

# Sustainable Investment Insights

## BI-ANNUAL REPORT | JANUARY 2026

### SI saw mixed performance in 2025, with energy transition continuing but market penetration plateauing

Climate physical risk and energy transition continue to have a significant impact on the global economy, and investors' sustainability concerns are growing despite geopolitical headwinds; the market for sustainable investment products has been mostly flat over 3 years. Investment performance was mixed in 2025; most global SI equity indices outperformed the market, whilst SI fixed income indices were in line or behind the market.

#### Highlights

##### SI Equities outperform, but with volatility and headwinds

4 out of 6 SI global equity indices outperformed their benchmarks in 2025. In a volatile year, the differing characteristics of SI indices meant growth-focused Environmental Opportunities and value-focused ESG Low Carbon saw diverging performance quarter on quarter. Global Choice and PAB indices underperformed due to underweights in Defence, Nuclear and Basic Materials.

##### SI fixed income sees performance headwinds, but continued demand

SI fixed income indices faced the twin challenges of European overweights and longer durations, in a year of rising European yields and steepening global yield curves; this led to underperformance in most SI fixed income and green bond indices. However, record green bond issuance in 2025 underlined the continued demand for climate and transition related finance, and flows continued to be positive in SI bond funds.

##### Energy transition continues to grow

Activity remains strong, with growing electrification and new demand largely met by renewable energy, particularly solar, driven by lower costs and speed of installation. China dominates the market, but overcapacity and profitability remain a challenge. Physical climate risk is an increasing concern, costing \$220bn in 2025.

##### SI market penetration plateaus

Investors show increasing concern for climate and sustainability risk, but implementation has plateaued at ~73% of asset owners. SI focused funds saw \$29bn net outflows in 2025, balancing continued inflows in SI bond funds and outflows from SI equity funds. APAC is seeing growing SI activity, whilst the US sees geopolitical headwinds.

Chart 1. Top & bottom 3 absolute performance in global SI equity, fixed income & alternative indices (TR, USD,%).

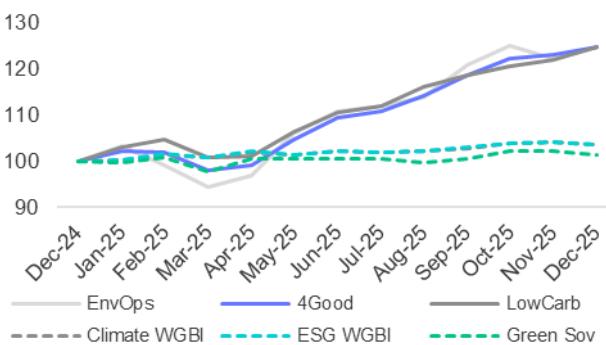
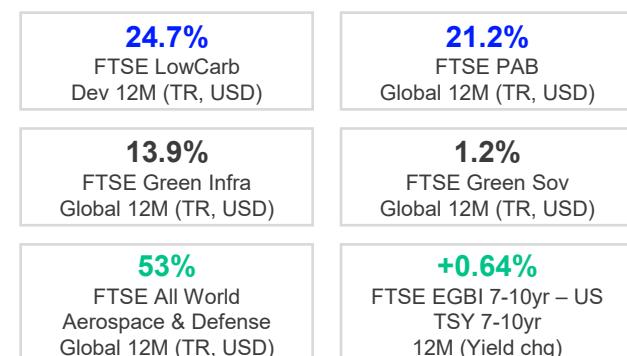


Chart 2. Top & bottom equity & non-equity SI indices and key metrics impacting performance (TR, USD,%).



Note: Low Carbon covers developed markets.

Results in this report are for research / illustrative purposes and do not represent the official performance of the indices.  
Index performance in this report is now in USD, unless otherwise noted

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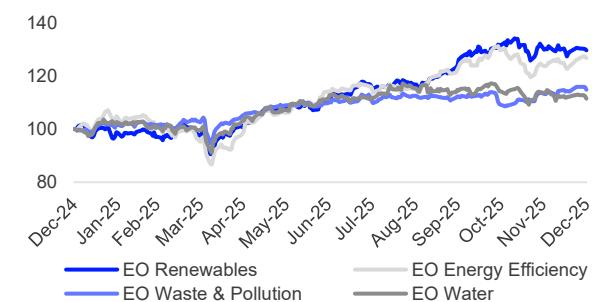
## SI Spotlight – energy transition continues, but climate risks abound

2025 saw continued momentum in energy transition, with significant electricity demand growth, from electrification of transport, industrial process and data centre demand. Incremental generation predominantly came from renewable energy and a small fall in fossil generation. Global energy efficiency also improved by 1.8%, the second best in 6 years, but still short of the 4% target from COP28. 2025 also saw outperformance of green economy equities, particularly renewables and energy efficiency. Transition activity is particularly coming from Asia as China dominates the production and use of clean energy products. Japan focuses on industrial efficiency gains through its transition policy, and the market increasingly focuses on India as the key source of future energy demand and a growing market for renewables. The energy transition is also impacting oil demand, and a growing disconnect between oil prices and Energy equities as industry valuations have risen, maybe because balance sheets have also improved.

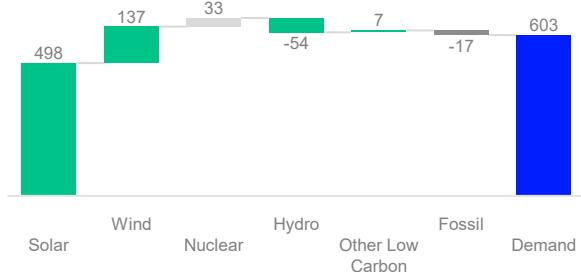
Despite the continued transition activity, it remains behind a 1.5 degree trajectory and the physical impacts of climate change are becoming increasingly visible. The average temperature anomaly vs pre-industrial times was 1.5 degrees in 2025, down on 2024 but the third highest ever, and the total cost of natural disasters was \$220bn. High heat periods also impact economic productivity and the European heatwaves in the summer of 2025 are estimated to have cost ~0.4% GDP.

Further key trends in sustainable investment are explored in [2026 Sustainable Investment Trends | LSEG](#)

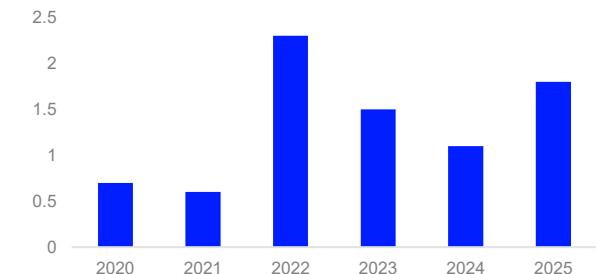
**Chart 1: Environmental Opportunities Green Sector Performance** – Energy Efficiency and Renewable Energy outperformed in 2025.



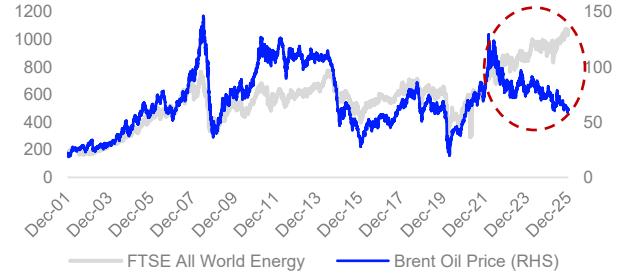
**Chart 2: Growth in global electricity generation (2025 vs 24 Q1-Q3)<sup>1</sup>** – Solar drove the majority of growth, with fossil fuel flat.



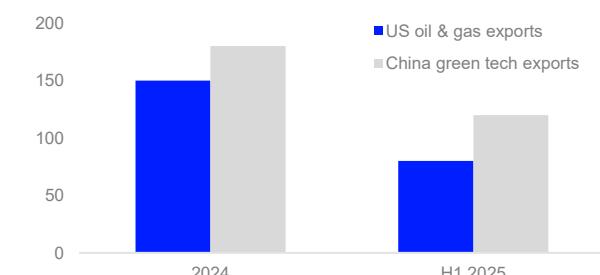
**Chart 3: Global primary energy intensity improvement (per unit GDP)<sup>2</sup>** – 2025 saw improvement, but behind COP28 4% target.



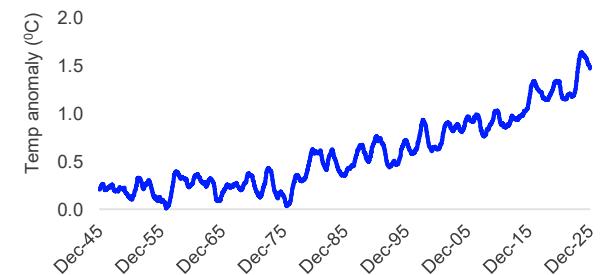
**Chart 4: FTSE All-World Energy vs brent oil price<sup>3</sup>** – disconnect between rising Energy equities and falling oil price since 2023.



**Chart 5: Energy exports (\$bn)<sup>4</sup>** – Chinese green tech exports are larger and growing at a faster rate than US oil & gas exports. The majority are now going to EM countries.



**Chart 6: Global 1yr average temperature anomalies vs pre-industrial period<sup>5</sup>** – temperature anomaly fell in 2025, but remains elevated.



1. [Q3 Global Power Report: No fossil fuel growth expected in 2025 | Ember](#); 2. [Energy Efficiency 2025 – Analysis - IEA](#); 3. FTSE All World Energy (USD, TR) vs Brent Oil 1 month future; 4. [Eurasia Group | The Top Risks of 2026](#); 5. [Climate Pulse - Near real-time updates of global climate variables](#)

Source: FTSE Russell/LSEG. All data as of December 31, 2025. Past performance is no guarantee of future results. This report should not be considered "research" for the purposes of MiFID II. Please see the end for important legal disclosures. Results in this report are for research / illustrative purposes and do not represent the actual performance of the indices.

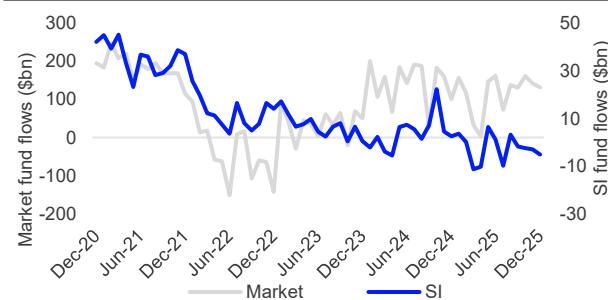
## SI State of the Market – SI penetration sitting on a plateau

The sustainable investment market remained under pressure in 2025, with \$29bn flowing out of SI focused bond and equity funds. Whilst some of the larger outflows can be explained by broader market trends (April drawdown after US tariff announcement) and fund specific issues (July), most months saw consistent small outflows, albeit as a small proportion of the total \$2.1trn SI market. Flows were not consistent across the market; both North America and Europe saw significant outflows while APAC saw small inflows. The largest divergence in SI flows was by asset class; In 2025 SI equity flows have been falling (-\$69bn) whilst SI bond flows have been rising (+\$40bn). The has also been a difference of fortunes between active SI funds, which saw \$38bn outflows, whilst passive SI funds saw small inflows of \$9bn.

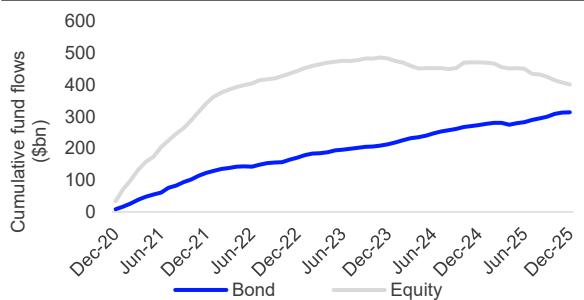
The narrative of the SI market penetration being broadly flat, at a significant level, is also reinforced by FTSE Russell's recent survey of global asset owners. This found that 73% were implementing SI considerations in their investment strategies, a level which has been broadly consistent for 3 years. However, those considering climate a high risk factor for their investments is at a record high level of 85% as is those including climate considerations in their broader asset allocation process at 80%.

For more analysis of asset owner attitudes towards sustainable investment see [FTSE Russell's 8th Annual Sustainable Investment Asset Owner Survey 2025 | LSEG](#)

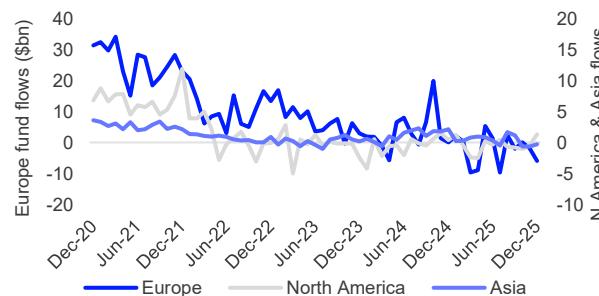
**Chart 1: Market vs SI bond & equity flows<sup>1</sup>** – SI flows were negative (-\$29bn) over 2025, vs rising flows in the broader market



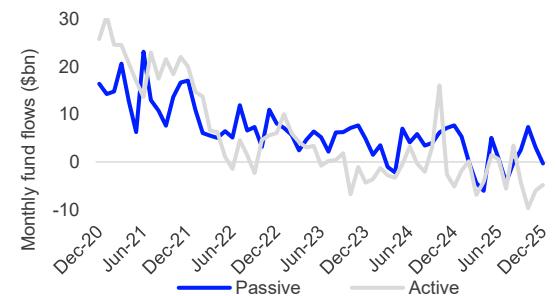
**Chart 2: Cumulative SI bond vs equity flows<sup>1</sup>** – SI equity have been falling since late 2023 (-\$69bn in 2025), whilst SI bond flows are rising (+\$40bn in 2025).



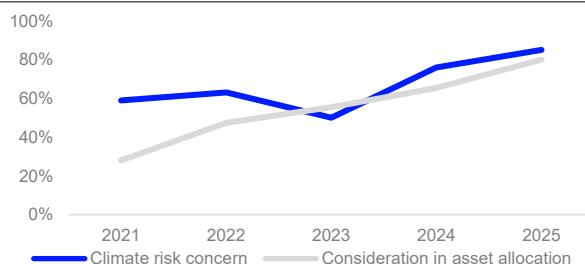
**Chart 3: Monthly North America vs Europe SI bond & equity flows<sup>1</sup>** – both North America (-\$6bn) and Europe (-\$27bn) negative, but Asia flows (+\$4bn) positive in 2025



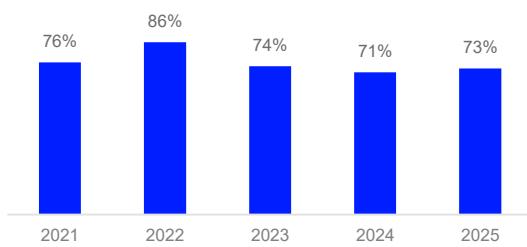
**Chart 4: Monthly active vs passive SI bond & equity flows<sup>1</sup>** – Active SI saw outflows (-\$38bn) in 2025, whilst SI Passive saw inflows (\$9bn).



**Chart 5: % of global asset owners with high level of climate risk concern and consideration in asset allocation process<sup>2</sup>** – climate risk concern continues to rise.



**Chart 6: % of global asset owners implementing SI considerations in investment strategy<sup>2</sup>** – plateaued at a high level since 2023.



1. LSEG Lipper estimated net flows in SI focused bond and equity funds; 2. Percentage of 415 global asset owners citing climate concerns for investment 7+ out of 10, using climate consider or sustainable indices in strategic asset allocation and implementation SI considerations in investment strategy [FTSE Russell's 8th Annual Sustainable Investment Asset Owner Survey 2025 | LSEG](#)

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## SI Equities – strong performance, but Defence was a headwind for some funds

Global SI indices predominantly outperformed the market in 2025. Environmental Opportunities ('EnvOps'), saw the largest outperformance, driven by positive selection in Industrials, Consumer Discretionary and Energy plus underweight allocation in Healthcare and Consumer Staples, offset by underperformance from underweight in Financials. ESG Low Carbon ('LowCarb') also outperformed due to its more value-oriented positioning with underweights in Tech and Consumer Discretionary and overweights in Consumer Staples, Telcos and Financials. Paris Aligned ('PAB') saw the largest underperformance, primarily due to negative selection in Industrials, driven by an underweight in Aerospace & Defence, which also impacted Global Choice ('Choice') & FTSE4Good ('4Good'), as well as overweight allocation to Consumer Discretionary.

Chart 1: Active Performance vs benchmark<sup>1</sup> (TR, USD %)

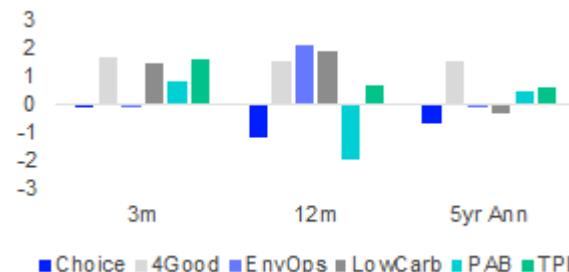


Chart 2: Index tracking error (%)

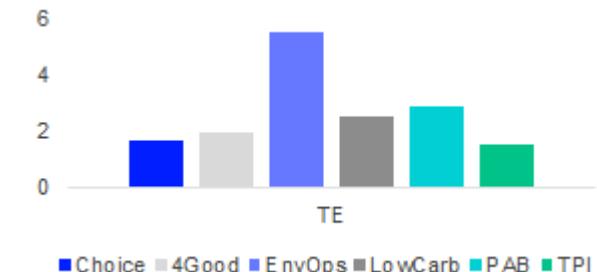


Chart 3: 12M industry allocation effect (%)

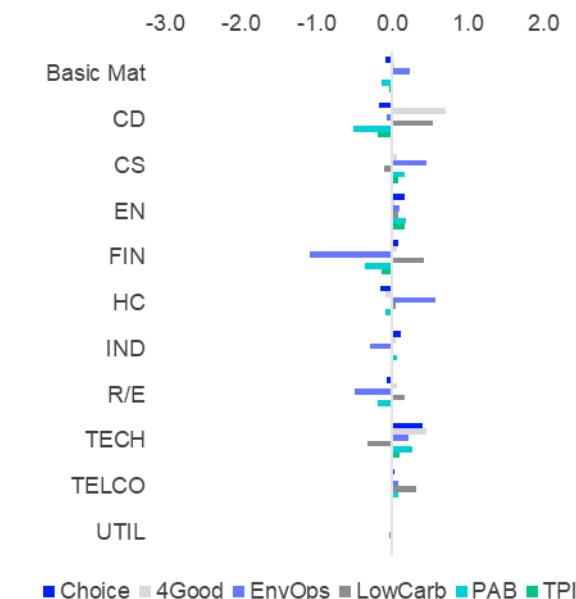


Chart 4: 12M industry selection effect (%)

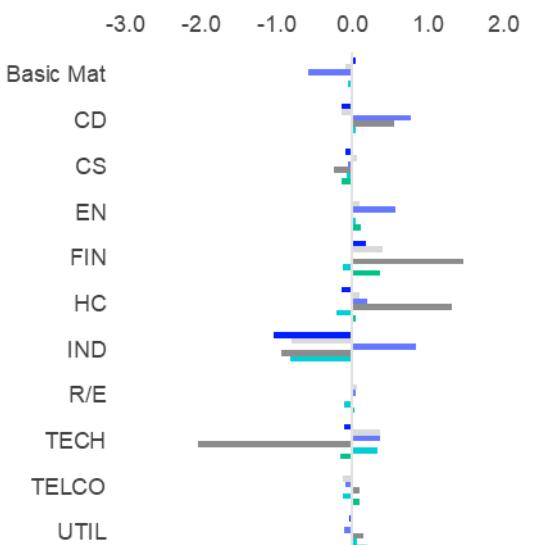
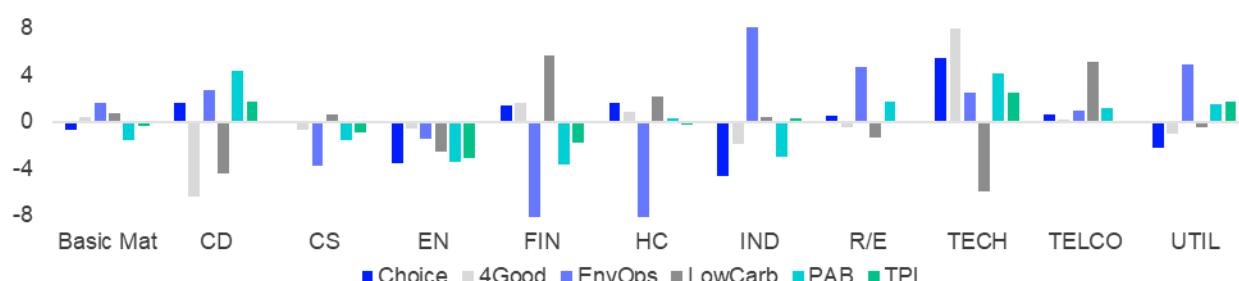


Chart 5: ICB Industry active weight vs benchmark<sup>1</sup> (%)



1. See page 11 for index name abbreviations and parent benchmarks

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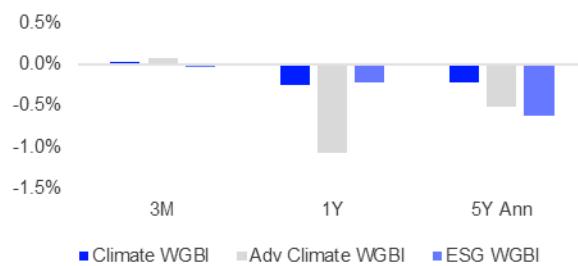
## SI Fixed Income – Europe/US yield divergence drives weak performance

Sovereign performance in 2025 was dominated by yield divergence across regions. US yields fell in 2025 on the back of softer employment numbers and multiple rate cuts by the Federal Reserve, with US Treasury 7-10yr yield falling 27bps. In contrast fiscal policy concerns in parts of Europe and the UK drove yields higher, with EGBI 7-10yr yield rising 37bps. As a result, absolute performance from SI Sovereigns was positive in 2025, driven by US treasuries. However, on a relative basis, underweights in US sovereign debt in favor of French and UK sovereigns, due to relative carbon emissions and mitigation efforts, detracted from climate index performance. This was particularly so in the Advanced Climate WGBI which has a much larger underweight to the US. In contrast, ESG WGBI has lower regional differences and lower OAS spreads but also underperformed the market in 2025.

SI Corporate indices saw tighter relative performance to the market in 2025, in particular the exclusions-based Choice and FFE Corp. However, all three SI indices underperformed the market in 2025, driven by underweights in Energy. However, Choice and FFE benefited from an overweight in Banks, whereas PAB's underweight in Banks drove further underperformance. Absolute performance was positive across SI Corporates due to continued tightening of credit spreads since 2022.

SI Sovereign and Corporate indices exhibit a quality bias by credit-rating, particularly ESG WGBI and PAB Corp, giving potential downside protection. These two indices were also the most expensive, by relative OAS, although spreads have converged.

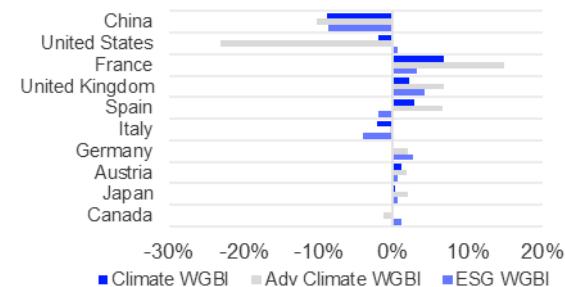
**Chart 1: Selected SI Sovereign Active<sup>1</sup> Performance vs. WGBI (TR, USD Hedged) – Climate WGBI & Adv were ahead in Q4, but all were behind benchmark in 2025.**



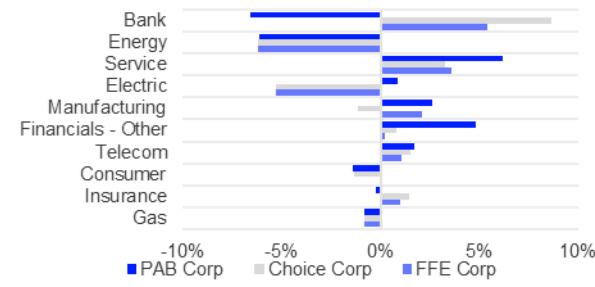
**Chart 2: Selected SI Corporate Active<sup>1</sup> Performance vs. WBIG Corp (TR, USD Hedged) – SI Corp indices were behind benchmarks in Q4 and 2025.**



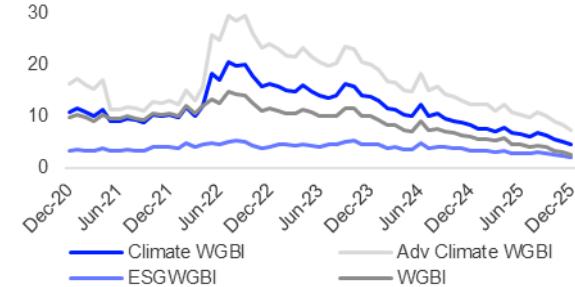
**Chart 3: Selected SI Sovereign Active Weights vs WGBI**  
European overweights resulted in underperformance for the climate indices in 2025, given rising European yields.



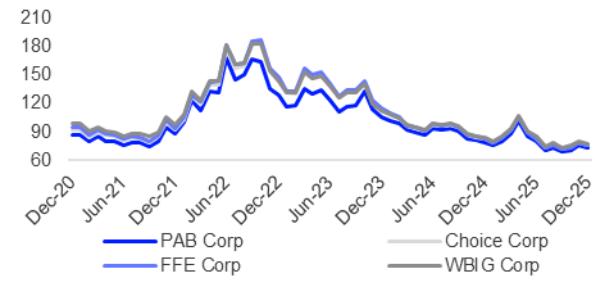
**Chart 4: Selected SI Corporate Active Weights vs WBIG Corp**  
Banks and Electric Utilities continue to see the largest divergence in allocation between PAB Corp and Choice/FFE



**Chart 5: Selected SI Sovereign OAS (bps) –** although all three SI Sovereign indices exhibit quality biases, only ESG WGBI has seen consistently tighter credit spreads than WGBI.



**Chart 6: Selected SI Sovereign OAS (bps) –** OAS spreads difference vs WBIG Corp has fallen, however, PAB consistently tighter than the market.



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## Green Bonds – performance challenging, but issuance remains strong

Green bonds were in line in Q4 but underperformed the market over 2025. The underperformance occurred both in Green Sovereigns (which have seen longer-term underperformance over 5 years) and Green Corporates (which have seen outperformance over 5 years). In 2025, European overweight and US underweight detracted from performance for all three indices, especially for sovereigns. Fiscal policy concerns in parts of Europe and the UK vs interest rates cuts by the US Federal Reserve drove European sovereign yields higher (EGBI 7-10 yield +37bps in 2025) and US sovereign yields down (US treasury 7-10 yield -27bps). Green Sovereign active duration, whilst falling, remains ~4 years longer than the market, which negatively impacted performance as yield curves steepened in 2025. Green Corporates have shorter duration than the market. The largest Industry skews, overweight Electric Utilities and underweight Services, had limited impact as both performed close to market. However overweight Banks was positive whilst underweight Energy detracted from performance.

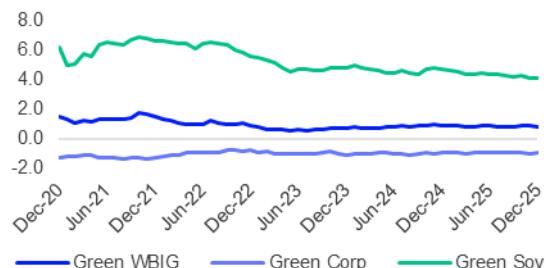
Green bond indices had tighter OAS spreads than the market, particularly for corporates, in 2020/21, where issuance premiums ("greeniums") were the norm. These disappeared in 2022 as OAS spreads widened, but the spread differential with the market has been reducing since 2023 and corporate green bonds now have an OAS slightly lower than the market.

Despite performance challenges and geopolitical headwinds, green bonds saw record issuance in 2025 of almost \$600bn representing 4.3% of total bond issuance, and record outstanding of over \$3 trillion. Europe remained the largest region of issuance, but fell by 4%, as did Americas. APAC issuance rose 29%, underlining the increasing focus on climate and energy transition in the region, particularly China.

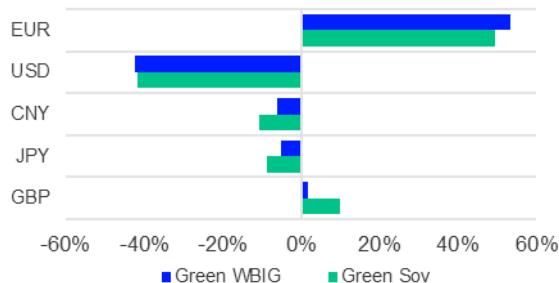
**Chart 1: Selected SI Green Bond Active<sup>1</sup> Performance (TR, USD Hedged) –** Green bond indices were in line in Q4, but all underperformed in 2025, particularly Green Sovereigns.



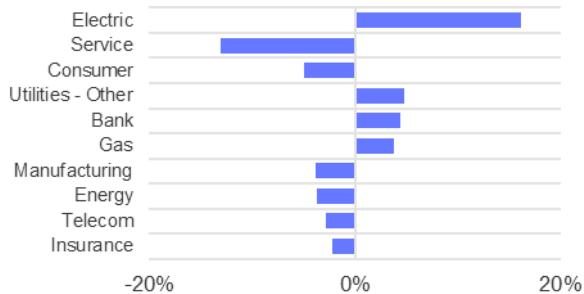
**Chart 2: Selected SI Green Bond Index active duration vs. WBIG, WBIG Corp, WBIG Sov (years) –** whilst active duration has fallen Green Sovereigns remained substantially longer.



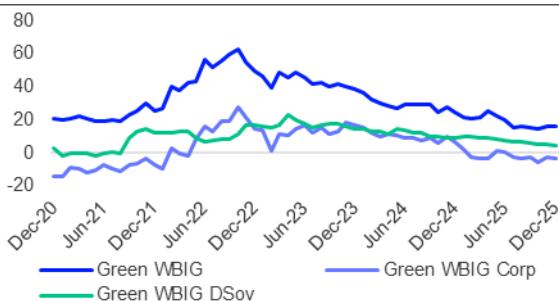
**Chart 3: Selected SI Green Bond Active Weights vs. WBIG and WBIG Sov –** EUR overweight and USD underweight positioning was negative to performance in 2025.



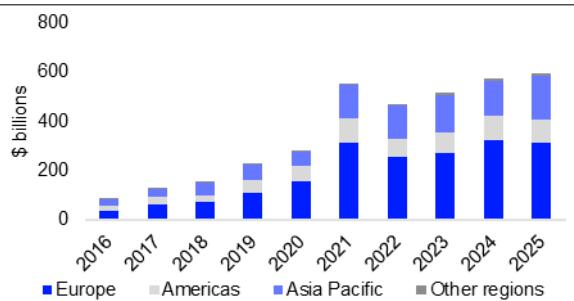
**Chart 4: Green WBIG Corp Active Weights vs. WBIG Corp –** Green Corp overweight Banks was positive to performance however underweight Energy was negative in 2025.



**Chart 5: Selected SI Green Bond Index active OAS vs. WBIG, WBIG Corp, WBIG Sov (bps) –** OAS difference with benchmarks reducing, particularly Green WBIG Corporate.



**Chart 6: Green Bond Issuance (%) –** 2025 saw record green bond issuance. It was driven by 29% growth in Asia and single digit falls in Europe and North America.



1. See page 11 for index name abbreviations and parent benchmarks

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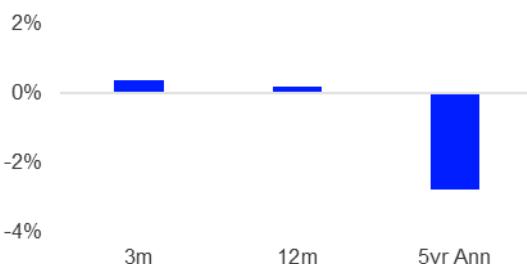
## SI Alternatives – green infrastructure tailwinds and green real estate headwinds

SI alternatives offer different options for investors looking to diversify their portfolio, while also implementing an SI philosophy and maintaining exposure to liquid assets. FTSE Global Core Infrastructure TPI Climate Transition ('Green Infra') adjusts weights in the Global Core Infrastructure index based on risks and opportunities related to the climate transition, using TPI data. FTSE EPRA Nareit Developed Green Low Carbon Target ('EPRA Nareit Green') adjusts the weights of listed real estate stocks based on energy usage, carbon emissions and green building certification.

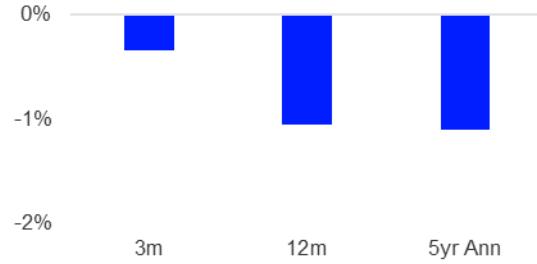
The listed infrastructure market recovered in 2025, however it continued to underperform the broader listed equity market, but with lower volatility. Green Infra had a strong Q4, ultimately slightly outperforming the market over 2025, following underperformance over 5 years. Increasing energy demand from widespread growth in electrification, including energy demand from data centres, is a key driver of green infrastructure. Differentiation between cleaner and dirtier source of generation was a key driver of the performance differential between Green Infra and the broader market, seen in the selection effect in Multi-utilities and conventional electricity. Green infrastructure is underweight conventional electricity and overweight Railroads, which had been a headwind, but had limited impact in 2025

The real estate market remained challenging in 2025 and EPRA Nareit Green unperformed the market by 1%, in line with the 5 year underperformance. Multiple factors impacted performance, in particular key overweights in Residential and Self Storage and underweight in Data Centers.

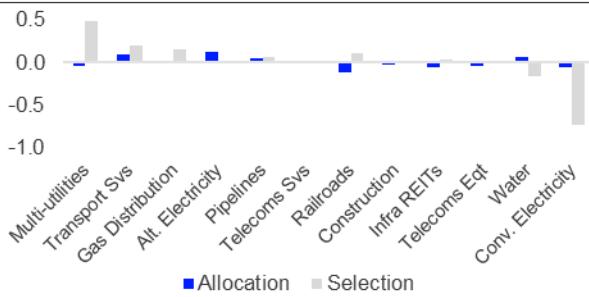
**Chart 1: FTSE Global Core Infrastructure TPI Climate Transition Active<sup>1</sup> Performance – Q4 and 2025 saw small outperformance, but underperformance over 5 years.**



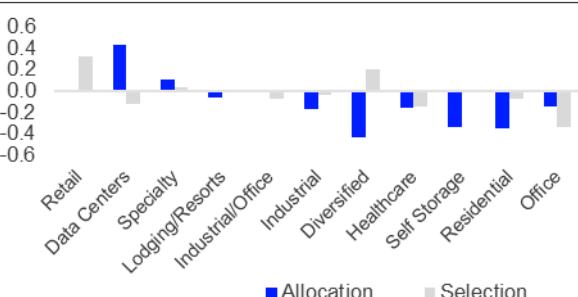
**Chart 2: FTSE EPRA Nareit Developed Green Low Carbon Target Active<sup>1</sup> Performance – Q4 and 2025 saw further underperformance in Green Real Estate.**



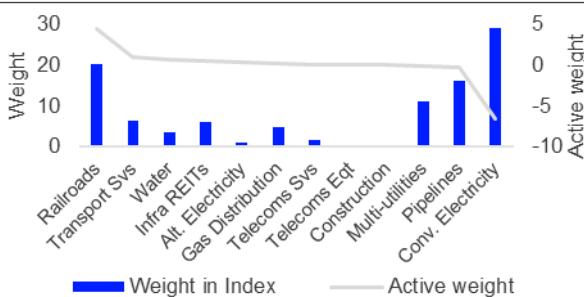
**Chart 3: 12M Attribution vs FTSE Global Infrastructure –**  
Outperformance came from selection in Multi-utilities offset by selection in Conventional Electricity utilities.



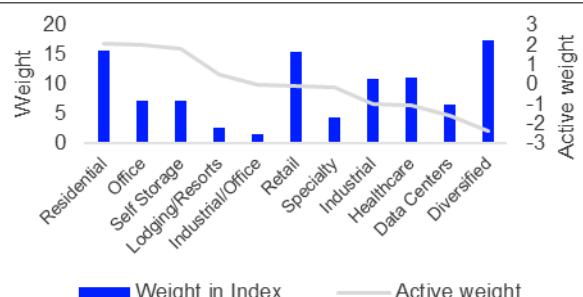
**Chart 4: 12M Attribution vs FTSE EPRA Nareit Developed –**  
Underperformance came from selection in Office and allocation in Self Storage and Residential.



**Chart 5: Active weights vs FTSE Global Infrastructure –**  
Railroads is the largest overweight, offset by underweight in Conventional Electricity utilities.



**Chart 6: Active weights vs FTSE EPRA Nareit Developed –**  
overweight Residential, Office & Self Storage vs underweight Diversified, Data Centers, Healthcare & Industrial.



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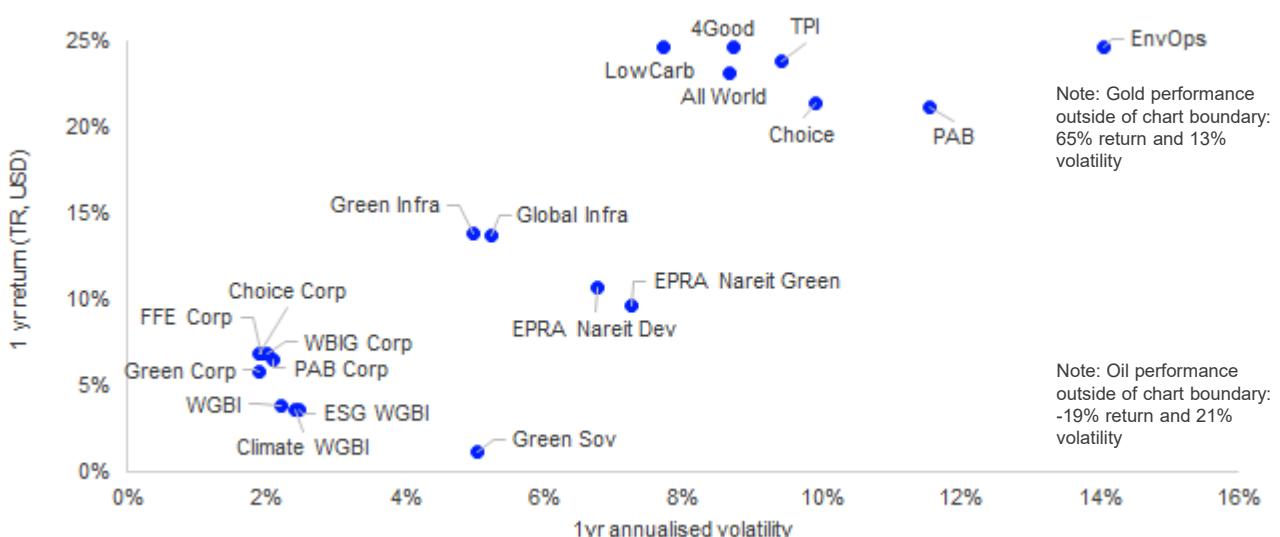
## SI Risk / Return – improved across the board in 2025

Continued strength in equities pushed SI equities to a stronger risk/return profile in Q4 than in Q3. On average, SI equity indices returned 23% with 10% volatility in 2025, compared to 12% annualised return over 5 years with 15% volatility. 2025 also saw EnvOps, 4Good and LowCarb, generating almost identical levels of absolute return, all outperforming the broader market, but with very different levels of volatility. EnvOps outperformed predominantly in upmarket quarters, whilst LowCarb outperformed in downmarket quarters. In contrast, TPI was closest to the market return/risk, in both 2025 and over 5 years.

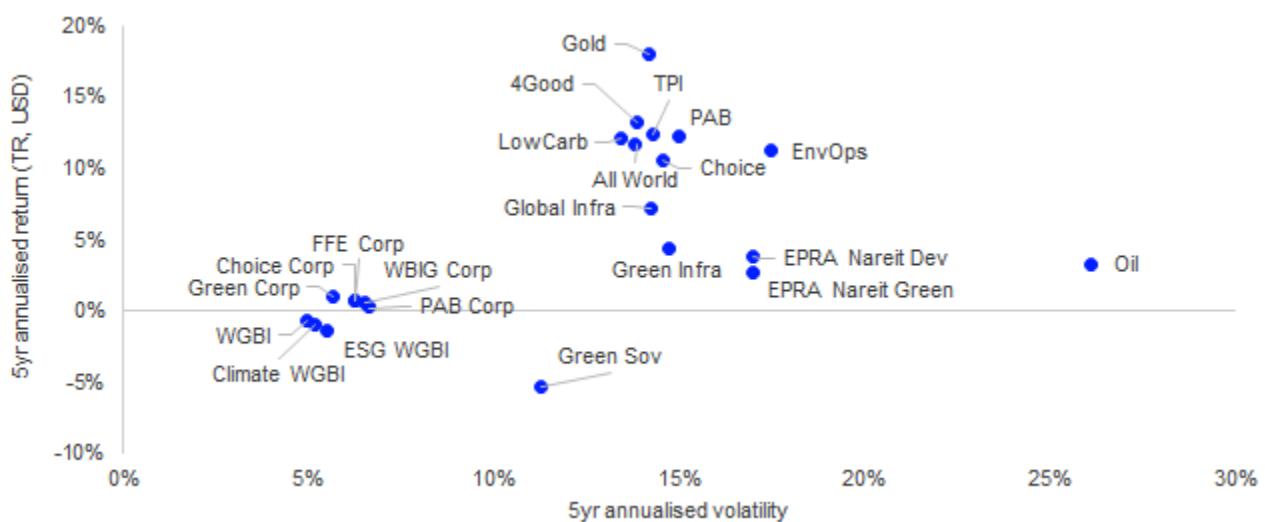
Alternatives also saw their return/risk positioning improve in Q4, still underperforming equities, but with lower volatility. This was particularly the case for infrastructure, which outperformed real estate in 2025, with lower volatility. Green infrastructure also slightly outperformed broader market infrastructure, both in returns and volatility, for the first time in 2025.

SI fixed income remained in a similar position as in Q3, with SI corporates returning almost twice as much as SI sovereigns, but with similar levels of volatility. This contrasts with 5 years, where there was the normal trade-off between risk and return, albeit with lower returns. Green sovereigns continued to be weak, due to long duration and overweight Europe vs underweight US positioning.

**Chart 1: 1 year risk vs return<sup>1</sup>** – EnvOps, 4Good and Low Carb saw almost identical performance, but widely differing volatility, whilst Choice and PAB were weak. SI Corp and Sovereign indices saw similar volatility, but great performance from SI Corp. Green Infra saw slightly better risk/return than the market and much better than EPRA Nareit Green.



**Chart 2: 5 year risk vs return<sup>1</sup>** – 4Good now has the strongest absolute return over 5 years, primarily due to resilient performance in 2022. Most other SI Equity indices have similar risk/return, in line with market, except EnvOps with higher volatility. SI bond strategies have similar risk/return to market, except Green Corp, with lower volatility, and Green Sov, which has higher volatility.



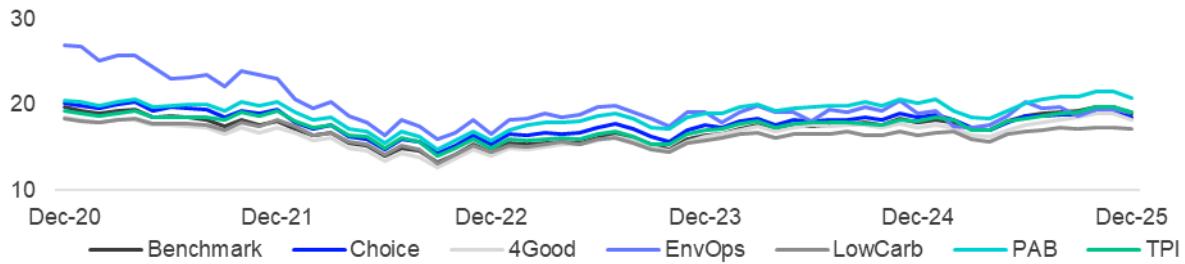
1. See page 11 for index name abbreviations and parent benchmarks

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Risk calculated as the annualized monthly volatility

# Equity Risk and Climate Characteristics – 2025

## Global SI Equity Indices – 12-month forward factor P/E ratios



**Risk characteristics:** In green are lower risk (tracking error), more diversified (high % of stocks in benchmark) and achieving the highest uplift relative to the benchmark in ESG Score, Green Revenues, TPI MQ and carbon reduction.

	FTSE Russell SI Index	US	UK	Europe	Japan	APAC	Emerging	Developed	Global
Tracking Error	Global Choice	2.0%	1.5%	2.1%		1.4%	1.6%	1.8%	1.7%
	FTSE4Good	2.7%	1.7%	2.4%	10.5%	2.0%	6.1%	2.0%	1.9%
	Environmental Ops	6.8%	9.3%	7.2%	6.1%	7.7%			5.4%
	ESG Low Carbon Target	3.0%	5.6%	2.8%	2.7%	2.9%	2.6%	2.5%	
	Paris Aligned		5.4%				3.3%	2.7%	2.8%
	Transition Pathway	1.9%			2.1%		5.1%	1.8%	1.5%
Number of stocks as % of benchmark	Global Choice	80.2%	96.9%	80.9%		86.0%	83.4%	82.7%	83.0%
	FTSE4Good	49.7%	40.0%	74.7%	55.4%	55.0%	36.3%	57.9%	46.4%
	Environmental Ops	10.7%	9.0%	18.4%	13.4%	9.1%			10.8%
	ESG Low Carbon Target	70.3%	80.5%	53.2%	47.2%	17.6%	29.4%	37.6%	
	Paris Aligned		77.2%				40.7%	52.1%	30.7%
	Transition Pathway	61.1%			83.9%		40.9%	50.8%	34.0%
Active ESG score	Global Choice	2.1%	-1.0%	-0.7%		-0.4%	0.2%	1.1%	1.0%
	FTSE4Good	9.6%	8.2%	2.9%	8.7%	8.1%	14.1%	8.9%	9.4%
	Environmental Ops	4.0%	-3.2%	-0.8%	-1.1%	4.0%			6.8%
	ESG Low Carbon Target	17.8%	13.0%	14.0%	19.2%	18.6%	18.5%	17.9%	
	Paris Aligned		1.7%				7.7%	2.5%	3.7%
	Transition Pathway	6.1%			7.2%		12.3%	7.5%	6.1%
Carbon Reduction	Global Choice	-61.6%	10.9%	-60.8%		-47.4%	-55.7%	-60.4%	-59.2%
	FTSE4Good	-39.5%	9.5%	4.2%	2.6%	-12.6%	18.2%	-25.7%	-15.4%
	Environmental Ops	102.3%	-28.6%	29.5%	19.4%	85.1%			55.7%
	ESG Low Carbon Target	-51.7%	-54.3%	-50.5%	-53.0%	-47.7%	-47.0%	-53.0%	
	Paris Aligned		-51.6%				-66.9%	-61.8%	-61.1%
	Transition Pathway	-49.3%			-30.6%		-58.0%	-47.0%	-38.3%
Active Green Revenues	Global Choice	0.06	0.46	-1.39		0.05	1.50	-0.19	-0.02
	FTSE4Good	-0.62	-0.08	0.17	-0.78	-0.50	4.16	-0.44	-0.01
	Environmental Ops	34.15	48.17	33.47	35.99	38.64			38.88
	ESG Low Carbon Target	-1.97	0.54	0.18	0.05	2.16	1.31	-1.80	
	Paris Aligned		5.08				10.64	8.61	9.53
	Transition Pathway	1.90			4.34		7.22	3.00	3.76
Active TPI Management Quality Score	Global Choice	0.8%	5.8%	-4.6%		0.2%	-2.4%	-0.1%	-0.3%
	FTSE4Good	7.8%	1.9%	1.1%	4.2%	3.0%	14.1%	5.7%	6.4%
	Environmental Ops	2.5%	-0.1%	2.7%	4.6%	6.6%			6.2%
	ESG Low Carbon Target	8.6%	-5.5%	3.9%	18.3%	14.9%	18.4%	9.0%	
	Paris Aligned		2.0%				7.8%	5.0%	6.8%
	Transition Pathway	11.1%			13.9%		17.5%	13.8%	10.9%

Note: All calculations are 12-month averages.

\*TPI MQ is the TPI Management Quality score. Carbon reductions are normalised by revenues, except for the PAB benchmarks, where European law requires normalisation by EVIC. ESG Low Carbon Target index series target the minimum of a standard deviation of market capitalisation averaged index ESG score and a 20% uplift.

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## Appendix 1: SI Index Coverage and Benchmarks

For over 20 years FTSE Russell has been a trusted name among global investors for its sustainable benchmarks and indices. Our client-centric approach drives our innovation in sustainable index product development. We collaborate closely with clients and industry leaders to deliver tailored products and services.

FTSE Russell leverages proprietary LSEG data models and leading external data to design and build climate, sustainable and thematic indices. Our commitment to innovation is reflected in our cutting-edge research and analytics. Our diverse range of sustainable indices covers equities, fixed Income and alternatives. As market demands evolve, so does our index offering, ensuring we continue to meet the needs of our clients.

### Cross-Asset Class Sustainable Investment Tools for Investors\*

#### Climate

Our climate indices are designed to capture the risks and opportunities arising from climate change. Comprehensive datasets are utilised to create these indices including carbon emissions, green revenues and decarbonisation targets.

#### Sustainable

Our sustainable indices incorporate a wide range of sustainability issues into their benchmark design. These indices include those that apply specific exclusions and those that adjust constituent weights based on how companies manage broader sustainability risks.

#### SI Thematic

Our thematic indices offer targeted exposure to key sustainability themes, including the global green economy. These index series enable investors to target exposure to investment opportunities arising from the climate transition and significant sustainable trends.

#### Climate indices\*

##### Equity

[EU Climate Benchmarks Index Series | LSEG](#) Paris Aligned Benchmark (PAB) targets a 50% reduction in carbon emissions, 100% uplift in Green Revenues and high climate governance. [FTSE TPI Climate Transition Index Series | LSEG](#) over/underweights companies based on fossil fuel reserves, carbon emissions, green revenues, TPI management quality and TPI carbon performance.

##### Alternative

[FTSE EPRA Nareit Green](#) index of eligible real estate equities worldwide, with an improved climate and sustainability performance based on two sustainable investment measures: green building certification and energy usage.

##### Fixed Income

[Climate Risk Adjusted Gov Bond Index | LSEG](#) quantitatively incorporates climate transition, physical and resilience risk into government bond index.

[FTSE Fixed Income EU Climate Benchmarks Index Series | LSEG](#) achieving the required minimum targets as stipulated by the EU 2019 Regulation on EU Climate Transition Benchmarks.

##### FTSE Green Infrastructure

infrastructure sectors (transportation, energy and telecommunications) and adjusts stock weights to account for the risks and opportunities associated with the transition to a low-carbon economy.

#### Sustainable indices\*

##### Equity

[FTSE Global Choice Index Series | LSEG](#) exclude companies based on the impact of their products and conduct on society and the environment.

[FTSE4Good Index Series | LSEG](#) include companies with an ESG and climate-change scores above a minimum threshold, with exclusions.

[FTSE ESG Low Carbon Target Exposure](#) targets a 20% uplift in the ESG score \*\* and a 50% reduction in carbon emissions, controlling for country and ICB industry exposures.

##### Fixed Income

[FTSE ESG Government Bond Index Series | LSEG](#) adjusts index weights according to each country's relative Environmental, Social and Governance (ESG) performance.

[FTSE Fixed Income Global Choice Index | LSEG](#) designed to represent the performance of securities in FTSE Fixed Income indexes that exclude issuers based on their conduct or product involvement in specific sectors.

[FI Ex Fossil Fuels Enhanced Index | LSEG](#) designed to represent the performance of securities in FTSE Fixed Income indexes after the exclusion of issuers that have certain exposure to fossil fuels.

#### SI Thematic indices\*

##### Equity

[Environmental Markets Index Series | LSEG](#) include companies that derive at least 20% of their revenue from green.

##### Fixed Income

[FTSE Green Impact Bond Index Series | LSEG](#) comprehensive measure of the global green bond market across various asset classes and credit sectors.

\* Please refer to [FTSE | The Right Index for Your Sustainable Investment Objectives \(lseg.com\)](#) for the full range of FTSE Russell sustainable investment products  
\*\* ESG uplift target is the minimum of a standard deviation of market capitalization averaged index ESG score and a 20% uplift.

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## Appendix 2: Reference Guide

### Report calculations

- Unless noted otherwise, all performance calculations are total return in US dollar currency terms (fixed income indices are USD hedged).
- Tracking error and Beta are calculated from 5-years of daily returns. All other calculations on page 9 are 12-month averages.
- Index climate exposures are calculated as the index weighted average. Benchmark climate aggregates are absolute climate exposures. The percent deviations of index exposures from benchmark exposures are labelled “uplift” for ESG and Green Revenues and “reduction” for carbon.
- Contributions to climate “uplift” or “reduction” are the share of total index percent deviation such that the sum over industries equals the total index percent deviation. For Green Revenues it is the absolute increase in weighted average green revenues.
- 12-month industry allocation & stock selection effect is based on a Brinson attribution.

### Sustainable Investment data inputs

- Carbon emissions: estimated annual CO2 equivalent GHG emissions (Scope 1 and 2) in metric tons scaled by annual sales (in USD) (metric tons/\$m), with the exception of EU Regulated Climate Benchmarks which use CO2 equivalent GHG emissions (Scope 1 and 2) scaled by enterprise value including cash (EVIC).
- Green Revenues: the ratio of green revenues as classified by the FTSE Green Revenues Classification System to total revenues.
- FTSE Russell's ESG Data Model scores are objective measures of ESG exposure and performance in multiple dimensions.
- TPI Management Quality Data from the Transition Pathway Initiative.
- An introduction to the FTSE ESG scores can be found in the following guide: [ESG Metrics Methodology and Calculation \(lseg.com\)](https://lseg.com).

### Naming convention

FTSE Russell Sustainable indices are abbreviated in the report as follows:

Official Name	Report Abbreviation	Parent Benchmark	Official Name	Report Abbreviation	Parent Benchmark
FTSE Global All Cap Choice	Choice	FTSE Global All Cap	FTSE Climate Risk Adj WGBI	Climate WGBI	WGBI
FTSE4Good All World	4Good	FTSE All World	FTSE Advanced Climate WGBI	Adv Climate WGBI	WGBI
FTSE Environmental Opportunities All Share	Env Ops	FTSE Global All Cap	FTSE ESG WGBI	ESG WGBI	WGBI
FTSE Developed ESG Low Carbon Target Exposure	Low Carb	FTSE All World Developed	FTSE WorldBIG Choice Corporate Bond	Choice Corp	WorldBIG Corporate
FTSE All World Paris-Aligned (PAB)	PAB	FTSE All World	FTSE WorldBIG Ex Fossil Fuel Enhanced Corporate Bond	FFE Corp	WorldBIG Corporate
FTSE All World TPI Climate Transition ex FF	TPI	FTSE All World	FTSE WorldBIG PAB Corporate Bond	PAB Corp	WorldBIG Corporate
FTSE EPRA Nareit Developed Green Low Carbon Target	EPRA Nareit Green	FTSE EPRA Nareit Developed	FTSE WorldBIG Green Impact Corporate Bond	Green Corp	WorldBIG Corporate
FTSE Global Core Infrastructure TPI Climate Transition	Green Infra	FTSE Global Core Infrastructure	FTSE WorldBIG Green Impact Domestic Sovereign	Green Sov	WorldBIG DSov

Source: FTSE Russell/LSEG. Please see the end for important legal disclosures.

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