

# ESG Incorporation & Investment Strategies in Fixed Income

Carmen Nuzzo, Head of Fixed Income

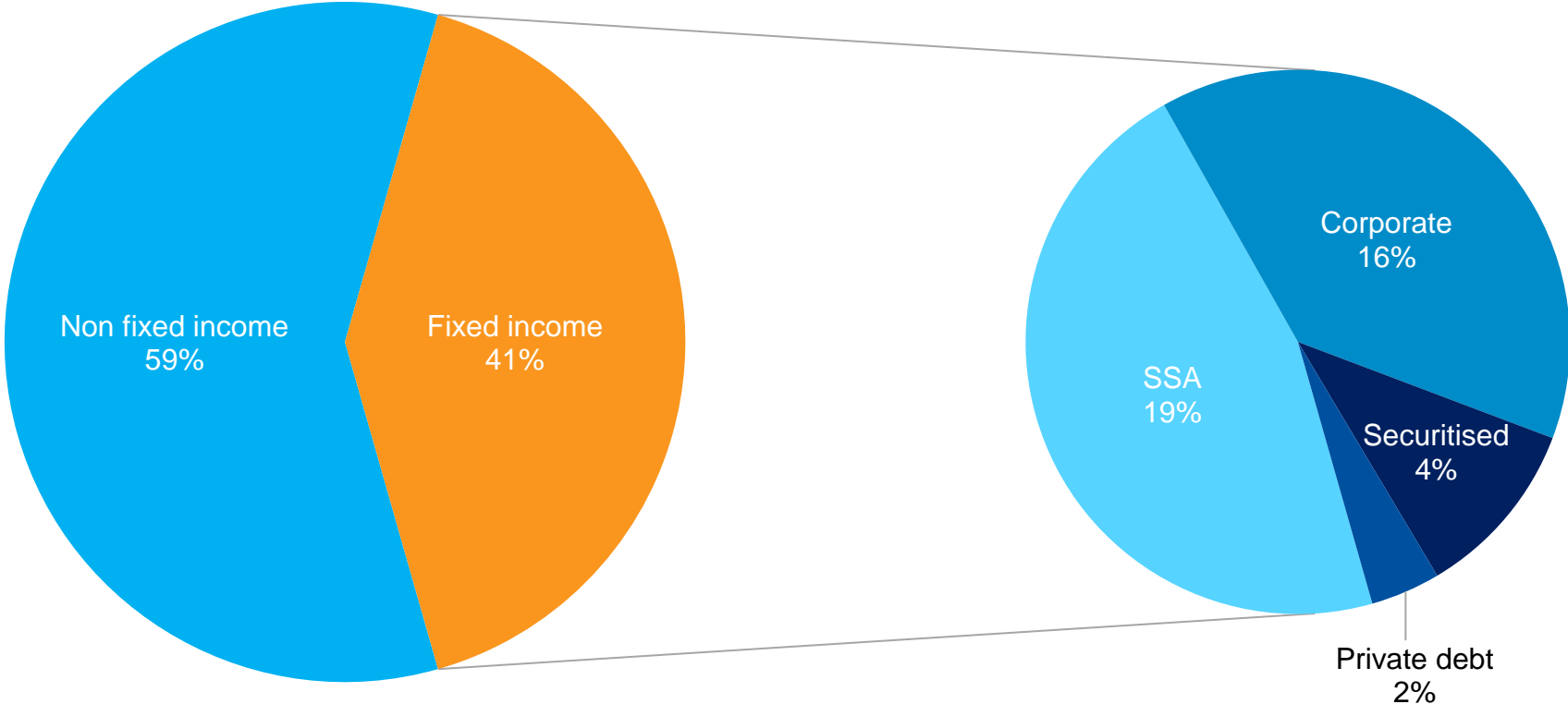
PRI



# Agenda

- Overview of the PRI's fixed income programme
- ESG consideration in credit risk
- Addressing misconceptions
- Q&A

# PRI signatories' assets under management (AUM)

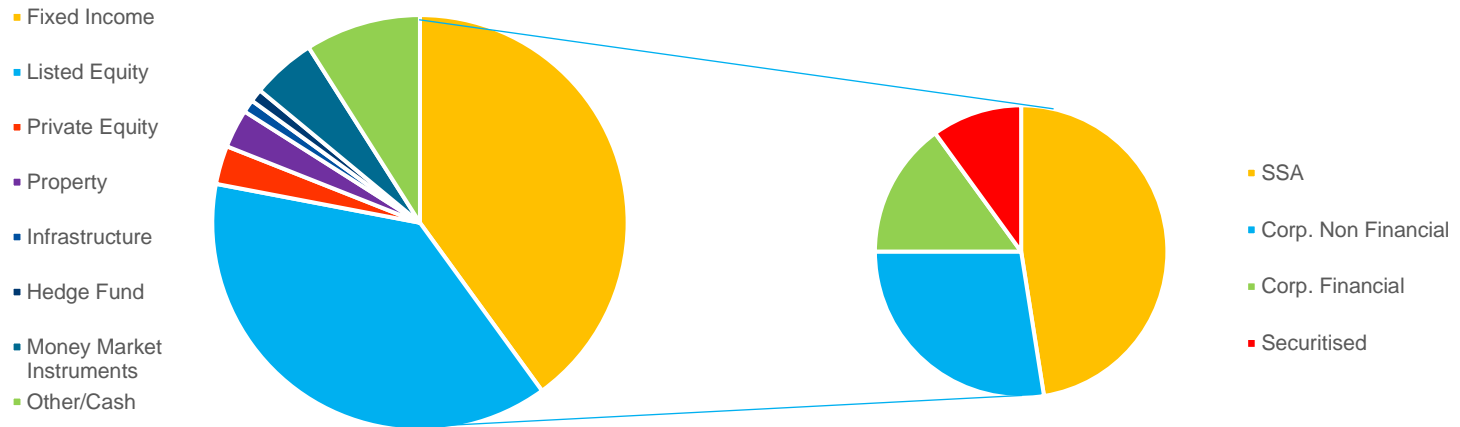


Source: PRI (2021)

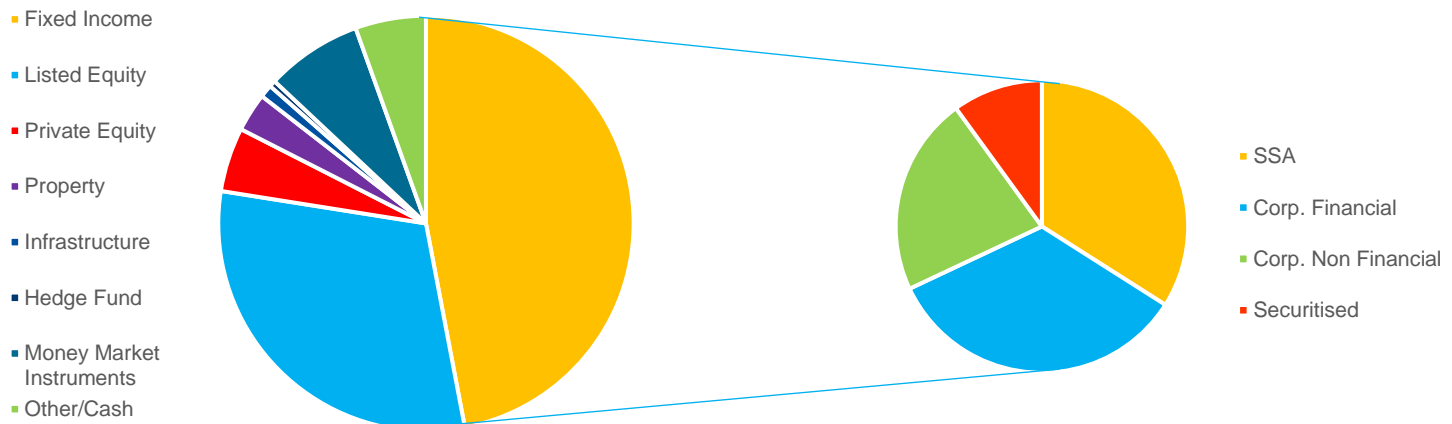
# Signatory Asset Class Distribution

Based on 2020 PRI Reporting Data

## Global

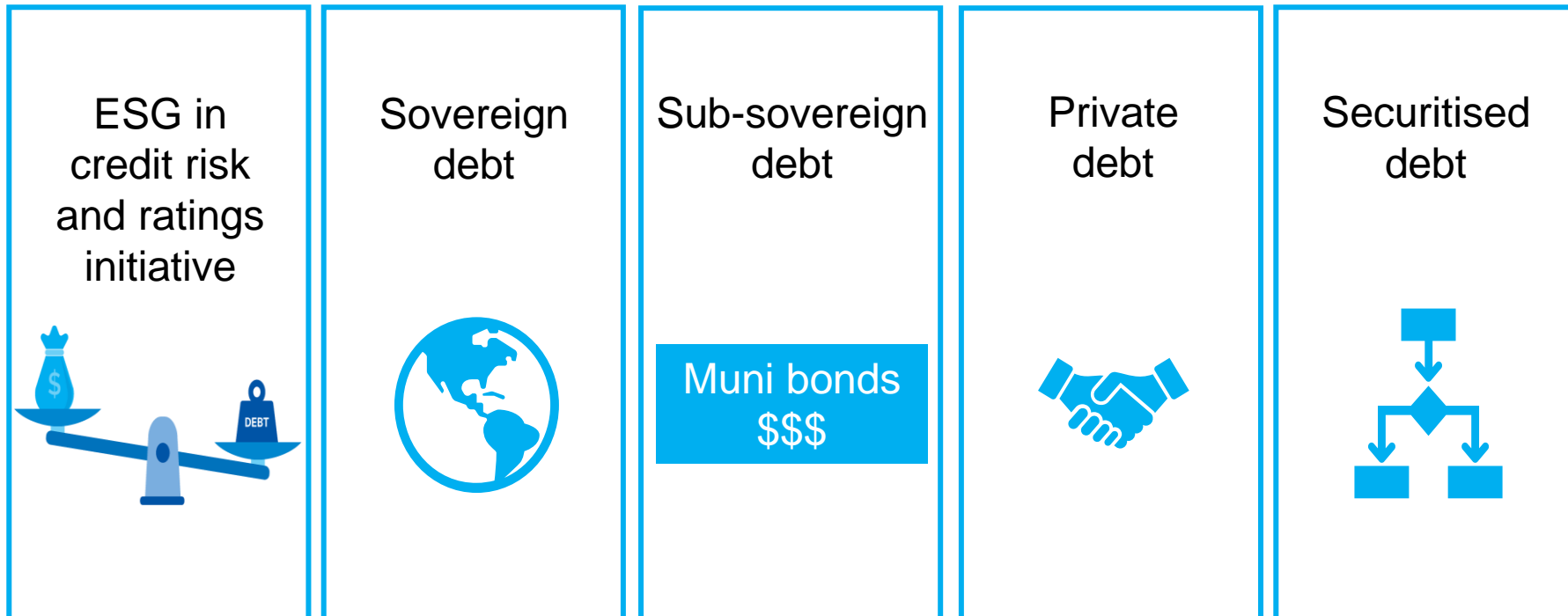


## Asia ex-Japan



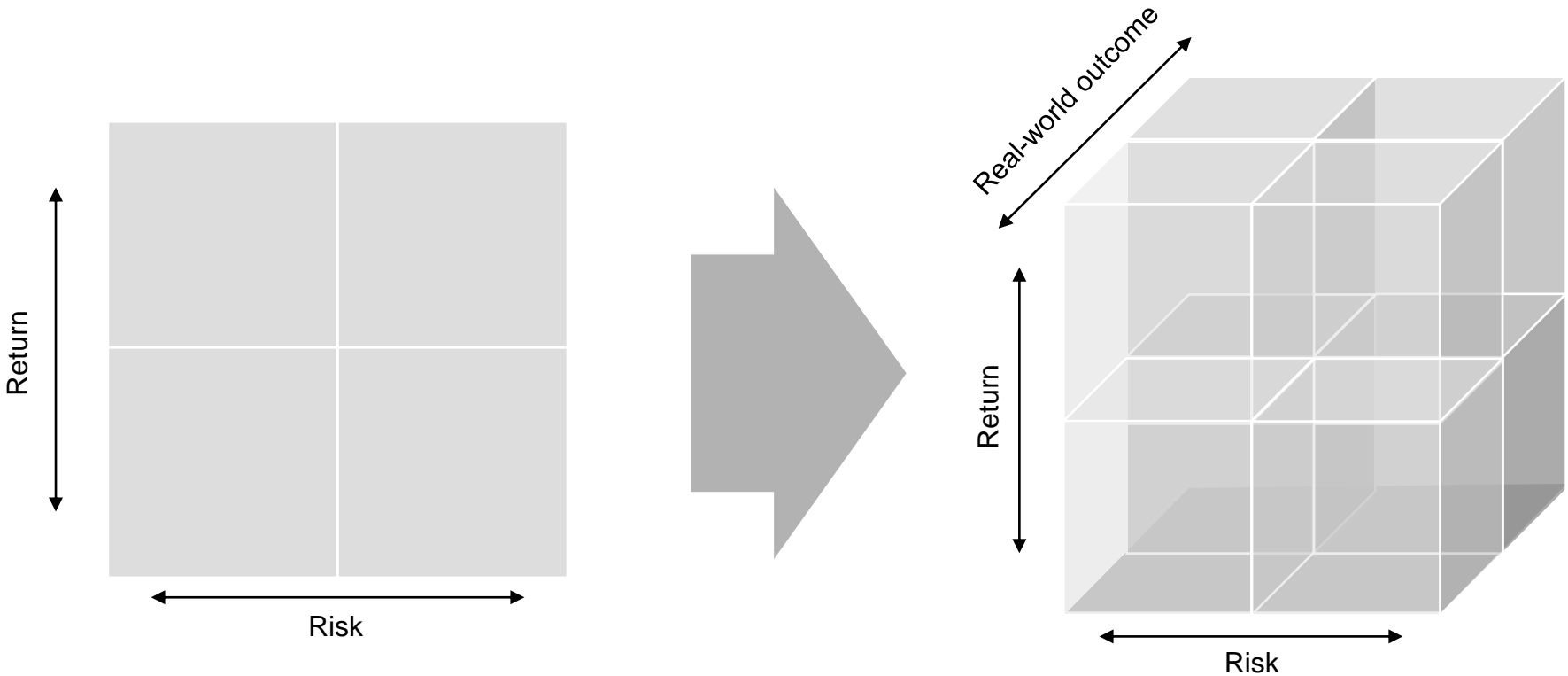
Source: PRI

# PRI's Fixed Income Workstreams



Source: PRI

# Different Responsible Investment Approaches: The 3 Rs



Source: PRI

# ESG Consideration in Bond Valuations

- Inflation
- Policy rate
- Credit risk
- Liquidity



Easier to conceptualise

Source: PRI

# ESG in Credit Risk and Ratings Initiative

# 182

**Institutional Investors**  
(>US\$40trn AUM)

# 28

**Credit Rating Agencies**  
(CRAs)



Source: PRI



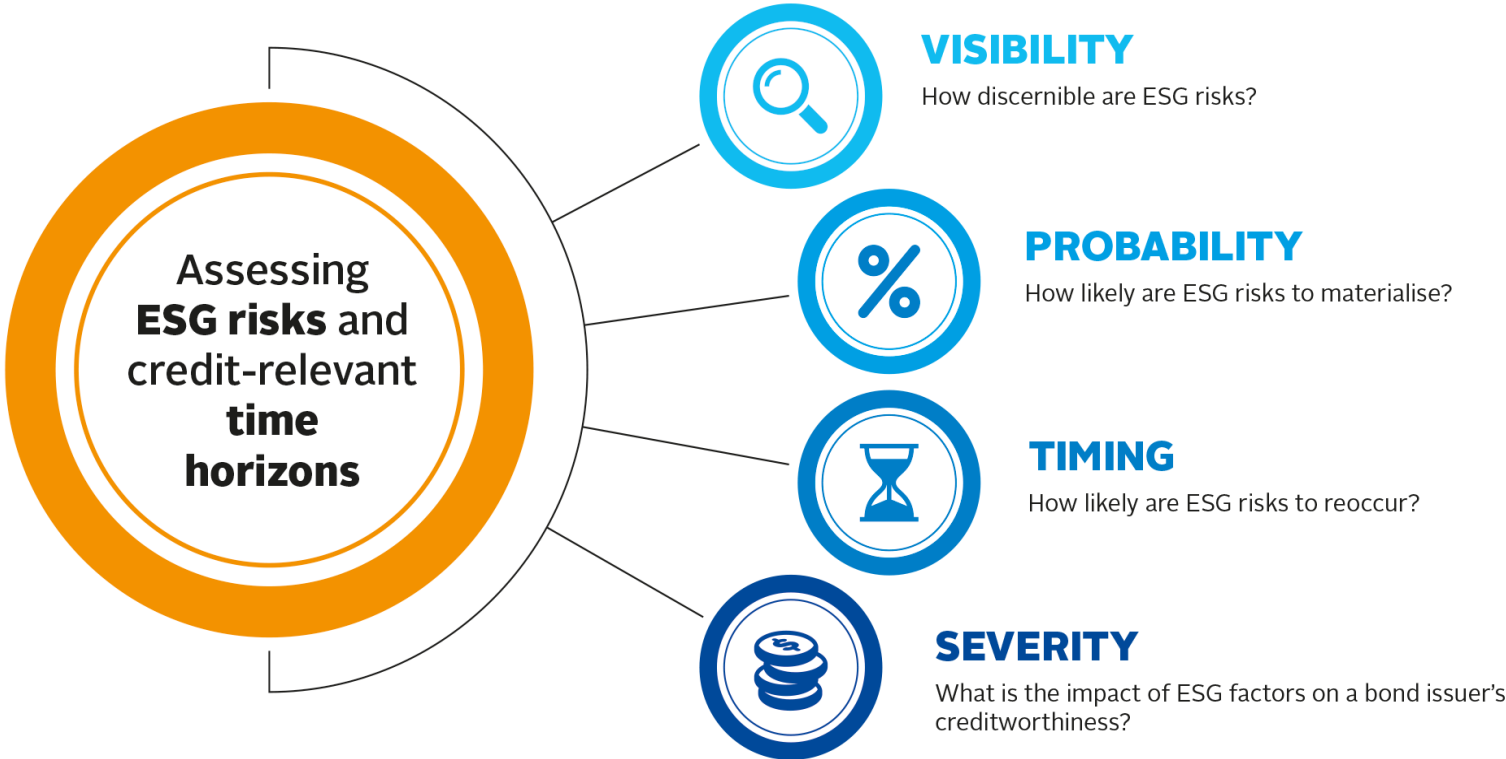
## Initial investor-CRA Disconnects



- **Materiality:** which ESG factors affect an issuer's risk of default
- **Visibility:** what is a credit-relevant time horizon
- **Approach:** the challenge of a 'built-in' approach and of building organisational capacity
- **Transparency:** need for better communication and consistent language



# Choosing Credit-relevant Time Horizons



Source: PRI

# Ongoing CRA Progress

## ANALYSIS



AAA/BB/D

## ORGANISATION



## TRANSPARENCY AND COMMUNICATION



| Research  | Examples of credit rating changes   | Organisational changes   | Analyst training   | ESG (non-credit rating) products                                   | Methodology clarification  | Dedicated web pages                     | Compilations   | Events  |
|---|---|--|--|--|--|---|--|---|
| Sector or thematic articles enhancing the appreciation of credit-relevant ESG factors | Instances where ESG factors have contributed to a change in rating opinion or outlook | Dedicated analysts/ working groups and clear senior leadership | Regular ESG educational programmes/ modules and seminars | ESG/ sustainability/ green bond or other thematic bond evaluations | ESG indicators are implicit in the methodology but have been clarified through notes | Web pages that facilitate dissemination | Research highlights on the credit implications of ESG trends and factors | ESG-specific conferences or sessions as part of mainstream events |

Source: PRI

## Tracking CRA Progress



Source: PRI

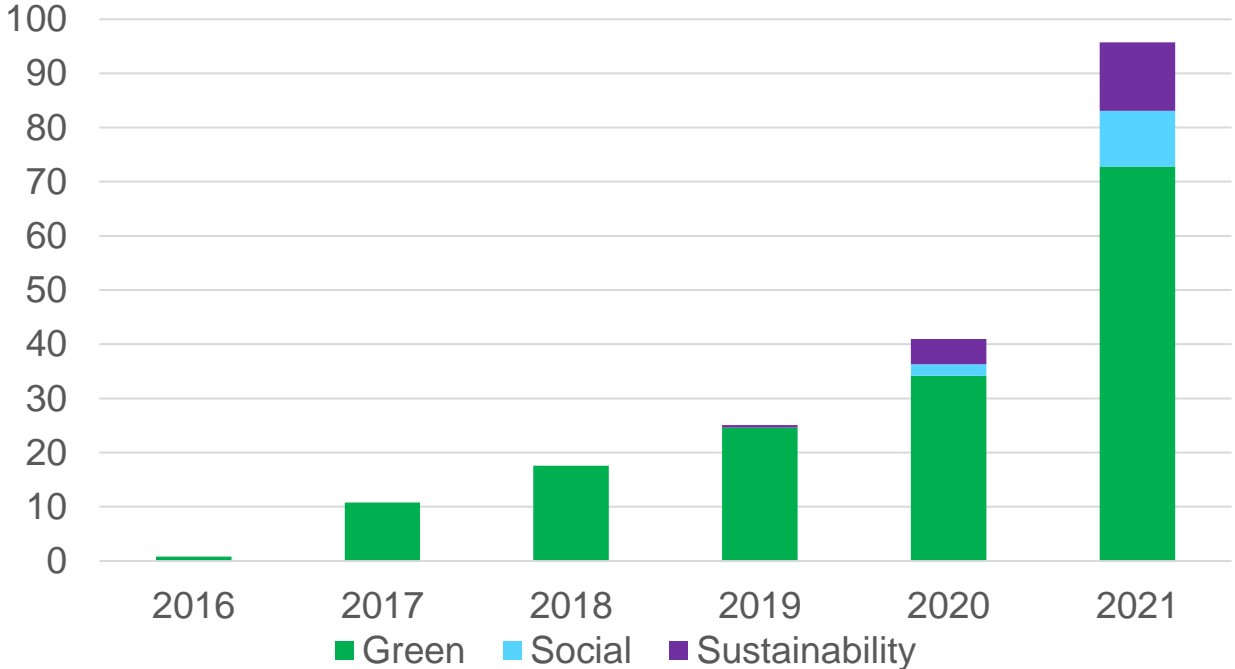
# Sovereign Debt: ESG Factors and Data



Source: PRI

# Labelled Sovereign Bonds

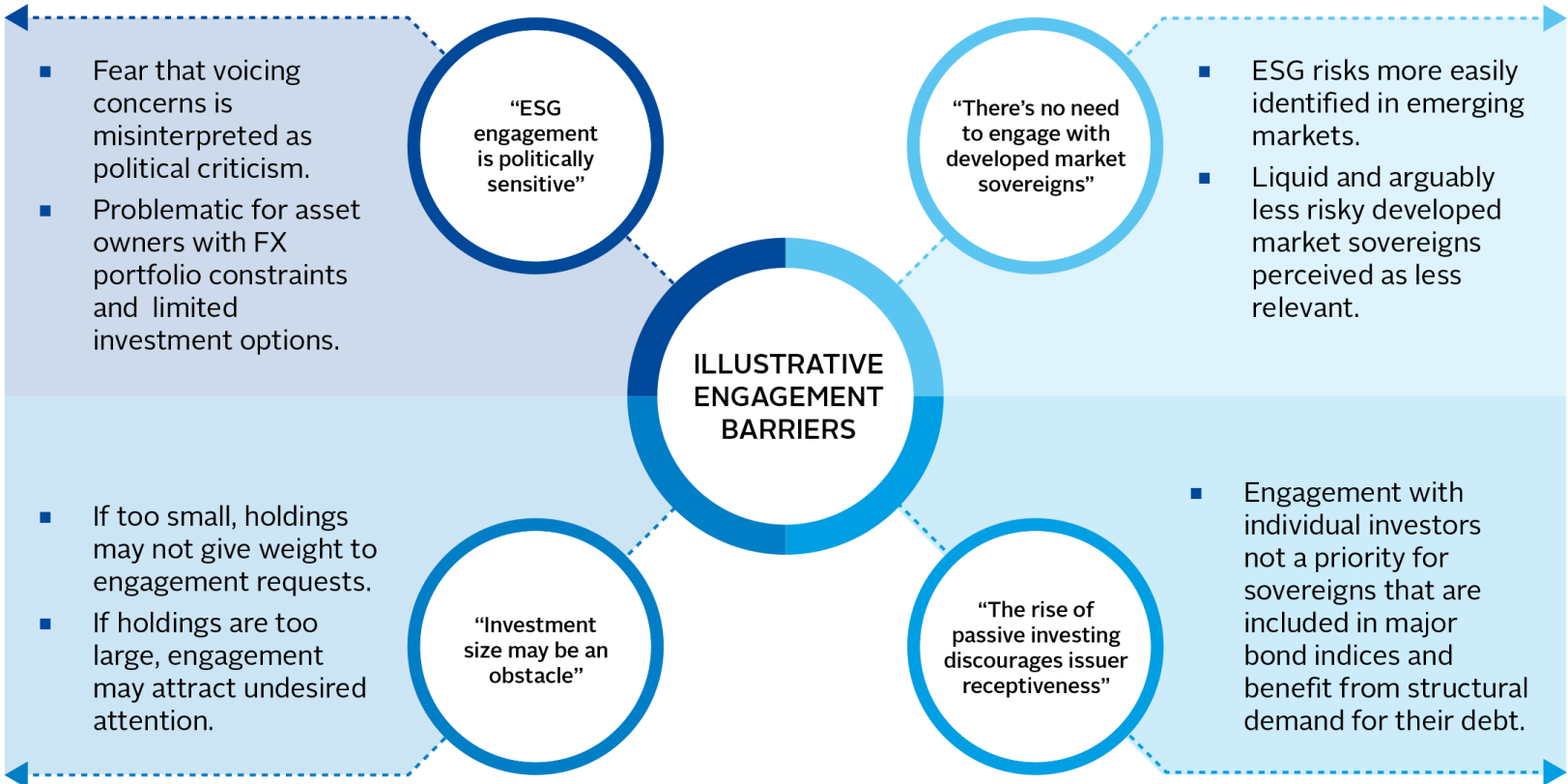
Sovereign green, social and sustainable bond issuance (US\$bn).



Source: Climate Bond Initiative

# Barriers to Engagement

There can be challenges to engaging with sovereigns, some of which can be overcome better than others





## Addressing Misconceptions

- Pricing ESG risks of FI instruments  $\neq$  investing in thematic bonds (e.g. green bonds)
- ESG in credit ratings  $\neq$  ESG ratings
- Bondholders cannot engage with issuers  $\neq$  shareholders

Source: PRI

## Key Takeaways

- ESG in fixed income is more complex but offers more options
- ESG consideration should be at the issuer and issue level
- Different engagement approach depending on the issuer

Source: PRI

# Bookmark

Generic page:

- [www.unpri.org/FI](http://www.unpri.org/FI)

Topic pages:

- [www.unpri.org/credit-ratings](http://www.unpri.org/credit-ratings)
- [www.unpri.org/sovereign-debt](http://www.unpri.org/sovereign-debt)
- [www.unpri.org/sub-sovereign-debt](http://www.unpri.org/sub-sovereign-debt)
- [www.unpri.org/securitised-debt](http://www.unpri.org/securitised-debt)
- [www.unpri.org/private-debt](http://www.unpri.org/private-debt)



Source: PRI

## Get in touch



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