

# Integrating climate risk in a global bond allocation



“It has been an important step for us to have an extended ‘ecosystem’ in our ESG-related fixed income product line up, whereas we have already developed various types of ESG equity-related products for both active and passive fund management.”

– Mr. Hideki Suruga, Managing Executive Officer and Head of Products, Mitsubishi UFJ Kokusai AM



三菱UFJ国際投信

## About the client

### Profile

Mitsubishi UFJ Kokusai AM, the core asset management company of Mitsubishi UFJ Financial Group (MUFG), is one of the largest asset managers in Japan, with AUM of over ¥18 trillion.

### Objectives

To provide Japanese retail and institutional investors with a way to invest in global government bonds while mitigating climate risk.

### Solution

The FTSE Climate Risk Adjusted World Government Bond Index integrates the physical climate risk, transition risk and climate resilience of sovereign debt issuers.

## A pioneer in responsible investment

The Mitsubishi UFJ Financial Group (MUFG) promotes investment management that focuses on environmental, social and governance (ESG) concerns.

In May 2006, MUFG was one of the first Japanese institutional investors to become a signatory of the United Nations Principles for Responsible Investment (UN PRI).

The Group also endorses the Japanese Stewardship Code, which was formulated by the Financial Services Agency for the purpose of increasing the medium- to long-term return on investment for customers and beneficiaries.

### Mitsubishi UFJ Kokusai AM: Client profile

Mitsubishi UFJ Kokusai AM promotes investment management that focuses on environmental, social and governance (ESG) issues. By suggesting to clients that they should consider non-financial information when making investment decisions, the firm is contributing to the realisation of a sustainable environment and society.



**FTSE  
RUSSELL**  
An LSEG Business



**SUSTAINABLE  
GROWTH**

## Objective: Integrating climate risk in global bond investments

Government bonds are the largest single asset class in the world's securities markets, and their issuers are highly exposed to energy and climate risks.

For example, governments own 78 percent of world fossil fuel reserves, and up to 20 percent of public expenditures and fiscal revenues are directly linked to fossil fuels.

Governments are also the primary source of funding for the world's future low-carbon infrastructure, and they are the key stakeholders in setting environment-related fiscal and regulatory policy.

However, up to now, investors in global government bonds have had less success in integrating ESG considerations into their portfolios than investors in global equities, where ESG frameworks are more established.

Mitsubishi UFJ Kokusai AM therefore wished to:

- Foster ESG integration in a global government bond portfolio
- Base its ESG framework on a flagship global bond benchmark
- Focus on managing and mitigating climate-related risk

## Solution: the FTSE Climate Risk Adjusted WGBI

Mitsubishi UFJ Kokusai AM selected the FTSE Climate Risk-Adjusted World Government Bond Index ("FTSE Climate WGBI") as the underlying performance target for a new index fund, launched in March 2021.

The fund is designed for Japanese defined-contribution (DC) pension schemes, other institutional investors, and financial institutions seeking to integrate climate risk in their global bond allocations.

The FTSE Climate WGBI is derived from the flagship FTSE World Government Bond Index (WGBI), launched in 1984 and widely used by bond investors. The WGBI measures the performance of fixed-rate, local currency, investment-grade sovereign bonds, and comprises sovereign debt from over 20 countries, denominated in a variety of currencies.

The FTSE Climate WGBI incorporates climate risks into its construction methodology in a comprehensive, robust, and transparent manner. It does this by integrating three climate risk "pillars":

- **Physical risk** (the level of climate-related risk exposure to a country and its economy from the physical effects of climate change)
- **Transition risk** (the risks of economic dislocation or financial losses associated with the future transition to a low-carbon economy)
- **Climate resilience** (a country's preparedness and actions to cope with its level of climate-related risk exposure)

The FTSE Climate WGBI is constructed by "tilting" the starting weight of each country in the parent index (the FTSE WGBI) to reflect its climate risk, as measured using the three climate risk pillars.

The net effect of these tilts is to provide higher exposure to the government bonds of countries that are more resilient to climate change risks, and lower exposure to the bonds of countries that are more exposed to climate risks.

### Three climate risk "pillars" in the FTSE Climate WGBI

#### Physical

Idiosyncratic geographical exposure to the adverse impact of climate change

#### Transition

The level of future carbon emissions reduction needed to meet the Paris conference target\*

#### Resilience

The degree to which an individual economy is prepared for climate change

\* Paris conference target of less than two degrees of global warming and the recent trend of historical carbon emissions

Source: FTSE Russell and LSEG Sovereign Sustainability Solutions

### Additional information

[Learn more about FTSE Climate WGBI](#)

Further information on our range of products and services is available at [lseg.com/ftse-russell](https://lseg.com/ftse-russell)

## ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner, we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers, and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis, and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

## CONTACT US

To learn more, visit [lseg.com/ftse-russell](https://www.ftserussell.com); email [info@ftserussell.com](mailto:info@ftserussell.com); or call your regional Client Service team office:

**EMEA** +44 (0) 20 7866 1810

**Asia-Pacific**

**North America** +1 877 503 6437

**Hong Kong** +852 2164 3333

**Tokyo** +81 3 6441 1430

**Sydney** +61 (0) 2 7228 5659

## Disclaimer

© 2023 London Stock Exchange Group plc and its applicable group undertakings ("LSEG"). LSEG includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) The Yield Book Inc ("YB") and (7) Beyond Ratings S.A.S. ("BR"). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "The Yield Book®", "Beyond Ratings®" and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under license, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical error as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly, or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or of results to be obtained from the use of FTSE Russell products, including but not limited to indexes, data and analytics, or the fitness or suitability of the FTSE Russell products for any particular purpose to which they might be put. Any representation of historical data accessible through FTSE Russell products is provided for information purposes only and is not a reliable indicator of future performance.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any error (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating, or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

The information contained in this report should not be considered "research" as defined in recital 28 of the Commission Delegated Directive (EU) 2017/593 of 7 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council ("MiFID II") and is provided for no fee.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index inception date is back-tested performance.

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.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a license from FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, YB, BR and/or their respective licensors.



**FTSE  
RUSSELL**  
An LSEG Business