

# Responsible investment and sovereign debt

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# Agenda

## Responsible investment and sovereign debt

- PRI at a glance
- Fixed income overview
- Sovereign debt
- Q&A

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Responsible investment and sovereign debt

- **PRI at a glance**
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# The PRI at a glance

**2**

## UN PARTNERS:

UNEP FINANCE INITIATIVE  
UN GLOBAL COMPACT



**4000+**

## SIGNATORIES:

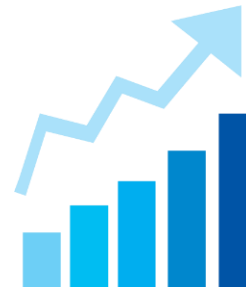
ASSET OWNERS,  
INVESTMENT  
MANAGERS  
AND SERVICE  
PROVIDERS



**120+**

## US\$ TRILLION:

ASSETS UNDER  
MANAGEMENT



**6**

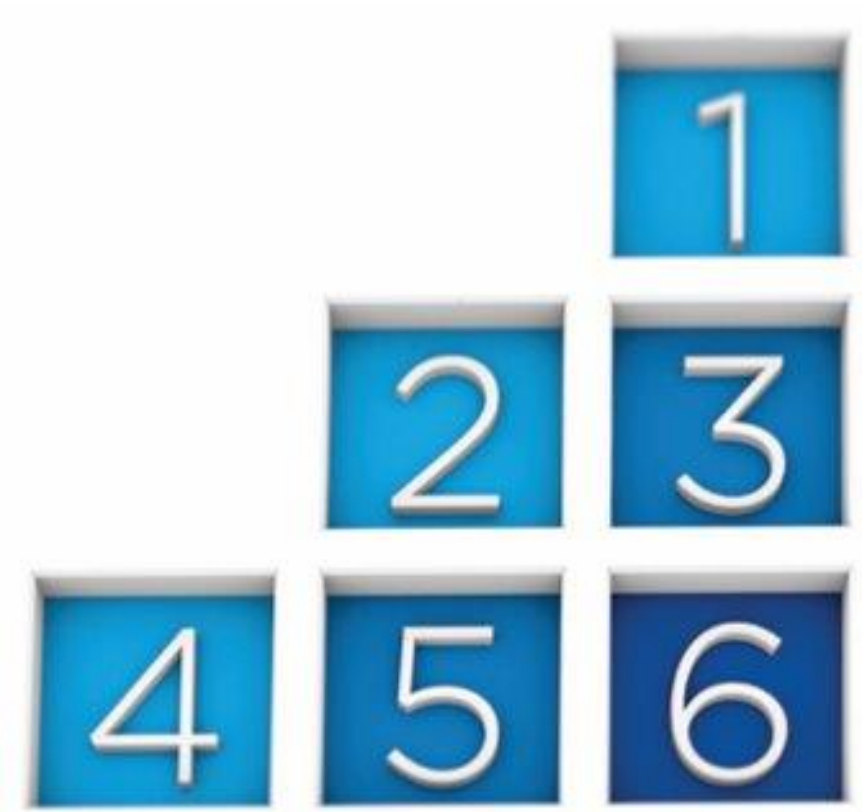
## PRINCIPLES:

RECOGNISING THE  
MATERIALITY OF  
ENVIRONMENTAL,  
SOCIAL AND  
CORPORATE  
GOVERNANCE ISSUES



# The six principles

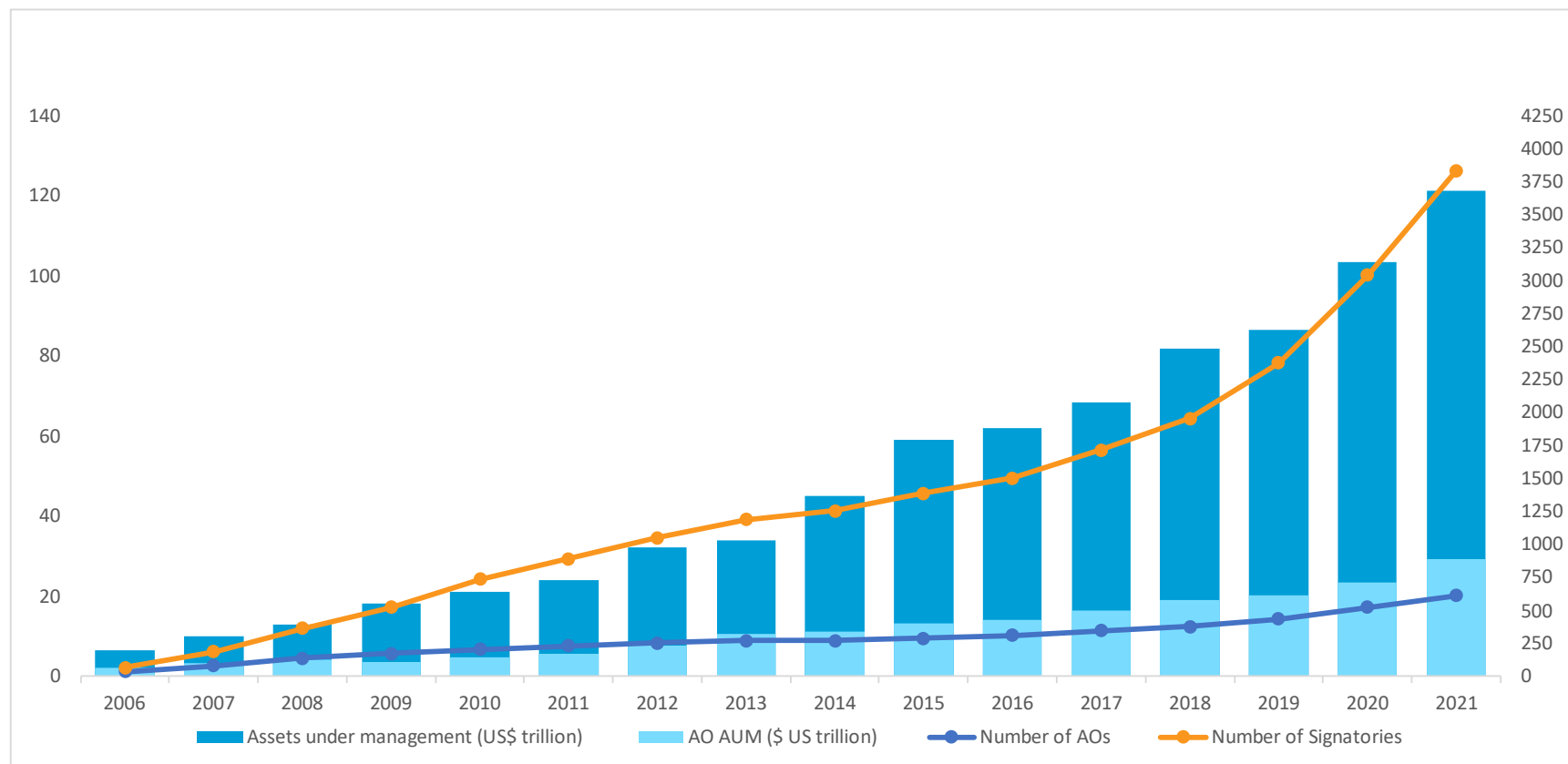
- 1** We will **incorporate ESG issues** into investment analysis and decision-making processes.
- 2** We will **be active owners** and incorporate ESG issues into our ownership policies and practices.
- 3** We will **seek appropriate disclosure** on ESG issues by the entities in which we invest.
- 4** We will **promote acceptance and implementation** of the Principles within the investment industry.
- 5** We will **work together** to enhance our effectiveness in implementing the Principles.
- 6** We will each **report** on our activities and progress towards implementing the Principles.



# PRI's signatories growing rapidly

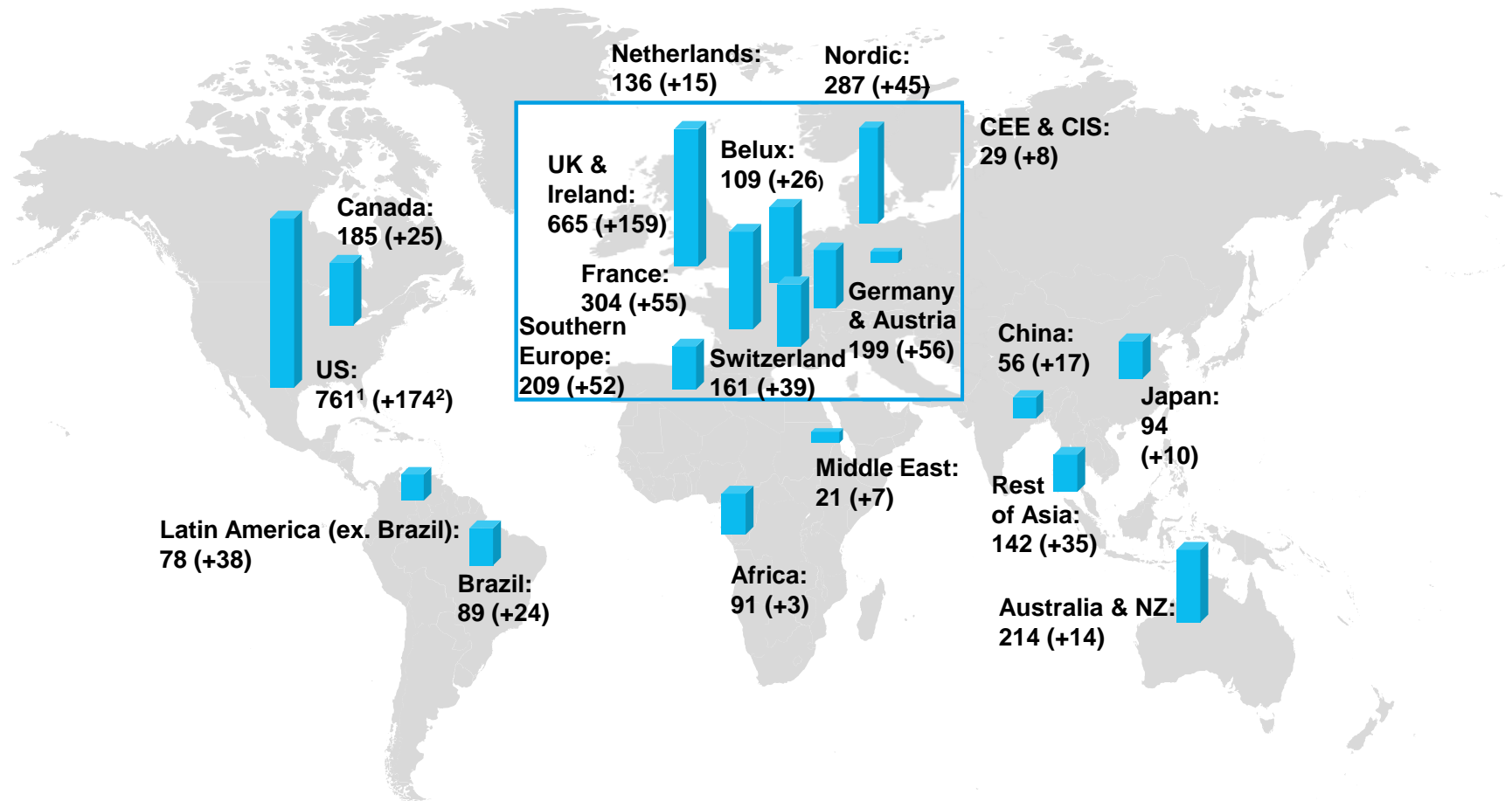
Assets under management (US\$ trillion)

Nº Signatories



Source: PRI. AO: Asset Owners.

# A global movement



Source: PRI

# Agenda

Responsible investment and sovereign debt

- PRI at a glance

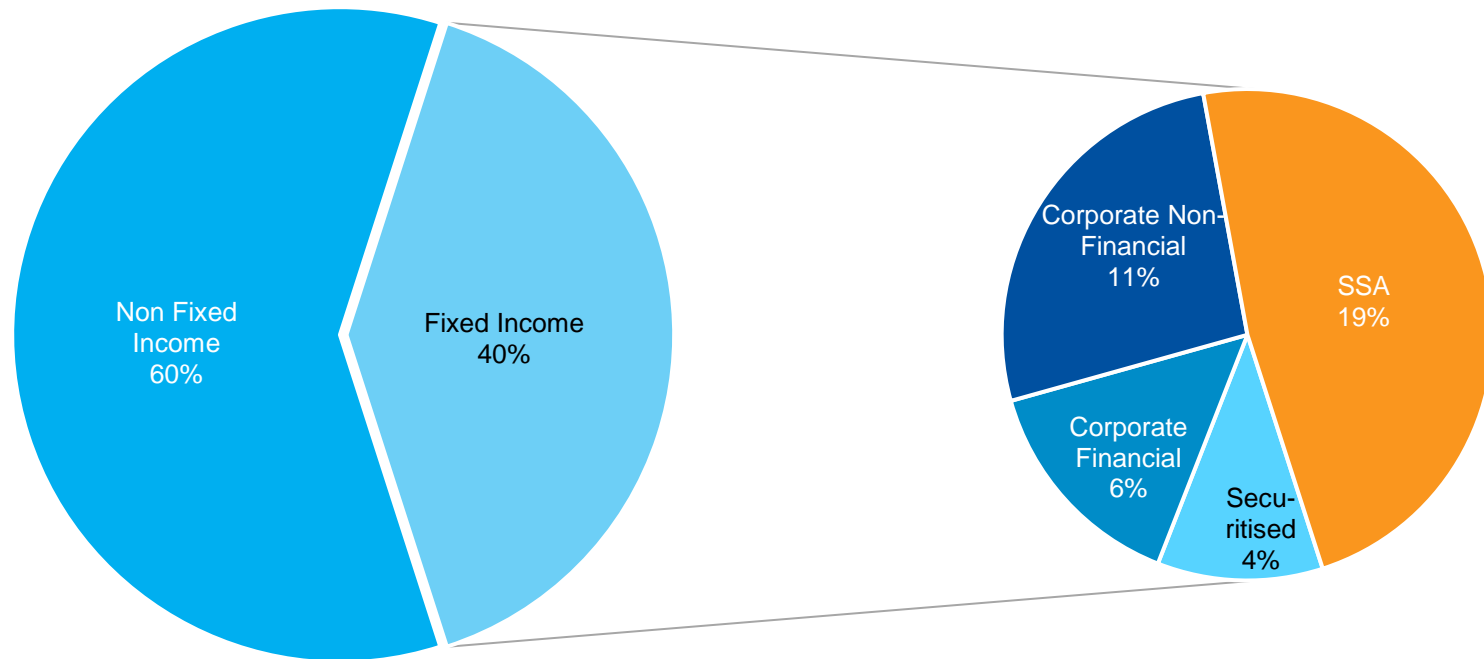
- **Fixed income overview**

- Sovereign debt

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# PRI signatories' fixed income AUM



SSA: Sovereign, Supranational and Agency. Source: PRI

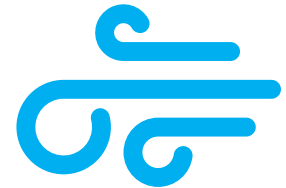
# Different responsible investment approaches

ESG incorporation			Active ownership
Integration	Screening	Thematic	Engagement
Explicitly and systematically including ESG factors in bond valuations to enhance risk-adjusted returns	Applying (positive or negative) filters that restrict the investable universe, reflecting an investor's preference or norms	Investing with an intention to contribute to a specific outcome (e.g. green, social, SDG, SLB bonds and impact funds)	Discussing ESG factors with issuers (individually or collaboratively) to improve disclosure, and influencing outcomes

SDG: Sustainable Development Goals; SLB Sustainability Linked Bonds.

# Headwinds

- Asset class complexity
- Lack of voting rights
- Limited research

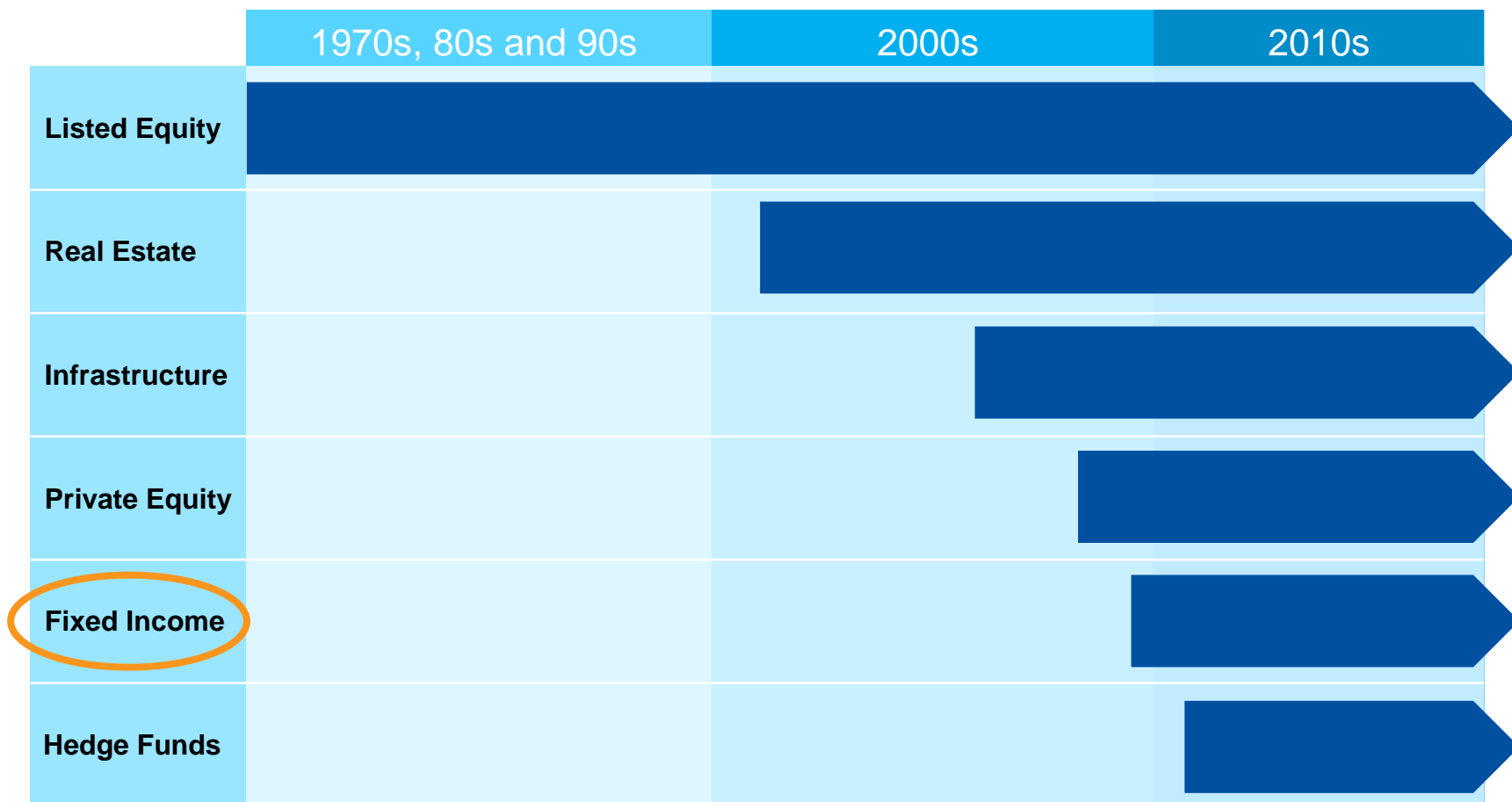


# Tailwinds



- Risk management
- Client demand
- Opportunities
- Regulatory pressures

# Evolution of ESG integration by asset class

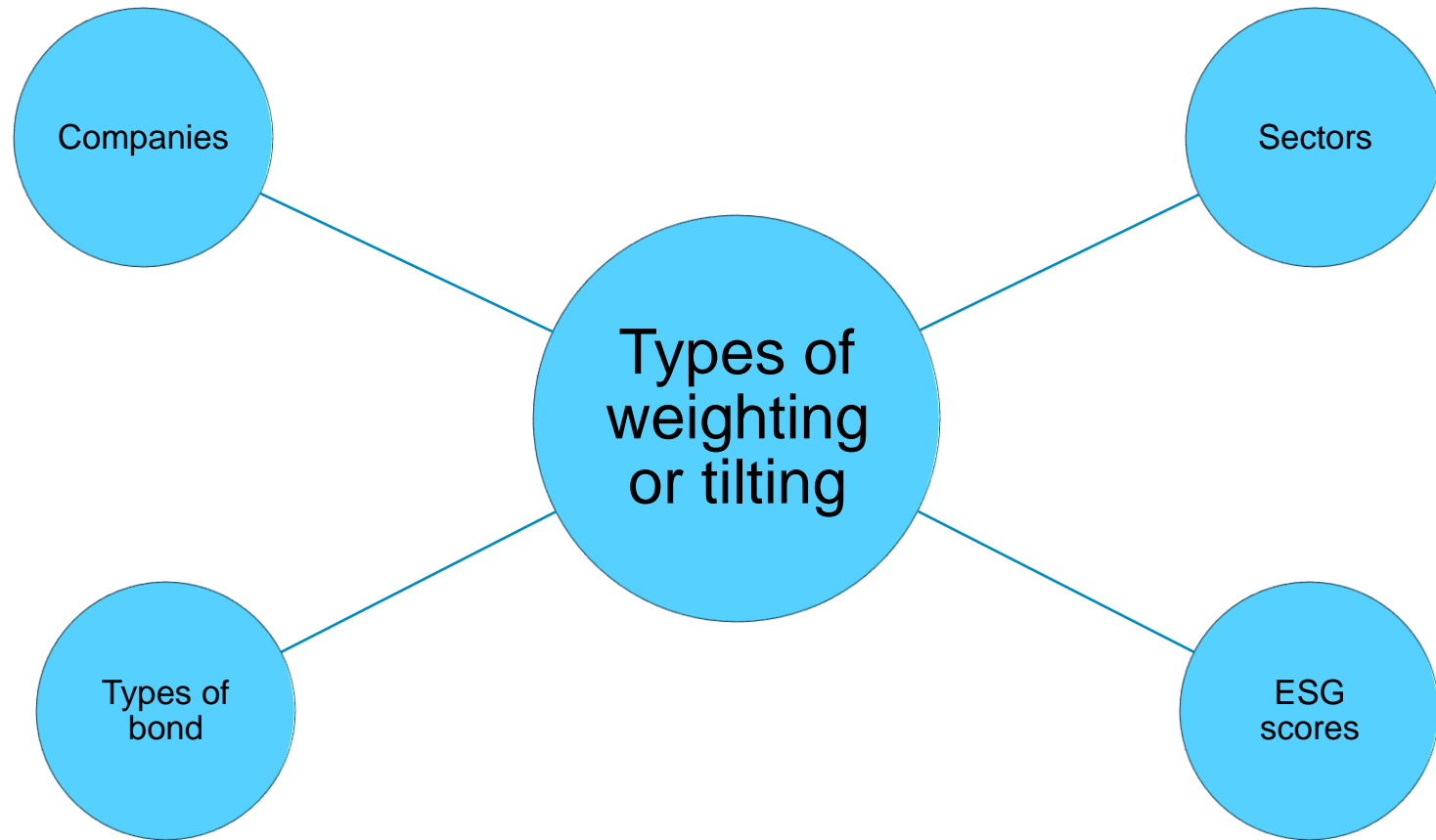


# The rise of thematic investing

- Use of proceeds bonds (e.g. green, social)
- Bonds with targets (e.g. sustainability-linked bonds)
- Not just about labelled bonds



# ESG incorporation in bond portfolios

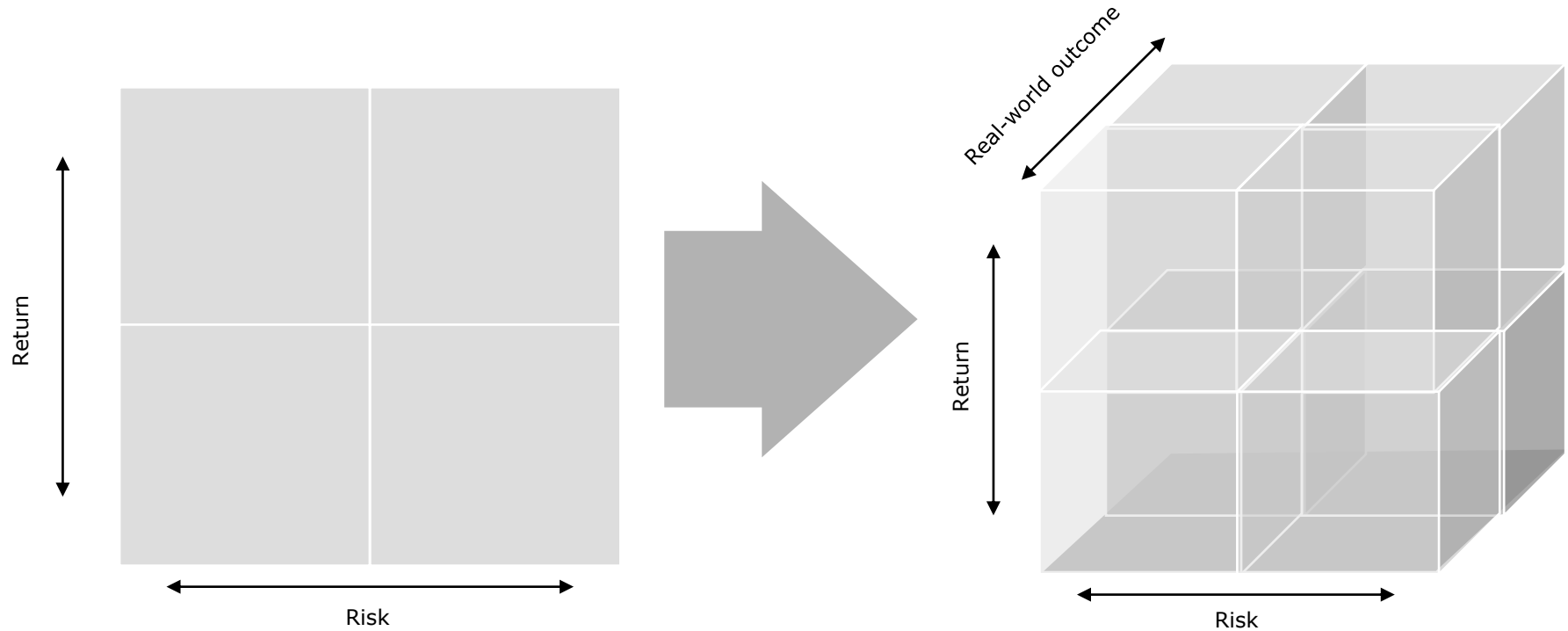


# Addressing misconceptions

- Pricing ESG risks of FI instruments  $\neq$  targeting real-world outcomes
- ESG in credit ratings  $\neq$  ESG ratings/scores
- Lack of ownership  $\neq$  inability to engage



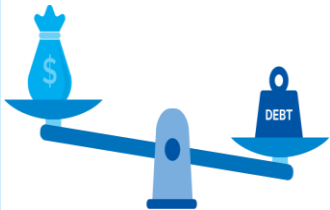
# A new dimension to investment: the 3 Rs



Source: PRI

# Fixed income workstreams

ESG in  
credit risk  
and ratings  
initiative



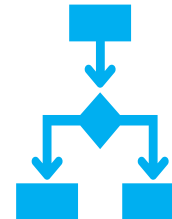
Sovereign  
debt



Sub-sovereign  
debt



Structured  
products



Private  
debt



# ESG in credit risk and ratings initiative

Promoting the transparent and systematic incorporation of ESG issues in credit risk

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

174

Institutional Investors

29

Credit Rating Agencies  
(CRAs)



# ESG in credit risk and ratings initiative – phase one

Creating a CRA-investor dialogue

22

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

530+

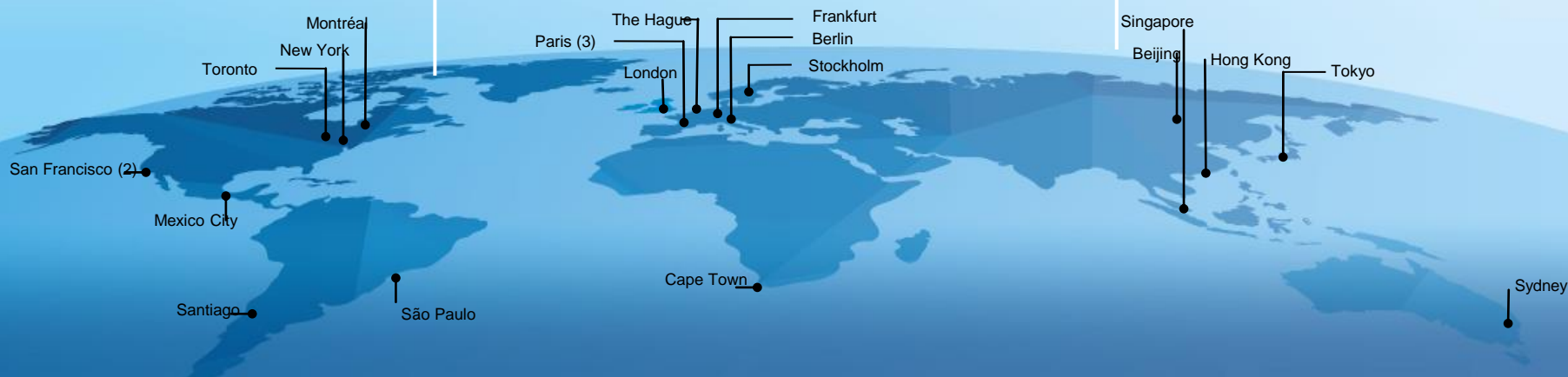
Forum active  
(participants globally)



4

reports

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



# ESG in credit risk and ratings initiative – phase two

## Broadening the outreach



**BRINGING CREDIT ANALYSTS  
AND ISSUERS TOGETHER:  
WORKSHOP SERIES (8)**



**CRA QUARTERLY  
UPDATES (6)**

**2020-2022**



**BROADENING THE  
OUTREACH TO ESG  
INFORMATION PROVIDERS**



**BROADENING THE  
OUTREACH TO  
INVESTMENT  
CONSULTANTS**



More workshops with  
issuers in 2022

# Private debt

[www.unpri.org/private-debt](http://www.unpri.org/private-debt)

A graphic with a light blue background featuring several overlapping, semi-transparent white arrows pointing upwards and to the right. The text is centered in the middle of the graphic.

SPOTLIGHT  
ON RESPONSIBLE  
INVESTMENT  
IN PRIVATE DEBT

Spotlight on responsible investment  
in private debt

A solid blue rectangular graphic with white text centered on the right side.

THE PRIVATE DEBT  
INVESTOR ESG  
DUE DILIGENCE  
QUESTIONNAIRE

Responsible investment DDQ for  
private debt investors

# Securitised debt

[www.unpri.org/securitised-debt](http://www.unpri.org/securitised-debt)

## ESG incorporation in securitised products: The challenges ahead

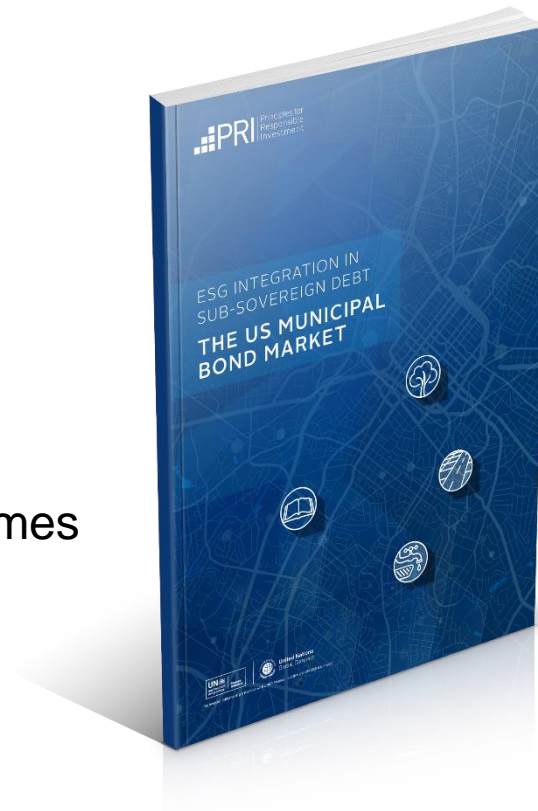
### Investors are looking...

- For frameworks to assess ESG factors across mainstream securitised products
- To determine whether the growing number of ESG-labelled securitised products are genuine.

# Sub-sovereign debt

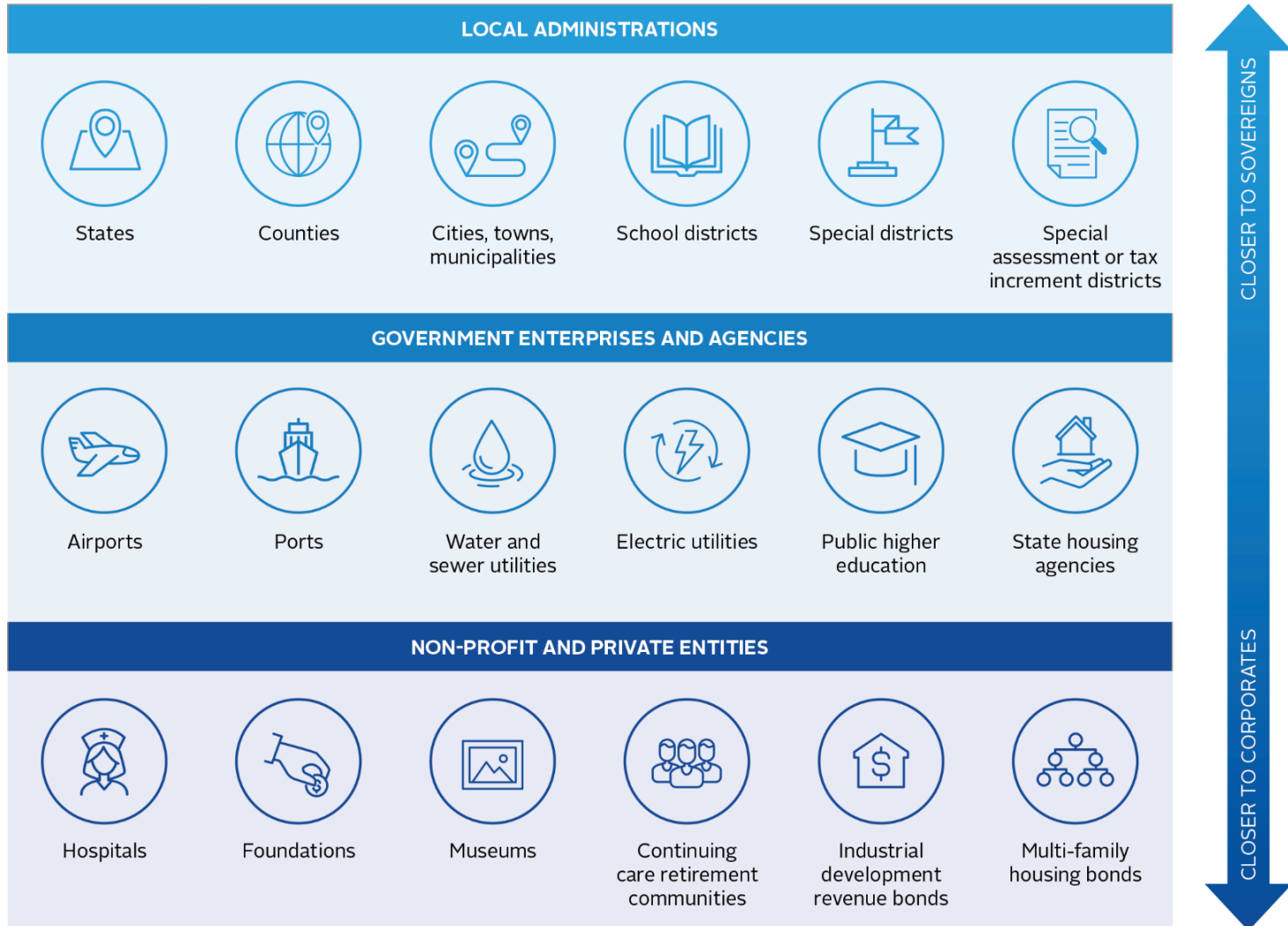
[www.unpri.org/sub-sovereign-debt](http://www.unpri.org/sub-sovereign-debt)

- New PRI workstream
- First report on US municipal bonds
- Focused first on integration, now outcomes





# US muni bonds: diverse and complex market



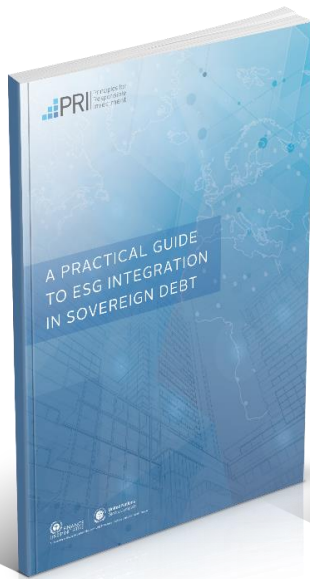
Source: PRI

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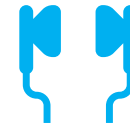
# Ramping up resources for sovereign debt



**Reports**



**Webinar recordings**



**Podcasts**

# Sovereign debt

[www.unpri.org/sovereign-debt](http://www.unpri.org/sovereign-debt)

## ESG integration

- Risk management and client demand
- Existing ESG indicators, standardised and freely available
- ASCOR Project

## ESG engagement

- Integral to responsible investment
- 360-degree process
- Challenges and opportunities

# Importance of engagement



## **Principle 2:**

We will be active owners and incorporate ESG issues into our ownership policies and practices.



Lack of voting rights not an excuse not to engage as a bondholder.

# Barriers to sovereign engagement

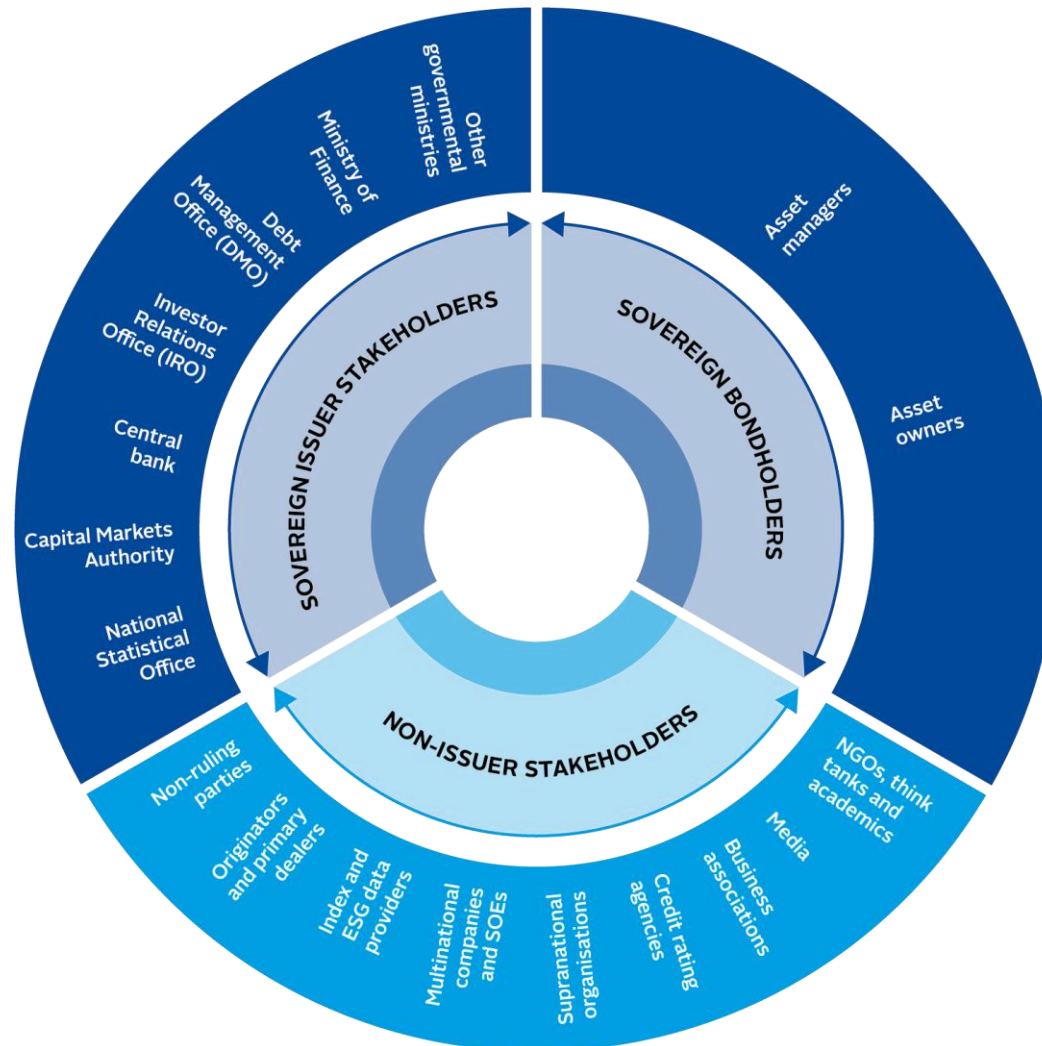


Source: PRI

# Engagement needs to be strategic

- Integral part of responsible investment approach
- Timing
- Defining objectives and measuring effectiveness
- Different approaches depending on the issuer
- Individual versus collaborative engagement

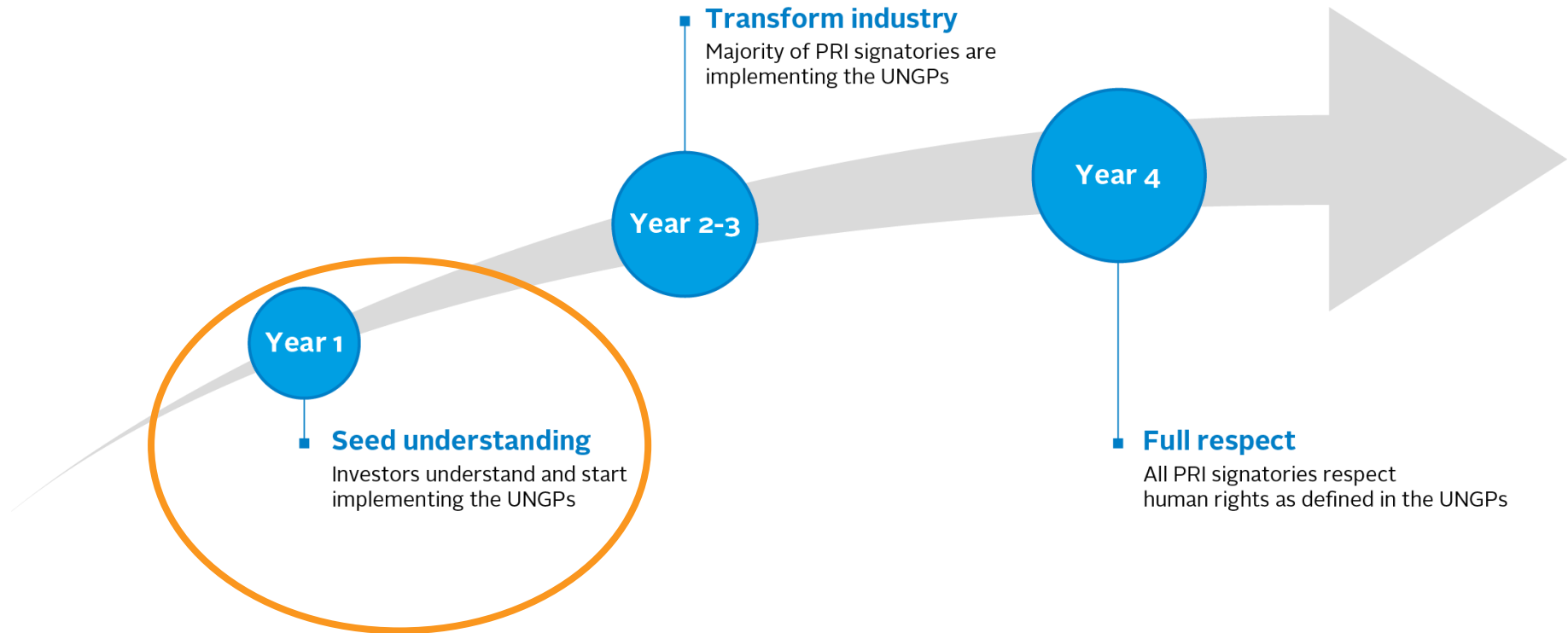
# A 360-degree process



Source: PRI



# Human rights: seeding understanding



# Human rights: a three-step process

- **Step 1:** Adopting a policy



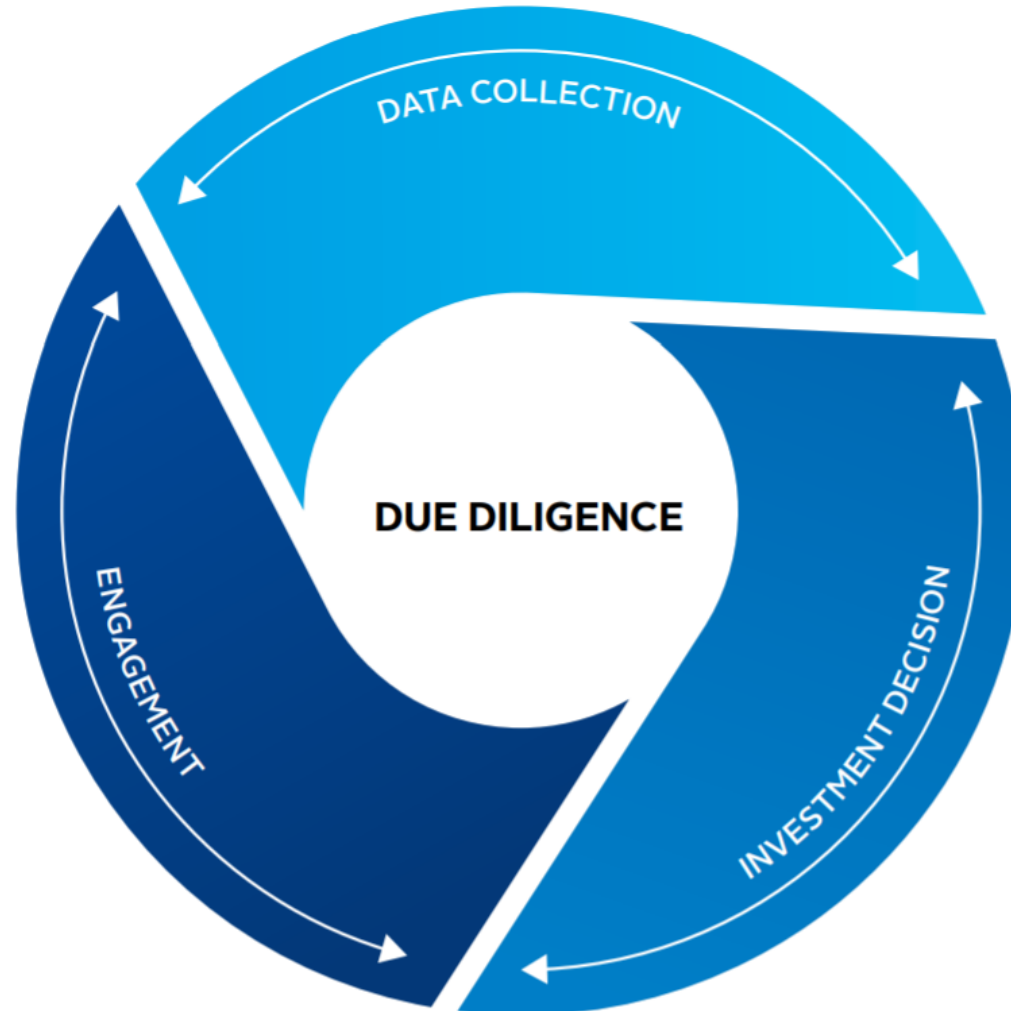
- **Step 2:** Due diligence



- **Step 3:** Enabling or providing access to remedy

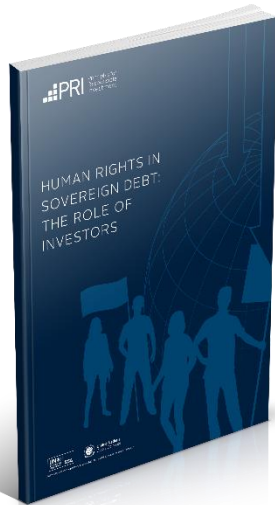


# Human rights: due diligence



Source: PRI

# Human rights: call to action



[unpri.org/sovereign-debt-human-rights](http://unpri.org/sovereign-debt-human-rights)

**Better communication**

**Increased engagement**

**Conditional lending**

# Contact us



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