Rethinking Sovereign Debt to Finance the Climate Transition

Introducing a novel investment solution

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ING is a global financial institution offering banking services, including lending, investment, and advisory solutions, with a strong focus on sustainability and innovation. ING is the initiator of this investment solution, ultimately partnering with FTSE Russell and Robeco to refine the sovereign climate assessment and bring the solution to the market.

FTSE Russell, an LSEG Business is a leading global index provider, known for creating transparent, rules-based benchmarks. FTSE Russell developed and launched the FTSE Climate Collective Transition EMU Broad Government Bond Index, which reweighs sovereign bond exposures based on countries' climate performance. Their role was to translate the climate assessment and resulting scores into a robust, investable index that drives capital toward climate leaders.

Robeco is a global asset manager with a strong track-record in sustainable investing, offering a broad range of strategies across asset classes and investment styles. As part of this collaboration, Robeco launched the Robeco Climate Euro Government Bond UCITS ETF – an actively managed fund that mirrors the green characteristics of the Climate Index while optimizing for risk and return. The ETF makes the investment solution accessible to investors and ensures alignment with both financial and sustainability goals.

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Introducing a novel investment solution

Governments are at the forefront of the fight against climate change, setting national climate policies, directing public funds towards sustainable projects, and creating regulatory environments that incentivize private sector participation. More specifically, through fiscal policies, subsidies, and direct investments, they can catalyze large-scale climate action and fast-track the low-carbon transition.

However, climate change mitigation and adaptation require substantial financial resources. Governments might increasingly turn to financial markets to raise funding through sovereign bond issuances. This provides an opportunity for sovereign debt investors to finance the low-carbon transition and encourage governments to implement robust climate policies.

Driven by the vision that sovereign bond markets are a resourceful, yet underexplored, arena of transition financing, ING initiated working on a novel investment solution with the ambition to mobilize capital at scale to support countries in the transition to a net-zero future. After extensive research and consultation with various stakeholders, including the Transition Pathway Initiative Centre, it started developing a sovereign climate assessment and sought out the right partners to collaborate with, ultimately joining forces with Robeco and FTSE Russell. Together, these three parties embarked on this journey that has been guided by four key design principles:

- Purposeful: the solution should support financing the climate transition by directing capital flows towards countries that are aligning with the Paris climate goals.
- Accurate: the solution should be based on a credible assessment of countries' climate performance. An independent, high-quality dataset has been selected, and a robust methodology was developed to ensure outcomes reflect the true state of current and future climate impact.
- Meaningful differentiation: the differences in climate performance between countries should be substantially reflected in the portfolio, highlighting the distinct climate-related attributes of individual countries. This ensures strong performers significantly benefit from their advanced climate action relative to climate laggards, and all countries are financially incentivised to improve their performance over time.
- Investable: the investment solution must be designed to be accessible and attractive to investors, encouraging widespread adoption. This involves not only meeting climate goals but also offering an attractive risk-return profile, thereby fostering scale and driving significant capital towards strong climate performers.

To meet the first two requirements, a systematic and evidence-based approach was developed to identify which countries are making significant strides in addressing climate change, and where investment proceeds may have counterproductive effects. Based on industry-leading and science-based insights from the Assessing Sovereign Climate-Related Opportunities and Risks (ASCOR) tool, we scored countries systematically on their emission targets, climate policies, and evidence of decarbonization, culminating in a ranking of climate transition leaders and laggards. This results in a ranking that reflects both current and future climate performance, providing a balanced and transparent evaluation of each country's efforts.

For the third requirement, the countries' climate scores are used to create a 'green' index of sovereign bonds: FTSE Climate Collective Transition EMU Broad Government Bond Index (hereafter 'Climate Index'). Departing from a 'grey' parent (regular market value-weighted) index, the weight of the green bonds of each country is doubled, and the remaining weights are redistributed based on countries' climate transition ranking, while taking current market valuation into consideration. Countries with a poor ranking get less weight compared to FTSE EMU Broad Government Bond Index (hereafter 'Parent Index'), while the index is tilted towards climate leaders, resulting in more capital flows towards these nations.

To meet the final design principle – ensuring investability – the solution must not only offer the sustainability characteristics of the Climate Index but also deliver an attractive risk-return profile. In response, Robeco launched the Robeco Climate Euro Government Bond UCITS ETF, an actively managed ETF designed to meet or exceed the green bond share and average climate score of the Climate Index, while seeking to closely match the risk and return characteristics of the Parent Index. This approach enables investors to pursue sustainability objectives without compromising on financial performance.

This investment solution is designed not only to help investors align their portfolios with sovereign climate action, but also to incentivize governments to accelerate their transition to net zero, as this would enable them to attract additional capital flows. In addition, governments with poor climate scores will be considered candidates for sovereign engagement, where a coalition of involved investors will engage in constructive dialogues with government representatives on the climate-related matters where the country's performance is lagging.

Benefits of the investment solution

Participating in the investment solution offers several advantages for (institutional) investors:

Alignment with Climate Goals
The investment solution allows investors to align portfolios with global climate goals and support countries that are actively working on climate change mitigation and adaptation.

Risk Management
Investing in countries with strong climate performance can help mitigate transition risks, as these countries are more likely to have lower credit risk and borrowing costs[1].

Performance Potential
The index favors countries that are better managing climate-related challenges, potentially leading to improved economic performance and credit ratings.

Engagement Opportunities
The investment solution will be used as a platform for sovereign engagement, encouraging and incentivizing countries to adopt robust climate policy frameworks.

[1] https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2023.4869

ASCOR

A comprehensive dataset on climate action

After a thorough selection process, the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) tool was identified as the most complete and robust dataset for our assessment of countries' climate performance.

The ASCOR project was developed by the Transition Pathway Initiative Centre (part of London School of Economics), in partnership with a group of asset owners, asset managers and investor networks. The goal is to offer investors a common understanding of sovereign exposure to climate risk and how governments plan to transition to a low-carbon economy.

The ASCOR project has produced a robust set of metrics and indicators covering a wide range of topics, from emission trajectories and net zero targets to carbon pricing and adaptation efforts, across a broad set of countries. What makes this tool distinct is its comprehensiveness and the unique elements that are covered, including 'fair share' pathways and whether countries have enacted a national climate law or a national adaptation plan. It uses publicly available data and is constantly expanding its geographical coverage, which will enable investors to use the ASCOR dataset to assess both developed and emerging markets.

Given its holistic lens, diverse indicators, and science-based insights, ASCOR has quickly become a core industry reference for assessing sovereigns on climate change mitigation and adaptation. It is one of the recommended sources for alignment assessment of sovereigns, and their net zero transition plans in the Net Zero Investment Framework 2.0 . For these reasons, it is selected as the basis of our country climate assessment.

For more details, please refer to the ASCOR tool.

"As an independent provider of research on sovereigns' climate risk management, we are very glad to see our data enable flows of transition finance to national governments at scale. Given ASCOR's emphasis on engagement, it is particularly exciting that constructive sovereign-investor dialogue is a core component of this investment solution. Linking engagement to the index will allow climate-conscious sovereign bondholders to both promote and finance improvements in climate risk management."

Antonina Scheer, Policy Fellow, Transition Pathway Initiative Centre at the London School of Economics

Climate Collective Transition Ranking

Sovereign climate assessment: from data to scores

While the ASCOR tool provides rich insights into how countries address various aspects of climate change mitigation and adaptation, it does not offer a country score to easily integrate the climate data into bond portfolios. To this end, we established a methodology that turns the ASCOR data into country-level scores and a ranking.

As an initial step, we carefully selected the ASCOR indicators to be included in our assessment. To ensure a comprehensive assessment, we aimed to retain as many indicators as possible, provided that third-party terms of use and related data licencing allow for this[2]. Still, in instances where two indicators addressed the same issue – one being binary and the other numerical – we opted for the more informative option. For example, EP.2.c indicates whether a country's 2030 target is aligned with its 1.5°C benchmark, while the related indicator EP.2.c.i quantifies the degree of alignment in percentage terms. To avoid redundancy, we excluded EP.2.c from the assessment. Additionally, we removed several indicators related to fossil fuel rents as these were deemed to focus more on financial materiality (risk) rather than impact materiality, and the climate impact associated with these rents is already captured by other indicators.

Secondly, we used ASCOR's sub-categorization of the different metrics and indicators into ten areas. Within each area level, each indicator is equally weighted (1/n). Figure 2 provides a full overview of all indicators including their weight. For EP1.a.i and EP.1.a.ii, in line with Platform for Carbon Accounting (PCAF) guidance, we use both consumption-based per capita emissions and production-based per PPP-adjusted GDP emissions. We grouped all indicators and metrics into three pillars: Ambition, Policy and Evidence, which are assigned weights of 25%, 40% and 35% respectively, to produce a final score and ranking. These weights are not static but will change over time (more on this below). Where applicable, issues related to data skewness, or the presence of significant outliers are addressed using statistical techniques such as winsorisation.

Importantly, the assessment acknowledges that most emerging markets and developing economies will prioritize economic growth before they start decarbonizing. To ensure these countries are not penalized, the principle of common but differentiated responsibilities and respective capabilities is embedded in the assessment. This internationally agreed principle, enshrined in the UN Framework Convention on Climate Change (UNFCCC), posits that countries' contributions to climate change mitigation should consider their differing responsibilities for climate change and abilities to act. For example, middle- and low-income countries are exempt from selected indicators, meaning these do not impact their score. Topics such as fair share allocations and international climate finance also reflect this principle.

[2] From the 63 metrics and indicators in the 2024 release, 24 are numerical and 39 are categorical. 17 indicators of this release have not been included in the assessment for the reasons outlined above. See Figure 1 for the full list of indicators.

Figure 1 | Overview of the sovereign Climate Collective Transition (CCT) assessment

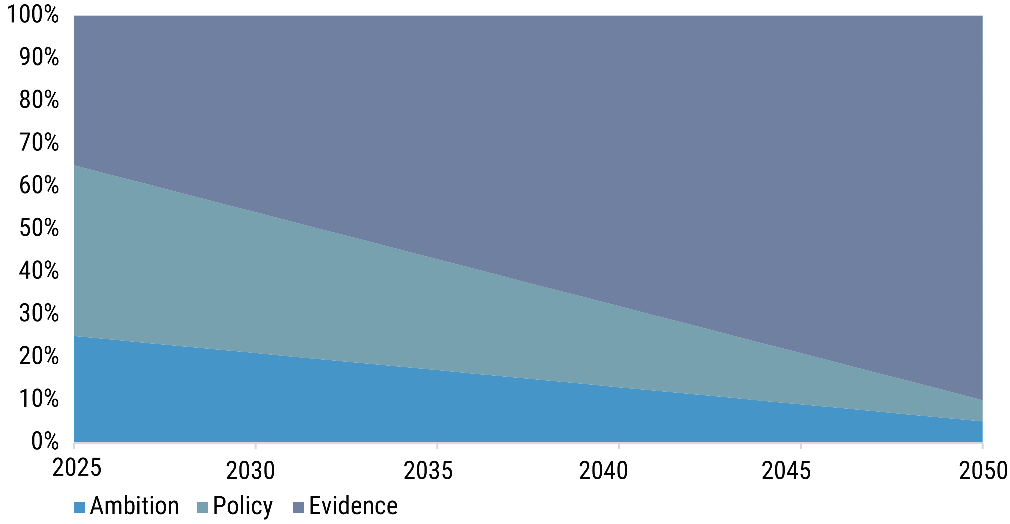
EP	Emissions Pathways					
EP.1	Emissions Trends					
EP.1.a	Has the country improved its emissions profile over the past 5 years?	X				
EP.1.a.i	What is the country's most recent emissions level?	✓	1/4	20.00%	7.00%	E
EP.1.a.ii	What is the country's most recent emissions trend?	✓	1/4	20.00%	7.00%	E
EP.1.b	Is the most recent 5-year trend aligned with meeting the country's 1.5°C benchmark?	✓	1/4	20.00%	7.00%	E
EP.1.c	Is the most recent 5-year trend aligned with meeting the country's 1.5°C fair share?	✓	1/4	20.00%	7.00%	E
EP.2	2030 Targets					
EP.2.a	Has the country set a 2030 emissions reduction target?	✓	1/5	7.08%	1.77%	A
EP.2.a.i	What is the targeted reduction relative to 2019 emissions?	✓	1/5	7.08%	1.77%	A
EP.2.b	Does the country specify whether and how much carbon credits may contribute to its 2030 target?	✓	1/5	7.08%	1.77%	A
EP.2.b.i	What percentage of the 2030 target will be met using carbon credits?	X				
EP.2.c	Is the country's 2030 target aligned with its 1.5°C benchmark?	X				
EP.2.c.i	What is the degree of alignment with its 1.5°C benchmark?	✓	1/5	7.08%	1.77%	A
EP.2.d	Is the country's 2030 target aligned with its 1.5°C fair share?	X				
EP.2.d.i	What is the degree of alignment with its 1.5°C fair share?	✓	1/5	7.08%	1.77%	A
EP.3	Net Zero Targets					
EP.3.a	Has the country set a net zero CO_2 target?	X				
EP.3.a.i	In what year is the net zero CO_2 target set?	✓	1/3	11.80%	2.95%	A
EP.3.b	Is the country's net zero CO_2 target aligned with a global 1.5°C scenario?	✓	1/3	11.80%	2.95%	A
EP.3.c	Is the country's net zero CO_2 target aligned with an accelerated deadline for high-income countries?	✓	1/3	11.80%	2.95%	A
CP	Climate Policies					
CP.1	Climate Legislation					
CP.1.a	Does the country have a framework climate law or equivalent?	✓	1/2	5.60%	2.24%	P
CP.1.b	Does the country's framework climate law specify key accountability elements?	✓	1/2	5.60%	2.24%	P
CP.2	Carbon Pricing					
CP.2.a	Does the country have a carbon pricing system?	✓	1/3	3.72%	1.30%	P
CP.2.b	Does the country's carbon pricing system cover at least 50% of national greenhouse gas emissions?	X				
CP.2.b.i	What percentage of national greenhouse gas emissions is covered by an explicit carbon price?	X				
CP.2.c	Is the carbon price at least at the floor of a global carbon price corridor aligned with the Paris Agreement?	✓	1/3	3.72%	1.30%	P
CP.2.c.i	What is the country's most recent explicit carbon price?	✓	1/3	3.72%	1.30%	P
CP.3	Fossil Fuels					
CP.3.a	Has the country committed to a deadline by which to phase out fossil fuel subsidies?	X				
CP.3.a.i	By what year has the country committed to phase out fossil fuel subsidies?	✓	1/4	9.09%	2.27%	A
CP.3.b	Does the country publish an inventory of explicit fossil fuel subsidies?	✓	1/4	2.79%	0.98%	P
CP.3.b.i	How much is spent annually on explicit fossil fuel subsidies as a percentage of GDP?	✓	1/4	2.79%	0.98%	P
CP.3.c	Has the country committed not to approve new coal mines?	✓	1/4	2.79%	0.98%	P
CP.3.c.i	What is the level of coal rents in the country as a percentage of GDP?	X				

CP.3.d	Has the country committed not to approve new long-lead-time upstream oil and gas projects?	X				
CP.3.d.i	What is the level of oil rents in the country as a percentage of GDP?	X				
CP.3.d.ii	What is the level of natural gas rents in the country as a percentage of GDP?	X				
CP.4	Sectoral Transitions					
CP.4.a	Does the country have a multi-sector climate strategy?	✓	1/7	1.59%	0.56%	P
CP.4.b	Does the country have a law and target on energy efficiency?	✓	1/7	1.59%	0.56%	P
CP.4.b.i	What is the country's energy intensity of primary energy?	✓	1/7	11.11%	4.44%	E
CP.4.c	Has the country established mandatory climate-related disclosure?	✓	1/7	1.59%	0.56%	P
CP.4.d.i	What percentage of the country's electricity generation is from low-carbon sources?	✓	1/7	11.11%	4.44%	E
CP.4.d	Has the country set a net zero electricity target aligned with 1.5°C?	X				
CP.4.e	Has the country increased its protected areas as a percentage of total land area over the last 5 years?	✓	1/7	1.59%	0.56%	P
CP.4.e.i	What is the amount of protected area in the country as a percentage of total land area?	✓	1/7	1.59%	0.56%	P
CP.5	Adaptation					
CP.5.a	Has the country published a National Adaptation Plan?	✓	1/4	2.79%	0.98%	P
CP.5.b	Does the country regularly publish national climate risk assessments?	✓	1/4	2.79%	0.98%	P
CP.5.c	Has the country published a Monitoring & Evaluation report on implementing adaptation?	✓	1/4	2.79%	0.98%	P
CP.5.d	Does the country have a multi-hazard early warning system?	X				P
CP.5.e	Is the country part of a sovereign catastrophe risk pool?	✓	1/4	2.79%	0.98%	P
CP.6	Just Transition					
CP.6.a	Has the country ratified fundamental human, labour, and Indigenous rights conventions?	X				
CP.6.a.i	At what percentile is the country's Voice and Accountability estimate?	✓	1/4	2.79%	0.98%	P
CP.6.b	Does the country have an inclusive and institutionalised approach on the just transition?	✓	1/4	2.79%	0.98%	P
CP.6.c	Does the country have a green jobs strategy?	✓	1/4	2.79%	0.98%	P
CP.6.d	Does the country integrate just transition into its carbon pricing?	✓	1/4	2.79%	0.98%	P
CF	Climate Finance					
CF.1	International Climate Finance					
CF.1.a	Does the country contribute at least a proportional share of the $100 billion commitment to climate finance?	X				
CF.1.a.i	What is the country's 3-year average climate finance contribution as a % of GDP?	✓	1/2	5.60%	2.24%	P
CF.1.b	Does the country's targeted climate finance contribution represent at least a proportional share of the $100 billion commitment?	X				
CF.1.b.i	What is the country's targeted level of international climate finance contributions as a % of GDP?	✓	1/2	17.70%	4.42%	A
CF.2	Transparency in Climate Costing					
CF.2.a	Has the country disclosed a transparent breakdown of the costs of implementing its Nationally Determined Contribution?	✓	1/2	5.60%	2.24%	P
CF.2.b	Has the country disclosed a transparent breakdown of the costs of implementing its National Adaptation Plan?	✓	1/2	5.60%	2.24%	P
CF.3	Transparency in Climate Spending					
CF.3.a	Has the country disclosed its climate-related expenditure?	✓	1/2	5.60%	2.24%	P
CF.3.b	Does the country apply climate budget tagging?	✓	1/2	5.60%	2.24%	P
CF.4	Renewable Energy Opportunities					
CF.4.i	What is the country's prospective solar energy capacity?	✓	1/4	2.80%	0.98%	P

CF.4.ii	What is the country's prospective wind energy capacity?	✓	1/4	2.80%	0.98%	P
CF.4.iii	What is the country's prospective geothermal energy capacity?	✓	1/4	2.80%	0.98%	P
CF.4.iv	What is the country's prospective hydroelectric energy capacity?	✓	1/4	2.80%	0.98%	P

Finally, the solution is designed to encourage countries to move from the planning phase to actual decarbonization. As such, the weights of the pillars Ambition, Policy, and Evidence will be adjusted over time, as shown in Figure 2. In line with the transition perspective, 'Ambition' and 'Policy' will start with significant weights (25% and 40% respectively), but as time passes, these will gradually reduce as more weight is assigned to 'Evidence'. By 2050, the weights for Ambition, Policy and Evidence, will be 5%, 5%, and 90% respectively. This reflects that as the net-zero deadline nears, intentions and policies must have translated into real-world emission reductions.

Figure 2 | Evolution of 'Ambition', 'Policy', and 'Evidence' pillar weights over time



The outcomes of the assessment are presented in Figure 3 (map) and 4 (list). It is key to note that changes in future ASCOR releases, including the release of data for new countries or the inclusion of new indicators, combined with the dynamic weights of the Ambition, Policy, and Evidence pillars will result in changes in countries' climate scores over time.

Figure 3 | World map of the Climate Collective Transition (CCT) scores

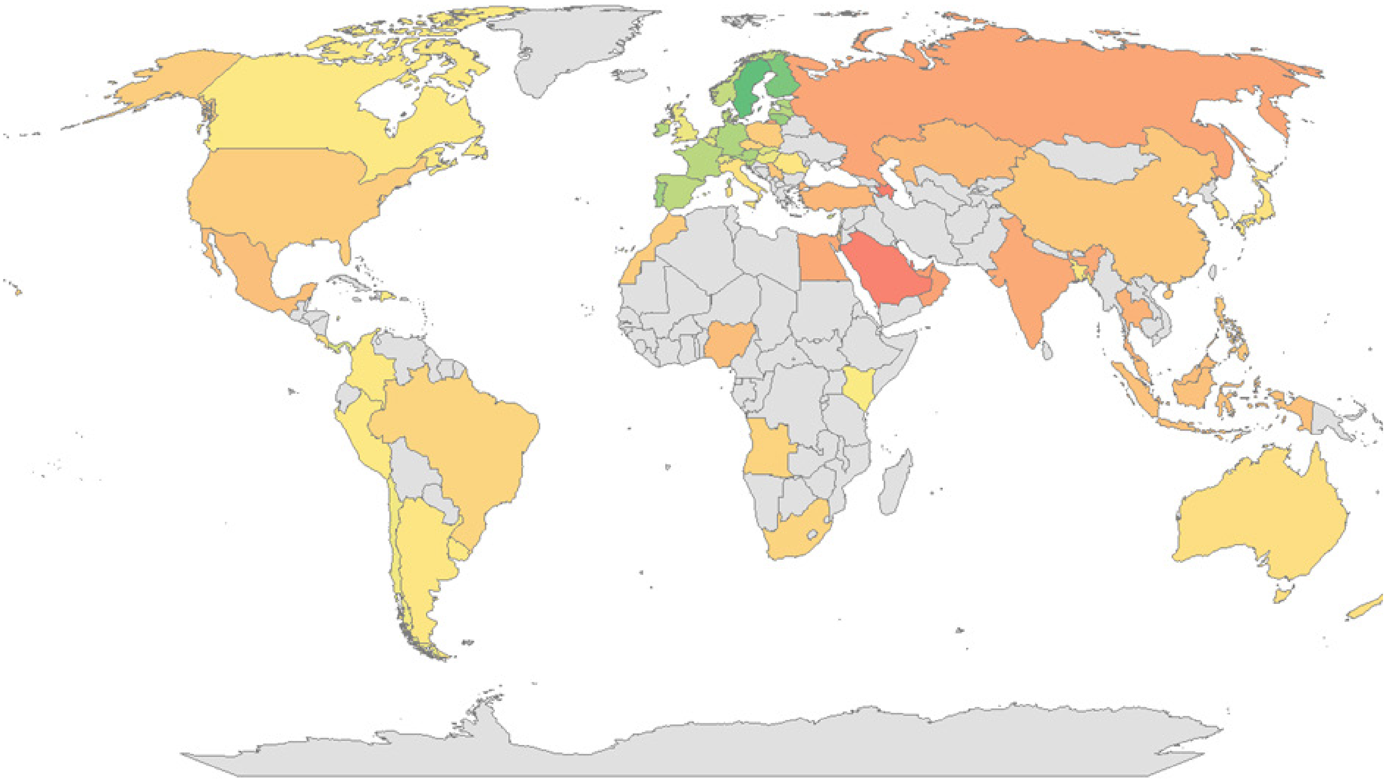


Figure 4 | Climate Collective Transition (CCT) scores and ranking

#	Country	Ambition	Evidence	Policy	Total
1	Sweden	0.83	0.79	0.82	0.81
2	Finland	0.74	0.74	0.79	0.76
3	Lithuania	0.74	0.74	0.65	0.70
4	Portugal	0.57	0.86	0.62	0.69
5	Austria	0.81	0.49	0.73	0.67
6	Germany	0.81	0.40	0.80	0.66
7	Estonia	0.61	0.69	0.66	0.66
8	Ireland	0.53	0.53	0.83	0.65
9	Slovenia	0.68	0.80	0.49	0.65
10	France	0.67	0.45	0.78	0.64
11	Latvia	0.68	0.72	0.54	0.64
12	Luxembourg	0.55	0.84	0.51	0.64
13	Spain	0.59	0.45	0.82	0.63
14	Denmark	0.77	0.55	0.62	0.63
15	Norway	0.76	0.47	0.66	0.62
16	Malta	0.60	0.70	0.55	0.62
17	Cyprus	0.62	0.73	0.47	0.60
18	Netherlands	0.59	0.52	0.67	0.60
19	Panama	0.68	0.70	0.40	0.58
20	Slovak Republic	0.62	0.74	0.40	0.57

21	Switzerland	0.45	0.64	0.56	0.56
22	Belgium	0.55	0.50	0.61	0.56
23	Hungary	0.61	0.52	0.53	0.55
24	United Kingdom	0.48	0.42	0.68	0.54
25	Chile	0.48	0.33	0.73	0.53
26	Dominican Republic	0.43	0.68	0.42	0.51
27	Kenya	0.25	0.47	0.71	0.51
28	Canada	0.50	0.27	0.71	0.50
29	Peru	0.64	0.36	0.53	0.50
30	Colombia	0.54	0.35	0.59	0.50
31	Uruguay	0.61	0.34	0.55	0.49
32	Argentina	0.49	0.24	0.71	0.49
33	Romania	0.58	0.46	0.45	0.49
34	Hong Kong	0.65	0.61	0.27	0.48
35	Bangladesh	0.22	0.60	0.53	0.48
36	Japan	0.60	0.30	0.55	0.47
37	Italy	0.66	0.34	0.47	0.47
38	Australia	0.38	0.25	0.69	0.46
39	New Zealand	0.47	0.28	0.61	0.46
40	Republic of Korea	0.47	0.22	0.64	0.45
41	Costa Rica	0.52	0.63	0.25	0.45
42	Brazil	0.50	0.29	0.48	0.42
43	South Africa	0.49	0.12	0.64	0.42
44	Czechia	0.36	0.39	0.47	0.42
45	Angola	0.34	0.56	0.33	0.42
46	United States	0.48	0.25	0.46	0.39
47	Poland	0.36	0.36	0.43	0.39
48	Barbados	0.73	0.43	0.12	0.38
49	Morocco	0.26	0.47	0.38	0.38
50	Philippines	0.11	0.23	0.65	0.37
51	China	0.29	0.16	0.59	0.36
52	Serbia	0.26	0.18	0.59	0.36
53	Israel	0.51	0.29	0.34	0.36
54	Indonesia	0.15	0.21	0.58	0.34
55	Mexico	0.22	0.19	0.53	0.33
56	Nigeria	0.41	0.23	0.36	0.32
57	Malaysia	0.50	0.18	0.34	0.32
58	Kazakhstan	0.35	0.22	0.35	0.31
59	Türkiye	0.35	0.38	0.20	0.30
60	Singapore	0.38	0.24	0.26	0.28
61	Thailand	0.45	0.22	0.23	0.28
62	Egypt	0.04	0.32	0.32	0.25
63	India	0.26	0.25	0.23	0.25
64	Russian Federation	0.36	0.17	0.20	0.23
65	Oman	0.41	0.09	0.20	0.21
66	United Arab Emirates	0.42	0.14	0.11	0.20
67	Saudi Arabia	0.15	0.09	0.05	0.09
68	Bahrain	0.06	0.11	0.06	0.08
69	Azerbaijan	0.03	0.14	0.04	0.07
70	Qatar	0.09	0.04	0.04	0.05

Looking at the top of the list, we note that it is primarily European countries that score well. This comes as no surprise since the European Union has set relatively high ambitious emission reduction targets (-55% by 2030 from 1990) and has implemented several policy frameworks to drive down emissions, including carbon pricing. Both are reflected in strong 'Ambition' and 'Policy' scores. However, we also note that some of the larger issuers, e.g., France, Germany, Spain, Italy, do not score as well on 'Evidence'. As this pillar will get a higher weight over time, these nations must translate these policies into emission reductions, or they will risk dropping in the ranking.

Conversely, only a few countries score well on 'Evidence' but not on other pillars. These include the Dominican Republic, Angola, Luxembourg, and Cyprus. While there is no clear common denominator, both the Dominican Republic and Angola have low carbon intensities, whereas Luxembourg and, to a lesser extent, Cyprus have demonstrated rapid decarbonization in recent years. We anticipate that it will be easier for these countries to improve their overall scores, as governments have a direct influence on their targets and policies, unlike the 'Evidence' pillar.

Most of the largest oil-producing states are featured at the bottom of the ranking. Due to the substantial role fossil fuels play in their economies, these countries have neither set strong targets to reduce emissions nor implemented climate policies to regulate fossil fuel companies. The heavy reliance on fossil fuel revenues creates significant economic challenges for these countries in transitioning to renewable energy sources.

Signatories to the Paris Agreement are required to submit updated targets – called Nationally Determined Contributions (NDCs) – every five years. Although many countries have missed the 10 February 2025 deadline to submit their 2035 targets, the 2025 release of the ASCOR dataset will include additional information to assess these targets. Thus, countries now have an opportunity to improve their 'Ambition' score by setting robust NDC targets. For example, during COP29, the United Kingdom announced its ambitious 2035 target to reduce all GHG emissions by ≥81% relative to 1990 levels. We anticipate this to be reflected in the next update of the ranking.

Finally, we look at the correlation between the three pillars. We note a relatively high correlation between 'Ambition' and 'Policy' (0.49), which suggests that in general countries that have set ambitious targets follow up on this with comprehensive climate policies and actionable strategies. Conversely, the correlation between 'Evidence' and 'Policy' is somewhat lower (0.37), indicating that countries are not yet effectively translating these climate policies into emission reductions. Moreover, it is good to note that the scope of 'Policy' indicators is much broader than 'Evidence', which is mainly concerned with emission trajectories. This helps explain the low correlation. 'Ambition' and 'Evidence' are most correlated (0.59), as countries demonstrating stronger commitments to the climate transition tend to have better climate performance.

> "At FTSE Russell, we are proud to have played a central role in this pioneering collaboration with ING and Robeco, bringing together index innovation, sustainable finance, and investor engagement. This index exemplifies our commitment to developing transparent, rules-based solutions that support investors in managing the risks and returns of the climate transition across asset classes. Leveraging the ASCOR framework, led by asset owners, asset managers and taking input from a broad range of stakeholders including investor networks, debt issuers and leading academics within the TPI Centre at the London School of Economics and Political Science, this index is a testament to the power of collaboration and innovation."
>
> Stephanie Maier, Global Head of Sustainable, FTSE Russell, an LSEG Business

FTSE Climate Collective Transition EMU Broad Government Bond Index

Climate Index: financing the climate transition

Now that all countries have been scored on their climate performance, FTSE Russell uses these scores to construct the FTSE Climate Collective Transition EMU Broad Government Bond Index (Climate Index), which is designed to reallocate capital within the Eurozone sovereign debt market based on countries' climate performance, thereby incentivizing stronger climate action at the national level.

The Climate Index is derived from the FTSE EMU Broad Government Bond Index (Parent Index), which includes fixed-rate, local currency sovereign bonds from 15 Eurozone countries[2]. The Climate Index modifies the Parent Index in two ways:

1. **Green bond enhancement**: Green bonds, as classified by the Climate Bonds Initiative (CBI), have their weights doubled in the index compared to the Parent Index. This directly increases exposure to bonds financing environmentally beneficial projects.
2. **Climate score-based reweighting**: For non-green bonds, country weights are adjusted based on their country climate scores[3]. These scores are standardized, normalized, linearized, and squared to amplify differentiation, ensuring that countries with stronger climate credentials receive proportionally higher allocations. Conversely, countries with weaker scores are underweight. Croatia and Greece are currently not covered by ASCOR and thus do not have a climate score. Their weight is not affected by the climate scores.

In addition, to ensure diversification and manage concentration risk, the index applies two capping rules:
1. A country's weight cannot deviate more than ±15 percentage points from the Parent Index.
2. No single country can exceed three times its Parent Index weight.

Finally, countries falling in the bottom quartile of the World Bank's Worldwide Governance Indicators (WGI) are excluded from the index. This governance screen ensures that capital is not allocated to countries with systemic governance risks, such as corruption or political instability, which could undermine climate policy implementation. It is important to note that none of the 15 countries present in the index are impacted by this screening. For further details on the index design, please see the Index Ground Rules FTSE Climate Collective Transition EMU Broad Government Bond Index

The tilting that is applied in the Climate Index results in a portfolio that distinctly differentiates between climate leaders and laggards. Figure 5 demonstrates how countries' climate scores and green bond shares serve as key inputs for the Climate Index construction.

It shows that countries with strong climate credentials – such as Finland, which received the highest score (0.76) – are significantly overweighted in the Climate Index. Finland holds a weight of 4.66%, which is nearly triple its Parent Index weight (1.65%). Similarly, Portugal (0.69) has doubled its weight relative to the Parent Index to 3.81%. In contrast, countries with lower climate scores, such as Italy and Slovakia (scoring 0.47 and 0.57 respectively), are notably underweighted. Slovakia's representation in the index is nearly eliminated, dropping from 0.75% to a mere 0.17%. Italy's weight would have been diminished to 2.11% (from 22.51%) if not for the ±15% capping mechanism compared to the Parent Index. Thanks to this cap, Italy retains a weight of 7.51%, though this is still only a fraction of its original allocation.

[2] The 15 Eurozone countries are: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Spain, Portugal, Croatia, Greece, Luxembourg, Slovakia, and Slovenia.

[3] Please see FTSE Climate Collective Transition Assessment Methodology for further details on the Climate Collective Transition Assessment Model framework.

Belgium also presents a notable example. Although it has a relatively poor climate score, it has a high green bond share (0.24%) compared to its overall weight in the Parent Index (4.88%). Without this green bond exposure – which is doubled in the Climate Index – the country would only have a weight of 0.69% as opposed to the current 1.17%.

Figure 5 | FTSE Climate Collective Transition EMU Broad Government Bond Index construction

Green bonds multiplied (x2)

Constituents	Parent index		Climate performance	Initial redistribution		Climate Index		
Countries	Weight	Green Bond share	Score	New weight	Delta	Green Bond share	Weight	Delta
Austria	3.64%	0.16%	0.667	6.43%	2.79%	0.32%	6.07%	2.43%
Belgium	4.88%	0.24%	0.557	1.24%	-3.64%	0.48%	1.17%	-3.71%
Germany	19.07%	0.82%	0.661	31.32%	12.25%	1.64%	29.60%	10.53%
Spain	14.30%	0.15%	0.634	14.78%	0.48%	0.30%	13.95%	-0.35%
Finland	1.65%	0.00%	0.760	4.92%	3.27%	0.00%	4.66%	3.01%
France	23.95%	0.70%	0.640	28.42%	4.47%	1.40%	26.86%	2.91%
Greece	1.06%	0.00%		1.06%	0.00%	0.00%	1.00%	-0.06%
Croatia	0.25%	0.00%		0.25%	0.00%	0.00%	0.24%	-0.01%
Ireland	1.39%	0.14%	0.649	2.10%	0.71%	0.28%	1.97%	0.58%
Italy	22.51%	0.72%	0.472	2.11%	$\boxed{-20.40\%}$	1.44%	7.51%	$\boxed{-15.00\%}$
Luxembourg	0.20%	0.00%	0.638	0.22%	0.02%	0.00%	0.20%	0.00%
Netherlands	4.06%	0.29%	0.598	2.47%	-1.59%	0.58%	2.32%	-1.74%
Portugal	1.89%	0.00%	0.690	4.03%	2.14%	0.00%	3.81%	1.92%
Slovenia	0.39%	0.00%	0.646	0.48%	0.09%	0.00%	0.46%	0.07%
Slovakia	0.75%	0.00%	0.573	0.18%	-0.57%	0.00%	0.17%	-0.58%
	100.00%	3.22%		100.00%		6.44%	100.00%	

Index weight are tilted based on climate score

Weights readjusted on capped deviation (15%)

Source: FTSE Russell, data as of August, 2025.
The results shown reflect back-tested performance. Please see FTSE Russell disclaimer for further information.

Overall, 42.87% of the Parent Index weight is redistributed based on the green bond shares, climate scores and caps applied. In addition, green bonds make up nearly 6.5% of the Climate Index. The weighted average climate score of the Climate index is 0.63, compared to 0.59 for the Parent Index, representing a 6.32% improvement.

In summary, the Climate Index offers investors a transparent, rules-based approach to integrating climate considerations into sovereign bond portfolios. By tilting towards climate leaders and away from laggards, the index not only supports investors' sustainability goals but also manages long-term transition risks.

Importantly, the Climate Index maintains the investability of the parent benchmark. It preserves liquidity, credit quality, and duration characteristics, making it suitable for both passive and active strategies. Robeco's actively managed Climate Euro Government Bond UCITS ETF (more in the next chapter) is an example of how the index can be used as a sustainability benchmark while delivering competitive risk-adjusted returns.

Robeco Climate Euro Government Bond UCITS ETF

Active ETF: optimizing risk, return and sustainability

The Climate Index offers a model portfolio that meaningfully differentiates between strong and weak climate performers, based on a robust dataset and assessment. This serves as a great starting point for a climate-aligned sovereign debt portfolio.

However, the tilting in country weights based on climate scores might at times result in different risk and return characteristics compared to a regular 'grey' index. Apart from the fact that some countries offer higher yields (return) because they are considered to have lower credit quality (risk) and vice versa, tilting the portfolio might also increase the investor's exposure to other investment risks, such as interest rate risks.

For instance, Austria – a climate leader in our assessment – has issued bonds with maturities of 50, 70, or even 100 years, while other countries never issue bonds with maturities longer than 30 years. The increased exposure to Austrian bonds in the index may thus raise the duration profile of the portfolio. This can have unintended consequences, such as a lower performance in times of rising yields, specifically when yields on long-dated bonds rise. Furthermore, the tilting might result in a portfolio with a lower yield; this can also lead to lower returns.

The goal of this investment solution is to offer investors the sustainability characteristics of the Climate Index, while targeting risk and return in line with a regular market-weighted index. As such, Robeco launched an active ETF – Robeco Climate Euro Government Bond UCITS ETF – which will always meet or exceed both the green bond exposure and average climate score of the Climate Index, while seeking to match the risk and return profile of the 'grey' Parent Index through active quantitative management.

The ETF follows a systematic approach to construct a portfolio that meets the objectives outlined above. Following up on the Austrian example: the portfolio might invest as much in Austrian bonds as the Climate Index, but not necessarily in its 100-year bonds. Instead, it can invest more in Austrian bonds with 10- or 30-year maturities. In this way, it can match the total weight in Austrian bonds of the Climate Index, while keeping the portfolio's maturity profile (and interest-rate risk) in line with the Parent Index.

By definition, the ETF offers investors liquidity, as it can be bought and sold on an exchange throughout the trading day. This, combined with an attractive risk/return profile and strong sustainability characteristics of the Climate Index, can help reach the scale required to significantly divert capital from climate laggards to climate leaders, incentivizing governments to accelerate their transition to net zero. Additionally, a group of investors using the index will engage with selected sovereign issuers that have potential for improving their climate-related performance with the aim of accelerating progress.

> "Using our portfolio construction algorithm, we design portfolios that seek to replicate the return and risk profile of regular euro government bonds, while maintaining a climate profile that is at least on par with the climate index"
>
> **Olaf Penninga, Portfolio Manager Robeco Climate Euro Government Bond ETF**

Investor Climate (Transition) Collective Initiative

Sovereign engagement for climate policy reform

The engagement activities aim to leverage the insights from our sovereign climate assessment and the collective knowledge and resources of investors to support countries in strengthening their climate-related policies and performance. The objective central to this initiative is to accelerate countries' decarbonization trajectories to be in line with the Paris Agreement.

ING and Robeco are in the process of forming a coalition of investors committed to engage with governments on climate action. This collective voice amplifies the effectiveness of the engagement efforts. The coalition will pool resources for sovereign engagement research, e.g., in the form of climate policy analysis, and engagement activities, including roundtables and direct dialogues with policymakers.

The engagement strategies will be grounded in rigorous scientific analysis that forms part of our sovereign climate assessment. This assessment methodology does not only help us select the right candidates for sovereign engagement (indicated by a low score), but it also specifies which actions countries should undertake to improve their ranking. Since a better position in the ranking is associated with a higher index weight, and in turn, increased financial flows, countries will have a direct incentive to implement the suggested policy changes.

Engagements with individual countries are expected to start by reaching out to Debt Management Offices (DMOs) due to their familiarity with investor inquiries and independence from country politics. In addition, acknowledging that effective policy change, particularly on complex issues like climate action, requires alignment and cooperation across multiple governmental departments, agencies, and regulatory bodies, the coalition of investors will seek to engage with various branches and levels of government, fostering more integrated and effective policy responses that align with long-term investment goals and broader societal objectives like climate resilience.

The engagements will mainly be in the form of direct dialogues with DMOs and policy makers, but can also include roundtables, participation in consultations, and research-based advocacy.

Above all, the initiative will foster collaboration between governments and investors to support the climate transition.

"Sovereign engagement is critical for investors to better understand how governments are progressing in terms of their Paris Agreement commitments and how they manage climate risks. Investors also understand that effective climate policy can reduce broader portfolio risks across all asset classes, accelerate investee company transitions and create more opportunities for capital deployment that is required to meet the world's climate goals."

Tamsin Ballard Chief Investor Initiatives and Collaboration Officer Principles for Responsible Investment.
From: The Collaborative Sovereign Engagement on Climate Change, Progress report 2025

Conclusion

The collaboration between ING, Robeco, and FTSE Russell has resulted in a pioneering investment solution. By combining a robust, science-based dataset (ASCOR), a transparent sovereign climate assessment, a climate-tilted index, and an actively-managed ETF that balances risk, return and sustainability. This initiative offers a credible pathway to align sovereign debt portfolios with the goals of the Paris Agreement.

The Climate Index shows how, by embedding climate performance into index construction, investors can channel capital towards countries demonstrating credible and effective climate action. This approach not only enhances the sustainability profile of sovereign debt portfolios but also helps investors contribute to the broader goal of achieving net-zero emissions by mid-century.

To complement the index, Robeco's actively managed ETF enables investors to keep a strong sustainability profile while preserving risk-return characteristics comparable to traditional benchmarks. Leveraging a systematic investment approach, the ETF dynamically adjusts exposures – such as maturity and duration – to mirror the climate tilt of the index, while effectively managing interest rate and credit risks.

Beyond portfolio construction, this solution also serves as a platform for collective sovereign engagement. By linking sovereign climate performance to capital allocation and fostering constructive dialogue between investors and governments, the initiative creates meaningful incentives for policy reform and climate leadership.

As climate risks become increasingly material to sovereign creditworthiness and long-term investment outcomes, this investment solution offers a scalable, investable, and high-impact approach. It enables investors not only to manage climate-related risks more effectively but also to actively support the global transition to a low-carbon economy.

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