

# ESG IN CREDIT SERIES: ESG INTEGRATION IN FIXED INCOME IN PRACTICE

Presenters:

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17 November 2020

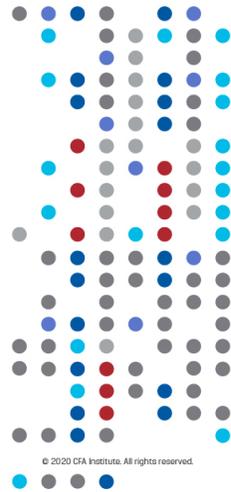


# DON'T MISS OUT

## CFA Institute x Fitch Ratings ESG in Credit Webinar Series – Part 1



ESG in Credit Webinar Series -  
**ESG in Fixed Income**



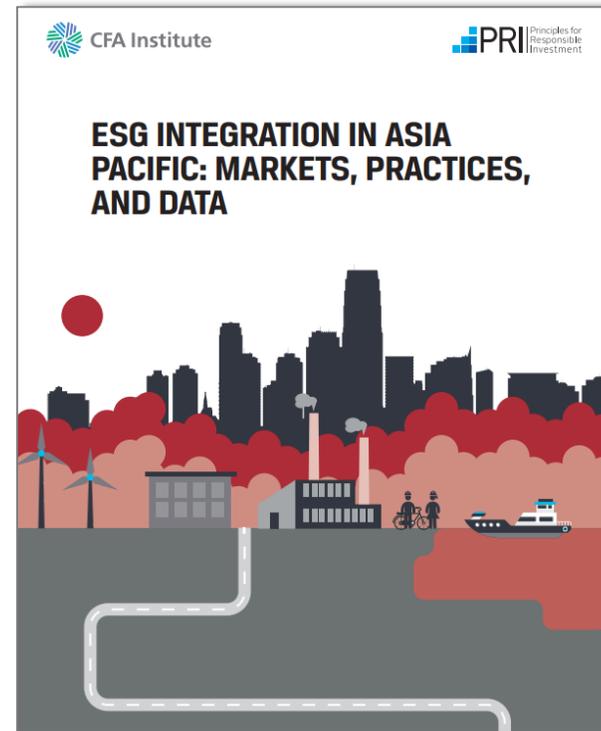
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<https://cfainst.is/2PHu6sq>



## CFA Institute x PRI Report ESG Integration in Asia Pacific



DOWNLOAD THE REPORT



<https://cfainst.is/2UxBGYW>

## **Carmen Nuzzo**

Head of Fixed Income,

Principles for Responsible Investment (PRI)



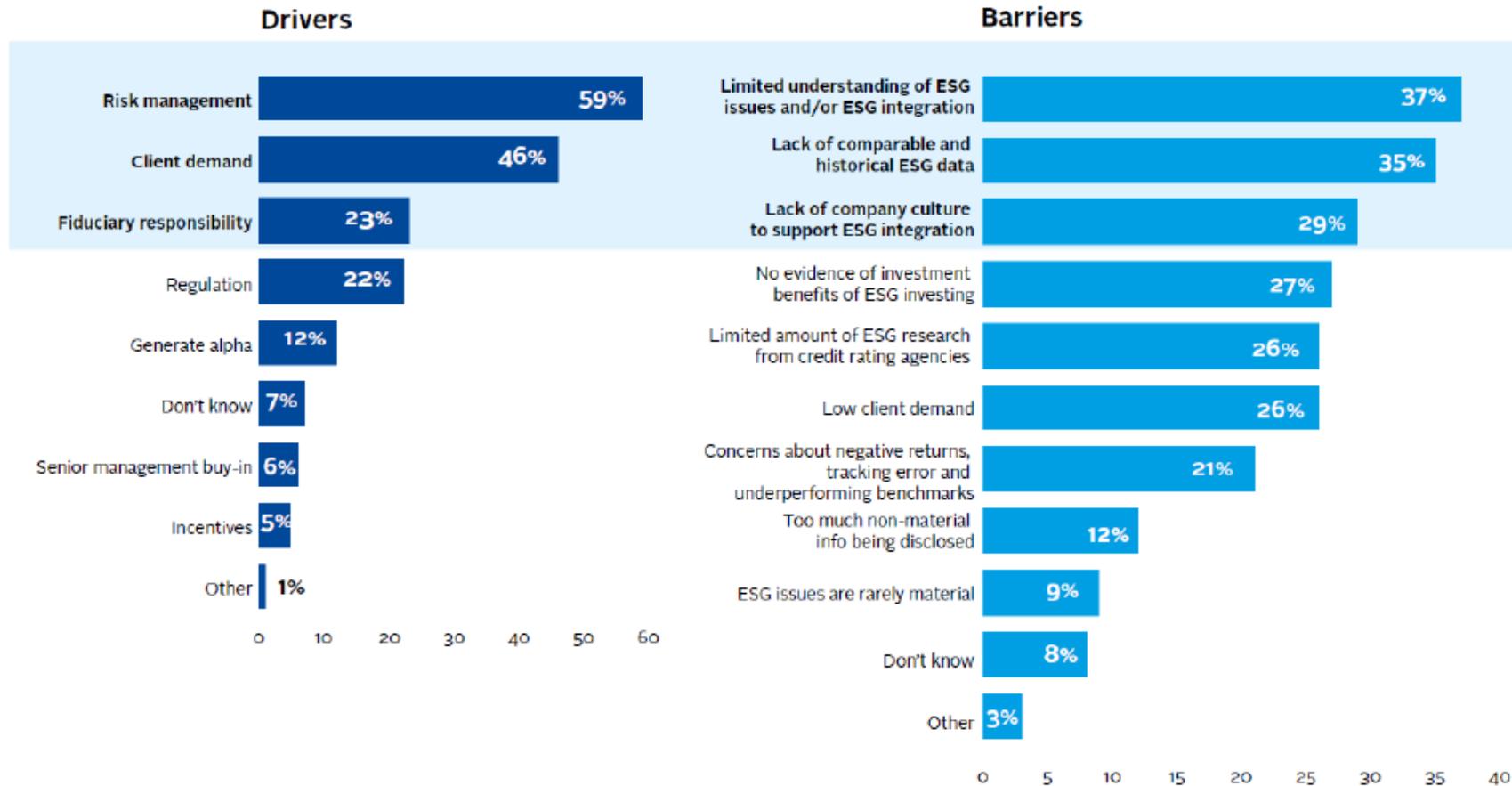
# ESG in Credit Risk and Ratings Initiative

**Carmen Nuzzo, Head of Fixed Income, PRI**  
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Presentation for the CFA Institute ESG in Credit Webinar Series, 17<sup>th</sup> November 2020

From October 2019, the ESG in Credit Risk and Ratings initiative is funded by the Gordon and Betty Moore Foundation through the Finance Hub, which was created to advance sustainable finance.

# ESG integration in fixed income: drivers and barriers



Source: CFA Institute and PRI (2018). Guidance and case studies for ESG integration – equities and fixed income

# Main risks for fixed income investors

- Inflation
- Policy rate
- Credit risk
- Liquidity

Source: PRI

# The ESG in credit risk and ratings statement

165

Institutional Investors  
(~US\$30trn AUM)

23

Credit Rating Agencies (CRAs)



Source: PRI



# Why involving credit rating agencies?

AAA

BB+

D

- Further the understanding of financially material ESG factors
- Investor-CRA dialogue
- Addressing disconnects and misconceptions

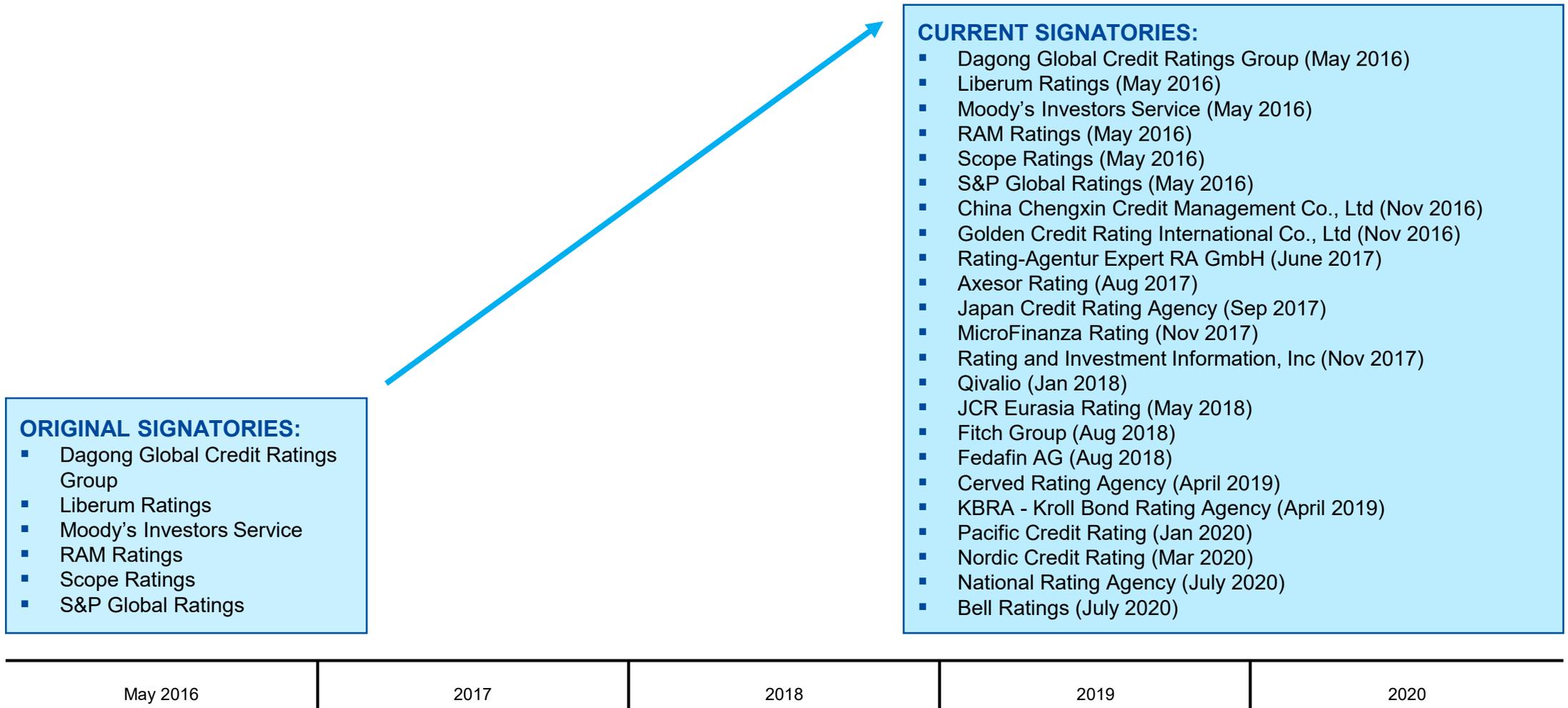
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AA-

CCC

Source: PRI

# The CRAs supporting the statement



Source: PRI

# The initiative's milestones (phase 1)

22

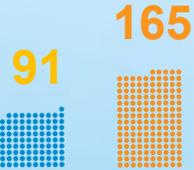
Regional ESG in credit risk and ratings forums  
(Sep 2017 to Dec 2019)

530+

Forum active (participants globally)

Consider the financial materiality of ESG factors to credit risk transparently and systematically

Number of supporting investors



Supporting investors' AUM

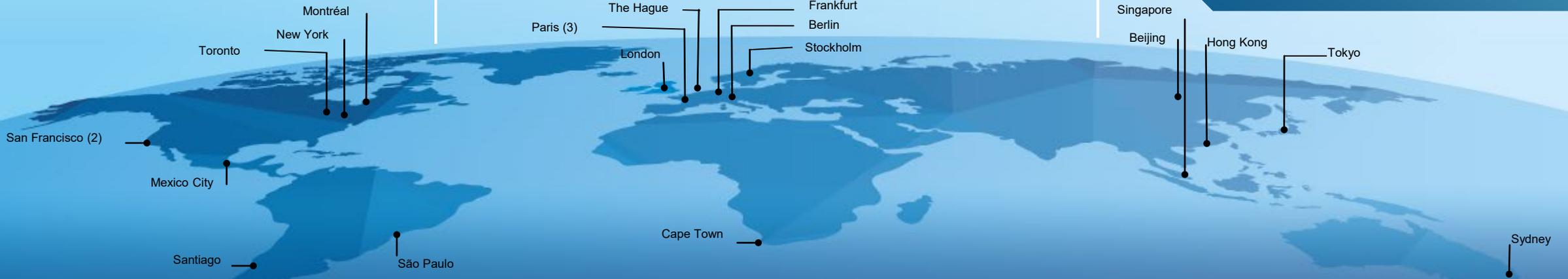


Number of supporting CRAs



4 reports

- Action areas for future progress
- Evidence from CRAs
- 23 investor case studies
- Takeaways from the EM forums



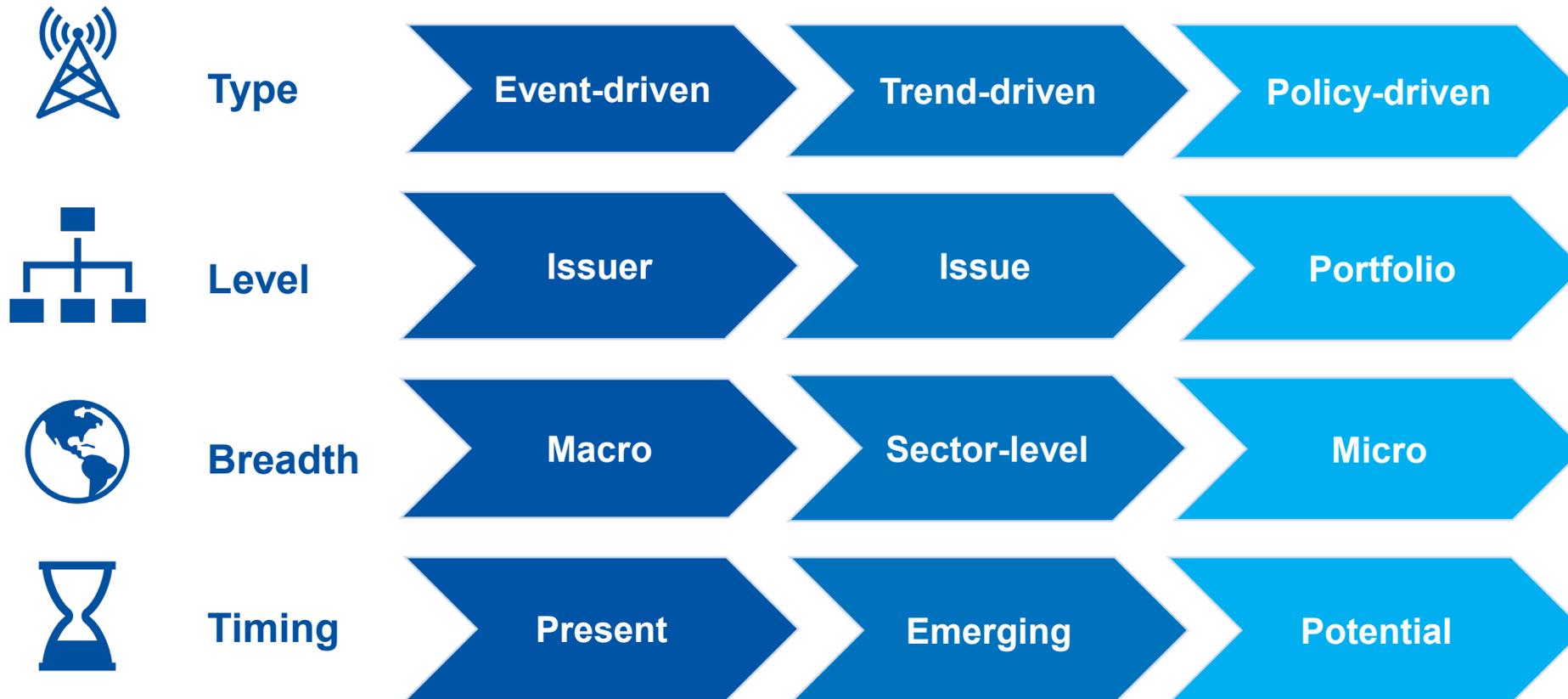
# Initial investor-CRA disconnect



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

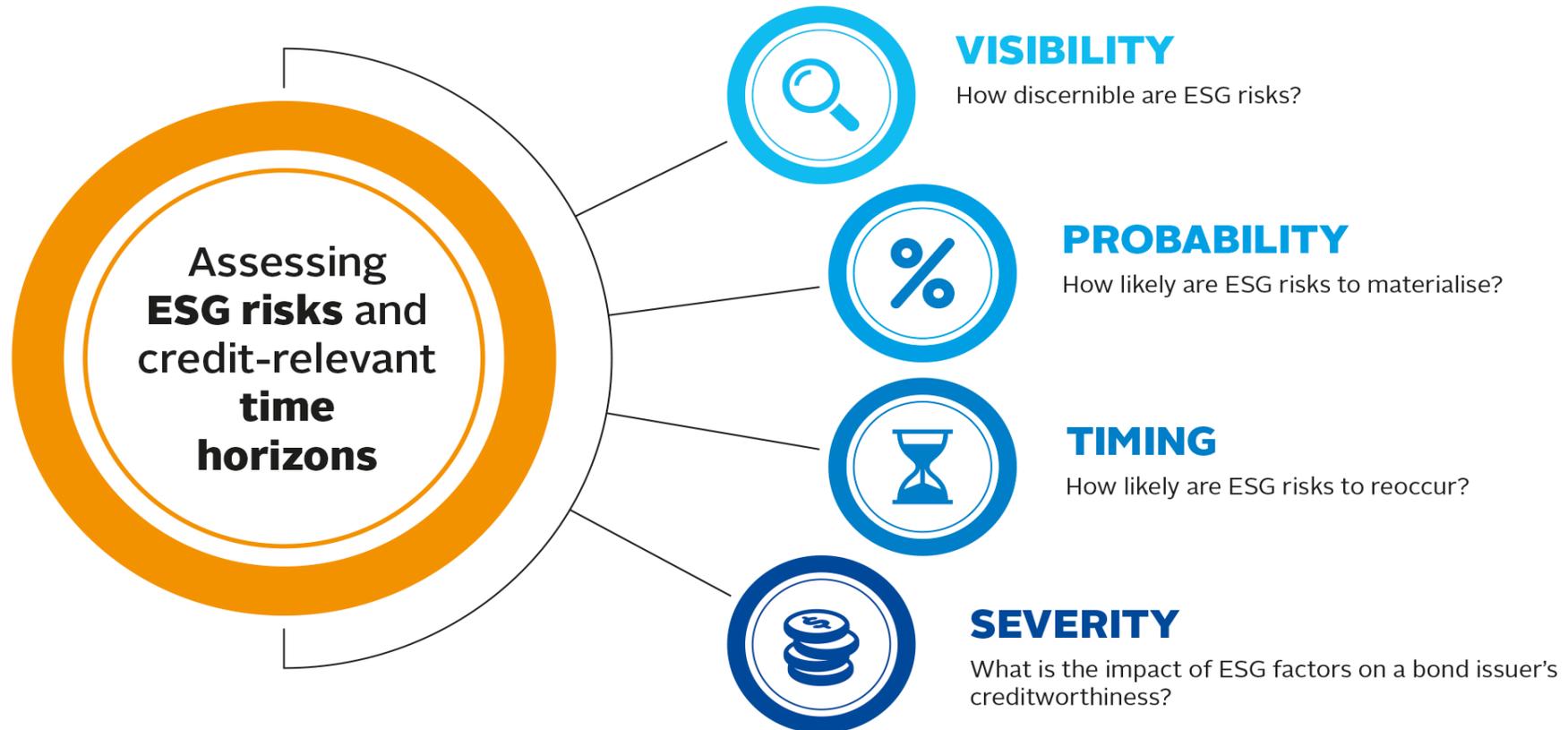
Source: PRI

# Categorising material ESG factors



Source: PRI

# Choosing credit-relevant time horizons



Source: PRI

# CRA quarterly updates

Bookmark: [www.unpri.org/credit-ratings](http://www.unpri.org/credit-ratings)



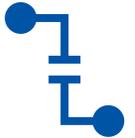
Source: PRI

# Broadening stakeholder engagement (phase 2)

Workshops bringing **credit analysts** and **debt issuers** together



Communication



Materiality



Data challenges



Sector specific issuer

Source: PRI

# It is not too late to sign the initiative

## Bookmark:

[www.unpri.org/fi](http://www.unpri.org/fi)

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

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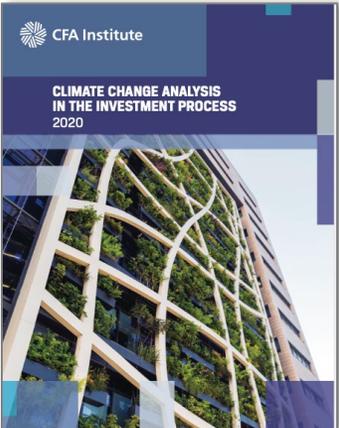
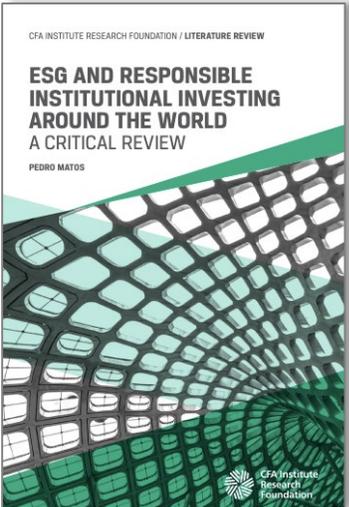
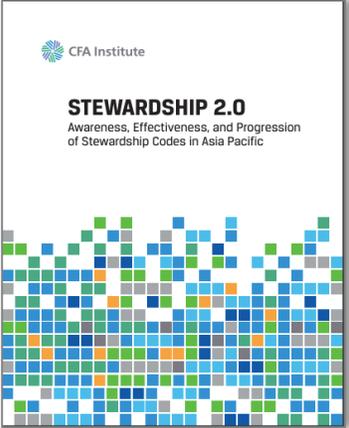
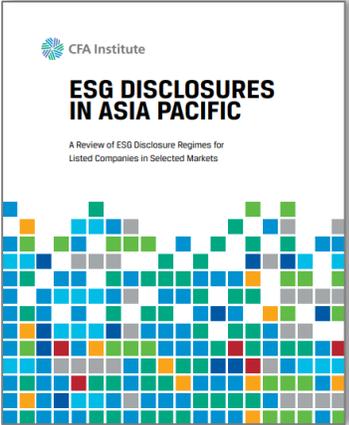


Source: PRI

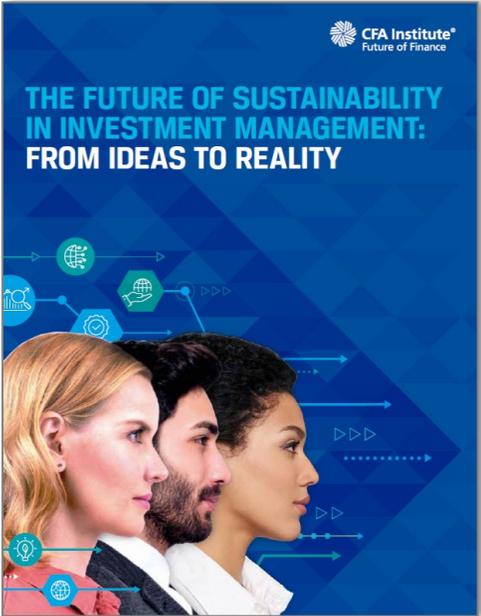
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# RECENT AND UPCOMING ESG RESEARCH

## RECENT



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**THANK YOU**

