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Navigating a new landscape for IR

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Bond investors and ESG perceptions

ESG issues are of increasing interest to holders of fixed income assets, and there are opportunities here for IROs, as **Lorraine Rees** explains.

Both debt IR and environmental, social and governance (ESG) have evolved significantly over the past decade.

On the debt side, where investor contact in the past may have been more focused around a specific issuance, today issuers recognise the benefits of an ongoing debt IR programme.

Equity investor interest on sustainability is well established with ethical indices like the Dow Jones Sustainability Index (DJSI) and the FTSE4Good now approaching their 20th anniversaries. Debt investors are, by their long-term focus, intrinsically aligned to a long-term sustainable strategy, and we are starting to see more focus in this area.

The success of the dedicated green bonds segment (where the issue is used to finance green projects) on the London Stock Exchange, launched in June 2015, demonstrates the level of potential interest. Green bonds are currently one of the fastest growing market segments internationally with 14 new green bonds issued in London during 2016.



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Table 1: As a bondholder, would you be interested in meeting with companies to discuss ESG issues?

Yes, on existing fixed income investments	21%
Yes, on potential new fixed income investments	5%
Both	56%
No	18%

Looking at broader debt markets, Mike Tyrell of SRI-connect comments:

"Debt investors certainly are looking more at sustainability trends. The stimulus created by the success of green bonds and the PRI's efforts to introduce ESG into credit ratings seems to be paying off."

In addition, the PRI's recent report *Shifting perceptions: ESG, credit risk and ratings – part 1: the state of play* suggests plans for further activity in the next year.

We are already seeing portfolio managers and their ESG colleagues working in a more joined-up manner rather than as two separate teams. This impacts IR engagement activity and disclosures, and applies to the debt side as well as from an equity perspective. "As investors further incorporate ESG factors into fixed income investment decision-making, companies need to strengthen their understanding of their investors ESG sensitivities," says Pia Gowland of Morrow Sodali.

The growing importance

But it's early days, and most IR efforts in the ESG space are still directed towards equity side. How many debt investors does your chairman see as part of his governance roadshow? The need to engage in this space is increasingly evident. Morrow Sodali conducted a survey at the start of the year on ESG integration into fixed income. This indicated that 82% of bondholders would be interested in meeting with companies to

DEBT IR AND ESG

- ESG performance is increasingly viewed as critical to investment decisions.
- Additional ESG disclosures and engagement would be useful.
- IROs have a great opportunity to be proactive.

Table 2: How important is a company's ESG performance when taking fixed income related investment decisions?

Critical	15%
In the process of determining	57%
Secondary	28%
Not critical	0%

discuss ESG issues on existing and/or new investments (see table 1, above).

Furthermore, the survey showed that 15% of debt investors currently viewed ESG performance as critical in their decision-making process but this looks set to increase as 57% were in the process of determining its impact (see table 2, above).

The details of ESG issues

The actual topics of interest to ESG investors, whether from a debt or equity perspective, will vary depending on the sector and the investors own benchmarks and portfolio focus, but the core topics include matters such as board diversity, executive remuneration, risk management as well as the environmental impact.

Some measures are easily quantified, such as carbon emissions or board gender analysis, and disclosure is relatively straightforward. Information on the board is one area where additional, narrative disclosure would be useful, for example a summary of the results and actions plans from an annual board evaluation.

IROs have a unique opportunity to be proactive in this area. By ensuring debt investors have the ESG information they need and engaging directly with them on the subject, we can lead the way. ■

Lorraine Rees hosts the IR Society Debt IR course and co-hosts the new Introduction to PR course, see page 38 for more details.