

Principles for Responsible Investment (PRI) footprint globally and in CIS

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Responsible investment and corporate fixed income

Linking ESG risk factors and corporate credit strength

3 June 2010 Last updated at 22:08

Share f t e b

BP bonds fall sharply as credit rating is cut

The price of BP bonds has fallen sharply, a sign markets consider it is more likely to default on its debt.



The downturn began on Tuesday, after BP's

Top

Over 1.0
Armstro

DENMARK BANKING

Danske Bank bonds fall as CEO quits over money-laundering scandal

efe-epa | Copenhagen | 19 Sep 2018

BUSINESS / COMPANY

Lonmin set to breach loan agreements over South African mine strike

Company warns investors shutdown of mine, where police shot 34 workers, will lead to debt covenants being breached

Rupert Neate
The Guardian, Tuesday 21 August 2012 18.17 BST

f t e b

Ar

“ Corporations with better ESG ratings are found to have lower cost of debt and higher credit ratings ”

(Bauer and Hann, 2011)

About the PRI

Investor-led, supported by the United Nations

Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

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.

2

UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



2600+

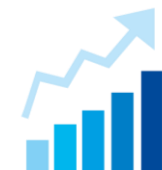
SIGNATORIES:

ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS



82+
US\$ trn

**ASSETS UNDER
MANAGEMENT**



PRI work program and its global footprint

Setting ESG standard and contributing to a number of ESG global initiatives

ESG in credit
risk and ratings



TCFD

TASK FORCE ON
CLIMATE-RELATED
FINANCIAL
DISCLOSURES

Global ESG
integration study:
fixed income &
equities



Responsible investors

- Support investors incorporating ESG issues
- Support investors dialogue with issuers
- Convene and educate responsible investors

Sustainable markets

- Challenge barriers to a sustainable financial system
- Drive meaningful data throughout markets

A prosperous world for all

- Champion climate action
- Enable real-world impact aligned with the SDGs

PRI in CEE & CIS

What has been done so far

PRI activities across the region:

- Participated at industry events in Bulgaria, Kazakhstan, Poland, Russia and Turkey to build dialogue with investors, stock exchanges and other stakeholders
- Analysed state of responsible investment practices in Russia as part of the global study of ESG practices by the PRI and CFA Institute Global
- Provided feedback to Draft Project on Recommendations by the Central Bank of Russia on Responsible Investment
- Coordinated institutional investor dialogue with CEE & CIS issuers, including with those identified by the [Climate Action 100+](#) initiative
- Collected case studies on ESG integration from CEE investors for different publications

PRI resources developed for the region:

- Методическая рекомендация [ESG-ИНТЕГРАЦИЯ: рынки, методы и данные](#) (in Russian)
- Briefing on [Sustainable Finance in Poland: the state of play and prospects for progress](#)



Future trends

- Move from sporadic adoption to comprehensive national sustainable finance strategies. Further policymaking is inevitable.
- Investors are getting more technical and implementation focussed – at least in part because the regulators have got involved.
- Real economy outcomes are the new focus for investors and for policymakers.

Thank you

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Appendix

PRI reading

- [About the PRI](#)
- [Academic research](#)

Asset owners

- [Asset owner guide: enhancing manager selection with ESG insight](#)
- [Asset owner strategy guide: how to craft an investment strategy](#)
- [Investment policy: process and practice](#)

Equities and fixed income

- [CFA Institute & PRI: Guidance and case studies for ESG integration: equities and fixed income](#)
- [CFA Institute & PRI: ESG integration in EMEA: Markets, practices and data](#)
- [A practical guide to ESG integration for equity investing](#)
- [Fixed income investor guide](#)
- [A practical guide to ESG integration in sovereign debt](#)
- [ESG engagement for fixed income investors](#)

ESG in credit risk and ratings initiative

Enhancing the transparent and systematic integration of ESG factors in credit risk analysis



[Takeaways from the emerging market forums](#) is the latest publication of the series 'Shifting perceptions, ESG, credit risk and ratings', adding to part 1-3. The series documents the work done through roundtables, gathering credit practitioner from investors and CRAs around the world to discuss ESG topics for the first time.



You can still join the initiative by signing the statement [here](#).

The next phase of the project will **broaden the investor-CRA dialogue** to other stakeholders (issuers, regulators, consultants and ESG vendors)

ESG materiality: practitioners' research in fixed income

April 2016

ESG in US investment-grade corporates

"We found significant quantitative evidence that ESG scores are positively correlated with small, stable spreads in corporate debt markets. This relationship also applies to other financial metrics such as ROA and leverage ratios."

"Furthermore, these relationships appear to strengthen during periods of market turmoil, and persist throughout market recoveries."

R Clubb, Y Takahashi and P Tiburzio,
"Evaluating the Relationship between ESG and corporate fixed income",
Breckinridge Capital Advisors and MIT Sloan School of Management, April 2016.

October 2016

ESG in US investment-grade corporates

"The findings show that a positive ESG tilt resulted in a small but steady performance advantage."

"No evidence of a negative performance impact was found."

"ESG attributes did not significantly affect the price of corporate bonds. No evidence was found that the performance advantage was due to a change in relative valuation over the study period."

A Desclee, J Hyman, L Dynkin and S Polbennikov,
"Sustainable investing and bond returns Research study into the impact of ESG on credit portfolio performance",
Barclays Research, October 2016.

April 2017

ESG in North American and European corporates

"Companies with the lowest QESG Scores tend to have the widest CDS spreads and broadest distributions of average annual CDS spreads."

"Conversely, issuers with the highest QESG Scores tend to have the lowest CDS spreads and the narrowest distribution of spreads, which should result in a more stable return profile."

M Reznick and M Viehs,
"Pricing ESG risks in Credit Markets",
Hermes Investment Management, April 2017.

July 2017

ESG in sovereigns

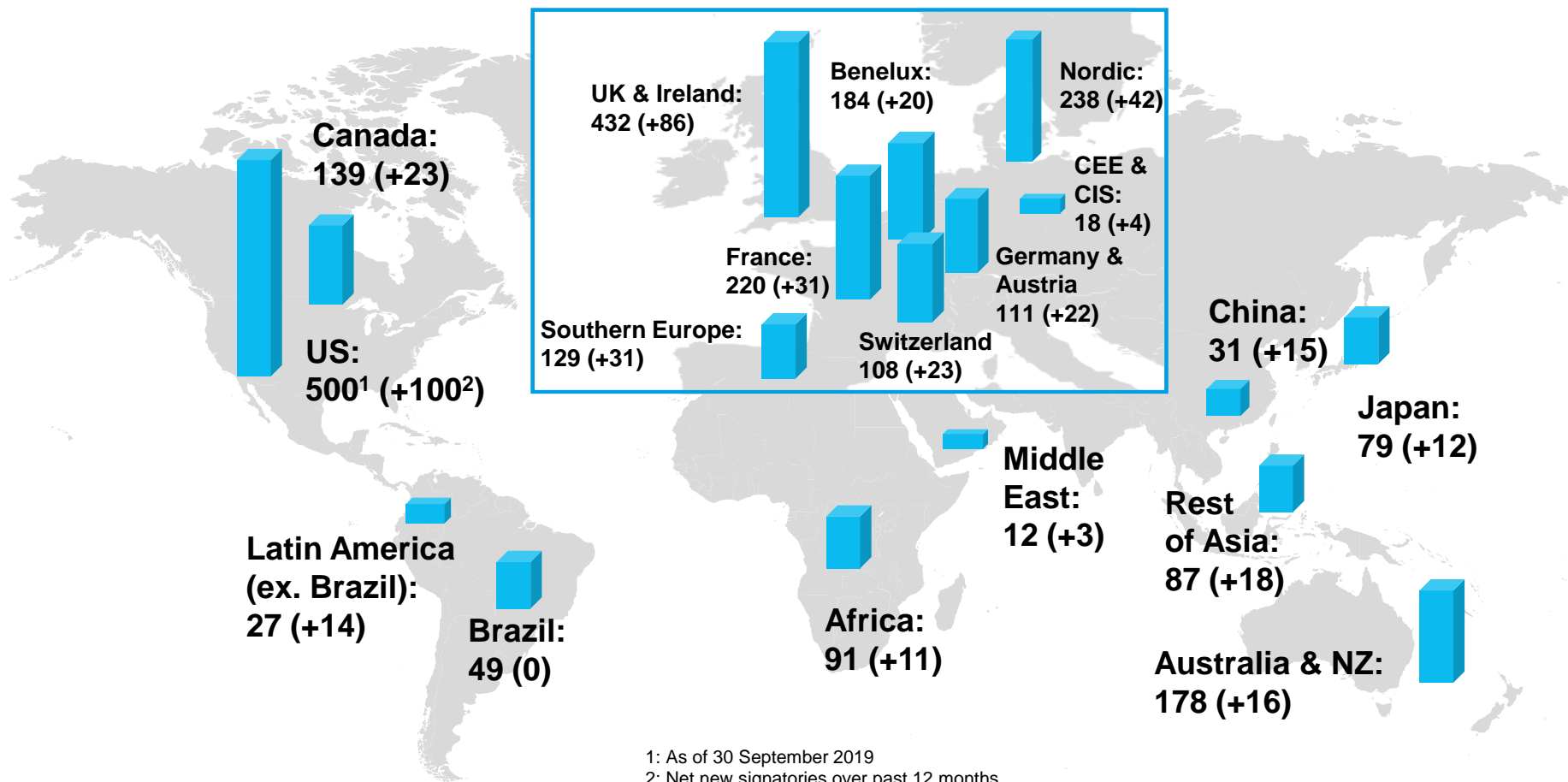
"Our empirical findings further show that there exists an inverse relationship between countries' ESG risk scores and their credit default swap (CDS) / bond spreads. This relationship seems to be of non-linear nature."

"We also find that developed and emerging country issuers with better ESG scores benefit from lower borrowing costs."

S Horter,
"Financial materiality of ESG risk factors for sovereign bond portfolios",
Allianz Global Investors, July 2017.

More than 2,600 investors worldwide

Have adopted the Principles for Responsible Investment



CEE investor signatories and network supporters

 PRI Principles for Responsible Investment	HQ Country	Signatory Date
AB Invalda INVL	Lithuania	12/06/2017
Abris Capital	Poland	19/12/2016
Actera Group	Turkey	30/08/2010
AMC *	Luxemburg	08/06/2018
ARX Equity Partners	Czech Republic	03/11/2014
AS Avaron Asset Management	Estonia	10/05/2011
AS Trigon Asset Management	Estonia	31/07/2018
BaltCap	Estonia	26/08/2008
Bulgarian Investment Managers Association**	Bulgaria	11/04/2012
CBL Asset management	Latvia	07/06/2019
CEECAT Capital *	Luxemburg	18/03/2019
CVI	Poland	06/09/2019
Česká spořitelna – penzijní společnost, a.s.	Czech Republic	11/10/2017
CoLTI (Concessionaires and long-term infrastructure investors National Association)**	Russia	25/02/2016
Future Matters	Russia	04/12/2015
JSC Lords LB Asset Management	Lithuania	23/10/2019
Innova Capital *	Jersey	06/06/2016
Karoll Capital Management	Bulgaria	19/10/2017
Livonia Partners	Latvia	30/11/2016
MidEuropa *	UK	17/03/2014
Northern Star	Estonia/Finland	07/08/2008
Prosperity Capital	Russia	21/03/2014
UFG Asset Management	Russia	17/07/2014
Zilliard Capital	Russia	24/05/2019

* Investors with headquarters outside CEE but with investments across CEE (excluded from the numbers in slide above)

** Network Supporter