

Solactive launches ESG-weighted euro corporate bond index

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Frankfurt-based index provider **Solactive** has launched a new index measuring the performance of the broad euro-denominated corporate bond market with constituents reweighted according to their environmental, social, and governance (ESG) scores.



Solactive and SD-M have now collaborated on three ESG-weighted fixed income indices.

The **Solactive Euro IG Corporate SD-KPI Index** is based upon the **Solactive Euro IG Corporate Index** universe which comprises euro-denominated, investment-grade corporate bonds with at least €500 million outstanding and more than one year remaining to maturity.

Fixed-rate bonds, zero-coupon bonds, callable bonds, putable bonds, and bearer bonds are eligible for inclusion while sinking-fund bonds, floating-rate bonds, convertible bonds, inflation-linked bonds, contingent convertible securities, covered bonds, preferred securities, and collateralized debt are not.

Solactive has partnered with German ESG provider **SD-M**, using its classification model to over- or under-weight constituents based on their Sustainable Development Key Performance Indicators (SD-KPI) scores.

Scores are based on a weighted average of the top three indicators which SD-M believes to be the most relevant for firms operating within a particular sector and industry. For example, the top three indicators for Aerospace & Defence firms operating within the industrials sector are business ethics incidents and precautions (45%), fuel economy in use phase (32%), and exposure to controversial weapons (23%).

The entire Solactive Euro IG Corporate Index universe of bonds is ranked according to their SD-KPI scores.

Starting from the market-cap-weighted version of the parent index, the methodology assigns a 50% overweight (their market caps are multiplied by 1.5) to the top quintile of bonds ranked by SD-KPI scores. Similarly, the second quintile is overweighted by 25%, the third quintile remains unchanged, and the fourth and fifth quintiles are underweighted by 25% and 50%, respectively.

Timo Pfeiffer, Chief Markets Officer at Solactive, commented, "As capital markets continue to realize the importance of integrating ESG metrics into portfolio construction, we are proud to bring them a new bond index in collaboration with SD-M."

“This index adequately integrates industry-specific ESG metrics in the European corporate bond market, focusing on those companies incorporating ESG into their business practices, while maintaining exposure to the broad market.”

Axel Hesse, Founder of SD-M, added, “SD-M is delighted that investors could now also address the important asset class of corporate bonds using the Solactive Investment Grade Corporate SD-KPIndex. Furthermore, the backtest of the EUR index version showed attractive 8 basis points of outperformance per year since 2010.”

Solactive has previously collaborated with SD-M on two fixed income indices: the **Solactive USD IG Corporate SD-KPIndex** and the **Solactive GBP IG Corporate SD-KPIndex**, tracking the US dollar and pound sterling-denominated corporate bond markets respectively.

According to Solactive, all the indices are suitable to serve as underlying references for investment products such as ETFs.