



Index Insights | Sustainable Investment – Fixed Income

Enabling global debt investors to align investment choices with values

FTSE Fixed Income Global Choice Index Series overview

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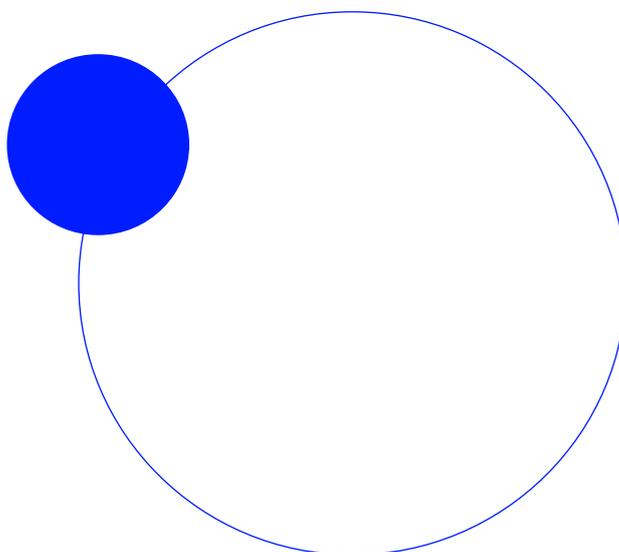


Introduction

An increasing number of investors want to align their portfolios with their investment values and beliefs. One approach to accomplishing this objective is to select issuers based on their impact on society and the environment.

The FTSE Fixed Income Global Choice Index Series employs a transparent, rules-based methodology to help investors align their fixed income investment choices with the underlying bond issuers' impact on society and the environment.

The index series achieves this goal by applying screens related to bond issuers' product choices and their behavior, excluding companies that manufacture vice products, weapons or those that have an adverse environmental impact. The index series also screens for conduct issues such as corruption, environmental scandals, human or labor rights violations.



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FTSE Fixed Income Global Choice index design

The FTSE Fixed Income Global Choice Index Series helps investors to align their portfolios with their individual values through a screening process. The index family can include negative screens in three product categories (Non-Renewable Energy, Vice Products and Weapons) and one conduct category (excluding issuers violating the UN Global Compact Principles).

Individual indices within the index series may use only a subset of the screening categories, offering more 'choice'. The result is a framework that enables investors to apply robust and customisable values-based exclusions to a broad fixed income market index.

While the exclusions can have significant impact on sectors or countries heavily involved in related activity, the overall effect on index performance is minor and the FTSE Fixed Income Global Choice indices behave very similarly to their underlying fixed income benchmark.

This means that the Global Choice indices are close substitutes for the underlying benchmarks in making asset allocation decisions.

Product and conduct exclusions

The FTSE Fixed Income Global Choice Index Series screens constituents from an underlying fixed income index within the FTSE range and excludes those bond issuers that are involved in controversial business activities or whose conduct falls short of international norms.

These controversial activities fall into three **product categories** and four **conduct categories**:

Product category exclusions

- Non-Renewable Energy
- Vice Products
- Weapons

Conduct category exclusions

Involvement in controversies related to the following United Nations Global Compact (UNGC)¹ principles:

- Human rights
- Labor
- Environment
- Anti-corruption

Product-related exclusions are determined by calculating companies' involvement in controversial activities, then excluding those bond issuers whose revenues in a particular product category exceed a specified revenue share threshold. The exclusion thresholds are set out in the index ground rules.

The FTSE Fixed Income Global Choice Index Series tracks companies' activity in certain products or services in terms of direct involvement in the production, distribution of a product and/or in related services.

¹ The UNGC supports companies wishing to do business responsibly by aligning their strategies and operations with Ten Principles on human rights, labour, environment and anti-corruption. It also takes strategic actions to advance broader societal goals, such as the UN Sustainable Development Goals, with an emphasis on collaboration and innovation.

Exhibit 1. FTSE Fixed Income Global Choice Index Series product exclusion categories

Category	Exclusion category	Value chain (e.g., type of involvement)
Non-renewable energy	Fossil Fuels	Ownership of reserves
		Oil & Gas production and supporting products/services
		Coal production and supporting products/services
		Oil & Gas power generation
		Thermal Coal power generation
	Nuclear Power	Production
		Supporting Products/Services
Vice	Adult Entertainment	Producers
		Distributors
	Alcohol	Producers
		Related Products/Services
		Retailers
	Gambling	Operators
		Specialized Equipment
		Supporting Products/Services
	Tobacco	Producers
		Related Products/Services
Retailers		
Cannabis	Producers/Distributors	
Controversial Weapons	Nuclear Weapons	Producers
		Specific and critical parts or services
	Chemical & Biological Weapons	Producers
		Specific and critical parts or services
	Cluster Munitions	Producers
	Specific and critical parts or services	
Landmines	Producers	
	Specific and critical parts or services	
Conventional Weapons	Conventional Weapons	Producers
		Tailor made products/services to support weapons
		Tailor made non-weapons products/services to support military/defense
	Civilian Firearms	Producers (Assault Weapons)
		Producers (Non-Assault Weapons)
		Key components
		Retailers (Assault Weapons)
		Retailers (Non-Assault Weapons)

In the conduct categories, the FTSE Fixed Income Global Choice Index Series constituents are assessed as non-compliant, watchlist or compliant with UNGC Principles by a dedicated oversight committee. The index then excludes companies that are assessed as non-compliant.

Exhibit 2. FTSE Fixed Income Global Choice Index Series controversial conduct screen

Companies are assessed as Non-Compliant, Watchlist or Compliant and assessments are approved by a Sustainability Oversight Committee. The index excludes companies that are non-compliant.

Non-Compliant	Watchlist	Compliant
<ul style="list-style-type: none"> – Directly associated with severe and/or systematic violations – Inadequate response to address or remediate issues 	<ul style="list-style-type: none"> – At risk of contributing to severe and/or systematic violations – Companies considered associated but unable to determine direct violation – Previously non-compliant but improving policies to prevent reoccurrence 	<ul style="list-style-type: none"> – Not causing/contributing to severe and/or systematic violations of international norms and standards – Any allegations against the company have not met the criteria for Watchlist or Non-Compliant status

Eligible fixed income securities

The constituents of the series are derived from those of the underlying reference index (see exhibit 3), subject to the exclusions defined in the previous section.

Exhibit 3. FTSE Fixed Income Global Choice indices and their underlying indices

FTSE Fixed Income Global Choice Index Series	Underlying Index
FTSE World Broad Investment-Grade Choice Bond Index	FTSE World Broad Investment-Grade Bond Index
FTSE US Broad Investment-Grade Choice Bond Index	FTSE US Broad Investment-Grade Bond Index
FTSE Euro Broad Investment-Grade Choice Bond Index	FTSE Euro Broad Investment-Grade Bond Index
FTSE Australian Broad Investment-Grade Choice Bond Index	FTSE Australian Broad Investment-Grade Bond Index

Corporate bond issuers with missing product and activity involvement data are excluded from the index series. Non-corporate issuers, such as governments, agencies and supranational issuers, are out of the scope of the exclusions and are therefore included, unless otherwise specified.

Data sources

Sustainable fixed income indices require robust, granular datasets to ensure the accurate representation of companies by their business activity and ownership. The following data sources are used in the construction of the FTSE Fixed Income Global Choice index series:

Product Involvement and controversial conduct

In the FTSE Fixed Income Global Choice Index Series, Product Involvement² data is used to verify bond issuers' product involvement and their compliance with the UN Global Compact as part of a controversial conduct screen.

² Dataset provided by Sustainalytics, provider of high-quality, analytical environmental, social and governance (ESG) research, ratings and data to institutional investors and companies.

The LSEG TRBC Sector Classification (TRBC)

TRBC is a global, comprehensive, industry classification system owned and operated by LSEG Data & Analytics. In the FTSE Fixed Income Global Choice Index Series, TRBC is one of the sources for identifying bond issuers' product involvement.

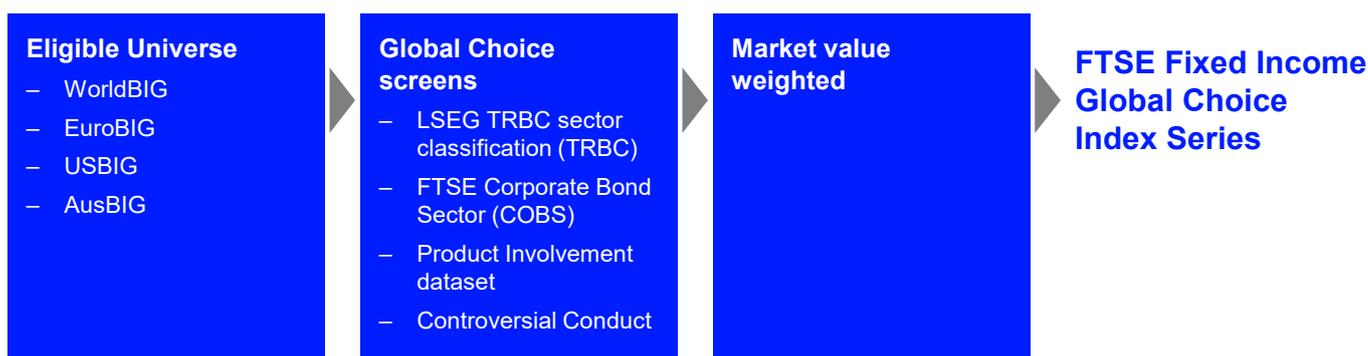
FTSE Fixed Income Corporate Bond Sector (COBS) Classifications

The proprietary FTSE Russell Corporate Bond Sector (COBS) scheme is maintained for all bonds tracked by FTSE fixed income indices. In the FTSE Fixed Income Global Choice Index Series, COBS subsectors are used to screen the constituents of the underlying universe to determine Fossil Fuels issuers.

Index methodology

Once the FTSE Fixed Income Global Choice Index Series constituents have been screened, the remaining eligible securities are weighted by their market value, preserving the weighting scheme of the relevant underlying index.

Exhibit 4. Exclusionary screening to index weight



Product Involvement data are refreshed on a quarterly basis in March, June, September and December. The latest sustainable investment data inputs are used for the periodic index rebalancing and the FTSE Fixed Income Global Choice indices are rebalanced on the same date as their underlying indices.

Index governance

FTSE Fixed Income LLC is the benchmark administrator for the FTSE Fixed Income Global Choice Index Series and is responsible for the daily calculation, production and operation of the indices within the series, including:

- Maintaining records of the index weightings of all constituents;
- Making changes to the constituents and their weightings in accordance with the index ground rules;
- Carrying out the periodic index reviews of the index series and applying the changes resulting from those reviews;
- Publishing changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- Disseminating the indices.

Regional fixed income advisory committees, comprising senior market practitioners in the US, EMEA and Asia Pacific, who are representative of the appropriate sectors of the investment community, are convened on a regular basis to provide feedback that is used to evolve index methodologies.

Any proposals for significant amendments to the index methodologies will be subject to consultation with the FTSE Russell advisory committees and other stakeholders as appropriate. Any rule change decisions are ultimately taken by FTSE Russell.

Summary

The FTSE Fixed Income Global Choice Index Series helps investors align their bond portfolios with their values and beliefs by selecting constituents according to the impact of their products and conduct on society and the environment.

The index series is market capitalization-weighted, with a rules-based methodology for determining index inclusion. The series includes negative screens in three product categories and four conduct categories. Individual indices within the series may only apply a subset of the screening categories, allowing for significant flexibility in index design.

The result is a framework for applying robust and customizable values-based screens to a range of broad fixed income market indices.

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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 was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

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