

Sustainable Core in Fixed Income: iBoxx Corporates SRI Screened and ESG Indices

Contributor

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Introduction

ESG within fixed income indices continues to evolve and take shape, largely driven by the growing awareness of investors and the broad emergence of ESG datasets that allow market participants to express their preferences and fine-tune their exposures. Demand and expression can vary significantly by region, and the evolving regulatory regime around ESG and sustainability remains integral to navigating the incorporation of sustainability considerations into fixed income strategies.

While customization remains a significant factor in fixed income markets, there is growing appetite for a consistent approach to integrating sustainability into benchmarks. The increased need for sustainability considerations in certain regions combined with the evolving requirements from a regulatory perspective have resulted in a growing demand for more standardized solutions that are easily understood, while still addressing the sustainability needs of market practitioners in fixed income.

S&P DJI's iBoxx Corporates SRI Screened and ESG Indices were developed and launched to provide a standardized approach for incorporating sustainability considerations into EUR, USD and GBP corporate bond indices. This new set of indices can be used as-is or can be used as a foundational universe to develop customized solutions to cater to investors' specific needs, swiftly and efficiently.

The underlying methodology for the iBoxx Corporates SRI Screened and iBoxx Corporates ESG Indices leverages that of the [S&P 500® ESG Leaders Index](#)¹ by mirroring similar product involvement and baseline exclusions, while incorporating additional preferences for fixed income investors.

The suite of indices encompasses two series.

1. iBoxx Socially Responsible Investing (SRI) Screened Indices
2. iBoxx ESG Corporates Indices, which can be catered to different investor needs

The iBoxx SRI Screened Indices are a subset of the iBoxx Corporate ESG suite. The key difference being that iBoxx Corporates ESG Indices filter for ESG risk scores in addition to SRI screens.

In this paper, we outline the defining characteristics of the newly launched indices and discuss use cases for fixed income investors looking for a sustainability expression that can be easily understood and efficiently applied.

Design, Methodology and Scope

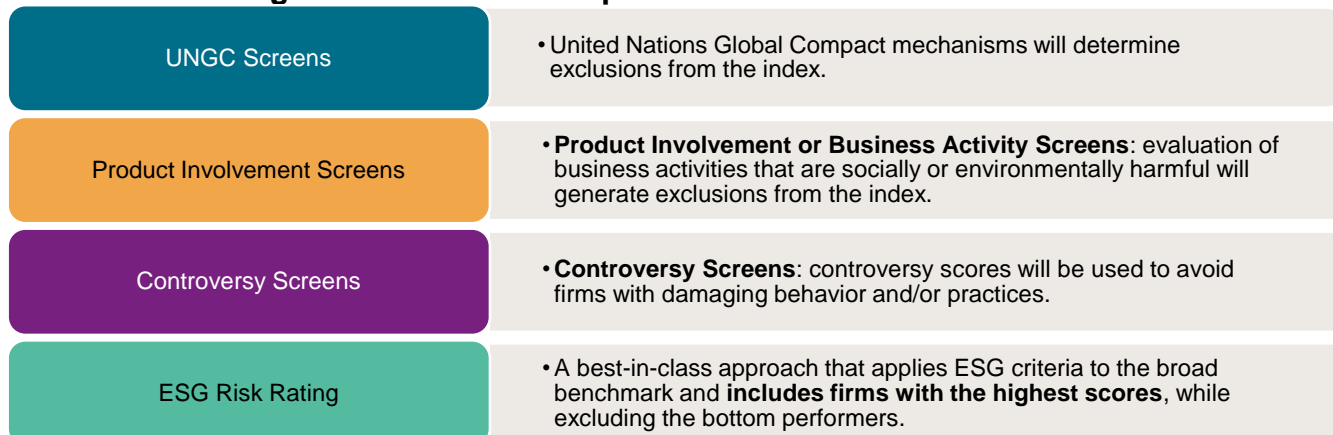
The indices follow a methodology that leverages data and input from [Sustainalytics](#). The framework encompasses four main parameters:

1. Exclusion of United Nations Global compact (UNGC) violators;
2. Exclusion of issuers assigned a Controversy Level of 5;
3. Usage of screens that evaluate a company's business activities, also referred to as product involvement screens; and
4. Exclusions based on ESG Risk Rating profile.

These building blocks have been applied to key iBoxx corporate bond index series, allowing for a flexible utilization of screens and ESG Scores in combination or independently and for swift customization, if desired by clients (see Exhibit 1).

¹ For more information, please see the [S&P 500 ESG Leaders Index Brochure](#) and Dorn, Margaret, María Sánchez and Stephanie Rowton, "The S&P 500 ESG Index: Defining the Sustainable Core," S&P Dow Jones Indices LLC, Nov. 24, 2022.

Exhibit 1: Building Blocks of iBoxx Corporates ESG Indices



Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

The SRI product involvement screens are based on the company's business activity and include controversial weapons as well as climate- and values-based screens. Specifically, unconventional oil and gas activities and thermal coal involvement are excluded in the climate-related categories. Values-based views include screens for small arms, alcohol, gambling, tobacco, nuclear power, adult entertainment and GMO plants. The exclusions are based on the business line activity as well as ownership in businesses involved in them.

The ESG risk rating, which is used to exclude companies in the High and Severe risk categories, has a slightly different approach than its equity counterpart benchmarks, where exclusions also take into consideration the industry group within a pre-defined percentile threshold. The inclusion of this sectoral breakdown is a less common approach in fixed income as an asset class. Details around availability and historical application of each of the screens is further captured in the respective index guides of each of the indices (see Exhibit 2).

The investment grade corporate bond indices are available in euro, British pound sterling and U.S. dollar currencies. The high yield bonds are available in euro and U.S. dollar versions. The headline indices are supplemented by standard iBoxx subindex breakdowns (see Exhibit 2).

Exhibit 2: Available Headline Indices by Series

SRI Screened	ESG
– iBoxx \$ Corporates SRI Screened	– iBoxx \$ Corporates ESG
– iBoxx € Corporates SRI Screened	– iBoxx € Corporates ESG
– iBoxx £ Corporates SRI Screened	– iBoxx £ Corporates ESG
– iBoxx USD High Yield Developed Markets SRI Screened	– iBoxx USD High Yield Developed Markets ESG
– iBoxx EUR High Yield SRI Screened	– iBoxx EUR High Yield ESG

Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

Understanding Sustainability/ESG Overlay

Coverage

The vastness of the bond market, which also encompasses private companies, makes it more challenging to achieve comprehensive coverage of all ESG building block datasets across different universes. This is in contrast to listed equity markets. Therefore, coverage availability in fixed income should be analyzed alongside other exclusions, given that it can act as an eliminating factor on its own. All companies without Sustainalytics coverage are excluded from these indices. Exhibit 3 is a sample analysis of various reasons for exclusions from iBoxx USD and EUR corporate benchmarks—both of which are investment grade indices—due to different factors. The data show a snapshot as of the end of December 2023, while coverage is a dynamic factor—i.e. it varies over time—and typically tends to increase across mainstream ESG datasets. It will also vary depending on the chosen universe, with investment grade in general seeing higher overall coverage.

Exhibit 3: Selected Exclusions from the iBoxx € Corporates ESG and iBoxx \$ Corporates ESG

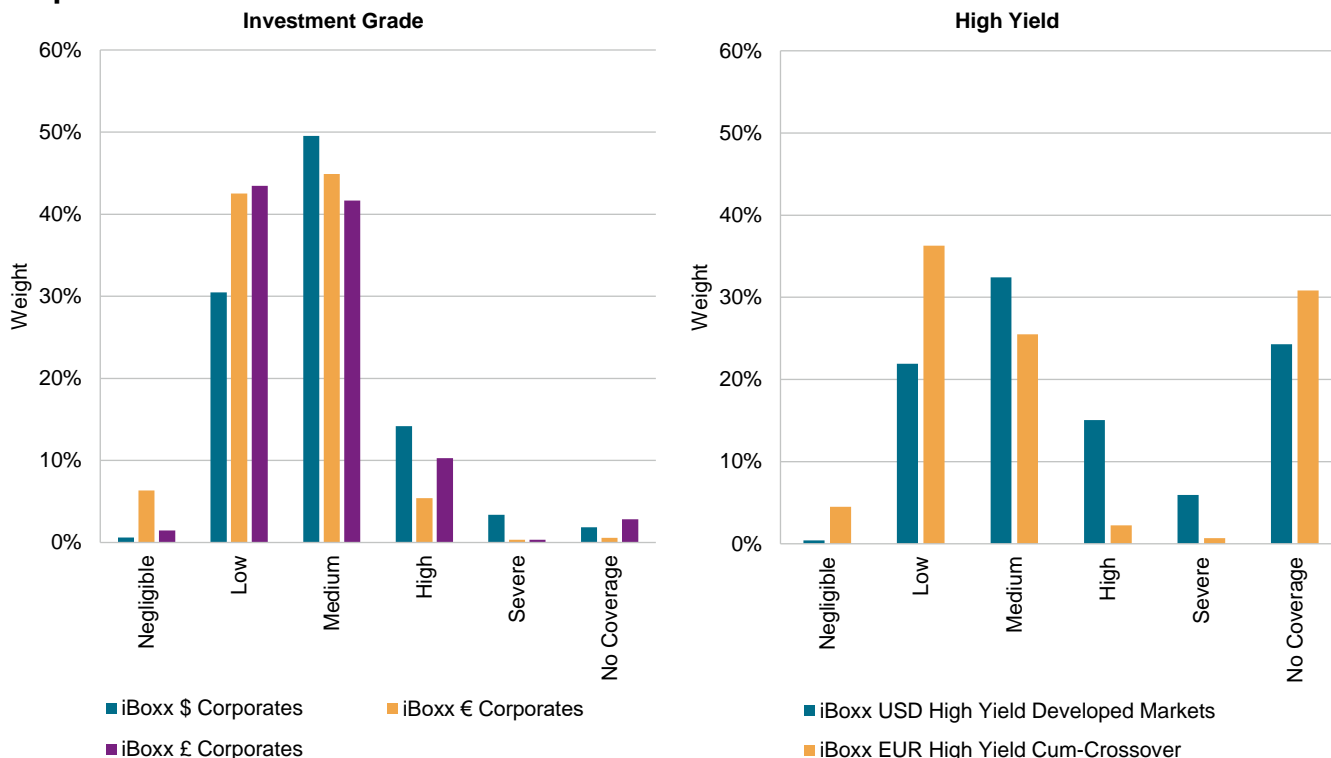
Reason for Exclusion	iBoxx € Corporates ESG		iBoxx \$ Corporates ESG	
	Number of Bonds Excluded	Weight (%)	Number of Bonds Excluded	Weight (%)
Tobacco	39	0.9	109	1.4
Thermal Coal	59	1.3	361	3.1
Small Arms	17	0.4	85	1.0
Military Contracting	33	0.8	168	2.1
Alcoholic Beverages	57	1.7	72	1.0
UNGC	40	1.1	331	4.7
Controversies	63	1.8	281	4.1
Total Product Involvement Screens (PIS)	295	13.7	1205	12.9
Total ESG Risk Rating	143	3.6	940	10.1

Source: S&P Dow Jones Indices LLC. Data as of April 30, 2024. Includes exclusions to the screen and due to lack of coverage. Table is provided for illustrative purposes.

ESG Risk Rating Distribution

The ESG Risk Rating datasets classify the companies into five main categories: Negligible, Low, Medium, High and Severe. Because of the above-mentioned coverage challenges, the “No Coverage” bucket is analyzed per each index series in addition to these five. Histograms in Exhibit 4 show how these differ per universe analyzed. The high yield iBoxx headline indices (on the right-hand side of Exhibit 4) show more exclusions due to lack of coverage, in addition to exclusion of the Severe and High ESG Risk Rating categories.

Exhibit 4: ESG Risk Rating Distribution in the iBoxx Investment Grade and High Yield Corporate Indices



Source: S&P Dow Jones Indices LLC, Sustainalytics. Data as of Dec. 31, 2023. Distribution shows index weights in each category of the benchmark indices. Charts are provided for illustrative purposes.

Index Profiles

The primary aim of the indices is to include sustainability considerations within a corporate bond universe. The key characteristics of sectoral, rating and credit profile, as well as the key analytics such as yield and duration, closely align between the broad benchmark and its sustainability counterpart, although these are not imposed as constraints in the construction of the indices (see Exhibit 5 for details).

The results vary slightly by currency and the credit universe, with a greater difference in the index composition seen in the high yield index series. The snapshots below give a comparison between each of these.

Sector and Rating Distribution

Exhibit 5: Sector and Rating Distribution of Index Weights of Investment Grade Index Series

Industry Breakdown	iBoxx \$ Corporates (%)			iBoxx € Corporates (%)			iBoxx £ Corporates (%)		
	Bench-mark	SRI Screened	ESG	Bench-mark	SRI Screened	ESG	Bench-mark	SRI Screened	ESG
Core Financials	28.5	31.6	32.6	34.9	37.4	37.9	40.2	41.8	43.9
Consumer Goods	8.9	7.9	7.9	12.7	11.0	11.2	7.4	6.0	6.2
Energy	7.7	6.3	3.6	3.6	3.8	2.5	2.0	2.2	0.4
Telecommunications	4.2	4.9	5.6	5.3	5.7	6.0	6.0	6.7	7.1
Financial Services	5.1	5.3	5.6	2.9	2.8	2.9	4.8	4.2	4.2
Health Care	9.0	10.4	11.3	5.4	5.4	5.5	2.2	2.4	2.6
Technology	7.9	8.9	9.7	2.4	2.6	2.7	0.9	1.0	1.1
Utilities	7.1	3.4	2.5	11.2	9.3	9.4	20.1	19.1	17.7
Industrials	8.0	6.7	7.0	9.8	9.6	9.3	5.3	5.5	5.6
Consumer Services	8.1	9.0	9.0	4.2	4.5	4.5	5.5	5.4	5.3
Real Estate	2.7	2.9	3.3	4.9	5.4	5.5	5.0	5.5	5.9
Basic Materials	2.9	2.4	2.0	2.8	2.5	2.5	0.6	0.2	0.1
Rating Breakdown									
AAA	1.2	1.2	1.4	0.3	0.4	0.4	1.1	0.8	0.8
AA	8.1	9.0	7.4	9.8	10.5	10.2	9.1	9.3	8.6
A	44.7	45.8	45.9	41.7	41.9	41.7	37.5	38.0	37.5
BBB	46.0	43.9	45.3	48.2	47.2	47.8	52.3	52.0	53.1

Source: S&P Dow Jones Indices LLC, Sustainalytics. Data as of March 31, 2024. Distributions show index weights within the investment grade families. Table is provided for illustrative purposes.

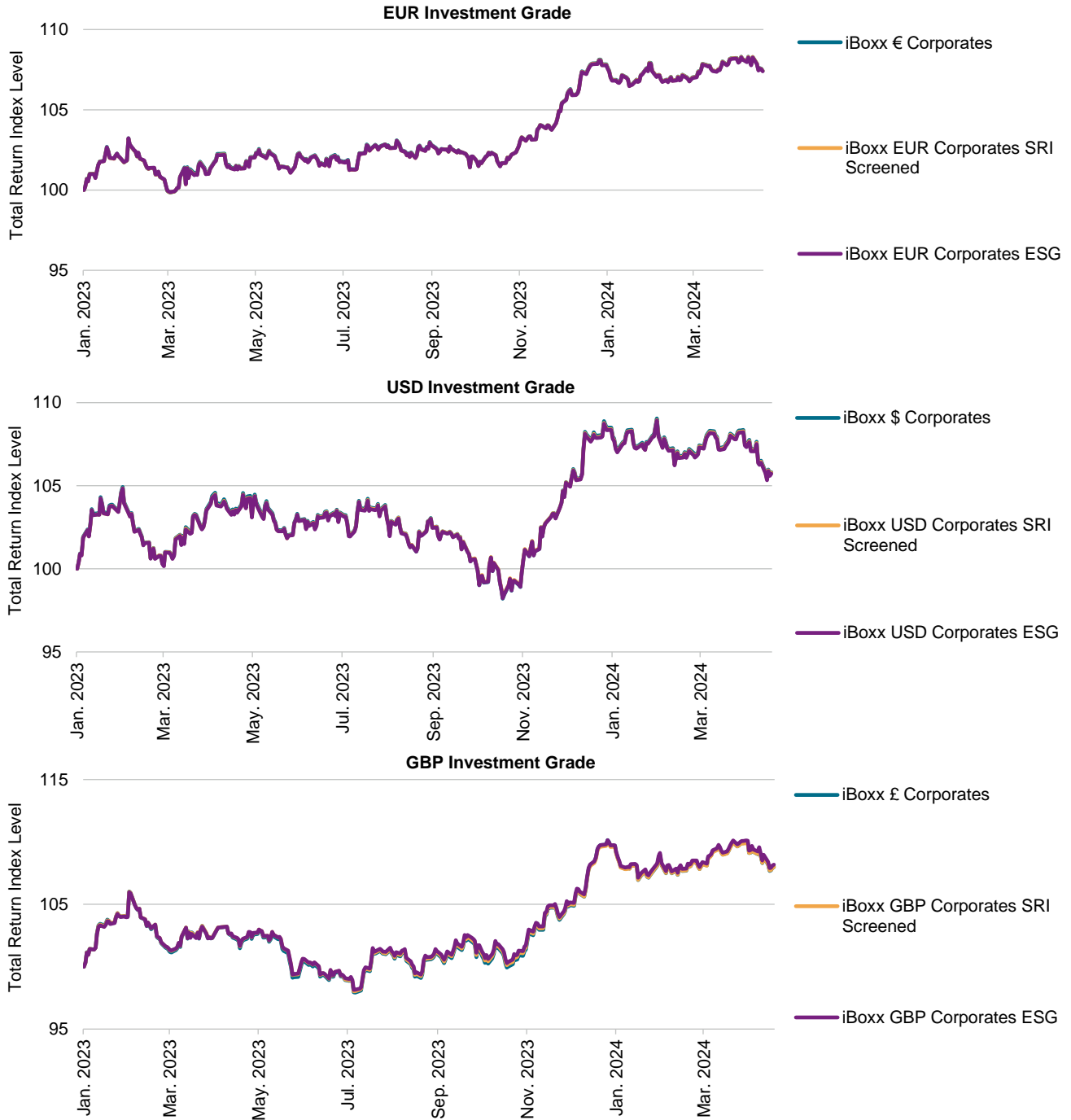
Exhibit 6: Sector and Rating Distribution of Index Weights of High Yield Index Series

Industry Breakdown	iBoxx USD High Yield Developed Markets (%)			iBoxx EUR High Yield Capped Cum-Crossover (%)		
	Benchmark	SRI Screened	ESG	Benchmark	SRI Screened	ESG
Core Financials	3.0	1.6	2.0	13.2	20.8	21.1
Consumer Goods	7.2	8.7	9.1	13.4	13.7	13.7
Energy	12.0	8.0	4.3	2.5	0.9	0.7
Telecommunications	4.5	4.3	4.8	14.9	17.5	17.5
Financial Services	4.8	5.2	5.5	2.7	2.3	1.9
Health Care	7.5	9.6	5.8	7.3	6.3	6.6
Technology	7.1	6.8	8.3	2.5	1.3	1.3
Utilities	3.4	2.4	1.1	6.6	5.3	5.5
Industrials	15.7	13.7	13.1	15.0	14.8	14.3
Consumer Services	26.0	28.8	34.3	12.6	8.1	8.4
Real Estate	3.4	5.0	6.4	4.3	4.9	5.1
Basic Materials	5.3	5.9	5.3	4.9	4.0	3.9
Rating Breakdown						
BB	51.2	60.2	63.8	64.7	78.2	79.1
B	36.7	31.9	28.2	31.1	19.1	18.3
CCC	11.5	7.1	7.6	4.1	2.6	2.4
CC	0.6	0.8	0.4	0.1	0.1	0.1

Source: S&P Dow Jones Indices LLC, Sustainalytics. Data as of March 31, 2024. Distributions show index weights within the investment grade families. Tables are provided for illustrative purposes.

Performance

Exhibit 7: Total Return Index Levels

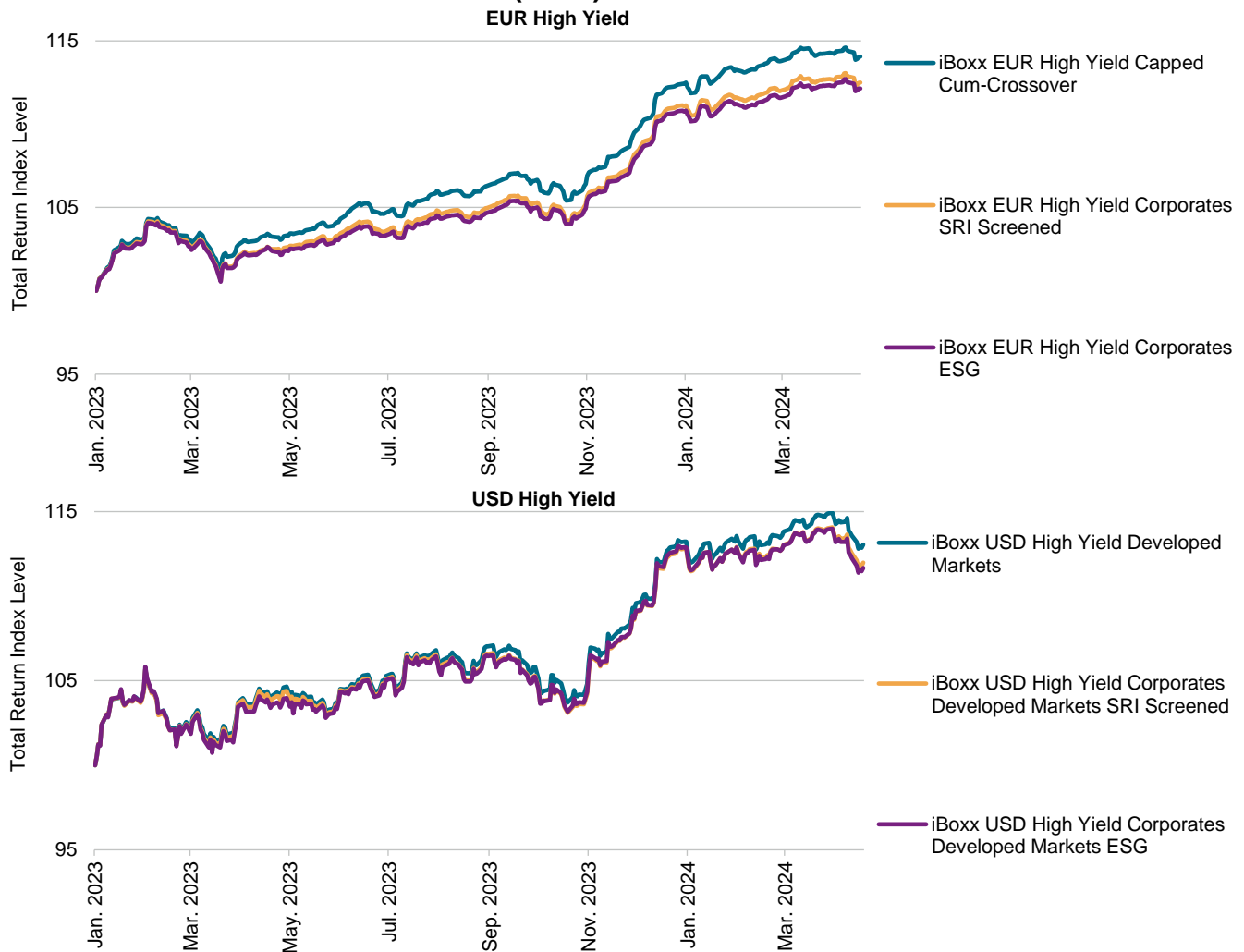


Source: S&P Dow Jones Indices LLC, Sustainalytics. Data as of March 31, 2024. The iBoxx EUR Corporates SRI Screened, iBoxx USD Corporates SRI Screened, iBoxx GBP Corporates SRI Screened, iBoxx EUR High Yield Corporates SRI Screened and iBoxx USD High Yield Corporates Developed Markets SRI Screened were launched Jan. 31, 2024. The iBoxx EUR Corporates ESG, iBoxx USD Corporates ESG, iBoxx GBP Corporates ESG, iBoxx EUR High Yield Corporates ESG and iBoxx USD High Yield Corporates Developed Markets ESG were launched March 22, 2024. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Charts are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Index Education

For use with institutions only, not for use with retail investors.

Exhibit 7: Total Return Index Levels (cont.)



Source: S&P Dow Jones Indices LLC, Sustainalytics. Data as of March 31, 2024. The iBoxx EUR Corporates SRI Screened, iBoxx USD Corporates SRI Screened, iBoxx GBP Corporates SRI Screened, iBoxx EUR High Yield Corporates SRI Screened and iBoxx USD High Yield Corporates Developed Markets SRI Screened were launched Jan. 31, 2024. The iBoxx EUR Corporates ESG, iBoxx USD Corporates ESG, iBoxx GBP Corporates ESG, iBoxx EUR High Yield Corporates ESG and iBoxx USD High Yield Corporates Developed Markets ESG were launched March 22, 2024. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Charts are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Key Analytics

Exhibit 8: Key Analytics of the Investment Grade Index Series

Index	Coupon (%)	Annual Yield (%)	Annual Modified Duration (Years)	Number of Bonds	Market Value (USD Billions)
iBoxx \$ Corporates	4.09	5.58	6.33	8,022	7,537
iBoxx USD Corporates SRI Screened	4.02	5.55	6.21	6,651	6,341
iBoxx USD Corporates ESG	4.03	5.56	6.16	5,889	5,601
iBoxx € Corporates	2.00	3.63	4.52	3,821	2,795
iBoxx EUR Corporates SRI Screened	2.00	3.63	4.47	3,510	2,565
iBoxx EUR Corporates ESG	2.00	3.63	4.45	3,384	2,464
iBoxx £ Corporates	4.13	5.37	5.72	126	9
iBoxx GBP Corporates SRI Screened	4.14	5.36	5.49	125	8
iBoxx GBP Corporates ESG	4.16	5.38	5.44	128	8

Source: S&P Dow Jones Indices, Sustainalytics. Data as of March 31, 2024. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Exhibit 9: Key Analytics of High Yield Index Series

Index	Coupon (%)	Annual Yield (%)	Annual Modified Duration (Years)	Number of Bonds	Market Value (USD Billions)
iBoxx USD High Yield Developed Markets	6.16	7.91	3.42	1,941	1,299
iBoxx USD High Yield Corporates Developed Markets SRI Screened	5.82	7.86	3.55	1,241	816
iBoxx USD High Yield Corporates Developed Markets ESG	5.72	7.83	3.60	956	636
iBoxx EUR High Yield Capped Cum-crossover	4.63	6.42	2.84	757	388
iBoxx EUR High Yield Corporates SRI Screened	4.01	6.07	2.98	449	232
iBoxx EUR High Yield Corporates ESG	4.01	6.06	2.92	432	223

Source: S&P Dow Jones Indices, Sustainalytics. Data as of March 31, 2024. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Conclusion

As the adoption of an indexed approach in fixed income continues to grow in tandem with the fast-paced evolution of the ESG landscape, S&P DJI's newly launched iBoxx Corporates SRI Screened and iBoxx Corporates ESG Indices offer a possible solution for a standardized ESG overlay for key corporate bond benchmarks.

The indices span a back-tested history of almost 10 years, with data starting on Jan. 31, 2016. Over this period, the definition of sustainability as well as the available data to measure the resulting sustainability profile for a systematic indexed approach have changed considerably.

As the regulatory landscape and needs of market practitioners continue to evolve, these types of indices and instruments may follow suit. This baseline index suite, coupled with iBoxx customization capabilities, offers an avenue to achieve the desired exposures swiftly and efficiently.

Performance Disclosure/Back-Tested Data

The iBoxx EUR Corporates SRI Screened, iBoxx USD Corporates SRI Screened, iBoxx GBP Corporates SRI Screened, iBoxx EUR High Yield Corporates SRI Screened and iBoxx USD High Yield Corporates Developed Markets SRI Screened were launched Jan. 31, 2024. The iBoxx EUR Corporates ESG, iBoxx USD Corporates ESG, iBoxx GBP Corporates ESG, iBoxx EUR High Yield Corporates ESG and iBoxx USD High Yield Corporates Developed Markets ESG were launched March 22, 2024. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at <http://www.spglobal.com/spdji>. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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