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Environmental, Social and Governance: il ruolo dei fattori ESG in un portafoglio obbligazionario

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OUR FIRM

ESTABLISHED IN 1983
Los Angeles-based, offices in Boston, London, Milan

$147 BILLION AUM
A fully-resourced – yet flexible – firm

ONE GOVERNANCE CENTRE
Clients have direct access to business owners

100% EMPLOYEE OWNED

OUR CULTURE

GLOBAL PERSPECTIVE ON INVESTING
Regardless of Benchmark

COLLABORATIVE APPROACH
Sharing best ideas, constructive debate

EXCEPTIONAL RETENTION
Of talented people and clients

ALIGNMENT OF INTERESTS
Fully focused on our clients

OUR GLOBAL REACH

★ PAYDEN & RYGEL OFFICES

ESG Integration in a Fixed Income Portfolio

ESG can be integrated at different levels

- On a bottom-up basis, ESG factors can be incorporated **directly into fundamental research and risk management processes**
  - Focus on **best-in-class** third-party research/data and in-house research (MSCI, Sustainalytics, Bloomberg, risQ etc.)

- Based on client preferences, **ESG focused data can be incorporated into the portfolio construction process**
  - Strategists evaluate research input, manage risks and capture opportunities according to strategy specific investment frameworks
    - GHG emissions exposure
    - Green/Social/**Sustainability bonds**

- **Engage with issuers** on disclosure and transparency of ESG risks and management practices
  - Multi-channel communication with issuer management teams and exercise of shareholder rights (Proxy Voting, direct issuer engagement)

Best-in-class: third-party research

Portfolio Rating

MSCI ESG Rating

A

Portfolio Scores

ESG Quality Score	Environmental (Weight - 23%)	Social (Weight - 31%)	Governance (Weight - 46%)	Portfolio Securities
6.1	4.8	6.3	6.3	264

By # of securities

196 | 68

By % of securities weight

87% | 13%

MSCI Coverage · *Not included in report analysis*

Index Rating

MSCI ESG Rating

A

Portfolio Scores

ESG Quality Score	Environmental (Weight - 24%)	Social (Weight - 30%)	Governance (Weight - 46%)	Portfolio Securities
6.1	5.0	6.5	6.3	23810

By # of securities

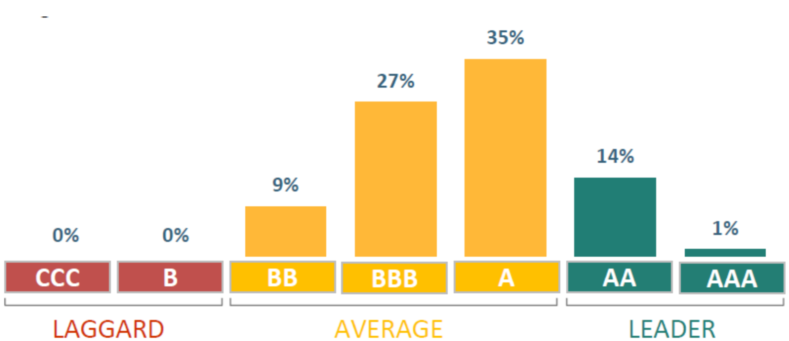
21,327 | 2,483

By % of securities weight

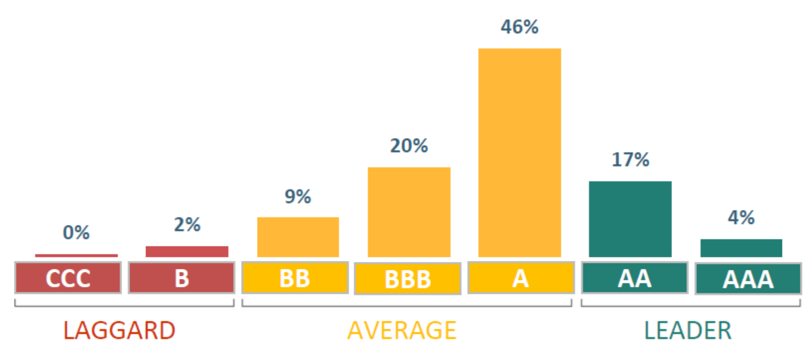
97% | 3%

MSCI Coverage · *Not included in report analysis*

Breakdown of ESG Rating in the Portfolio



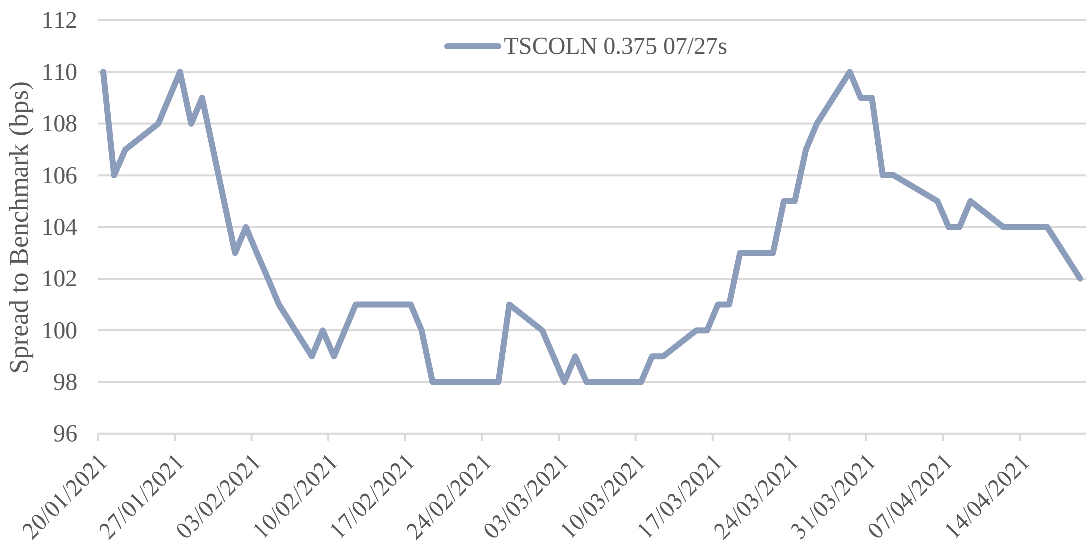
Breakdown of ESG Rating in the Index



Source: Payden & Rygel & MSCI as of 31 March 2021.

Sustainability bonds

Tesco Corporate Treasury (TSCOLN) 0.375% July 2029 Sustainability-Linked Bond (Issuer Rating: Baa3; ESG Rating: AA)



Issuer	Tesco Corporate Treasury
Issue Spread vs Bmk	Bunds+110
Yield at New Issue	0.455%
Currency	EUR
Coupon	0.375%
Step-Up Margin	0.25%
Step-Up Date	27/07/2027
Issue Date	20/01/2021
Maturity	27/07/2029
Size (million)	750

Rationale for portfolio exposure:

- Tesco PLC is the largest supermarket chain in the UK. The business had performed well over the previous year, further we liked how Tesco had gained market share from discounters and had been deleveraging.
- These bonds were Tesco's inaugural sustainability linked bonds. They are tied to greenhouse gas emissions (GHG) reduction.
- The KPI uses the 2015/16 GHG emissions as the baseline (3m tonnes of Co2 emissions) and aims to reduce it by 60% by 2025. If it fails to meet this, there will be a one-time 25bps step-up. We think that Tesco is largely on track to achieve this.
- We are encouraged by Tesco's efforts to reduce the environmental impacts of its operations and transparency in its carbon reporting.

Progressive steps on the path to sustainability

- **"Exclusion"** for an investor means deciding to exclude from their investment universe some securities that are considered unethical, or harmful, to the environment or society. This exclusion can be carried out tout court, by ousting some sectors in full, such as tobacco, or at the level of a single stock, preventing a portfolio from buying companies or countries that have, for example, part of their income deriving from activities deemed immoral, harmful or ethically intolerable.

  - Specialized firms offer merit scores, such as those provided on credit by rating agencies. It is therefore common, as a first step in a portfolio that wants to become more sustainable, to use exclusion based on one of these criteria, with the advantage that the criteria can be customized according to the investor. For example, some investors may be more or less sensitive to the issue of alcohol production.

- The exclusion method may also have limits. First, much of the data that defines the quality of a broadcaster looks to the past and doesn't necessarily provide an eye to the future. But, above all, exclusion does not stimulate issuers to improve. This is why the next step after exclusion is the so-called “**engagement”**, or the attempt to collaborate with the issuers of securities so that they become more sustainable, for the good of all.

ESG integration at the specific asset class level: Corporate Credit

At the industry level, SASB standards inform our ESG credit analysis.

The importance of each ESG data point – whether from SASB or elsewhere – varies by company and industry.

Environmental – *beyond what companies say, delving into what they do*

Prefer companies focused on:

- **Pollution impact**: Policies that mitigate or compensate for the company's pollution footprint;
- **Climate change**: Awareness of the implications for the operating environment and efficient cooperation with environmental regulatory regimes.

Social – *recognising issuers taking responsibilities more seriously*

Prefer companies with:

- **Strong employer-employee relations**: little history of stoppages or strikes and strong safety track records;
- **Corporate social responsibility (CSR)**: Proactive CSR policies are a positive signal.

Governance – *research process recognizes this value*

Prefer companies with strong/improving:

- **Transparency**: publicly-listed companies with audited, detailed financial statement disclosures, whose management teams communicate regularly with investors;
- **Board independence**: a diverse board with appropriate controls;
- **Executive compensation rules**: prudent compensation policy linked to performance.
- **Reputation**: companies maintaining good relations with investors and local communities.

ESG integration at the specific asset class level: Emerging Markets Debt

		Indonesia (Baa2/BBB-/BBB)
	Factor	Analysis
Macroeconomic Analysis	Growth	The GDP growth recovery in 2021 is expected to be 4.5%, better than regional peers. Vaccinations and reopening present upside risks.
	Monetary Policy	Inflation expectations for 2021 continue to fall and are currently around 1.8%. Elevated real rates will help to anchor the currency.
	Fiscal Policy	Positive fiscal dynamics are supported by reforms; the 2023 target to return to a 3% deficit is becoming realistic. Debt has risen to 45% of GDP but the gov't aims to reduce debt over the MT.
	External Accounts	The current account deficit should be contained at 1% of GDP in 2021, with exports performing well. FX reserve levels are robust and the share of external debt is expected to decline.
ESG	Environmental	Perennial issues are: 1) use of coal for energy; 2) the degradation of rainforests, especially as a result of palm oil plantations. Low cost and plentiful coal suggests a longer adjustment toward clean energy.
	Social	Indonesia lags on human development indicators, but the Jokowi administration's efforts to prioritize education and healthcare are steps in the right direction. Positively, political freedoms have improved.
	Governance	The political context remains positive in terms of government effectiveness and reforms to promote domestic and foreign investment. The COVID-19 response has been middling, but vaccinations have been picking up.

Environmental, Social and Governance (ESG) integration

ESG Mission Statement: Payden & Rygel's environmental, social, and governance (ESG) strategy aims to discover and monitor those risks and opportunities which do not appear in traditional financial statements that we believe will be material to future investment performance.

Three Key Beliefs

1. ESG considerations are part of fundamental research, not simply a secondary ethical or moral overlay.
2. ESG factors are relevant in fundamental analysis as they highlight risks and opportunities likely to affect investment outcomes.
3. Consistent and comparable ESG data is important for an effective determination of credit risk and materiality.

Two Pillars of ESG Strategy at Payden & Rygel and the Resources We Use

Security Level Integration

- **SASB industry standards,** materiality maps, and/or scorecards inform ESG analysis from the bottom-up.
- Expect reporting aligned with Taskforce on Climate-Related Financial Disclosure **(TCFD) recommendations.**
- Engage with company management to assess **trajectory along relevant ESG indicators.**

Tools we use

- MSCI ESG Research
- SASB Industry Standards
- Bloomberg ESG Research
- Sustainalytics
- CDP Disclosure data
- RisQ
- Moody's Structured Finance Portal

Client Portfolio Level Integration

- Managing/monitoring ESG risks and opportunities from the top down as applicable.
- Use standardized scoring system where available to ensure comparability.
- Customized indicator/score-level disclosure where available.
- Balancing ESG characteristics with traditional portfolio metrics.

Tools we use

- MSCI ESG Research
- Bloomberg PORT
- Aladdin
- Glass Lewis
- In-House Reporting and database
- BNEF

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