

# ESG & Fixed Income

Municipal Analysts Group of NY

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# What is responsible investment?

Incorporates 'value' and 'values-based' investing

**Responsible investment** is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.



# The PRI

Investor-led, supported by the United Nations

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The six Principles were **developed by investors** and are supported by the UN. They have more than 1,900 signatories from over 50 countries representing over US\$70 trillion of assets.

## 2

**UN PARTNERS:**

UNEP FINANCE INITIATIVE  
UN GLOBAL COMPACT



## 1900+

**SIGNATORIES:**

ASSET OWNERS  
INVESTMENT MANAGERS  
SERVICE PROVIDERS



## 70+

**US\$ trn**

**ASSETS UNDER  
MANAGEMENT**



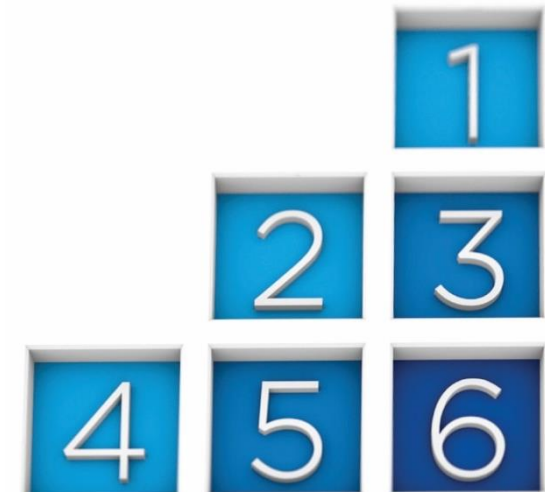
# One mission – Six principles

## The Mission

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

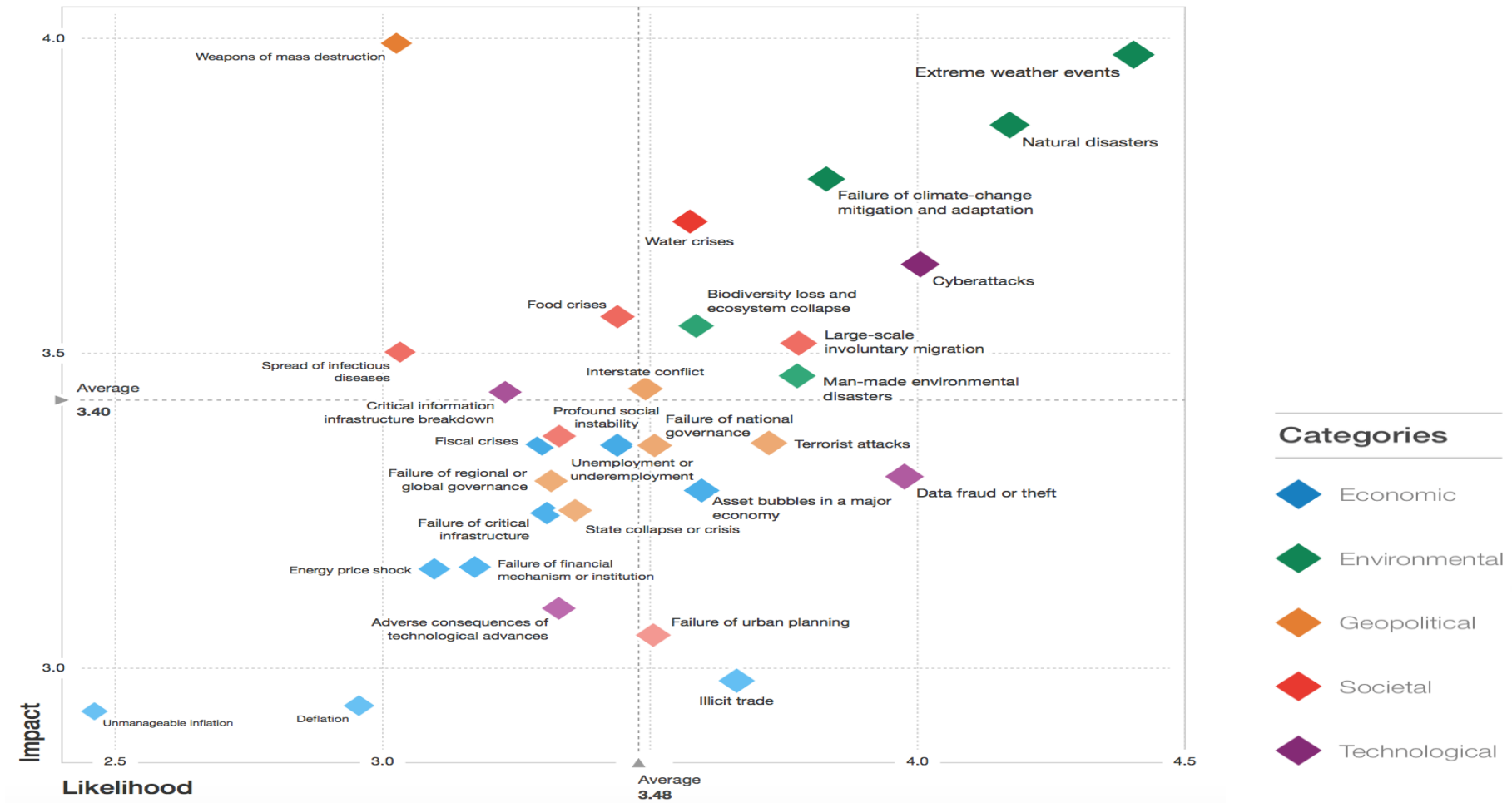
The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** We will each report on our activities and progress towards implementing the Principles.



# ESG issues impact investments

Non-economic factors rank higher than economic factors in WEF's 2018 Global Risk



# ESG – Correcting Misperceptions

## What ESG is

Analysing financial information **and** ESG information

Identifying material financial factors **and** ESG factors

Assessing the potential impact of material financial factors **and** ESG factors

Making an investment decision that includes considerations for all material factors, **including** ESG factors.

## What it is not

Every investment decision is impacted by ESG issues

Every ESG issue for every company/ issuer has to be assessed and valued

Certain sectors, countries and companies are prohibited

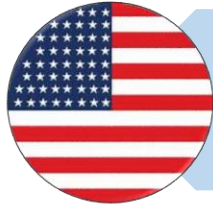
Portfolio returns are sacrificed to perform ESG integration techniques

Major changes to your investment process are necessary

Traditional financial factors are ignored

# Fulfil investor duty

## The changing regulatory environment



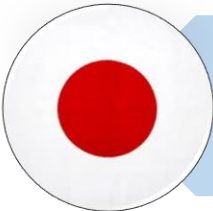
Department of Labor, 'Interpretive Bulletin/ESG Bulletin' (October 2015)

**“Environmental, social and governance factors may have a direct relationship to the economic and financial value of an investment, and when they do these factors are proper components of the fiduciary’s analysis”**



Law Commission, 'Fiduciary Duty of Investment Intermediaries' (June 2014)

**“Where you think environmental, social and governance (ESG) factors are financially significant you should take these into account. Likewise if you think certain ethical issues are financially significant. ”.**



Financial Services Authority (FSA), Stewardship Code (2014) & Governance Code (2015)

**Institutional investors should “enhance the medium-to long-term return on investments ... by improving and fostering investee companies’ corporate value and sustainable growth through constructive engagement, or purposeful dialogue”.**



European Council, Institutions for Occupational Retirement Provisions (IORP) Directive (June 2016)

**“Member States should ensure that IORPs disclose the relevance and materiality of ESG factors, and how they are taken into account in their risk management system”.**

# Bond investing & PRI

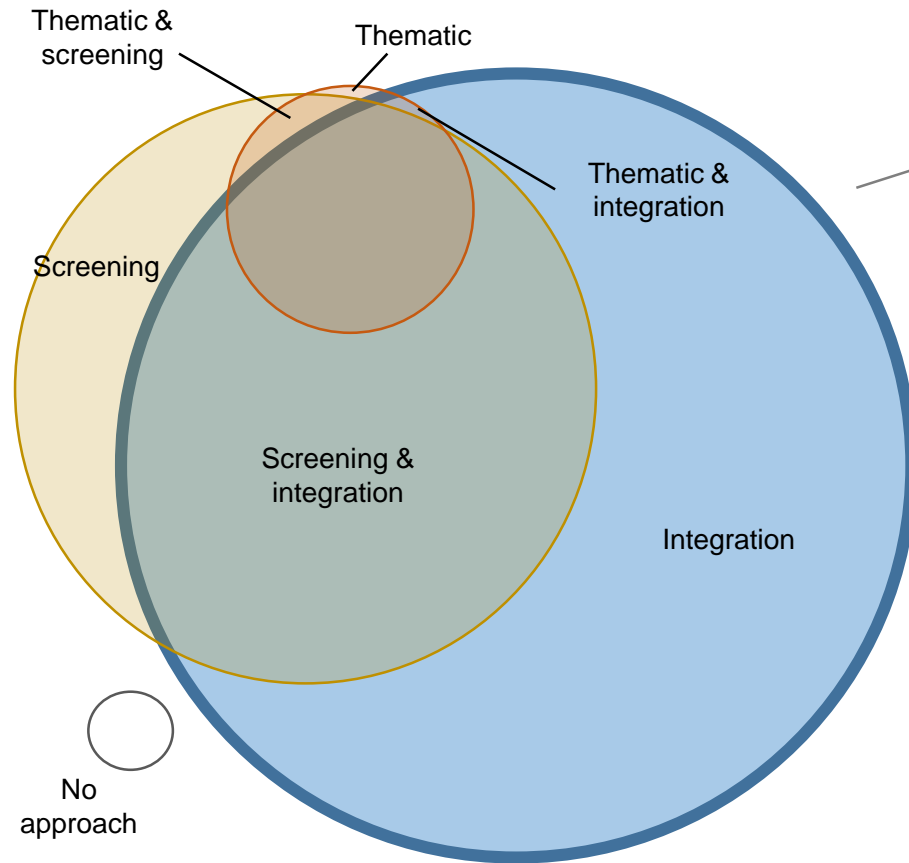
A closer look at PRI signatory fixed income investments

- 71 trn** USD managed by PRI signatories worldwide
- 29 trn** USD fixed income managed by PRI signatories
- 10** World's largest fixed income managers are PRI signatories
- 422** PRI signatories have fixed income allocation (<10%)
- 22 trn** USD subject to responsible investment strategies





# Investor trends in ESG incorporation

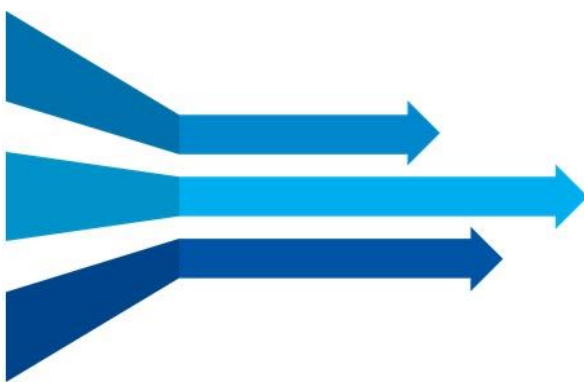


**Universe:** 422 fixed income investors actively managing own funds (US\$21.86 trn)

ESG strategy	Total USD trn	% of total
<b>Integration</b>	<b>12.96</b>	<b>59%</b>
Screening	5.87	27%
None	2.27	10%
Thematic	0.76	3%
<b>Total</b>	<b>21.86</b>	<b>100%</b>

See more at: **DATA PORTAL**

# Objectives of PRI's fixed income program

- 1
    - Incorporate ESG issues
  - 2
    - Be active owners
  - 3
    - Seek appropriate disclosure
  - 4
    - Promote acceptance and implementation
  - 5
    - Work together
  - 6
    - Report
- 
- Clarify the meaning of RI in fixed income
  - Support signatories in implementing RI
  - Outreach and thought leadership

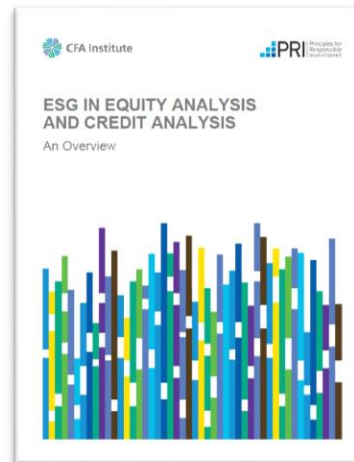
# Supporting signatories in implementing RI

## Current projects:

- Bondholder engagement
- ESG in credit ratings

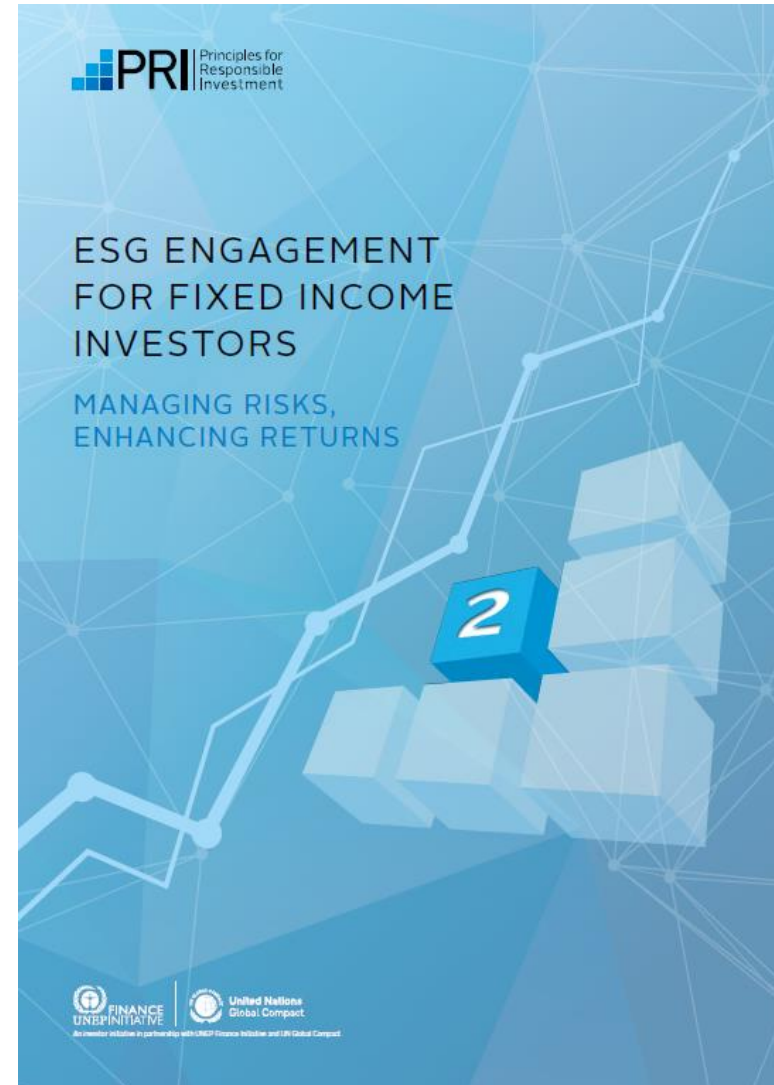
## What's next?

- Asset-class specific ESG integration guidance
- CFA Institute collaboration on global ESG investing study



# ESG Engagement for Fixed Income Investors: Managing Risks, Enhancing Returns

- “We will be active owners and incorporate ESG issues into our ownership policies and practices”
- Managing ESG risks via integrated research and engagement programs
- **Support**
  - overcoming common hurdles
  - misperceptions about bondholders’ rights
  - your position in the capital structure
  - influence over and access to companies
  - implications of the growth of passive investing



# Statement on ESG in Credit Ratings

“Enhance *systematic and transparent consideration of ESG factors in credit risk analysis*”

129

Institutional Investors  
(>US\$23trn AUM)

14

Credit Rating Agencies\*



Global Initiative

