ESG strategies in fixed income

Both globally and in the Nordics, screening is the most popular ESG strategy for PRI signatories

ESG incorporation among fixed income investors – number of signatories

- Screening: Nordic 80%, Continental Europe & UK 88%, Thematic 72%, Integration 78%
- Thematic: Nordic 14%, Continental Europe & UK 35%, Thematic 25%, Integration 24%
- Integration: Nordic 48%, Continental Europe & UK 69%, Thematic 77%, Global 82%
ESG strategies in fixed income

However, globally, ESG integration covers the largest share of signatory FI assets

ESG incorporation among fixed income investors - % of actively managed assets

- Screening: 91% Nordic, 69% Continental Europe & UK, 56% Australasia, 39% North America, 12% Global
- Thematic: 51% Nordic, 51% Continental Europe & UK, 16% Australasia, 2% North America, 9% Global
- Integration: 73% Nordic, 89% Continental Europe & UK, 88% Australasia, 27% North America, 76% Global
ESG Integration approaches in FI

ESG integrated in fundamental analysis, internal credit ratings or research

Approaches to ESG Integration – global data
Fixed income at the PRI

PRI resources
- Fixed Income investor guide
- Spotlight on ESG in corporate bonds
- Spotlight on ESG in sovereign bonds

On-going projects
- Bondholder Engagement
- ESG in Credit Ratings

How can you get involved?
- Provide case studies
- Speak in or attend webinars and events
- Project Working Groups & PRI Advisory Committees
- Sign Statement on ESG in Credit Ratings and engage ratings agencies
Bondholder engagement

Emerging practice? PRI signatories report engagement either as bondholders or jointly as a bondholder and shareholder

Fixed income investors that engage in a share of their assets
ESG in credit ratings

Increasing credit rating agency focus on environmental issues

- Many credit ratings methodologies incorporate certain ESG factors, but may not be a predominant factor in the rating outcome

Moody’s
- Cross-sector heat map considers sector exposure to environmental risks
- 86 sectors assessed - 11 sectors with elevated credit exposure – all carbon related
- Carbon regulations and air pollution are the most frequently identified environmental risks

S&P Global
- Research: how environmental and climate risk is already affecting corporate ratings
- 60 ratings actions over 2 years directly correlated with E&C risk
- Low number but increasing
Statement on ESG in Credit Ratings

PRI is working with credit rating agencies and investors to encourage more systematic and transparent consideration of ESG in issuer creditworthiness

Broad involvement of CRAs and investors:

- **6 credit ratings agencies** – S&P, Moody’s, Dagong, RAM, Scope, Liberum
- **111 fixed income investors** – US$17.5 trillion AuM

Two-year PRI project:

- **Develop understanding** of links between ESG issues and issuer creditworthiness
- **Relation between ratings horizons and ESG materiality**
- **Improve transparency** on ESG related risks