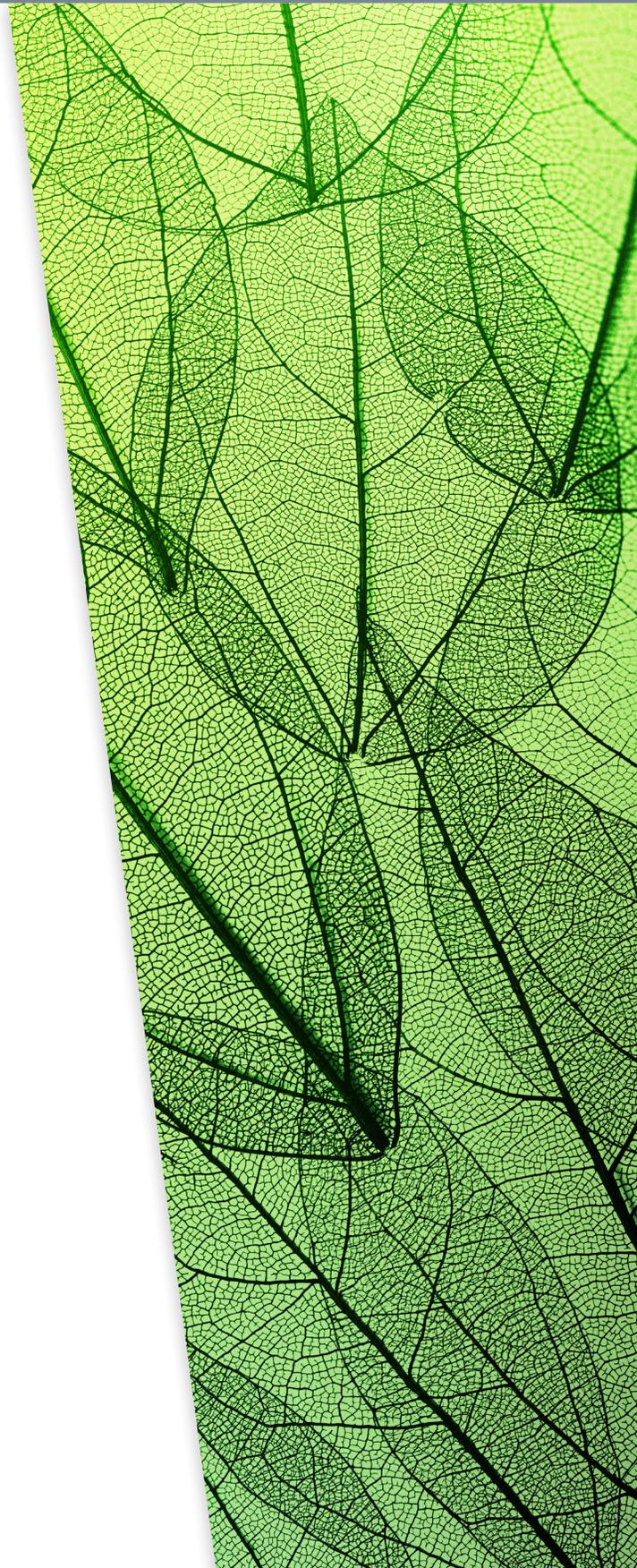




Global Asset
Management



CHARTING A SUSTAINABLE ADVANTAGE



2018  **Responsible**
Investing Survey

Fixed Income Summary

Fixed Income Summary

Top Level

53.9% of respondents said the reason for incorporating ESG into their investment approach was fiduciary duty, 52.8% said because of lower risk, increase return. (slide 3)

Reasons for not incorporating ESG

29.1% said insufficient resources, 27% said because ESG factors are not consistent with fiduciary duty.

59.7% of respondents incorporate ESG into fixed income portfolios, 72.5% in Europe, only 26.3% in Asia.

Equities have long been the primary focus of ESG analysis and investing and that remains true among many institutional investors according to this year’s survey: 84% of respondents who incorporate ESG factors into their process do so in equities. However, the survey also indicates that ESG analysis is moving beyond equities, as 60% of respondents incorporate it into their fixed-income portfolios, 43% with real estate, 36% with infrastructure and 34% with alternative assets.

In 2018 58.7 of respondents believe ESG integrated portfolios are likely to perform relative to non-ESG integrated investments, this was down from 64.4% in 2017.

In contrast, 30.9% of all respondents believe ESG integrated portfolios are likely to perform better relative to non-ESG integrated investment, this was up from 18% in 2017.

38% of respondents believe ESG factors can help generate alpha, up from 24% in 2017.

Fixed Income

34.9% of recipients believe it is important to incorporate ESG into both equity and fixed income strategies but more so for equities. The highest percentage of these recipients was in Asia.

The growing integration of ESG principles into fixed-income management should perhaps be no surprise, since in 2017, 43% of investors said it was important to incorporate ESG into fixed-income, including 30% in the US, 50% in Canada and 72% in Europe. This year, asked directly whether they incorporate ESG into fixed-income management, 52% of US investors who use ESG said yes, compared with 64% in Canada and 73% in Europe.

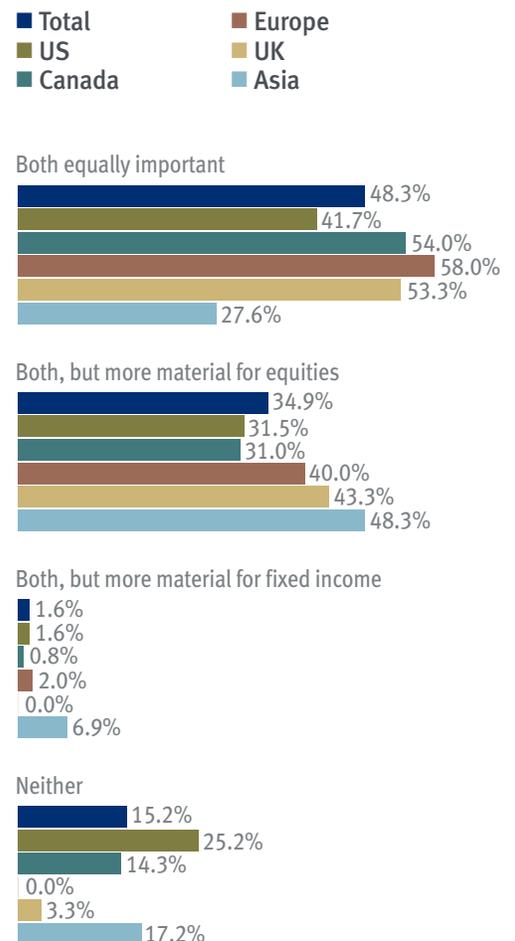
ESG analysis is moving beyond equities, as 60% of respondents incorporate ESG factors into their fixed-income portfolios.

While institutional investors see value in incorporating ESG into fixed-income strategies, many do not think there is enough product on the market. Forty-three percent of respondents said there were not enough fixed-income product offerings that incorporate ESG factors, and nearly the same number said they weren’t sure. Just 14% said they thought there was enough product in the market. These results were consistent across the world, although more Canadian respondents were not sure. Whether this is truly an issue of available product or merely one of investor perception, it appears there is work to do by investment managers who are active in this space.

34.9%

of respondents believe it is important to incorporate ESG into both equity and fixed incomes strategies but more so for equities. The highest percentage of these respondents was in Asia.

Exhibit 1: In your opinion, is ESG important to incorporate into both equity and fixed income strategies?



In terms of issuers of fixed-income securities, institutional investors believe ESG factors have the most materiality for either corporations or a combination of corporations and sovereigns. Roughly one-third of respondents cited these two groups.

The survey uncovered a gap between what institutional investors want and what they are getting in ESG-incorporated fixed-income; this is important given the vast amounts of institutional assets invested in fixed-income solutions. The survey also found lingering flaws in the understanding of impact investing, where many investors were not sure whether or not they held impact investments.

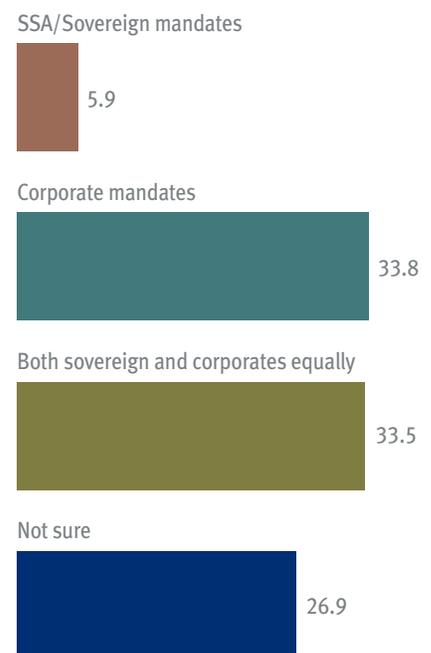
Perhaps reflecting broader societal shifts, three-quarters of investors following ESG principles favour gender diversity on corporate boards and using shareholder pressure to achieve it. Yet there is no consensus on importance of the issue, or on how to achieve it.

So while responsible investing clearly remains on a strong upward trend, the gaps in information and resources revealed in this year's survey illustrate that there is more to be done in the effort to build a fully functional, efficient and transparent market around ESG investing that meets the needs of institutional investors and the consultants and managers that serve them.

Relatively good understanding of ESG in relation to Corporate and Sovereign mandates, but work to be done on articulating.

Exhibit 2: For what type of fixed income issuer are ESG issuers the most material?

All respondents



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