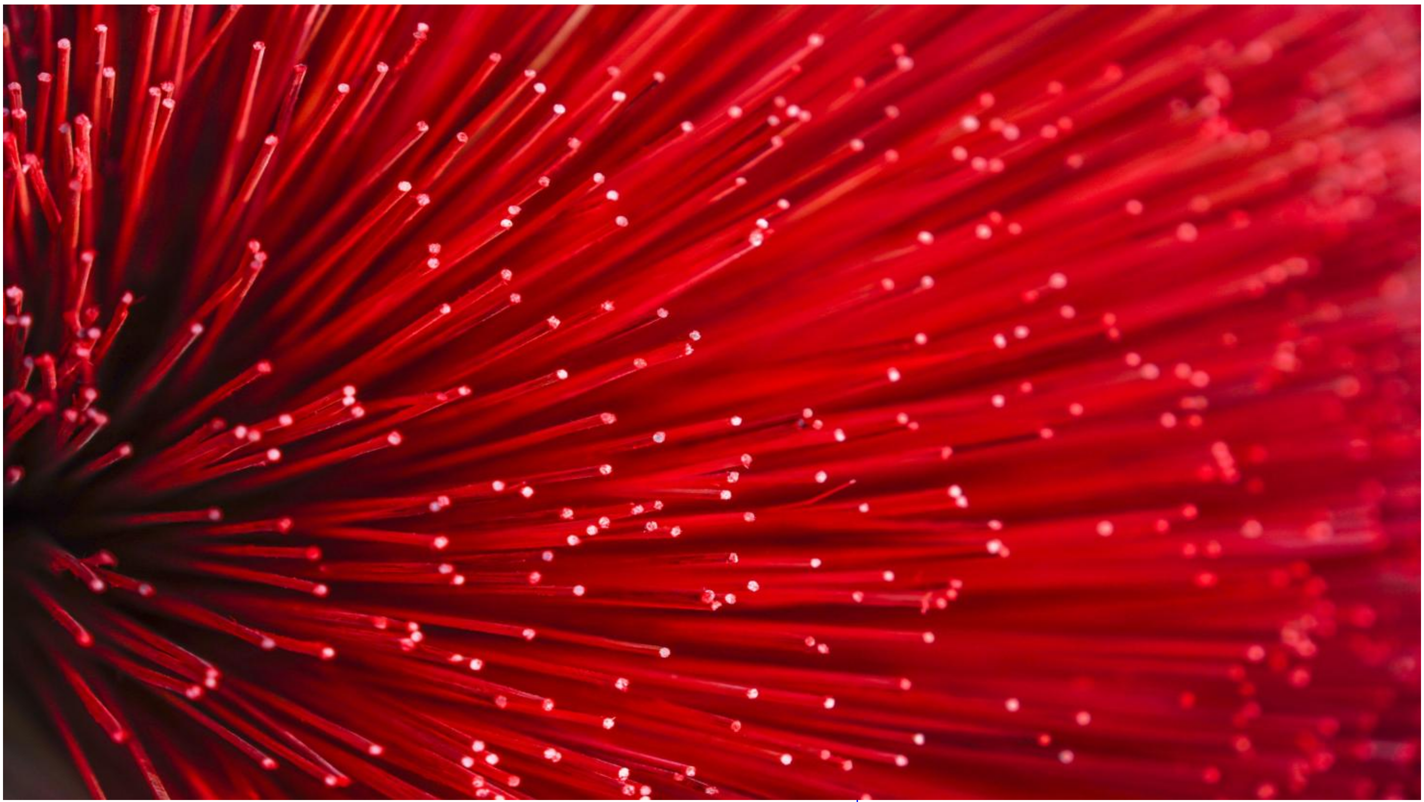

Education | Sustainable Investment

Top of mind for many clients: what impact do climate screens have on portfolio performance?

Analysis of shorter and longer term impact for a range of climate screens on risk and return

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Foreword

"Creating optionality in investment choices is important for clients in a changing world. Climate-related screens continue to be one of the most used approaches to reducing certain climate-related exposures and aligning portfolios with specific client objectives and product standards. It is important to make informed choices about the extent of such screens by balancing the risk taken. Moving to climate aware investing is an option for investors".

Cathrine de Coninck-Lopez
Global Head of Responsible Investment
HSBC Asset Management

Stephanie Maier
Global Head of Sustainable
FTSE Russell

"Climate-related screens are widely used across the sustainable investment landscape, but their impact varies significantly. At one end, targeted screens may have limited implications for risk and performance; at the other, broad, zero-tolerance approaches can drive more material outcomes—though not necessarily negative. In the context of recent geopolitical events and energy-market shocks, it is critical that investors fully understand the implications of the screen choices they make."

Introduction

Recent asset owner surveys across the industry, including HSBC Asset Management's own, show that sustainable investing is now firmly embedded in portfolio construction: at least 70% of respondents increased their allocations to ESG and Sustainable Investments over the past year and around half are already allocating around 25% or more of their portfolios to strategies that integrate environmental, social and governance ("ESG") and sustainability factors[1]. Many respondents expressed a view that sustainability may support long-term performance—while concerns persist that it may detract from performance in the short term.

In practice, many investors implement their sustainability philosophy by excluding certain activities or issuers, yet still measure their portfolio performance against standard benchmarks that do not apply the same screens. This creates a practical tension: screens may better align portfolios with climate objectives and evolving product standards, but they can also introduce tracking error, sector and regional tilts, and benchmark drift. The challenge is compounded by the fact that climate screens are not a simple binary choice—definitions vary by activity, value-chain coverage and revenue thresholds.

The aim of this paper is to help investors quantify the potential impact of climate-related screens on investment risk and performance. To address these practical questions, FTSE Russell and HSBC Asset Management analyze how progressively stricter climate-related screen sets—ranging from targeted Thermal Coal screens through broader Oil & Gas screens and regulated frameworks such as Climate Transition Benchmark ("CTB") and Paris-Aligned Benchmark ("PAB") screens—have affected index composition, industry exposures, tracking error and risk-adjusted performance. Using the FTSE All-World Index as the starting point, we compare risk, return and tracking error over 5- and 10-year horizons, testing the assumption that screens necessarily lead to poor performance or unacceptably high tracking error.

Against the backdrop of recent energy-market disruption, investors need a clearer, evidence-based view of how different climate and energy screening choices may affect portfolio risk and returns across market regimes.

[1] https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/news-and-insights/inside-the-investor-mindset

At a glance

- Sustainability screens are an important, but often overlooked element of sustainable investment. They are used in some form by a significant number of investors and are a growing part of sustainable investment regulations[2].
- Climate screens are a complex mix of activities, value chains and revenue thresholds. They can range from small, targeted screens, such as majority coal producers, affecting less than 0.1% of an index, to strict Oil & Gas screens along the value chain, affecting ~11.5% of an index.
- The risk impact of climate screens is typically smaller than that of more complex indices built to embed a climate strategy e.g. an EU PAB. However the tracking outcomes for climate screens range widely (from a negligible 2 basis points per annum to a more significant, 1.27%).
- The historic impact on performance of climate screens is more complex, with periods of both positive and negative relative performance.
- A global equity investor can apply narrow, targeted screens to an index with minimal impact on risk and performance. Investors can optimise their choices when considering their sustainable investment philosophy and risk appetite.
- Whilst this paper is focused on global equities, the same findings can apply to other asset classes, in particular corporate bonds.

[2] Such as SFDR 2.0 and ESMA naming rules

Integrating sustainability into standard indices

Recent asset owner surveys conducted by multiple institutions, including both FTSE Russell and HSBC Asset Management, indicate asset owners are placing more importance on **performance and risk outcomes**. The conundrum is that most investors apply sustainability and climate screens, but still measure performance against **standard indices**, not sustainability indices. Because traditional indices usually don't apply these screens, investors have concerns around **tracking error** and **benchmark-driven drift over time** when adopting sustainability and climate-related screens.

In this paper, we aim to **quantify the impact of sustainability and climate-related** screen**s** on the **tracking error** and **risk-adjusted performance** of a global equity index over **5- and 10-year** horizons. We focus on screens because they are used in some form by a significant portion of **investors globally in both sustainable and core investing,** even though they are often seen as a relatively simplistic sustainable investing tool.

More precisely, we use the FTSE All-World index as our starting point and assess the impact of adding a progressively stricter set of climate-related screens. The analysis moves from targeted screens, such as Thermal Coal, through broader climate screens covering Oil & Gas producers and relevant supply chains, and then on to regulated frameworks, including Climate Transition Benchmark ("CTB") and Paris-Aligned Benchmark ("PAB") screens.

For each set of screens, we compare the resulting index with the parent benchmark over 5- and 10-year periods to end-December 2025, focusing on exclusion size, annualised tracking error, relative performance and the resulting shifts in industry exposures. We also show how outcomes can vary across market regimes and between developed and emerging markets, and we briefly consider comparable effects in corporate bond indices.

Over five years to end-December 2025, we find no consistent relationship between the size of a climate screen and the direction of relative performance versus the FTSE All-World Index—some screening policies added marginally to returns while others detracted from returns—whereas over ten years the differences versus the parent benchmark were generally small and often positive, including for some of the stricter screening frameworks, even when their five-year outcomes were negative.

Overall, the research approach is designed to help investors choose climate screening approaches that align their sustainability objectives with risk and performance expectations—while also informing the wider debate on whether traditional benchmarks should adapt as transition metrics and product-level screening requirements (including Sustainable Finance Disclosure Regulation 2.0 and CTB/PAB-style frameworks) become more central to fund design and labelling.

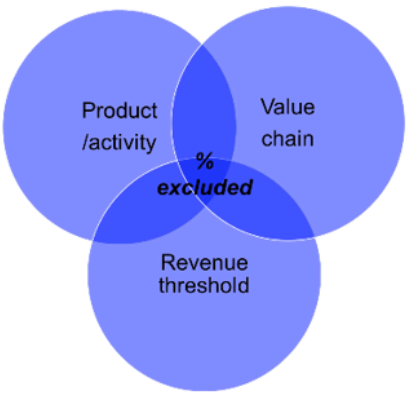
Screens – analytical framework

Screens are a commonly used tool in both sustainable and core investment, whether in defining the universe for active managers, benchmarking performance or creating indices for use in passive portfolios. They are often seen as less sophisticated than tilted climate indices, are less popular than methods like ESG integration and engagement, which many investors prefer to use when dealing with high-carbon companies[3]. However, 85%[3] of asset owners say that they use constituent selection or screening in some form in their sustainable investment. In some jurisdictions, regulations require some form of screening for an investment product to be defined as sustainable. Whilst in others it comes down to investor choice.

In addition to creating sustainable investment products, investors often also wish to consider how their performance is benchmarked and what to include in (or exclude from) their strategic asset allocation process. This is particularly important when investors are considering composite portfolios made up of both ‘sustainable’ and ‘non-sustainable’ assets and trying to apply an overarching sustainable investment philosophy. This is an increasing challenge for investors, with 80%[3] applying sustainable investment considerations or using sustainable indices in some form in their strategic asset allocation process, up from 28%[3] in 2021.

Defining product-related screens may seem straightforward. However, it becomes complex in practice due to the breadth of activities within a sector, extended value chains, and imperfect segmental disclosure. Investors therefore face not a binary decision, but a spectrum of sustainability screens, each varying in scope and with different implications for portfolio risk and performance and tracking error versus a traditional benchmark. Therefore, the scale of the screens and the investor’s time horizon are important considerations and are highlighted in the sections below.

Figure 1: Three factors impact product-related screens



- **The product or activity excluded**
  - E.g., coal, oil, fossil generation
- **The value chain involvement**
  - E.g., direct production only vs. production across value chain (from equipment and services to sale and use of end product)
- **Revenue thresholds**
  - E.g. Majority of revenues vs. any involvement

[3] FTSE Russell’s 8th Annual Sustainable Investment Asset Owner Survey 2025 | LSEG

In this paper, we focus on climate-related product screens and predominantly on the production of fossil fuels and their use in electricity generation as a use case.

Table 1: Types of screens in analysis

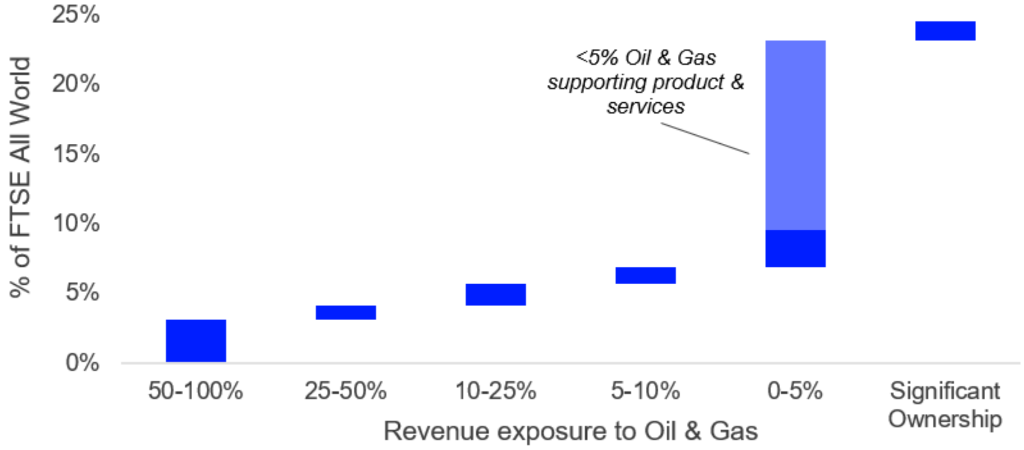
Below, we show the types of climate-related screens used in the analysis:

Screen	**Description**	**Size** (bps of index weight removed)	**Tracking Error** (bps, annualised, 5yr)	**Cum. Rel. Perf** (5yr, TR USD)	**Cum. Rel. Perf.** (10yr, TR USD)
Specialist / targeted					
Coal producers *"Coal"*	ICB[4] coal producers (majority of revenue)	8	2	+2	-14
Arctic Oil & Gas *"Arctic O&G"*	5% threshold[5]	4	2	+9	0
Oil sands *"Oil Sands"*	5% threshold[4]	19	2	+10	+1
Broader activities and value chain					
Oil & Gas producers *"O&G Producers"*	ICB integrated Oil & Gas, crude producers, refiners and marketing	282	69	-135	+422
Oil & Gas supply chain *"O&G Supply Chain"*	ICB Oil & Gas equipment and services, offshore drilling and pipelines	67	13	-24	+149
Conventional electricity generation *"Conv Elec"*	ICB conventional electricity utilities	172	24	+29	+105
Low tolerance and supply chain					
Fossil fuel generation strict *"Fossil Gen Strict"*	0% threshold across Oil, Gas & Coal electricity generation supply chain[4]	519	52	-41	+192
Thermal Coal strict *"Thermal Coal Strict"*	0% threshold across Thermal Coal supply chain (5% for products and services) + indirect ownership[4]	428	46	+18	+179
Oil & Gas strict *"O&G Strict"*	0% threshold across Oil & Gas supply chain (5% for products and services) + indirect ownership[4]	1145	127	-186	+507
Regulated screens					
CTB	Climate Transition Benchmark screens	108	20	-37	+6
PAB	Paris-Aligned Benchmark screens	722	99	-133	+918

As at 31st December 2025. See appendix for further details.

[4] FTSE Industry Classification Benchmark
[5] Source: Sustainalytics

Figure 2: Percentage of companies removed according to revenue threshold, value chain and ownership %[6]



Source: FTSE Russell, Sustainalytics, data as at 31 December 2025, % of index weight removed from companies meeting revenue exposure threshold in Oil & Gas production, generation and supporting products and services.

Investors can adjust the degree of 'strictness' applied to a screen, even when focused on the same, specific activity, by adjusting the revenue threshold required for the screen to apply. However, it is also important to understand the investment impact of these 'strictness' decisions. Oil & Gas is a straightforward example, with standard industry classifications (such as the ICB) focusing on the majority of revenues coming from specified fossil fuel activities. Under this approach, the companies to be excluded represent around 3.5% of the weight of FTSE All-World index. Reducing the threshold of revenue exposure to fossil fuel activities leads to a gradual increase in the size of the screen. If more stringent revenue thresholds apply (0-5%) the size of the screen increases dramatically, with around 13% of excluded weight coming from companies with a small absolute exposure to Oil & Gas (in particular, large tech companies). Similar unintended consequences can be seen when a strict Thermal Coal screen is applied: the largest company excluded is a financial conglomerate (primarily focused on insurance) with a power utility subsidiary which has Thermal Coal activity. This why transparent methodologies, data quality and clear client-agreed definitions matter to achieve investor portfolio sustainability objectives.

Increasingly, the screens of certain activities is becoming regulated for sustainable investment products, particularly in Europe. EU climate benchmarks have had screens since their inception, but with the European Securities and Markets Authority's (ESMA's) 2024 naming rules and the proposed new updates to SFDR, minimum specific screens will be required in order to use sustainability terminology in fund names or to qualify for SFDR categories. These screens cover different activities (not all of which are climate-related), revenue thresholds and supply chain inclusion requirements.

[6] FTSE Russell and Sustainalytics

Impact on risk and performance

Screens can have a significant effect on index performance and on the risk/tracking error of an index-replicating portfolio. However, the nature of the impact will vary by the size of the screens and the relative performance of the stocks excluded. As such, the impact of screens will also vary over time, as the market goes through different cycles and the macro conditions change.

In this analysis, we apply a range of screens discussed above to the FTSE All-World Index, a broad, market capitalisation-weighted, index of global equities. We compare the performance and characteristics of the resulting indices with those of the parent index over the 10 years to end December 2025. In particular, we show:

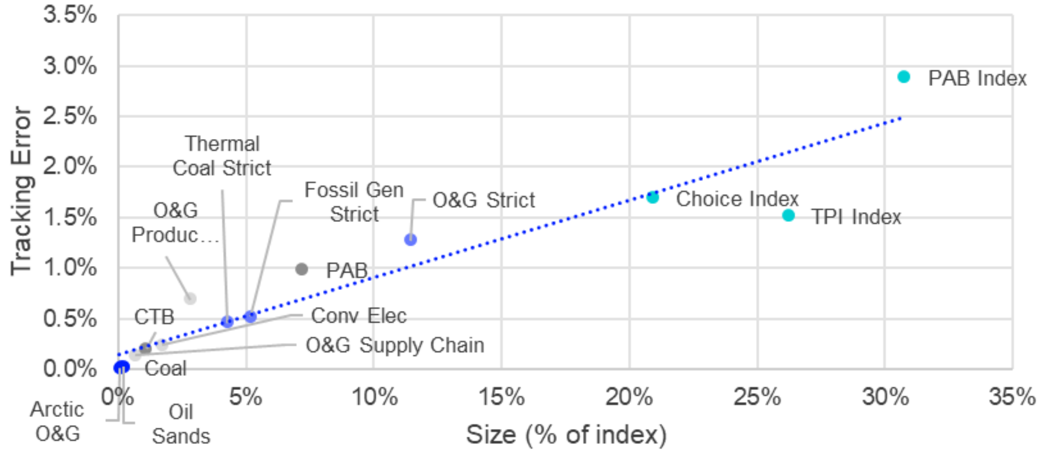
- The market value of the stocks excluded from the index (as a percentage of the parent index)
- The tracking error of the resulting index (based on daily values over 5 years)
- Relative performance (total return in USD over 5 years)
- Rolling 12-month tracking error and relative performance to show the impact of screens over time
- The impact on broader index characteristics, such as Industry weights

In addition, we compare indices following screens with more complex green indices, which use either a broader range of screens[7], such as FTSE Global Choice, and/or a policy of tilting index weights towards sustainable "factors", such as carbon intensity or green revenues[8][9], such as FTSE TPI Climate Transition and FTSE Paris Aligned Benchmark. Here, we equate an index's active share with the size of the screen, as both are a measure of the degree of change from the parent index.

[7] FTSE Global Choice Index Series | LSEG
[8] FTSE TPI Climate Transition Index Series | LSEG
[9] EU Climate Benchmarks Index Series | LSEG

Size of screens vs impact on tracking error

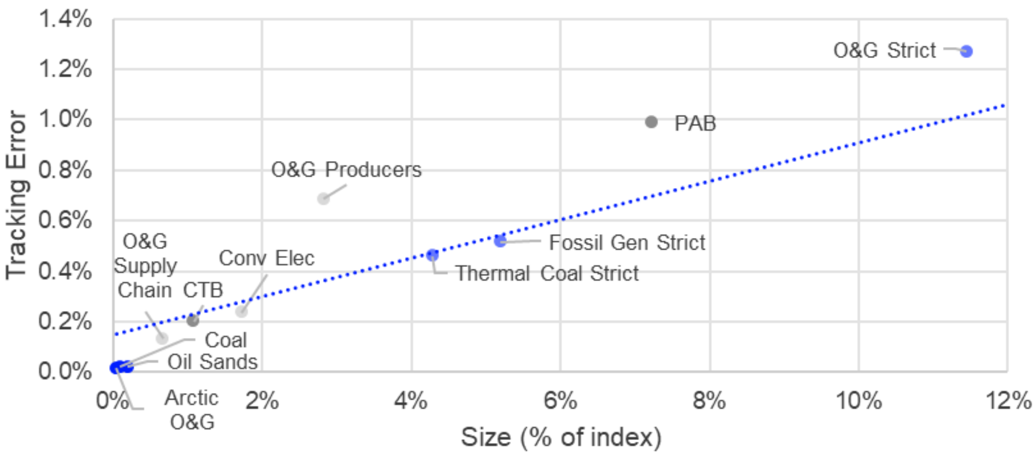
Figure 3: Across the whole range of screens and compared to select green indices[10]



Source: FTSE Russell, annualised tracking error based upon 5 years of daily total return USD performance of FTSE All-World index with applied exclusion vs full FTSE All-World index, data from 31st December 2020 to 31st December 2025. For full green/sustainable indices size = active share vs FTSE All-World.

In the chart below, we can see that larger screens (by the size/percentage of index weight removed) are typically associated with higher tracking error[11]. All the climate screens result in a significantly lower aggregate screen level and lower tracking error than a full green/sustainability index over the period of 5 years.

Figure 4: Focused on screens only



Source: FTSE Russell, annualised tracking error based upon 5 years of daily total return USD performance of FTSE All-World index with applied screen vs full FTSE All-World index, data from 31st December 2020 to 31st December 2025. For full green/sustainable indices size = active share vs FTSE All-World.

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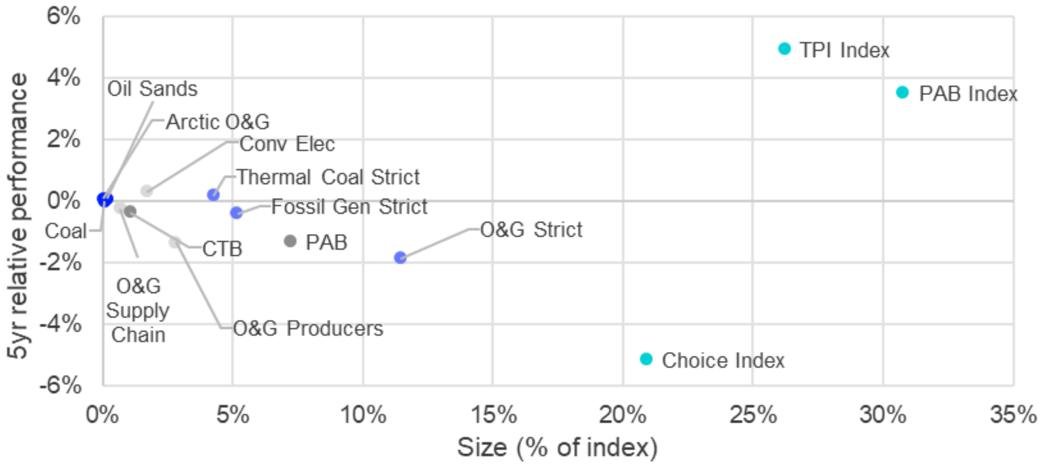
[10] Choice Index = FTSE Global All Cap Choice; TPI Index = FTSE All-World TPI Climate Transition ex Fossil Fuels; PAB Index = FTSE All-World Paris-Aligned (PAB)

[11] Upward sloping line of best fit, with R^2 of 90% for both 5 years and 10 years of analysis

Specialist/targeted screens result in minimal size excluded (<20bps) and minimal tracking error (~2bps) over the period of 5 years. Investors could apply such screens with almost no impact on risk and performance. The PAB and O&G Strict screen portfolios have by far the largest percentage of stocks excluded and the highest tracking error. Both are also above the curve in terms of tracking error per unit size.

Size of screens vs impact on cumulative relative performance

Figure 5: Across the whole range of screens and compared to select green indices

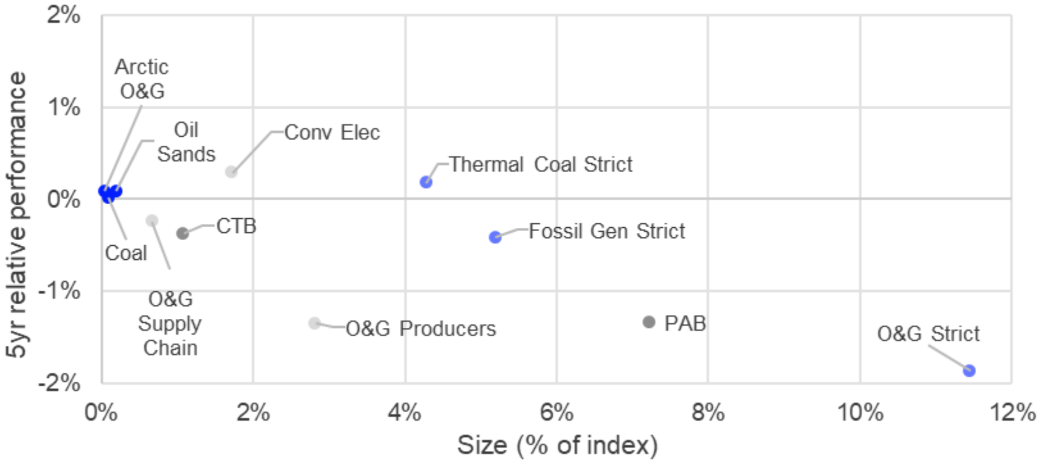


Source: FTSE Russell, difference in 5 year total return USD performance of FTSE All-World index with applied screens vs full FTSE All-World index, data from 31st December 2020 to 31st December 2025. For full green/sustainable indices size = active share vs FTSE All-World.

There does not appear to be a relationship between the size and direction (i.e., out- or underperformance) of the 5-year relative performance of different screening policies[12]. However, again the impact of climate screens on performance is lower than for full green/sustainability indices. Some screens add to performance, some detract. Over 5 years, the majority of screening policies have seen negative relative performance, whilst over 10 years (see the table in the previous section) the majority have seen positive relative performance.

[12] No obvious trendline, R^2 of relationship is 11% over 5 years and 2% over 10 years

Figure 6: Focused on screens only

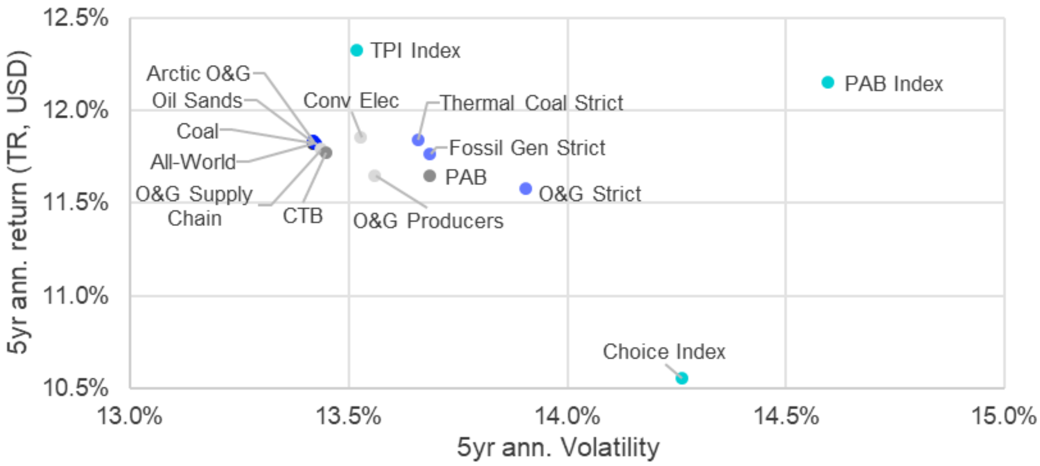


Source: FTSE Russell, difference in 5 year total return USD performance of FTSE All-World index with applied screens vs full FTSE All-World index, data from 31st December 2020 to 31st December 2025. For full green/sustainable indices size = active share vs FTSE All-World.

Specialist/targeted screening policies had minimal performance impact (<10bps and were positive over 5 years). However, CTB and PAB screens had a negative performance impact over 5 years (but a positive impact over 10 years). The O&G Strict screening policy saw the largest negative impact.

Risk/return profile of screened indices vs market

Figure 7: Across the whole range screens and compared to select green indices



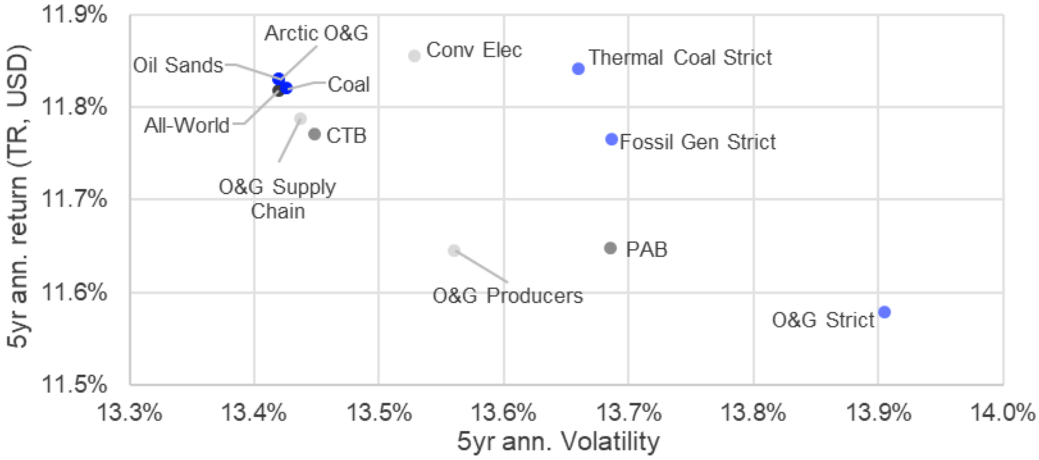
Source: FTSE Russell, annualised 5 year total return USD performance of FTSE All-World index with applied screens vs annualised volatility of daily total return USD performance of FTSE All-World index with applied screening, data from 31st December 2020 to 31st December 2025.

The risk/return profiles of climate-related screened portfolios were closer to the broad equity market (the FTSE All-World index) than to full green/sustainable indices over 5 years (although it is notable that the TPI index had volatility close to that of the market)[13].

[13] Making the transition to a climate transition index | LSEG

The PAB and Choice indices had volatility around 1% higher than the market, whereas the screened portfolios all saw volatilities which were within 50bps of the market level.

Figure 8: Focused on screens only



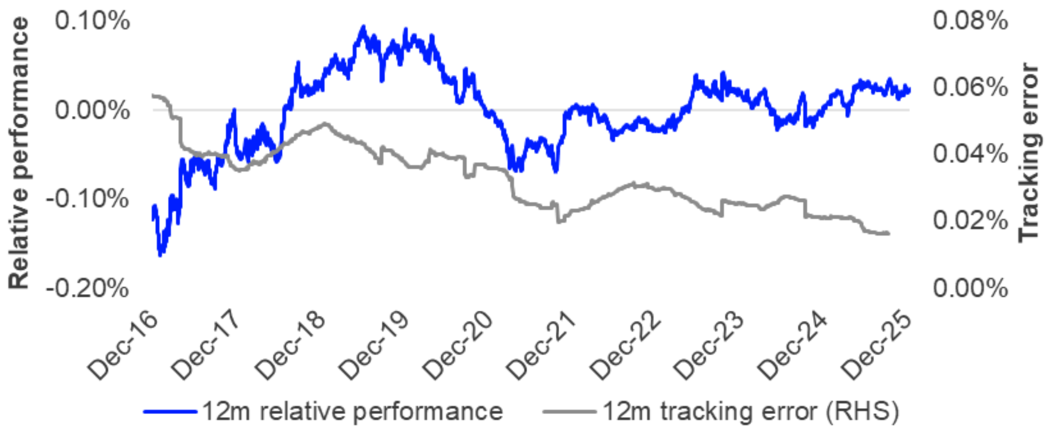
Source: FTSE Russell, annualised 5 year total return USD performance of FTSE All-World index with applied screens vs annualised volatility of daily total return USD performance of FTSE All-World index with applied screens, data from 31st December 2020 to 31st December 2025.

Specialist/targeted screen portfolios had a risk/return profile which was very close to the market (<10bps difference). All the other screens showed volatilities less than 30bps higher than the market, except Oil & Gas Strict. Differences in volatility were lower over 10 years and a maximum of 18bps. Three screened portfolios showed marginally (2bps) lower volatility than the market over 10 years, but none showed meaningful reductions in volatility.

Impacts over time

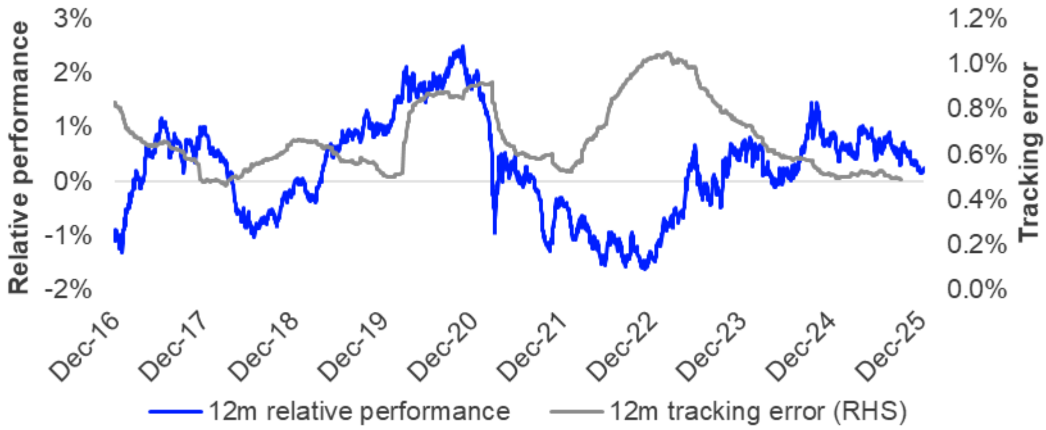
Looking at a subset of screens, we can see that there has been volatility in their impact over the last 10 years.

Figure 9: Coal screen impact on performance and tracking error over 10 years



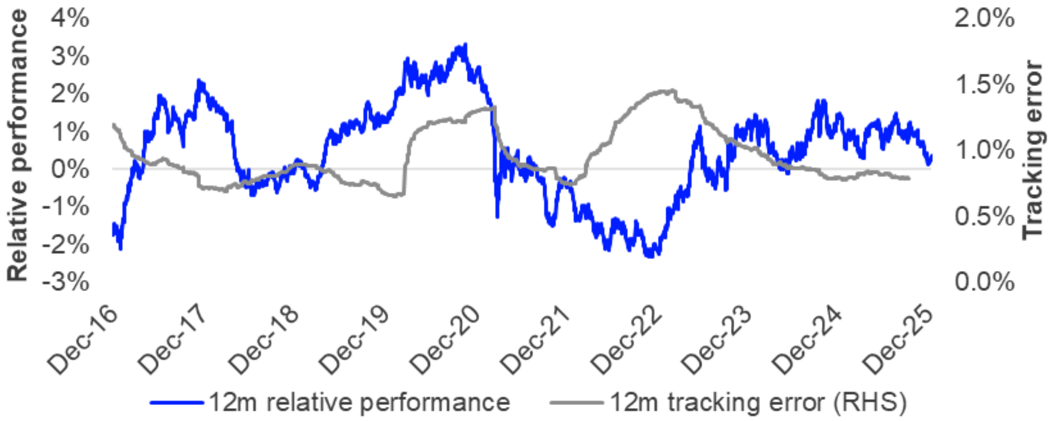
Source: FTSE Russell, total return USD, data from 31 December 2015 to 31 December 2025

Figure 10: Oil & Gas producers screen impact on performance and tracking error over 10 years



Source: FTSE Russell, total return USD, data from 31 December 2015 to 31 December 2025

Figure 11: PAB screen impact on performance and tracking error over 10 years



Source: FTSE Russell, total return USD, data from 31 December 2015 to 31 December 2025

As demonstrated in the graphs above, the performance impact of screen was largely positive prior to 2020, but then swiftly became negative in 2021/2022. However, since 2023 the impact has been more neutral and short-term tracking error has been reduced. We can also use this to gauge potential best- and worst-case impacts of the screens.

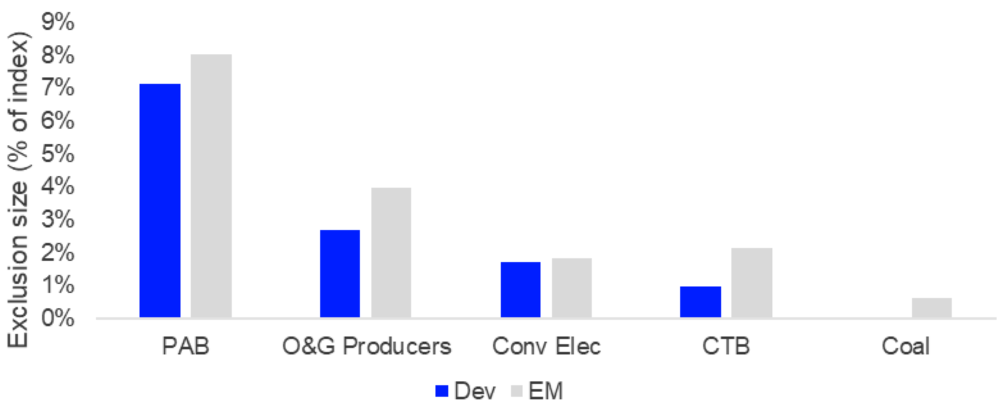
- ±2-3% for the larger screens (like O&G producers and PAB), with ~±1% in more typical periods
- ±0.1% for a more specialised/targeted screens (like Coal), with ~±0.05% in more typical periods

Recent geopolitical events and energy-market shocks boosted the performance of stocks in the ICB Energy industry in March 2026 and has weighed on the performance of indices with screens in this industry. However, as at 15 April, both the 12-month rolling relative performance and the relative performance since the start of the conflict remain below the 2–3% underperformance range as indicated by our 10-year historical analysis. Green thematic indices, such as the FTSE Environmental Markets All Share index, have been resilient, outperforming the market in April 2026, while the Energy industry has been more volatile, underperforming in April 2026.

Developed vs Emerging Markets

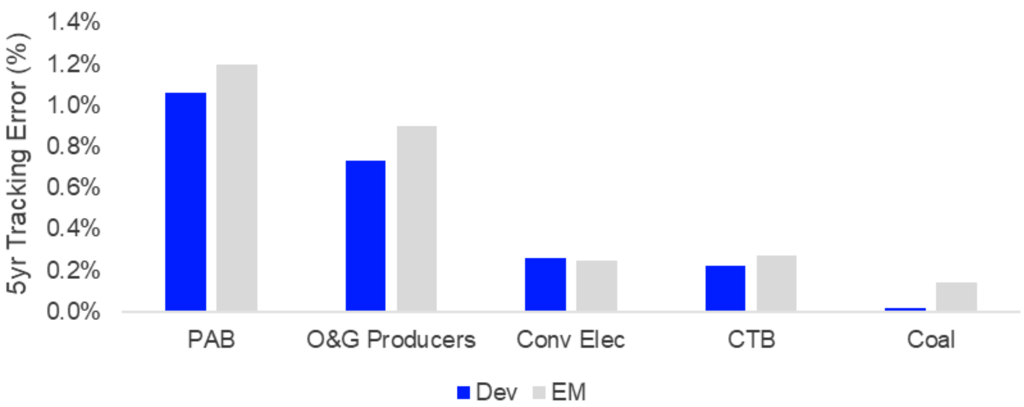
Screens can also have different impacts in different regional markets. Here, we examine the impact on the size of screens, tracking error and performance when applying select screens policies to the FTSE Developed and FTSE Emerging indices.

Figure 12: Screen size in developed vs emerging markets



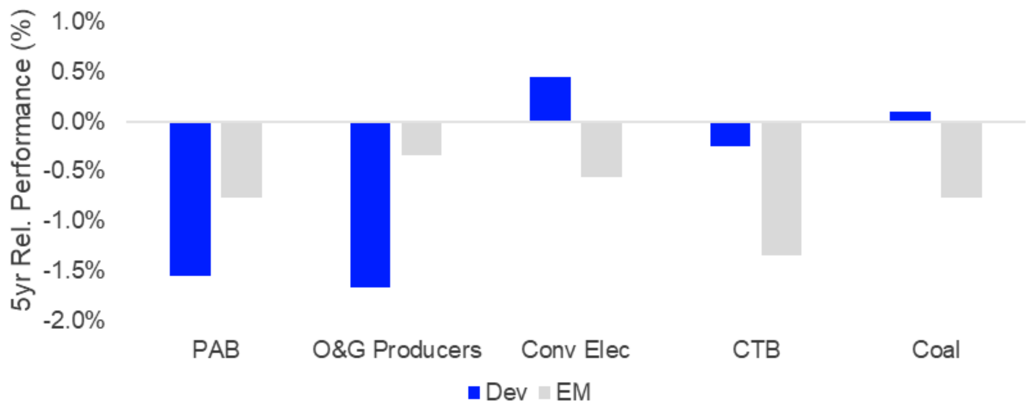
Source: FTSE Russell, screens applied to FTSE Developed and FTSE Emerging Indices, data as at 31st December 2025

Figure 13: Screened tracking error in developed vs emerging markets



Source: FTSE Russell, annualised tracking error based upon 5 years of daily total return USD performance vs FTSE Developed and FTSE Emerging indices, data from 31st December 2020 to 31st December 2025

Figure 14: Screened 5yr relative performance in developed vs emerging markets



Source: FTSE Russell, total return USD performance vs FTSE Developed and FTSE Emerging indices, data from 31st December 2020 to 31st December 2025

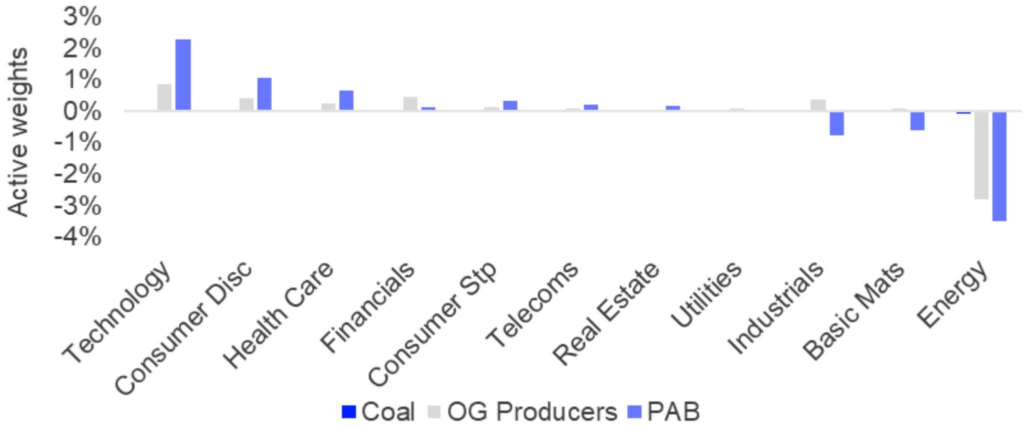
The size of screens and the tracking error are typically higher in emerging than in developed markets, but not materially so. However, the impact of the screens has not always followed this pattern, with the impact of PAB and O&G Producers screens being much bigger in the developed markets than in emerging markets over the last 5 years.

Impact on ICB industry exposure

It is important to remember that the weighting removed in the screening process must also go somewhere in the index. The reweighting following climate-related screening changes the Industry weightings compared to the parent index and normally means an increase in the weighting of the Technology Industry, which has limited exposure to typical climate-excluded activities and is also a large part of the parent index.

If an industry-neutral approach is used, this can also lead to significant single stock weights and therefore higher stock-specific risks. These impacts can be addressed in the index methodology with maximum permissible Industry deviations and stock concentration limits.

Figure 15: Active weight of indices with selected screens



Source: FTSE Russell, difference in ICB Industry weight between FTSE All-World index with and without screens, data as at 31st December 2025

For example, whilst a specialist/targeted screen like Coal has a limited impact on the Industry weighting, a large screen like PAB can increase the weighting towards Technology by ~2%. These readjusted weightings can have a significant impact on performance and tracking error.

Asset Class Considerations

In this report we focus on global equities, which make up the majority of sustainable investment assets to date[14]. However, it is also important to consider the exposure of other asset classes to securities with climate-related risk. In such asset classes, screening policies may also be applied.

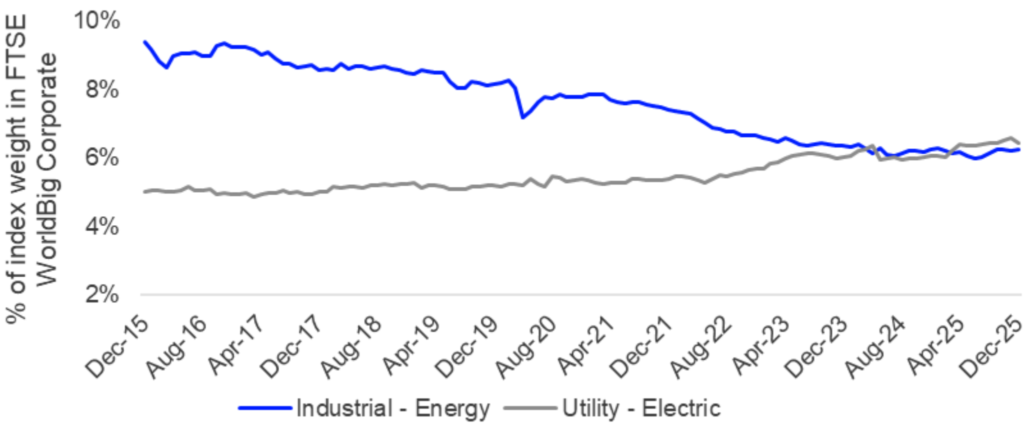
Corporate Bonds

The most obvious parallel is to corporate bonds, which share a commonality of approach and risk with equities.

For example, the FTSE WorldBIG Corporate index of global investment-grade corporate bonds had a 6.2% exposure to Energy (by GLIC[15] classification) at the end of December 2025. Whilst this has fallen over time, from around 9% 10 years ago, the index's exposure to Electrical Utilities, many of which are exposed to fossil fuel generation, has risen to 6.4%.

[14] Global Responsible Investments Fund Market Statistics for April–Lipper Analysis | Lipper Alpha Insight | LSEG
[15] Global Industry Classification

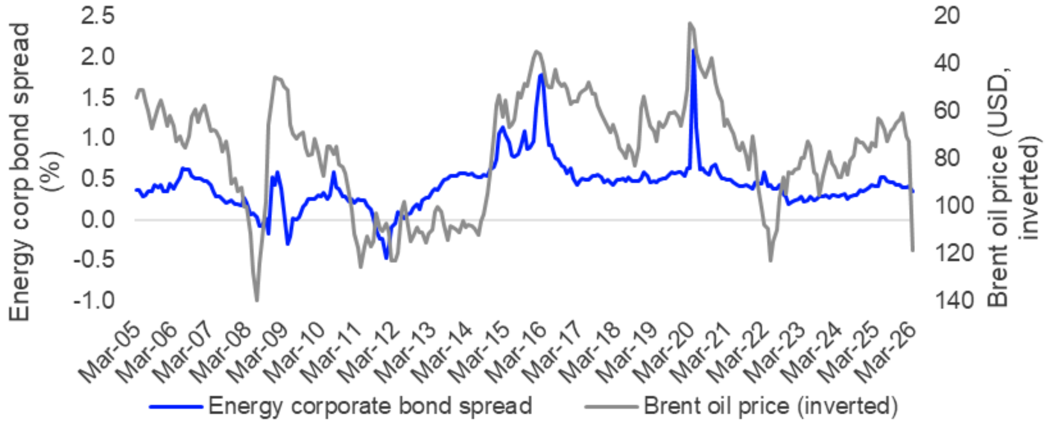
Figure 16: Corporate bond market exposure to Energy & Electric Utilities sectors over 10 years



Source: FTSE Russell, index weight in GLIC Industrial Energy and Electric Utility sectors of the FTSE World Broad Investment Grade ("WorldBIG") Corporate bond index, data from 31 December 2015 to 31 December 2025

Energy sector corporate bonds have seen volatile yield spreads to the overall corporate bond market over the last 20 years, ranging from ~+2% to -0.5%. The aggregate level of spreads can be particularly impacted by Oil & Gas prices. It is notable that in the last 10 years, energy sector corporate bond yield spreads have tended to spike in response to lower oil prices.

Figure 17: Energy sector corporate bond yield spread over 20 years



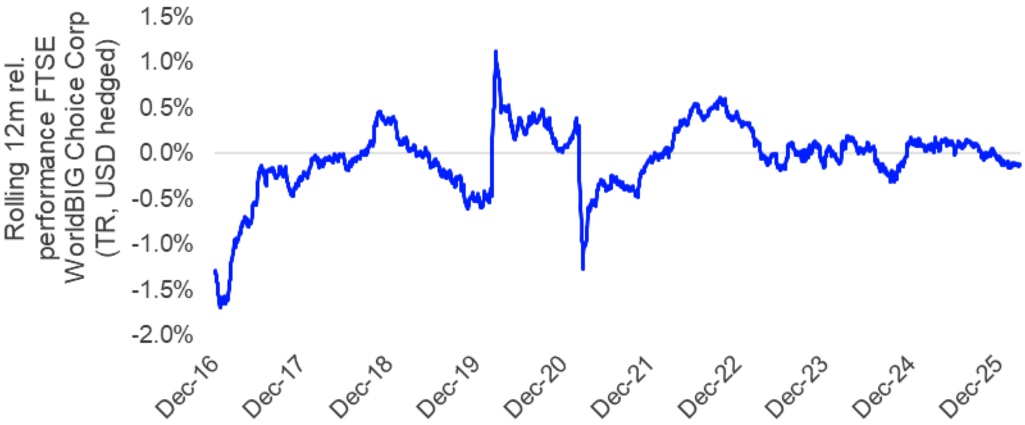
Source: LSEG, FTSE Russell, spread between yield to maturity of GLIC Industrial Energy sector of the FTSE World Broad Investment Grade ("WorldBIG") Corporate bond index and the overall index, USD price of 1m brent oil future, data from 31st March 2005 to 31st March 2026

However, corporate bond indices following screening policies have seen a relatively small impact on performance and risk by comparison with the broader corporate bond universe[16]. For example, the FTSE WorldBIG Choice Corporate index[17], a global corporate bond index which excludes non-renewable energy (as well as other activities such as weapons and vice) has shown limited performance divergence from the overall

[16] Bridging the sustainability gap in fixed income | LSEG
[17] FTSE Fixed Income Global Choice Index | LSEG

market (particularly since the end of 2021), a low tracking error[18] (23bps annualised over 5 years) and slightly lower annualised volatility[19] (16bps lower over 5 years).

Figure 18: FTSE WorldBIG Choice Corporate performance vs FTSE WorldBIG Corporate



Source: FTSE Russell, difference in 12m total return, USD hedged performance between the FTSE WorldBIG Choice Corporate Bond Index and the FTSE WorldBIG Corporate Bond Index, data from 31st December 2015 to 31st December 2025

Other asset classes, such as sovereign bonds, infrastructure or real estate, can also be considered through the lens of climate-related screens, but are beyond the scope of this report.

Key considerations for investors

- **Investors' ESG philosophy (e.g., their screen preferences and sustainability objectives)** should be in alignment with their investment requirements, such as desired return/tracking error and benchmark selection as well as time horizon. Measuring the impact of different preferences via screening policies is an important stepping stone towards this aligned philosophy.
- **Screen size increases with strictness:** Targeted screens (e.g., Thermal Coal) remove a small share of the FTSE All-World, while broader fossil fuel (e.g. Oil & Gas) and CTB/PAB-style screens remove materially more and drive larger index composition changes.
- **Tracking error rises as screens broaden:** Narrow screens tend to keep tracking error low; broader fossil fuel and CTB/PAB screens generally increase tracking error due to larger sector and regional deviations from the parent index.

[18] Annualised tracking error between FTSE WorldBIG Choice Corporate and FTSE WorldBIG Corporate indices based on 5 years of daily total return USD hedged performance data from 31st December 2015 to 31st December 2025
[19] Annualised volatility of 5 years of daily total return USD hedged performance data from 31st December 2015 to 31st December 2025

- **Relative performance is regime-dependent:** Screens can help or hurt depending on the baseline year, market environment and macro-economic cycle —particularly on the direction of energy prices and the relative performance of value vs growth stocks.
- **Sector tilts are a key transmission channel:** The main structural shift is typically **lower Energy exposure** (and sometimes Materials/Industrials, depending on supply-chain definitions) with offsetting increases elsewhere; this drives much of the risk/return difference versus the benchmark.
- **Developed vs emerging markets differ:** Impacts can vary meaningfully by region, often because EM indices can have different concentrations in energy and state-linked commodity sectors, affecting both screen size and tracking error.
- **CTB vs PAB trade-offs:** PAB-style screens are usually more stringent than CTB, implying larger screens and higher tracking error, with performance outcomes more sensitive to energy-led periods.
- **Corporate bond parallels (directionally similar, mechanically different):** Screens can also change credit sector exposure and issuer concentration; tracking error may show up through spread duration, sector weights, and reduced opportunity set.
- Investors setting **strategic asset allocation (SAA)** across a mix of **ESG and non**-**ESG assets** should consider a **partially adjusted benchmark (BM)** so the benchmark reflects the portfolio you've actually chosen to hold.

Appendix

Screen	Details
Specialist / targeted	
Coal producers	Companies in the ICB Coal Producers 60101040 subsector
Arctic Oil & Gas[20]	Companies with 5% or more revenue exposure to Arctic Oil & Gas
Oil sands[20]	Companies with 5% or more revenue exposure to Oil Sands
Broader activities and value chain	
Oil & Gas producers	Companies in the ICB Integrated Oil & Gas 60101000, Crude Producers 60101010, Refining and Marketing 60101020 subsectors
Oil & Gas supply chain	Companies in the ICB Offshore Drilling and Other Services 60101015, Oil Equipment and Services 60101030 subsectors
Conventional electricity generation	Companies in the ICB Conventional Electricity Generation 65101015 subsectors
Low tolerance and supply chain	
Fossil fuel generation strict[20]	Thermal Coal power generation 0-100% revenue; Oil & Gas power generation 0-100% revenue generation
Thermal Coal strict[20]	Thermal Coal extraction and power generation 0-100% revenue; supporting products/services 5-100% revenue; plus significant ownership (where the company owns 10-50% of another company with involvement).
Oil & Gas strict[20]	Oil & Gas production, power generation, oil sands and shale energy 0-100% revenue; supporting products/services 5-100% revenue; plus significant ownership (where the company owns 10-50% of another company with involvement).
Regulated screens	
CTB	Controversial Weapons; cultivation and production of Tobacco; UNGC or OECD principles violators; Significantly harming environmental objectives in Art. 9 of 'EU taxonomy for sustainable activities'
PAB	As CTB plus – 1% of more revenue across supply chain for hard coal or lignite; 10% of more revenue across supply chain for oil; 50% of more revenue across supply chain for gas; 50% of more revenue from electricity generation with a GHG intensity >100g CO2e/kWh

[20] Sustainalytics product involvement

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