

# Responsibility now a criterion on the bond market

## **BANOR APPLIES ESG CRITERIA WITHOUT DISTINCTION BY ASSET CLASS TO BETTER PROTECT ITS PORTFOLIO**

Sustainable investing is a hot topic in the asset management sector, yet while already an established concept when it comes to equities, it is less widely considered by fixed-income investors. In terms of volume, however, the bond market often has a much greater weight than the stock market in client portfolios. Nevertheless, ESG criteria in the fixed income securities sector has only really developed in the last five years.

### **THE GUIDELINES**

The subject of financial sustainability has hitherto played a major role in equity investments even if, from the client's point of view, sustainability requirements are the result of general guidelines, based on ideals or ethics (for private investors) or regulations (for institutional investors) which are not confined to the equity portion of the portfolio.



Moreover, from the asset manager's perspective, investments are following an increasingly interdisciplinary logic that transcends the traditional distinction by asset class.

**Banor** applies ESG criteria without distinction by asset class. It began to focus on ethical investments following pressure from institutional clients who wished to prioritise moral obligations over profit. It transpired that, over the years, the returns on those investments were not too bad at all. Requests that initially seemed to restrict the asset manager proved to be visionary and led to a successful investment style: the portfolio was protected from losses and volatility was reduced. These ethical leanings were combined with **Banor's** value investing approach and a long-term outlook.

### **POLITECNICO DI MILANO**

Buoyed by the positive results of the ESG approach on portfolio returns, **Banor** launched equity management lines known as "Value Etiche", available to all of its clients, modifying certain principles of the first mandate and integrating them into its asset management activities.

This led to the partnership between **Banor SIM** and Politecnico di Milano, which highlighted the validity of ESG principles on the European stock market and later reiterated the success in the field of corporate bonds. Scientific results have led to the application of ESG criteria in the UCITS V **BANOR SICAV Euro Bond Absolute Return**, a mid-yield credit fund managed with a bottom-up approach which centres on the selection of individual issuers.

It is one of the few Euro High Yield/Subordinated/-Flexible bond funds distributed in Italy to have an excellent ESG rating (according to the Sustainalytics score published by Morningstar).

Often, unlisted issuers below investment grade do not have an official ESG rating, and it is the analyst's task to assess such issuers in detail.

For **Banor**, the corporate bond market offers a great opportunity for investors focused on a sustainable approach, not only due to the long-term horizon of the market but also because it represents an investment where minimising risks is more important than maximising profits. The ESG approach offers a series of tools able to assess the risks associated with the climatic and social impact and the potential inadequacy of governance methods. The history of the bond market is studded with events classified as ESG risk: consider Volkswagen in terms of environment, or Enron and Parmalat for governance.

### **FUTURE RISKS**

In any case, investors should give particular consideration to future risks. Bond investors will certainly have to turn their attention to this. It is no longer a case of merely subscribing to a handful of green bonds. Instead, managers will have to alter the way they structure portfolios in order to adapt to the significant changes affecting the planet.

**Francesco Castelli**

*Fixed Income Manager at **Banor Capital and **Banor SICAV Euro Bond Manager*****