BlueBay
Asset Management

Structured credit is a naturally ESG-friendly asset class

AUTHORS

Ashley Blatter
Portfolio Manager

Tom Mowl
Portfolio Manager

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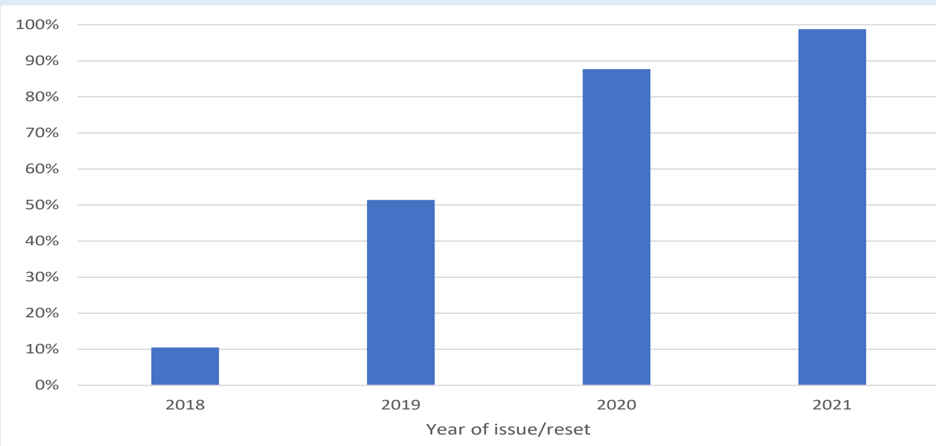
- The incorporation of ESG considerations is gaining increasing focus in the global investment community. The total size of the 'sustainable' investment universe expanded by 15% between 2018 and the start of 2020 to USD 35.3 trillion, as reported by The Global Sustainable Investment Alliance in its recent report.
- Asset-backed security (ABS) investments are generally low risk from an ESG perspective, given the focus on financing the real economy – houses, consumer purchases etc. **Environmental** risks, where present, are being addressed through the collateral, e.g. focus on energy-efficient homes or electric vehicles. From a **social** perspective, lending regulations have generally tightened up significantly post the global financial crisis, which has led to a lending environment across geographies with stronger consumer protections. Likewise, regulation is strict and there are none of the **governance** issues that come from corporates, given that the assets of the security are held in a single purpose vehicle, which is bankruptcy remote and governed by strict documentation. There is also transparency to the underlying loan level, the cash flows that are received and where they are allocated.
- 2021 has seen further ESG developments within the structured credit space. The UK RMBS market has had its first issuances of ICMA-labelled green and social bonds (financing energy-efficient homes and underserved portions of the population, such as first-time buyers).
- The number of CLOs containing restrictive ESG language has increased in recent years and we are at the stage where inclusion is normal in the European market. CLO managers have also made concerted efforts to broaden ESG-related exclusions as part of their investment eligibility criteria and an increasing number of managers are reporting ESG scores for their portfolios. The chart, using data provided by Dealscribe, shows the percentage of European transactions by issue year that contain ESG criteria in the documentation.
- At BlueBay, we have assessed the vast majority of European CLO managers from an ESG perspective and are reviewing ESG criteria within deal documents. BlueBay is committed to working with industry peers and the PRI to share and develop best practices on integrating ESG into structured credit, as a recent PRI report illustrates.

ADOPTION OF ESG EXCLUSION CRITERIA IS BECOMING THE NORM IN CLOS



Source: Dealscribe, 30 June 2021

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