ESG in fixed income: opportunities and challenges

Moderated by: Carmen Nuzzo, Head of Fixed Income, PRI
Today’s agenda

- ESG in fixed income: setting the scene
- Panel discussion: focus on APAC
- Q&A
Barriers to ESG integration in fixed income

- Asset class complexity
- Lack of voting rights
- Limited research

Source: PRI
Drivers to ESG integration in fixed income

- Risk management
- Client demand
- Opportunities
- Fiduciary duty
- Regulatory pressures

Source: PRI
Main risks for fixed income investors

- Inflation
- Policy rate
- Credit risk
- Liquidity

Source: PRI
# Approaches to ESG consideration in fixed income

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<th>Integration</th>
<th>Screening</th>
<th>Thematic</th>
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<td>Gives a more complete picture of the risks and opportunities faced by an issuer</td>
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<td>Is applicable to investors that have no interest in considerations outside of their risk-return profile</td>
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<td>Largely about managing downside risk</td>
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<td>Can fit within existing investment processes</td>
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<td>Restricts investment in certain industrial sectors, geographic regions or individual issuers, typically for ethical reasons</td>
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<td>Non-financially material ESG factors or ethical considerations are incorporated into investment decisions</td>
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<td>Directs capital towards issuers or securities that contribute to environmental or social outcomes</td>
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<td>Largely about identifying opportunities</td>
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This table gives a broad overview of some of the differences between the major types of ESG incorporation. It is not a detailed or exhaustive classification.

Source: PRI
Adding a new dimension to investment: the 3 Rs

Source: PRI
PRI fixed income current workstreams

Credit risk and ratings initiative

Sovereign debt

Sub-sovereign debt

Securitised products

Source: PRI
ESG integration in APAC region (2019)

- Australia
- China
- Hong Kong
- India
- Japan
- Singapore

Source: CFA Institute and PRI
ESG in fixed income: opportunities and challenges

Panellists

Katherine Han, Head of ESG Research, Harvest Fund Management

Doreen Saik, Senior Corporate Analyst, Emerging Markets Debt – Corporates, Neuberger Berman

Moderated by: Carmen Nuzzo, Head of Fixed Income, PRI
Areas to explore

- Drivers and barriers of ESG integration in fixed income in APAC
- Data availability and disclosure
- Issuer engagement
Key takeaways

▪ Broaden fixed income analysis *beyond* traditional indicators

▪ Develop a more *systematic* and rigorous approach to ESG integration

▪ Rethink your approach to *ESG engagement* as a bondholder
Thank you: stay up to date

- Review FI resources on www.unpri.org/fi
- Register for upcoming webinars and events at www.unpri.org/events
- Email FI@unpri.org
Investing with SDG outcomes

A five-part framework

Moderated by: Shelagh Whitley, Director of ESG & SDGs, PRI
Investing with SDG outcomes

Panellists

Claudia Kruse, Managing Director, Global Responsible Investment and Governance, APG Asset Management

Alex Rowe, Portfolio Manager, Nomura Asset Management

Moderated by: Shelagh Whitley, Director of ESG & SDGs, PRI
Expectations on investors are changing

Environmental and social issues threaten our economies, portfolios and the world we live in

The way investors are expected to respond to these issues has changed...

...due to visibility and urgency around many of the SDGs
Growing interest in SDGs by investors

Number of signatories (and percentage of reporters) mentioning SDGs in reporting to the PRI, 2016-2020
Shaping positive and negative outcomes

Investors must understand that all their actions shape outcomes in the world

To help meet the SDGs, investors must understand how they can...

... arising from their actions.
A five-part framework for investors

Understanding the real-world outcomes of investments, and shaping those outcomes in line with the SDGs
Next steps: supporting signatories moving forward

The PRI will provide further guidance for signatories to shape SDG outcomes.

This is only the beginning in bringing together thinking on ESG risks and opportunities with the potential to shape SDG outcomes.

The PRI will provide guidance across the framework:

- through case studies and working groups;
- on investment decisions, stewardship and wider engagement;
- on disclosure and reporting.

www.unpri.org/sdg-outcomes
Discussion: Identifying outcomes (Part 1) and Setting policies and targets (Part 2)

- Do you have a policy in place on sustainability outcomes (linked to SDGs, Climate, Human Rights, or other specific outcomes)?
  - If so, how did you gain internal support?

- Have you identified outcomes and/or set specific targets to decrease negative outcomes as well as increase the positive?
  - If so what are they?

- What tools and framework did you find useful?
Establishing Impact Goals Aligned with the UN SDGs

**Environmental Impact Goals**

- **Climate Change**
  - Mitigate Climate Change: Keep global warming to below 2°C

- **Natural Capital**
  - Mitigate Natural Capital Depletion

**Social Impact Goals**

- **Access to Healthcare**
  - Eliminate Communicable Disease
  - Mitigate the Obesity Epidemic

- **Social Responsibility**
  - Global Access to Basic Financial Services
  - Global Access to Clean Drinking Water

**Key Performance Indicators**

- Global Renewable Energy Output
- Material Consumption per Capita
- Deaths due to HIV, TB and Malaria
- Percentage of population who are Unbanked

- Atmospheric CO₂ Levels
- Global Annual Tree Cover Loss
- Obesity related Death Rate
- Percentage of Global Population with Access to Safe Drinking Water

**Alignment with the UN SDGs**

- **SDG 7.2** Increase the mix of renewable energy and energy efficiency
- **SDG 7.3** Double global energy efficiency
- **SDG 12.2** Achieve the sustainable management and efficient use of raw materials
- **SDG 3.3** By 2030, end epidemics of AIDS, Tuberculosis and Malaria
- **SDG 3.4** Reduce mortality from non-communicable diseases
- **SDG 1.4** By 2030, ensure all have equal rights to economic resources
Discussion: Shaping outcomes – including through collaboration (Parts 3, 4 and 5)

- What levers / actions are you using to achieve targets / objectives set out on sustainability outcomes – i.e. through stewardship, capital allocation, policy engagement?

- Are you collaborating with others to achieve the specific targets you have set on sustainability outcomes, or more broadly on tools that are relevant across the financial system?

- What types of actors are you collaborating with, other investors, other stakeholders including NGOs, international organisations etc.?