

SOLUTION OVERVIEW

FTSE Sustainability-Linked Bond Index Series

Integrate impact investing into your fixed income strategy

Overview

Sustainability-linked bonds (SLBs) are general-purpose bonds whose structure and returns are linked to the achievement of pre-defined sustainability outcomes. They can help investors to integrate impact investing into their fixed income portfolio strategies.

As defined by the International Capital Markets Association (ICMA), SLBs are any bond whose financial and/or structural characteristics vary, depending on whether the issuer achieves specified sustainability or environmental, social and governance (ESG) objectives. The SLB market has grown notably since 2019, with cumulative issuance passing \$250 billion in Q2 2023¹.

In contrast to traditional green, social and sustainability bonds, the proceeds raised by SLBs are not earmarked for specific projects, but are instead used for general purposes. SLBs commit explicitly to future improvements in sustainability outcome(s) within a pre-defined timeline, as measured through Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets (SPTs). Therefore, ensuring market integrity and transparency lies at the heart of the index design approach.

Combining our index construction expertise with LSEG's data, FTSE Russell is developing a comprehensive range of sustainability-linked bond indices. Together with the FTSE Impact Bond index series, FTSE Russell offers a complete set of tools and benchmarks to cover the rapidly growing sustainable bond (green, social, sustainability and sustainability-linked bonds) universe.

Features

The FTSE Sustainability-Linked Bond Index Series provides global coverage of the rapidly growing sustainability-linked bond market.

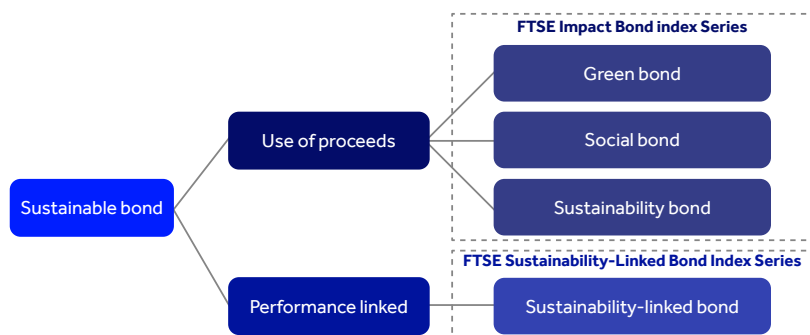
- **Underpinning market integrity:** Bonds within the series comply with five components of ICMA SLBP principles, with validation conducted by LSEG at both issuance and post-issuance stages.
- **Comprehensive coverage:** Based on established FTSE indices, including FTSE WGBI and FTSE WorldBIG, the series includes debt from over 20 countries, denominated in a variety of currencies.
- **Rich content:** A comprehensive set of hedged and unhedged sub-indices denominated in a variety of currencies, with more than three years of history available.
- **Customised solutions:** The index is fully customisable, based on a wide range of attributes including currency, ratings, capping methodologies and diversification requirements.
- **0+ Years offerings:** The Series tracks bonds through to a minimum of one month to maturity, aiding in the management of sustainable investment portfolios with a hold-to-maturity strategy.

¹ Source: LSEG data and calculated by FTSE Russell



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FTSE Sustainable Bond Indices proposition



The FTSE Sustainability-Linked Bond Index Series provides four indices covering the global, Euro and US sustainability-linked bond markets. The index series is designed to measure the performance of both investment-grade and high-yield, multi-currency SLBs that are aligned with the ICMA Sustainability-Linked Bond Principles (SLBP) and issued by governments, government agencies, supranationals, corporations and covered bond issuers. Sub-indices are available in different combinations of currency, country, maturity and credit rating.

Benchmarks are aligned to the International Capital Markets Association (ICMA) guidelines to promote market transparency and integrity.

The FTSE Sustainability-Linked Bond Index Series leverages LSEG data to identify eligible SLBs that are in line with the core five components of the ICMA SLBP, providing an investment opportunity with transparent sustainability credentials.

To comply with the ICMA SLBP, a bond must meet the following requirements:

- **Selection of Key Performance Indicators (KPIs):** KPIs are quantifiable metrics used to measure the performance of selected indicators. The SLBP recommend that KPIs should be material, quantifiable, externally verifiable and able to be benchmarked.
- **Calibration of Sustainability Performance Targets (SPTs):** SPTs are measurable improvements in KPIs to which issuers commit on a pre-defined timeline. The SLBP recommend that SPTs should be ambitious, comparable, consistent with the issuer's overall sustainability/ESG strategy and pre-determined.
- **Bond characteristics:** Information on KPIs, SPTs and the potential change of a bond's financial and/or structural characteristics (e.g., any potential variation of its coupon and/or redemption value) should be disclosed in the bond issuance documents. The SLBP recommend a clear process and transparent commitments for issuers.
- **Reporting:** The post-issuance report should include up-to-date information on the performance of the selected KPIs, any information enabling investors to monitor the level of ambition of the SPTs, and should be published annually. LSEG data is used to track the availability of post-issuance reporting for SLBP alignment and for index eligibility. If the post-issuance report is not available after the 12th month since the issuance or last reporting date, the SLB will be placed on a Watch List for six months. If an issuer fails to release a report within an 18-month period, the bond will be considered ineligible permanently.
- **Verification:** The SLBP suggest that issuers should seek independent and external post issuance verification/assurance of their performance level against each SPT for each KPI. The verification should be made publicly available.

The FTSE Sustainability-Linked Bond Index Series consists of several indices, including:

- **FTSE Global Sustainability-Linked Bond 0+ Years Index (Global SLB0+):**
A multi-sector benchmark of global investment-grade and high-yield multi-currency sustainability-linked bonds, which is a superset of the other sustainability-linked bond indices.
- **FTSE World Broad Investment-Grade Sustainability-Linked Bond 0+ Years Index (WorldBIG SLB0+):** Focuses on EUR, GBP, JPY, USD-denominated investment-grade sustainability-linked bonds.
- **FTSE Euro Broad Investment-Grade Sustainability-Linked Bond 0+ Years Index (EuroBIG SLB0+):** Focuses on Euro-denominated investment-grade sustainability-linked bonds.
- **FTSE US Broad Investment-Grade Sustainability-Linked Bond 0+ Years Index (USBIG SLB0+):** Focuses on US Dollar-denominated investment-grade sustainability-linked bonds issued in the US bond market.

Index design criteria & methodology

	Global SLBO+	WorldBIG SLBO+	EuroBIG SLBO+	USBIG SLBO+
Currency	AUD, CHF, CNH, CNY, EUR, GBP, JPY, USD ²	USD, EUR, JPY, GBP ³	EUR	USD
Quality	IG, HY, NR ⁴	IG	IG	IG
Minimum amount outstanding ⁵	AUD 100 million CHF 100 million CNH 1 billion CNY 1 billion EUR 500 million GBP 200 million JPY 20 billion USD 250 million	USD 500 million EUR 500 million JPY 50 billion GBP 300 million	EUR 500 million	USD 250 million
Base index	20 Broad Fixed Income indices	World Broad Investment-Grade Bond Index	Euro Broad Investment-Grade Bond Index	US Broad Investment-Grade Bond Index
Securities excluded	Asset-backed and mortgage-backed securities			
SLB eligibility	ICMA Sustainability-Linked Bond Principles (SLBP) alignment by LSEG			
Minimum maturity	Entry: At least one year. Exit: At least one month. Fixed-to-floating rate bonds are removed one month prior to the fixed-to-floating rate date.			
Weighting	Market capitalisation			
Calculation frequency	Daily			
Rebalancing	Once a month at month end			
Base date	October 31, 2019		September 30, 2020	

² Listed corporate sector only. For sovereign sector, the inclusion is determined by the FTSE Fixed Income Country Classification Framework with accessibility minimum: Level 1.

³ Listed corporate sector only. For sovereign sector, the inclusion is determined by the FTSE Fixed Income Country Classification Framework with accessibility minimum: Level 2.

⁴ No minimum S&P or Moody's rating requirements, non-rated bonds are included, defaulted bonds are excluded.

⁵ Varies by currency and sector. Listed corporate sector only, for sovereign sector, please see WGBI and EMGBI local currency minimum issue size.

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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.

Contact Us

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

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