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## German government backs new investment grade corporate bonds index family

Collaboration with SASB, Solactive and Axel Hesse's SD-M GmbH



by Ella Milburn | November 21st, 2019

The German government and the Sustainability Accounting Standards Board (SASB) have supported a new ESG-focused investment grade corporate bonds index family in collaboration with Frankfurt-based index provider Solactive and sustainability consultant Axel Hesse's firm SD-M GmbH. The products are the latest spin off from SD-M's set of KPIs – key performance indicators – that was launched in 2016. The initiative aims to provide the three most relevant sustainability KPIs for various industries and sectors. The German Environment Ministry has long supported the research underpinning the standard, financing various reports and backing the project since 2004, according to Hesse, who was previously Head of ESG Integration at Metzler Asset Management. SASB KPIs, meanwhile, are integrated into the standard. It comes as Germany is raising its ESG profile. Last month the Bundesbank said it is reviewing the sustainability of its euro-denominated own funds portfolio. In May, the State of Hessen became the first in the country to sign the Principles for Responsible Investment (PRI), as part of its efforts to strengthen its sustainable investing policies. The three new indexes are denominated in euros, dollars and sterling. The Solactive Euro IG Corporate SD-KPIndex takes the Solactive Euro IG Corporate Index – which mirrors the performance of Euro-denominated investment grade bonds – as its starting point. It then integrates ESG by over- and underweighting constituents. The other indexes are the Solactive USD IG Corporate SD-KPIndex and the Solactive GBP IG Corporate SD-KPIndex. The set of standards underpinning the indexes focuses on three standardised material key performance indicators for 68 Global Industry Classification Standard (GICS) Industries, which SD-M said makes for a “straightforward and robust classification model”. According to Hesse, the index design allows for versatile customizing to meet clients' specific demands and requirements, for example the incorporation of adjustments such as currency hedges. He said back-testing of the EUR index version shows eight basis points of outperformance per year since 2010. He said he's seeing demand for this kind of corporate bond benchmark from German insurers and pension funds, which are often heavily invested in fixed income. “Investors are interested because we don't exclude any holding, because we don't want to go too far away from the standard benchmarks. So investors know they will be ESG compliant without going too far away from their current holdings and investment processes.” Hesse has been [vocal](#) in calling out the European Union's green taxonomy for its “unsuitability for mainstreaming sustainable finance”. He told RI: “The taxonomy is good for green bonds and things like that, but I can't really see how you will be able to analyze equity and corporate bond holdings according to the taxonomy in the near future because the data's just not there. The taxonomy report is 500 pages so far, and this is just for climate. It's missing five to six environmental dimensions, as well as social and governance dimensions.” “[With the SD-KPIs,] you've already had the data available for ten years. There's a need for standardisation and guidance, and SD-KPIs are not the only solution, but – like SASB – it's a step in the right direction.”