are capped at 7%.

PAAMC (HK) is now using the FTSE APAC-Select Investment-Grade Green Impact USD Bond index in client reporting, risk management and internal performance attribution.

### Additional information

For more on the FTSE Impact Bond index series, [click here](#). For more on the FTSE Green Impact Bond index series, [click here](#). For more on the FTSE Ping An China ESG (equity) index series, [click here](#).

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