

Embracing sustainable investment in Taiwan

CLIENT CASE STUDY

September 2020

“The BLF was not only the first national public pension fund in Taiwan to endorse the stewardship code, but also the first to select this FTSE4Good TIP Taiwan ESG index as a core ESG benchmark. The move recognizes the growing importance of sustainable investing in Taiwan.”

– BILLY WANG, PRESIDENT AND CEO, TAIWAN INDEX PLUS CORPORATION



**BUREAU OF LABOR FUNDS,
MINISTRY OF LABOR**

ABOUT THE CLIENT

Profile

With over \$140bn* in assets, the Taiwan Bureau of Labor Funds (BLF) is one of the largest public-sector pension funds in Asia. [*March 2020]

Objectives

Generate positive long-term returns from investing in sustainable companies, thereby benefiting Taiwan's society, its environment and economy.

Investment criteria

The FTSE4Good TIP Taiwan ESG index combines FTSE Russell's ESG ratings model with financial performance criteria to select companies with high ESG standards.

Taiwan BLF: Profile

Taiwan's Bureau of Labor Funds (BLF) was set up in 2014 to act as the investment department for six of the country's public pension funds. With over \$140bn in assets as at March 2020, the BLF is one of the largest public-sector pension funds in Asia.

The BLF is also a pioneer in sustainable investment in Taiwan. In 2016 it was the first government fund to sign the Taiwan Stock Exchange's Stewardship Principles for institutional investors. The principles require signatories to maintain clear policies on managing conflicts of interest, voting and stewardship, as well as encouraging engagement with investee companies to promote long-term, sustainable value creation.

Objective: ESG integration in domestic equities

Since its creation in 2014, the BLF has made a series of portfolio reallocations to diversify its domestic and overseas equity exposure. Specifically, it has moved away from traditional capitalization-weighted benchmarks and toward indexes based on smart beta, alternative and environmental, social and governance (ESG) exposures.

As a continuation of this strategy, in early 2018 the BLF decided to make a substantial new passive equity allocation to domestic Taiwanese companies with high ESG/sustainability standards. FTSE Russell aimed to meet three principal objectives when designing a solution for BLF:

- **To help foster ESG integration into domestic equity portfolios**
- **To follow globally recognized ESG standards**
- **To combine sustainability and other financial performance criteria**

Solution: the FTSE4Good TIP Taiwan ESG Index

The BLF selected the FTSE4Good TIP Taiwan ESG index as the core benchmark for a five-year passive domestic equity mandate, with an initial total portfolio size of \$1.4bn. The index was constructed by FTSE Russell in partnership with the Taiwan Index Plus (TIP) corporation.

The index is constructed using FTSE Russell's ESG data model. This model calculates a single ESG rating for each company in an equity universe. The rating is an exposure-weighted average of each of the scores within the three ESG "pillars": environmental (E), social (S) and governance (G).

Each pillar consists of a number of ESG themes, and in turn these are built from over 300 individually researched company indicators.

To gain inclusion in the FTSE4Good TIP Taiwan ESG Index, a company has to achieve an ESG rating above a stated threshold. Companies at risk of exclusion from the index as a result of a low rating are granted a period of time to improve their performance.

As a safeguard against the potential inclusion of companies with poor financial performance, companies with a negative trailing 12-month return on equity (RoE)

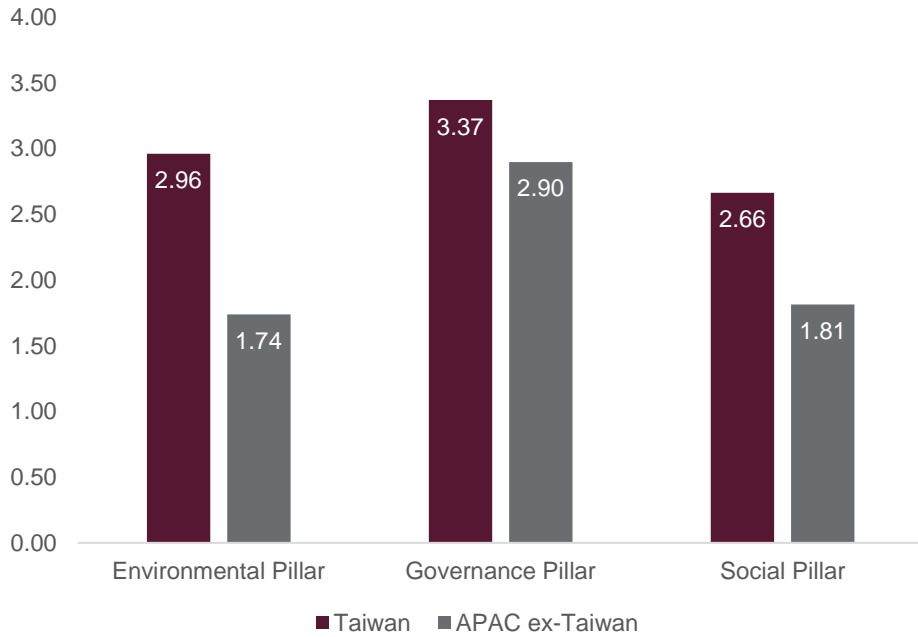
The FTSE4Good TIP Taiwan ESG Index now underlies two innovative financial products:

- In August 2019 Yuanta SITC licensed the FTSE4Good TIP Taiwan ESG Index for the first ESG exchange-traded fund (ETF) to be launched on the Taiwan Stock Exchange (TWSE).
- In June 2020 the Taiwan Futures Exchange (TAIFEX) licensed the index for its latest futures listing, the first ESG-based futures contract launched in the Asia-Pacific region.

are excluded from the index. At launch, the FTSE4Good TIP Taiwan ESG Index had 69 constituents.

Taiwanese companies have recently scored well on ESG measures against their peers in the Asia-Pacific region, particularly in the environmental and social pillars (see the chart).

Taiwan—Average ESG Pillar Score



Source: FTSE Russell. Data as of December 23, 2019 index review.

Additional information

Learn more about [FTSE Russell's sustainability and ESG data](#).

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