

The background of the slide is a complex financial chart. It features a dark blue background with several overlapping data series. There are candlestick charts in green and red, and several line graphs in blue, red, and white. The overall aesthetic is that of a professional financial or data visualization dashboard.

Crane Data

# Bond Fund Symposium

ESG Issues in the Bond Fund Space

March 28, 2022

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Sustainable Research and Analysis LLC





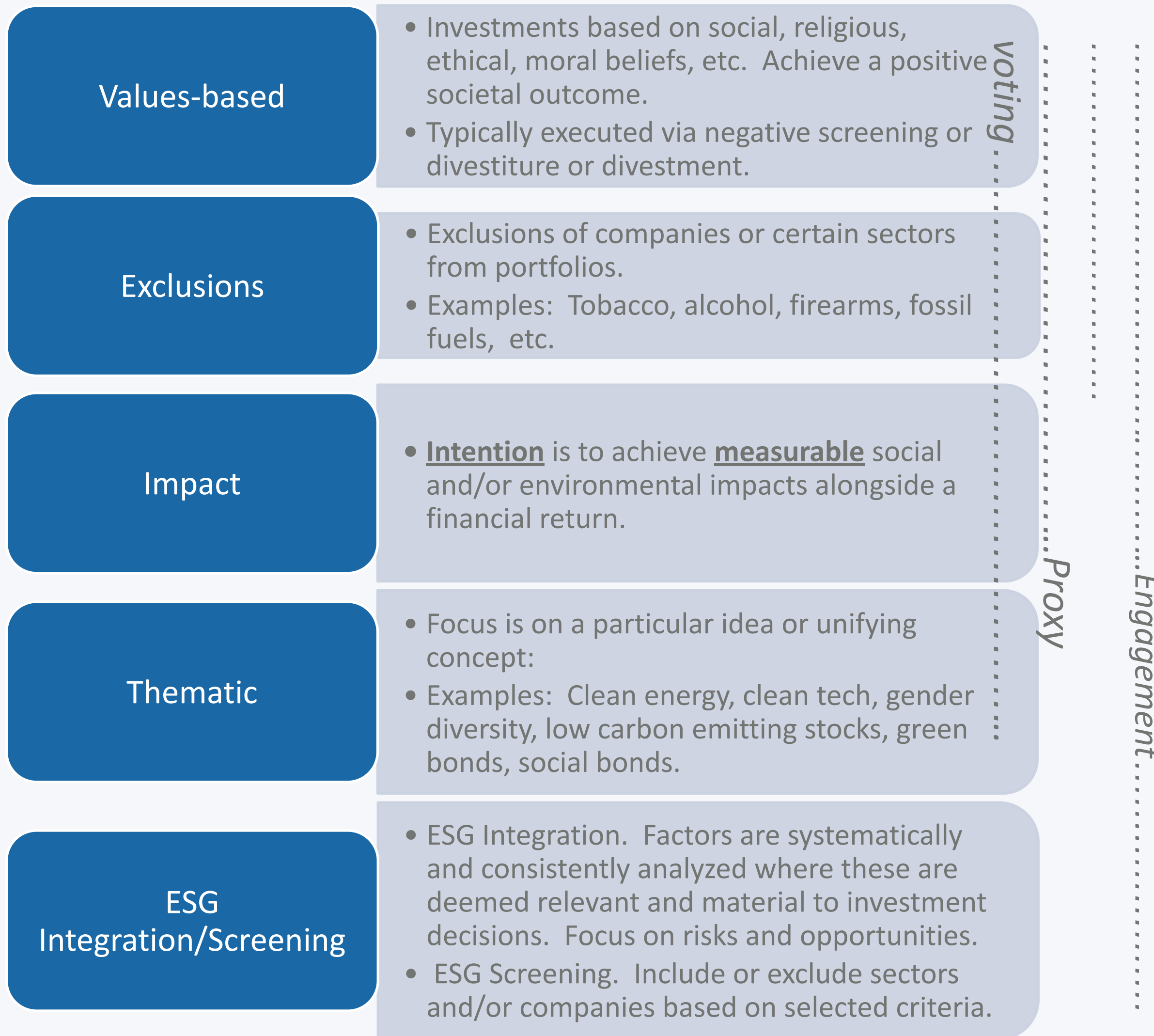
# Discussion points

- Sustainable investing: Macro-level ESG considerations & perspectives
- Fixed income mutual funds and ETFs
- Sustainable finance
- ESG ratings

# Sustainable investing strategies/classifications

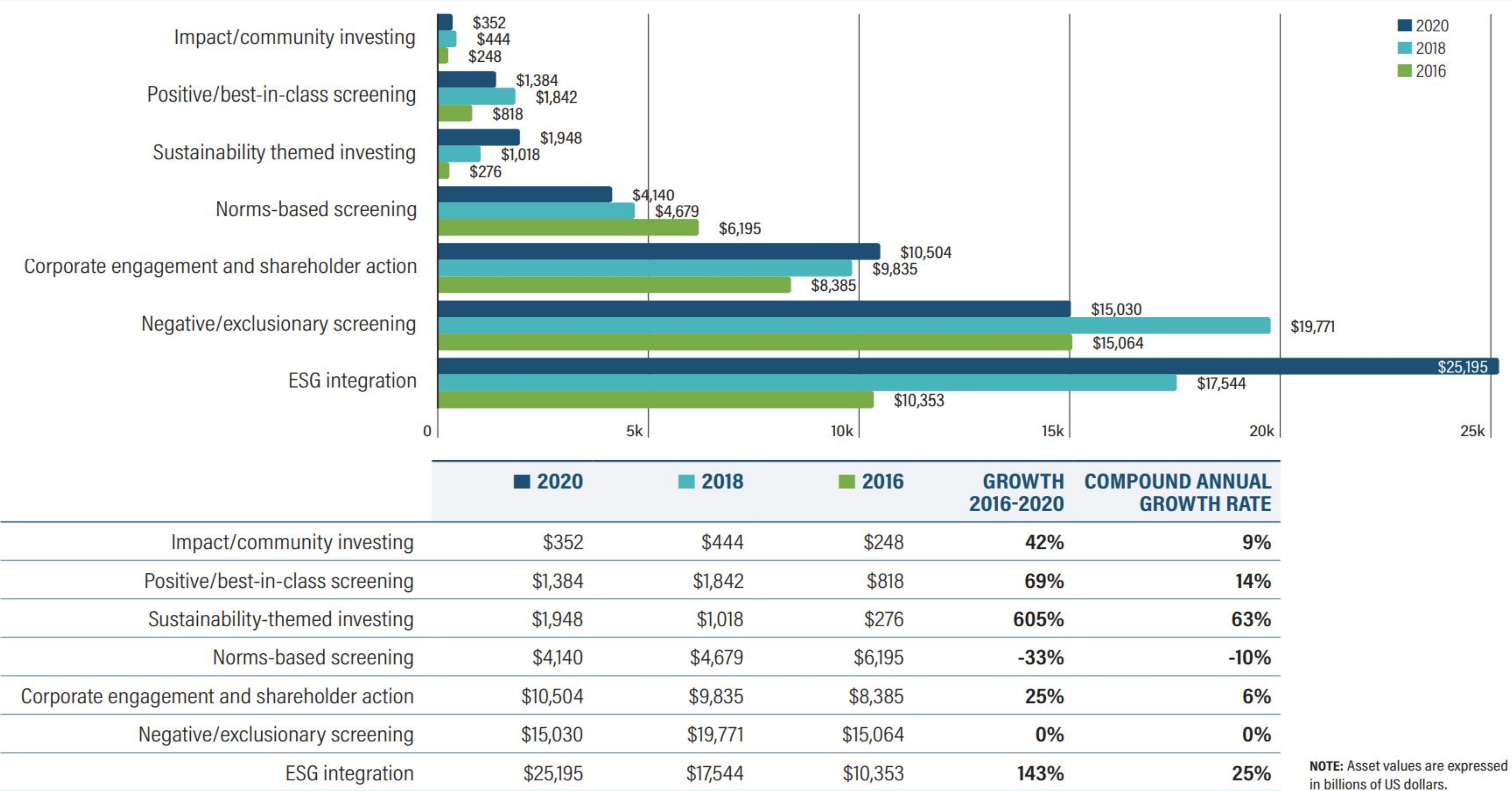
Sustainable investing combines the five grouped approaches below with conventional investment processes to drive long-term value creation

## ESG Factors-International Frameworks



<b>Environmental Factors</b>	GHG emissions Energy use and efficiency Air pollutants Water use Waste management Use of ecosystems Innovation in environmental friendly products and services
Social Factors	Workforce Workplace health and safety Customer health and safety Diversity and equal opportunity Poverty and community impact Supply chain management Training and education Customer privacy
Governance factors	Codes of conduct and business principles Accountability Transparency and disclosure Executive pay <input type="checkbox"/> Board diversity and structure Bribery and corruption Stakeholder engagement Shareholder rights

# Sustainable investing strategies growth: ESG led 4

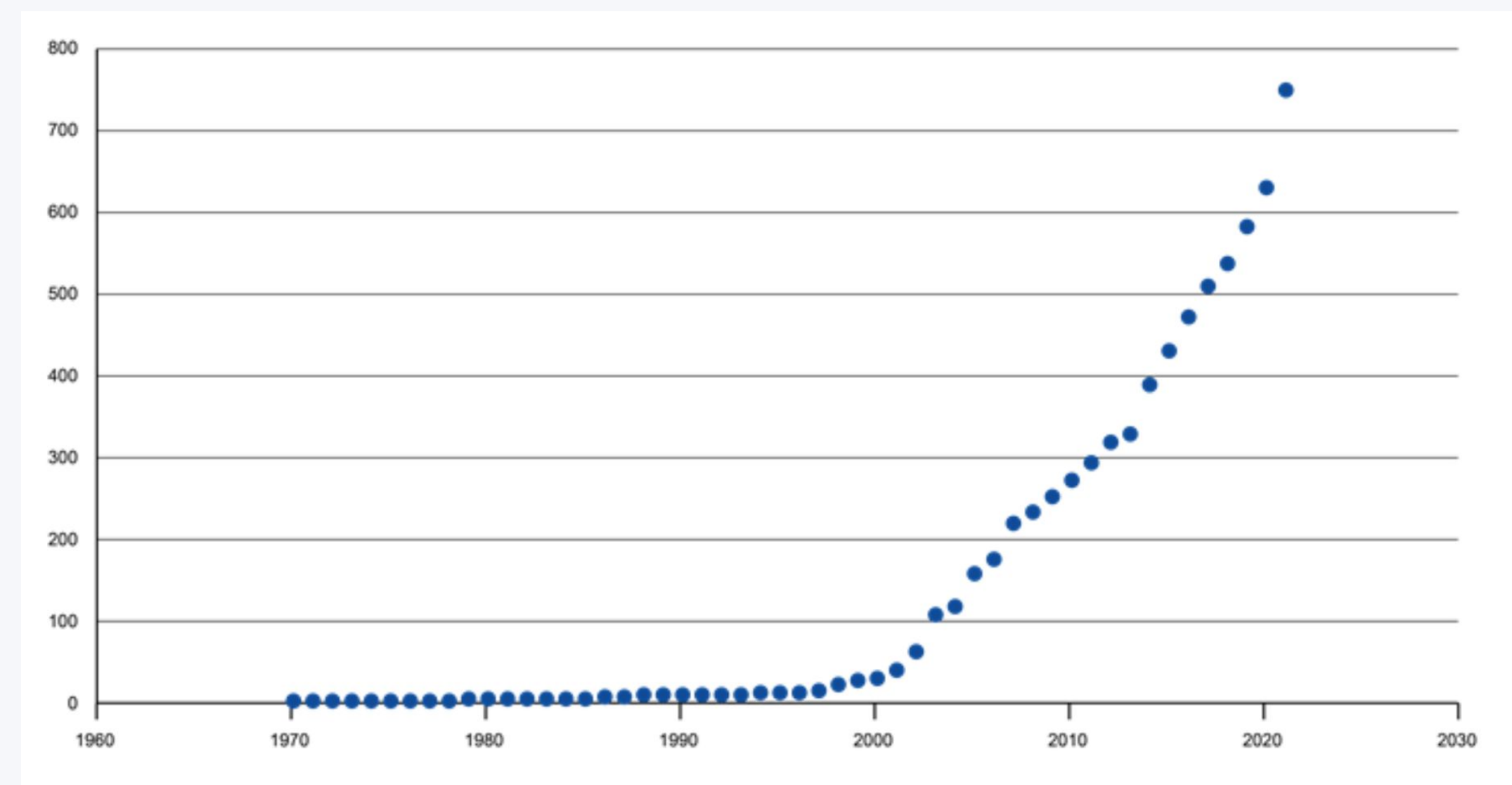
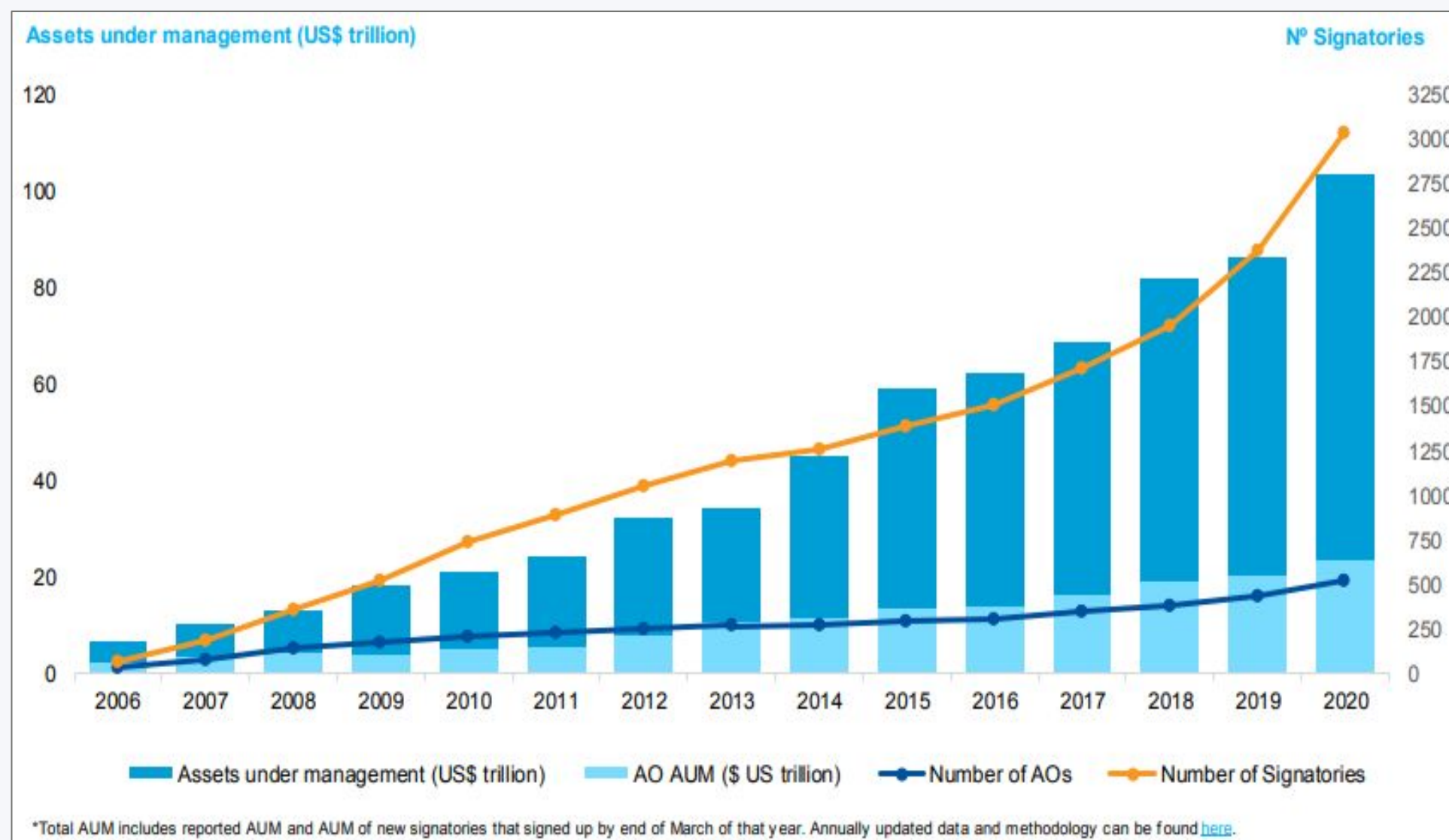


Source: Global Sustainable Investment Alliance (GSIA), 2020 Investment Review, in \$US billions.



# Macro-level ESG considerations & perspectives

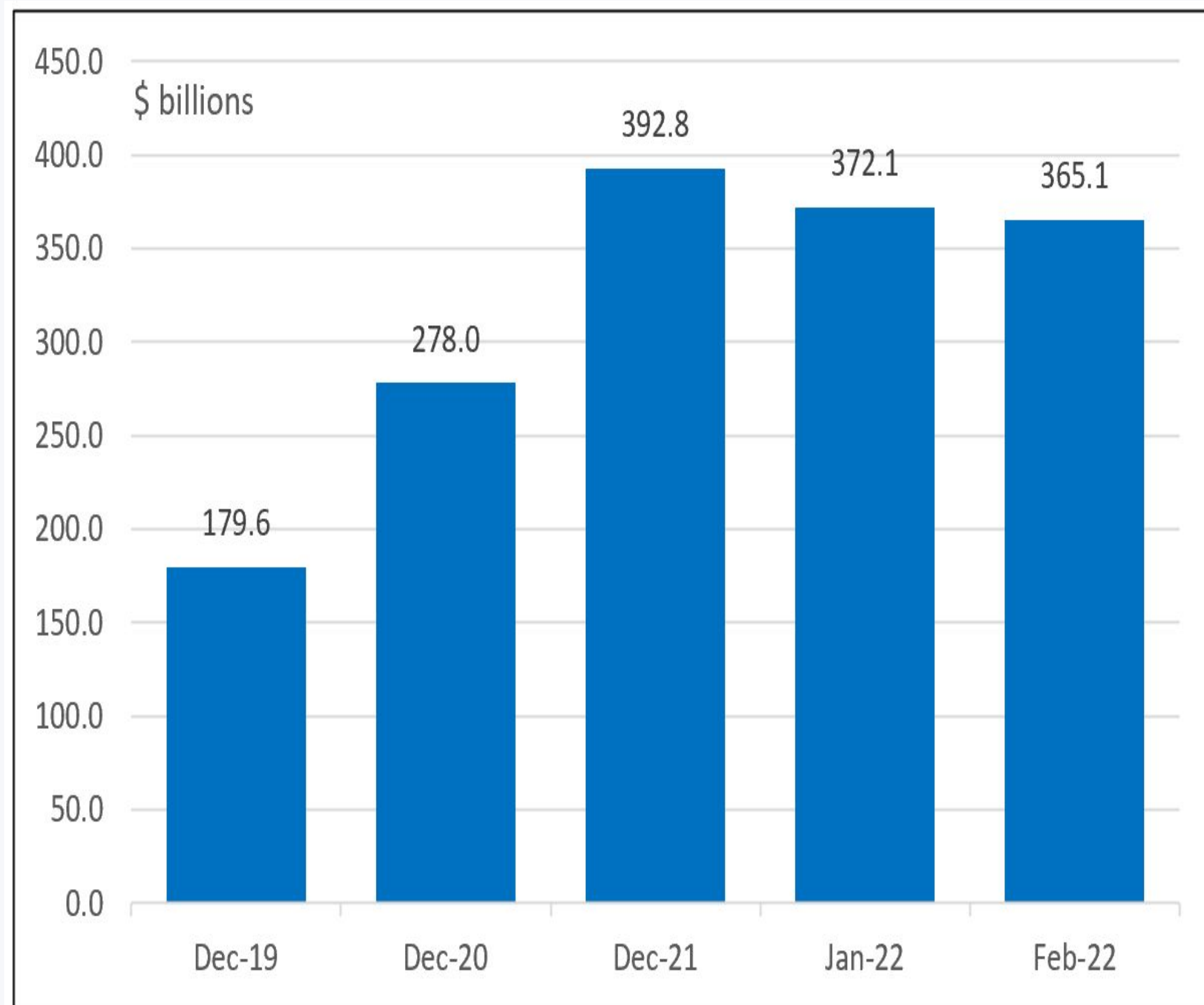
- Climate tops risk agenda in recent years
- Fiduciary duty considerations have evolved
- Recognition of potential economic challenges in the future
- Impact and ethical factors continue to have an influence on investment and corporate behaviors
- Policies and regulatory initiatives gaining momentum
- Demands by asset owners and investors expanding rapidly



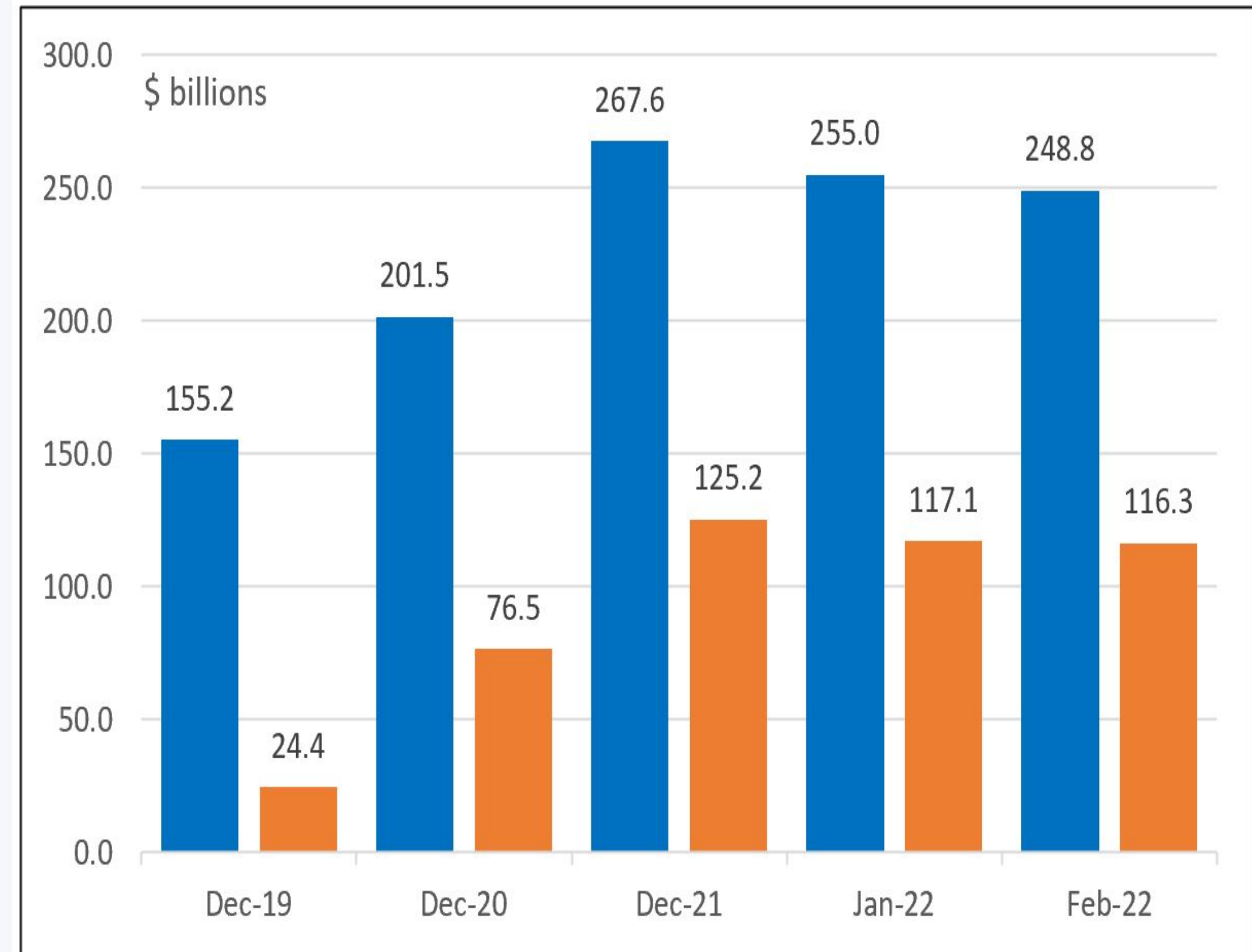
# US sustainable fund assets doubled since 2020

- Macro-level contributing factors drive growth in assets: rebranding + organic growth
- Frequently quoted sustainable AUM understate size of market: 7X minimum estimate

### Sustainable fund assets



### Sustainable mutual funds and ETFs

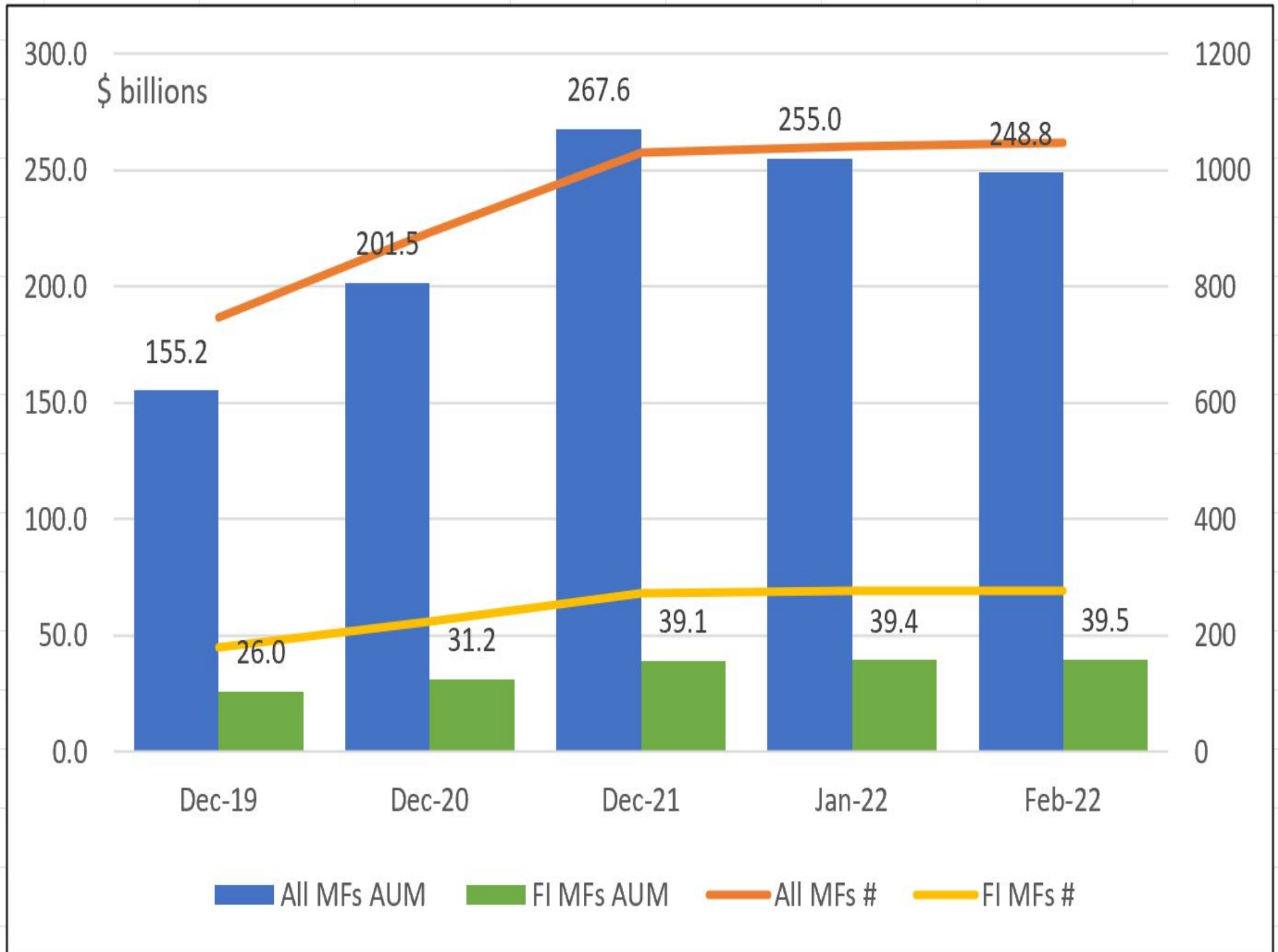


Notes of Explanation: Source: Morningstar Direct. MS data excludes large number of funds that integrate ESG.

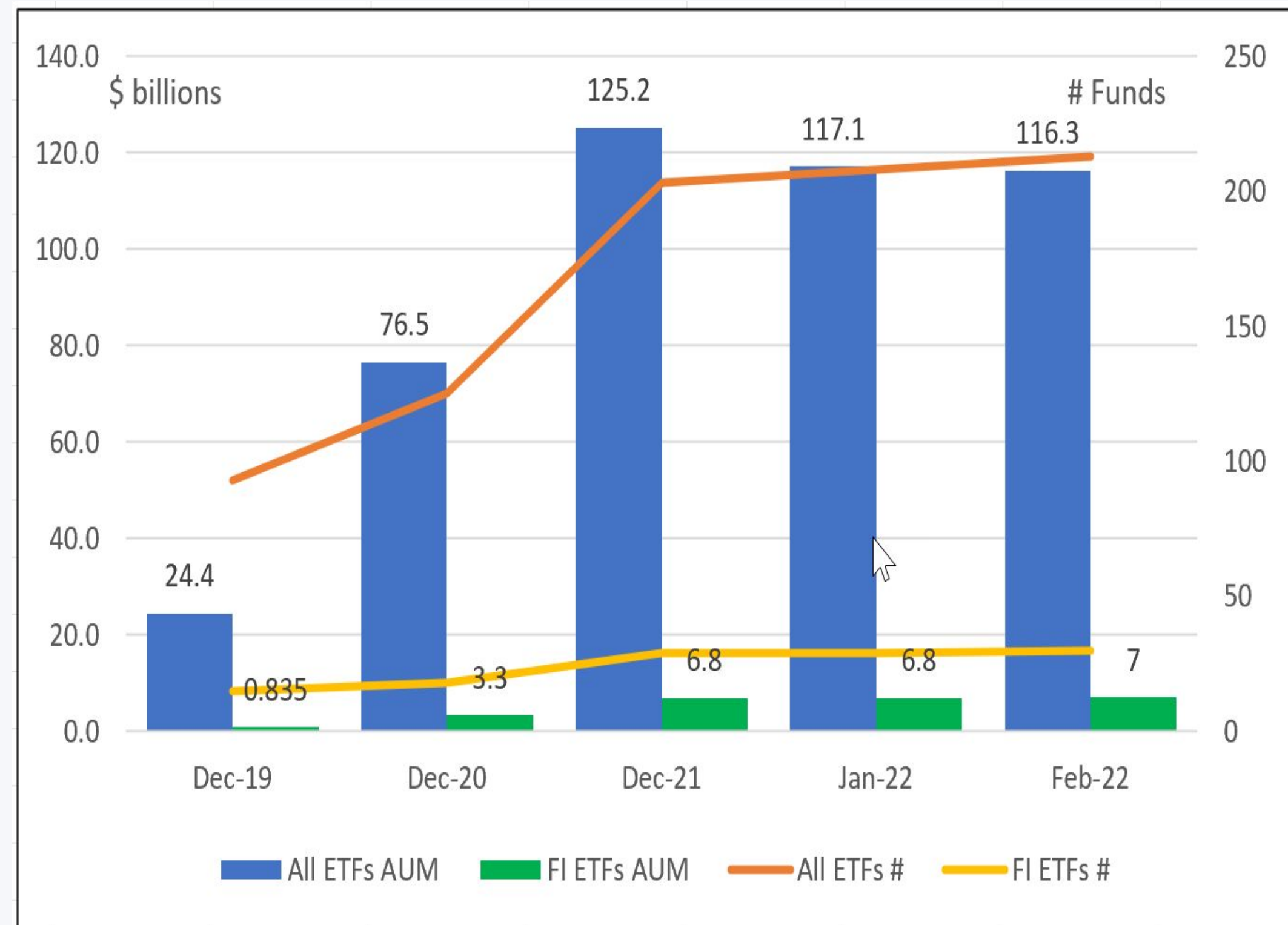
# Sustainable fixed income fund assets

- Fixed income ETFs segment has been growing at a faster pace.
- Number of new actively managed fixed income ETFs outpace index trackers recently, but sustainable index tracking ETFs dominate based on net assets.

### Sustainable fixed income MF assets



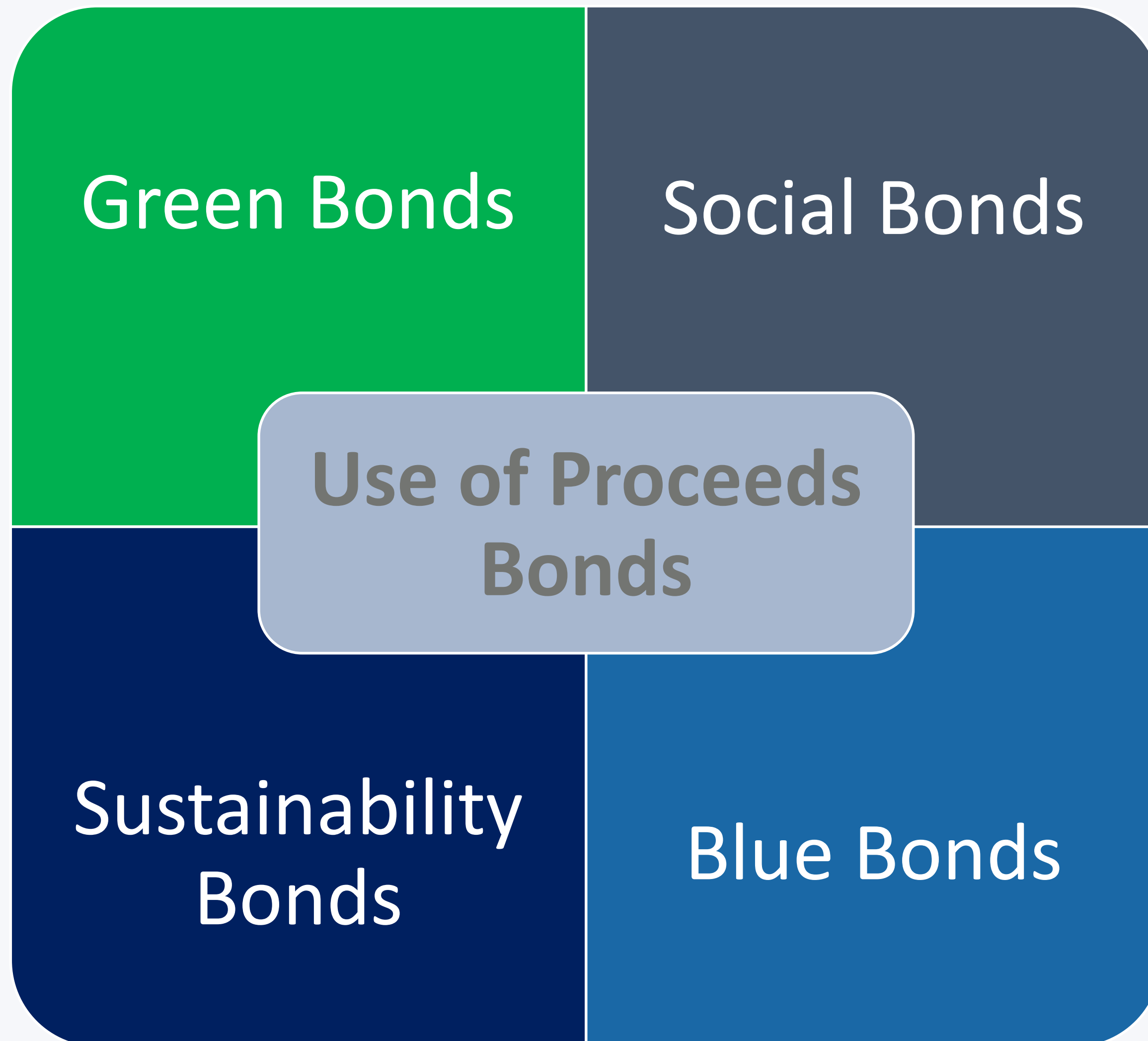
### Sustainable fixed income ETF assets



Notes of Explanation: Number of MFs reflects number of share classes



# Sustainable debt market instruments



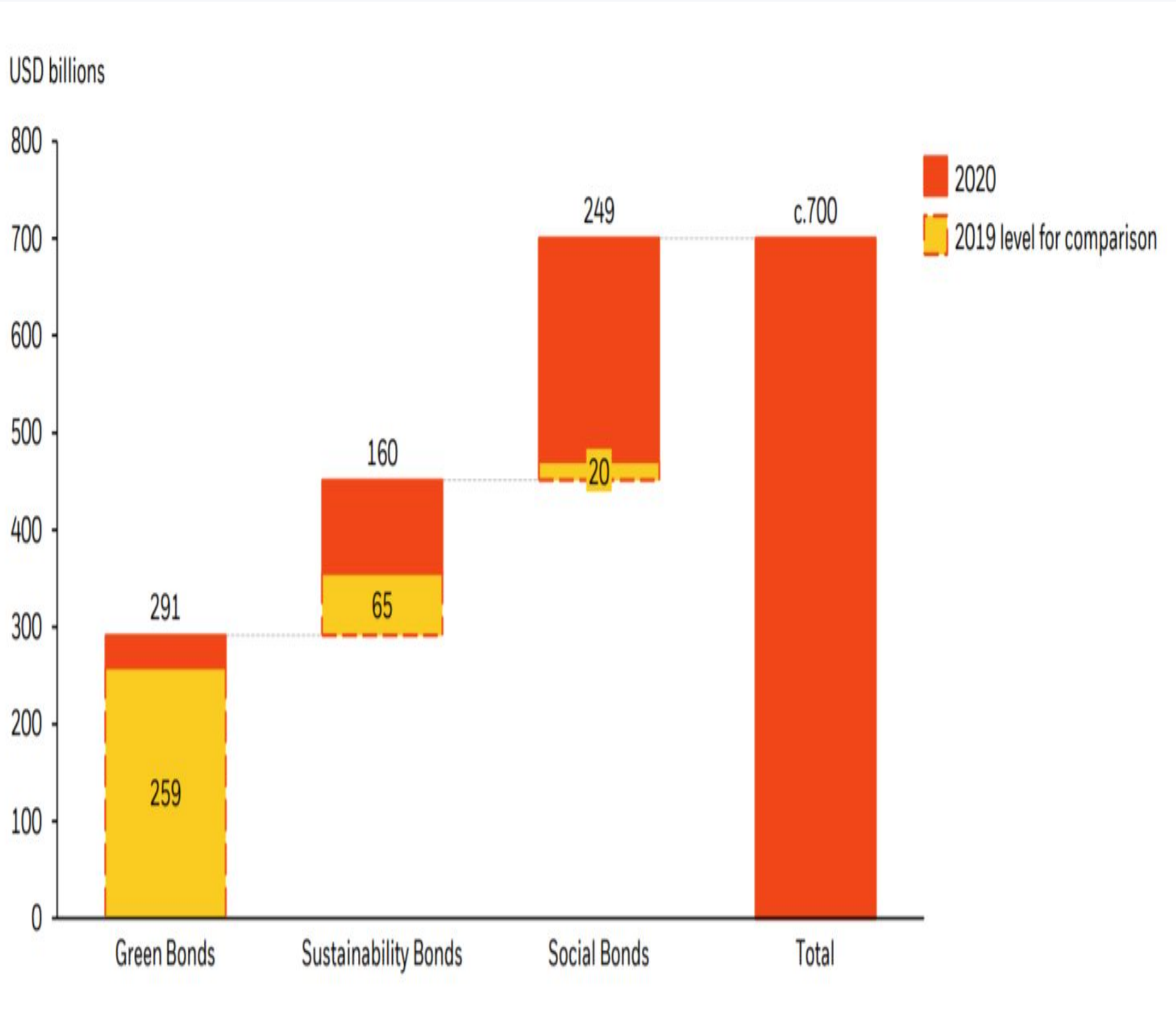
## Other Sustainable Debt

- Sustainability-linked bonds
- Sustainability-linked notes
- Transition linked bonds
- Transition linked credit facilities

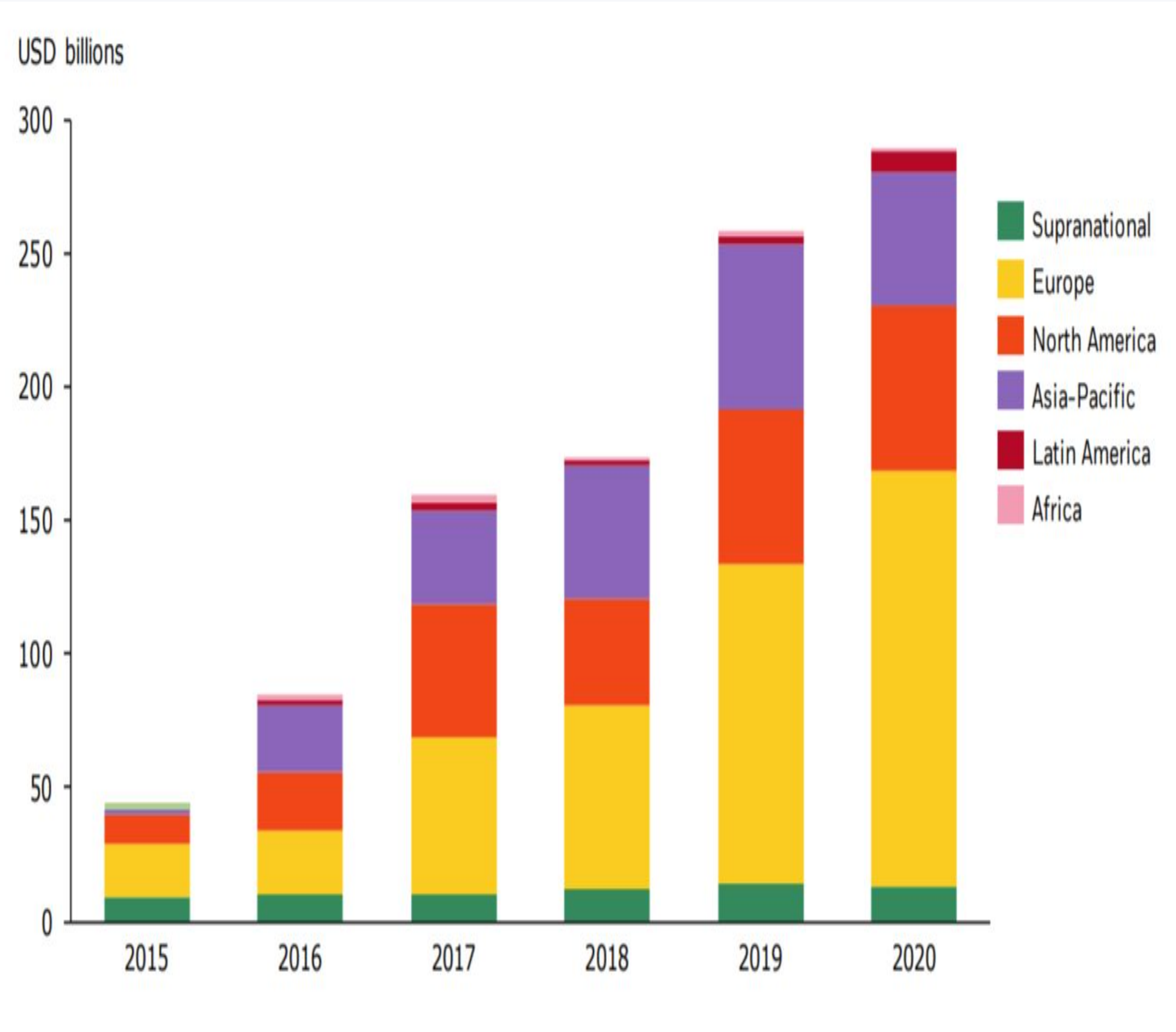


# Growth in sustainable debt market

### Growth by type of sustainable debt



### Green bond growth by region



Source: Climate Bond Initiative (CBI)

# Prominent sustainable/ESG data providers

## ESG Rating Firms

- MSCI
- Sustainalytics<sup>1</sup>
- ISS<sup>2</sup>
- Bloomberg
- Refinitiv<sup>3</sup>
- ICE/BofA

## AI/Big Data Firms

- Truvalue Labs<sup>4</sup>
- RepRisk
- Arabesque Group<sup>5</sup>
- Clarity AI<sup>6</sup>

## Credit Rating Agencies

- Moody's
- S&P Global
- Fitch
- DBRS



# ESG ratings under scrutiny

Scrutiny of ESG ratings by financial regulators in the US and overseas highlighting the challenges and potential conflicts of interest involved in ESG rating and scoring systems

- Securities and Exchange Commission Office of Credit Ratings
  - European Securities Markets Authority (ESMA)
  - UK government
- 
- It is often cited that ESG company ratings issued by some of the main ESG rating firms are not highly correlated.
  - Research from the MIT Sloan School of Management looked at the correlations and dispersion amongst ESG company ratings from the main ESG ratings providers and concluded that ESG company score correlations between providers are weak to moderate, ranging from 0.38 up to 0.71, with an average correlation of around 0.54 .
  - These results are also often compared to credit rating correlations that have a 99% correlation across Nationally Recognized Statistical Rating Agencies such as Moody's S&P Global, Fitch and DBRS to mention a few.





**APPENDIX**



# Summary of references and sources

Slide 4-Global Sustainable Investment Alliance (GSIA) 2020 Investment Review

Slide 5-Data sources: Principles for Responsible Investment (PRI), PRI Regulation Database

Slide 6-7-Morningstar Direct

Slide 9-Climate Bond Initiative

Unless otherwise indicated, source is Sustainable Research and Analysis LLC

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