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WEBINAR

Maximizing Engagement Impact in Fixed Income

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Webinar

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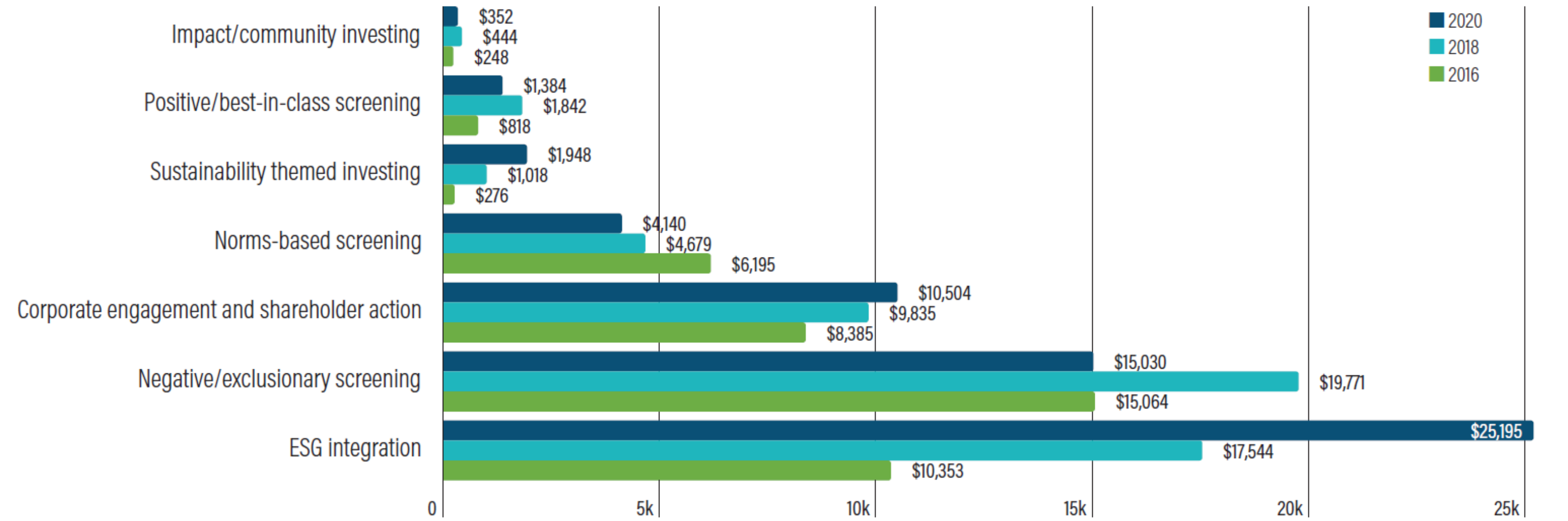
Growth of Engagement

Corporate engagement continues to grow as a sustainable investment strategy across all markets

Main drivers:

- National and regional regulation
- Fund label requirements
- Beneficiaries/stakeholders

FIGURE 7 **Global growth of sustainable investing strategies 2016-2020**



Source: GSRI 2020 report

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Engagement in Fixed Income

ESG KPIs can have a significantly material impact on issuers' creditworthiness and are relevant to a company's economic health and profitability because they influence **earnings, risk, and creditworthiness**. Cost of capital and equity prices are also affected.

Poor management of ESG factors can contribute to **defaults, price volatility, credit rating downgrades, and widening credit default swap (CDS) spreads**. The materiality of ESG factors is dependent on sector, region, timescale, and leverage. ESG factors can give investors greater insight into credit risks.

It is important for fixed-income investors to **focus engagement on ESG downside risks** rather than on ESG opportunities.

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Engagement in Fixed Income: Value creation

Value created	For investors	For corporates
Exchanging information	■ Clarify corporate performance on credit-relevant ESG issues ■ Evaluate corporate ESG strategy ■ Emphasize stakeholders' partnership role	■ Understand growing investor ESG appetite, peer best practice ■ Appreciate how ESG integration in bond valuations may affect demand, borrowing costs ■ Address investor misconceptions
Improving transparency	■ Encourage better ESG-relevant data disclosure ■ Enhance risk assessment ■ Contribute to more efficient, accessible capital markets	■ Demonstrate good governance through openness to dialogue, potentially improving investability ■ Develop regular information process to underpin bond issuances
Creating opportunities	■ Build long-term issuer relationships ■ Meet client ESG demand, expectations	■ Strengthen long-term investor loyalty ■ Preserve/secure long-term capital flows, market access ■ Optimize funding costs

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Potential Engagement Barriers

Prioritising engagement activities: Investors are advised to prioritise engagement activity based on size and duration of holdings, credit quality, degree of transparency, materiality of ESG risks and opportunities, and priority themes and issues, among other things.

Timing engagement: Timing the engagement is a strategic decision because the bondholder's influence with issuers varies throughout the issuance lifecycle, and depends upon legal and regulatory rights and obligations.

Voting: Investors are not able to leverage their proxy vote in the engagement process and may feel unheard by corporates.

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Sovereign Engagement

Engagement Targets

Sovereign engagement with multiple stakeholders

- **Issuers**: Country's debt management office / Treasury / Ministry of Finance / Central Bank
- **Non-issuer stakeholders**: Credit rating agencies, NGOs, supranational organizations (e.g. World Bank)
- Consider collaborating with or leveraging wider investor initiatives such as The Investor Agenda - a collaborative initiative that seeks to accelerate the transition to a net-zero emissions economy by 2050 or sooner. This includes elevating the profile of existing investor actions and initiatives on climate change, and amplifying investor voices calling for government implementation of the Paris Agreement

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Appendix

Exhibit 1. ESG Factors Linked to Corporate Creditworthiness

Environmental	Social	Governance
Climate change	Employee relations	Business integrity
Biodiversity	Human rights	Shareholder rights
Energy resources	Product responsibility	Incentives structure
Energy management	Health and safety	Audit practices
Biocapacity and ecosystem quality	Diversity	Board expertise
Air, water, and physical pollution	Consumer relations	Fiduciary duty
Renewable natural resources	Access to skilled labor	Transparency
Nonrenewable natural resources	Demographics	Accountability
		Financial policy

Note: This list is not exhaustive but includes some of the factors considered to be the most important to corporate financial performance.

Source: PRI, *Corporate Bonds: Spotlight on ESG Risks*, Principles for Responsible Investment (December 2013).

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