

Pensioenfonds Detailhandel and FTSE Russell

The following quote from Detailhandel's March 2019 press announcement provides the Fund's perspective

“Detailhandel wanted to minimize risk in its investments while pursuing the highest possible returns in a sustainable manner. We created this unique SDG aligned index as an important first step to help make the entire portfolio sustainable in a way that aligns with the ESG themes and SDGs its members find important. Moreover, the fund trustees involved the members by allowing the choice of a fourth SDG (12) via a survey (having already chosen three themselves).”

FTSE Custom Developed ex Korea SDG Aligned Index

The FTSE Custom Developed ex Korea SDG Aligned Index (“SDG Aligned index”) is a developed market equity benchmark launched in March 2019 that uses adjustments to constituent weights to create alignment with four of the 17 goals within the UN Sustainable Development Goals (SDGs) framework.

Objectives

The objective of the index design was to create a simple, transparent way to align a broad (developed) market portfolio with specific aspects of the SDGs. The approach adopted was based on a detailed mapping exercise of FTSE Russell's sustainable investment research and the SDG framework.

The SDG Aligned Index was developed in collaboration with a PRI signatory, and one of the Netherlands' largest pension funds, Pensioenfonds Detailhandel (“Detailhandel”), and now forms the basis of a €5.8bn mandate (as of March 29, 2019).

The index was developed to support the implementation of Detailhandel's sustainable investment (SI) policy, which identifies areas of overlap between its SI objectives and the SDGs. Specifically, Detailhandel identified the following SDGs as relevant to its SI policy:

1. **SDG 8** – Decent work and economic growth
2. **SDG 12** – Responsible consumption and production
3. **SDG 13** – Climate action
4. **SDG 16** – Peace, justice and strong institutions

For Detailhandel in particular, the index is an important first step in helping align their entire investment strategy with their environmental, social and governance (ESG) objectives and the SDGs, while also retaining the characteristics of a passively managed broad market equity portfolio.



The index

This index provides institutional investors with a tool to align a passive equity portfolio with aspects of the SDGs.

The chart below provides further information on the four SDGs:

	8 DECENT WORK AND ECONOMIC GROWTH	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Company operations	Supply Chain: Social Labor Standards	Pollution & Resources Supply Chain: Environmental Biodiversity	Climate Change Carbon Emissions	Human Rights & Community Anti-Corruption
Company products/ services			Green Revenues Fossil Fuel Reserves	

FTSE Russell's SI research assesses companies based on how they operate and what they produce, captured via our [ESG Scores](#) and [Green Revenues](#) data models, respectively. The methodologies underlying these data models can be mapped to the 17 SDGs and their underlying targets to identify areas of alignment between FTSE Russell's sustainable investment research and the SDG framework.

- To achieve alignment with the SDGs it is not sufficient to examine companies based only on their products/services or only their operations—a holistic assessment of both is required.
- Adjustments to constituent weights were achieved using “tilts” (over/underweights).
- Based on a combination of constituent-level ESG Theme scores as well as company exposure to the global green economy (using Green Revenues data).
- Climate-related aspects of the SDGs are further captured by incorporating company exposure to fossil fuel reserves and their operational carbon emissions.

In addition, the index:

- Supports capital market transparency and disclosure by providing a signal to companies regarding performance on a range of sustainability themes, and:
- Feeds into investor stewardship and corporate engagement activities due to the transparent, tilt-based index construction process and sustainable investment research methodologies.

Investors can use the SDGs as a lens for assessing company operations, products and conduct, and can use these assessments as the basis of adjustments to company weights in an index.

We believe that highlighting the relevance of the SDGs to investors—and in particular the different ways in which they can be incorporated into investment decision-making—will stimulate debate and further action on data gaps, what represents investor and company best practice, how to create and evolve investment strategies in support of the objectives of the SDGs, etc. The SDG Aligned Index is the starting point for what we hope will be an evolving approach to capturing the SDGs via benchmarks and indices.

This index will allow us to use our ESG/SDG framework to support other investors in capturing aspects of the SDGs into their benchmarks/indices.

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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.

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