Climate Risks & Opportunities:

What debt investors expect from issuers

Results from NatWest global fixed income investor survey

June 2023

NatWest

Welcome

Debt investors are uniquely positioned to help accelerate the transition to net zero and the consideration of climate physical risks. Credit markets eclipse equities – in 2021, global fixed income markets were worth $126.9trn, compared with $124.4trn in equity markets.[1]

To date, much of the discussion around the net zero transition and climate physical risk has taken place in equity markets. But expectations from investors are shifting the conversation to fixed income markets.

This follows national and international climate commitments that are filtering through to policies, driving change within financial institutions. In Europe, institutions look to the Sustainable Finance Disclosure Regulation (SFDR), the EU Taxonomy and the Taskforce on Climate-related Financial Disclosures (TCFD). The UK's Sustainability Disclosure Regulation (SDR) is in development, and green taxonomies are proliferating globally.

Other initiatives include the Partnership for Carbon Accounting Financials (PCAF), which has developed a tool that allows financial institutions to measure and report the financed emissions of loans and investments in a harmonised and transparent way.

And central banks are analysing their bond holdings to reduce their exposure to climate risks and decarbonise their portfolios; since October 2022, the European Central Bank has started to tilt its purchases towards issuers that are performing better on the climate.[2]

Jonathan Peberdy
Managing Director,
Head of Capital Markets

Reaching a friction point

As bondholders make progress on their net zero targets, they now expect issuers to adhere to these climate-related standards. But issuers are not, in many cases, reporting on their own climate progress in the expected detail.

As such, the market is reaching a potential friction point where investors are having to meet interim decarbonisation targets, while some borrowers may not have set or aligned their climate goals with global standards.

It is becoming incumbent on issuers to clearly demonstrate a robust transition plan, mitigate their climate impact and report on their climate-related performance so that they can retain and attract these investors, manage their financing risks and secure access to the capital needed to grow. Ultimately, this may deliver a competitive advantage.

In order to foster collaboration and contribute to climate progress within debt markets, at the beginning of 2023 we surveyed 225 asset managers involved in making or executing decisions related to fixed income and related ESG strategies to see where they stand on climate transition and physical risk.

The message that emerges for chief financial officers and treasurers is clear: investors need to meet increasingly ambitious decarbonisation targets and support from issuers – whether it is through data and disclosures or green issuances – is sorely needed.

To facilitate this process, finance leaders must work with their sustainability and climate teams to instil confidence in the markets that their organisation is preparing for the transition to the low-carbon economy.

Green and sustainability-linked instruments may help to transform the company more quickly and facilitate engagement with issuers but, as this report highlights, the ambition, metrics and disclosures underpinning these instruments must evolve to meet growing investor expecations and contribute to widespread change in the real economy.

Furthermore, our research shows that issuers should actively engage with their most material investors and continue to iterate their climate strategy publicly and in detail.

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1 'Capital Markets Fact Book, 2022', SIFMA, July 2022
2 'FAQ on incorporating climate change considerations into corporate bond purchases', European Central Bank, 2023

Acknowledgements

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Climate risk: useful definitions

Climate transition risk refers to the financial risks associated with the transition to a low-carbon economy and the impacts of climate change on financial assets, liabilities and wider financial systems. Such risks can arise from shifts in policy, technology and market conditions.

Climate physical risk relates to the impact of events such as natural disasters, sea level rises and extreme weather on an asset or portfolio.

Key findings

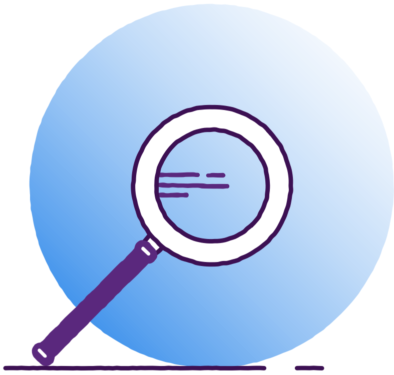
01 Fixed income investors are confident in their net zero strategies.

71% of surveyed investors say their organisation has made a net zero commitment. Just over half of these aim to achieve net zero by 2050.

39% say they are already ahead of schedule in achieving their target. However, there is a lack of consistency in implementing these strategies and it remains largely unclear what these net zero targets entail, and which tools are being used to measure progress.

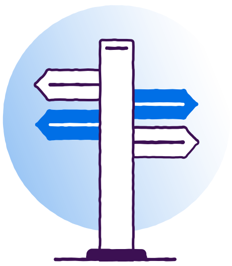
02 Evaluation of climate physical risk is less advanced.

Only 18% of respondents say they consider climate physical risk for all corporate investments. Flooding, changing weather patterns, and the expansion of tropical pests and diseases into temperate zones are the most relevant physical risks identified.

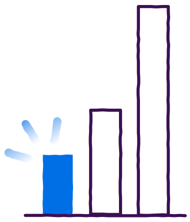


03 Mismatches in decarbonisation frameworks are creating implementation challenges.

Frameworks such as the Net Zero Asset Managers Initiative (NZAMI) are helping fund managers validate their own progress towards net zero, but these may not always mesh with the reporting standards used by businesses around the world, or with other frameworks.



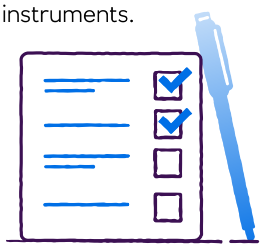
04 Data is abundant, but insight is in short supply.



Only 15% of respondents strongly agree that they have enough emissions data to track progress against their net zero targets. And emissions data alone may not provide a holistic view when it comes to understanding a company's climate risk profile. "Transparency, disclosure and real-time information; that's really the biggest challenge we face right now," says Stephanie Maier, Global Head of Sustainable and Impact Investment at Global Asset Management (GAM).

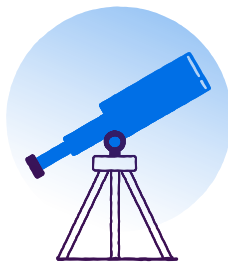
05 Investors want more transparency for all sustainably structured instruments.

Investors prefer different sustainability structures to reach their net zero goals, but the assessment of an issuer's sustainability strategy and transition profile is critical for both sustainable and conventional instruments. What they value most are credible data disclosure and a plan of action.



06 Proactive engagement may be rewarded.

A consistent refrain among investors interviewed for this report is the desire for disclosure that goes beyond mandatory reporting requirements and reveals how businesses are driving their sustainability journeys. "We want to buy into credible stories and credible actions," says Xuan Sheng Ou Yong, Green Bonds & ESG Analyst at BNP Paribas Asset Management.



Chapter 1

The climate risk agenda

Fixed income investors have made ambitious commitments to decarbonise their portfolios, while climate physical risk assessment is still maturing. They are looking to issuers to follow suit and set clear climate and environmental targets.

Climate transition risk, resulting from the global shift to a zero-carbon economy, is firmly on the agenda for fixed income asset managers, and they are confident in their progress on addressing it, our survey found.

The majority of surveyed investors (71%) have made a commitment to net zero, while 26% have made an alternative greenhouse gas reduction commitment.

Among those that have made a net zero pledge, the most common commitment is reducing the greenhouse gas (GHG) emissions of all investment portfolios in line with the Paris Agreement (51%), followed by creating investment products that align with net zero emissions by 2050 (40%).

The most widely adopted framework for measuring progress towards net zero is science-based targets (SBTs) – 44% of those with net zero commitments claim to have adopted a target approved by the Science Based Targets initiative (SBTi). However, this may reflect ambition rather than action: the SBTi reports that only around 200 financial institutions have had their targets approved to date or have publicly committed to set emissions reduction targets through the initiative[3].

Following this, the Net Zero Asset Managers Initiative (NZAMI) has been adopted by 28% of respondents, and almost the same proportion (27%) have an internally developed target.

In line with the Paris Agreement, the most common deadline for organisations' net zero commitments falls within 2046-50. Nearly all (98%) respondents believe they are on track to meet their target date, of which 39% say they are ahead of schedule.

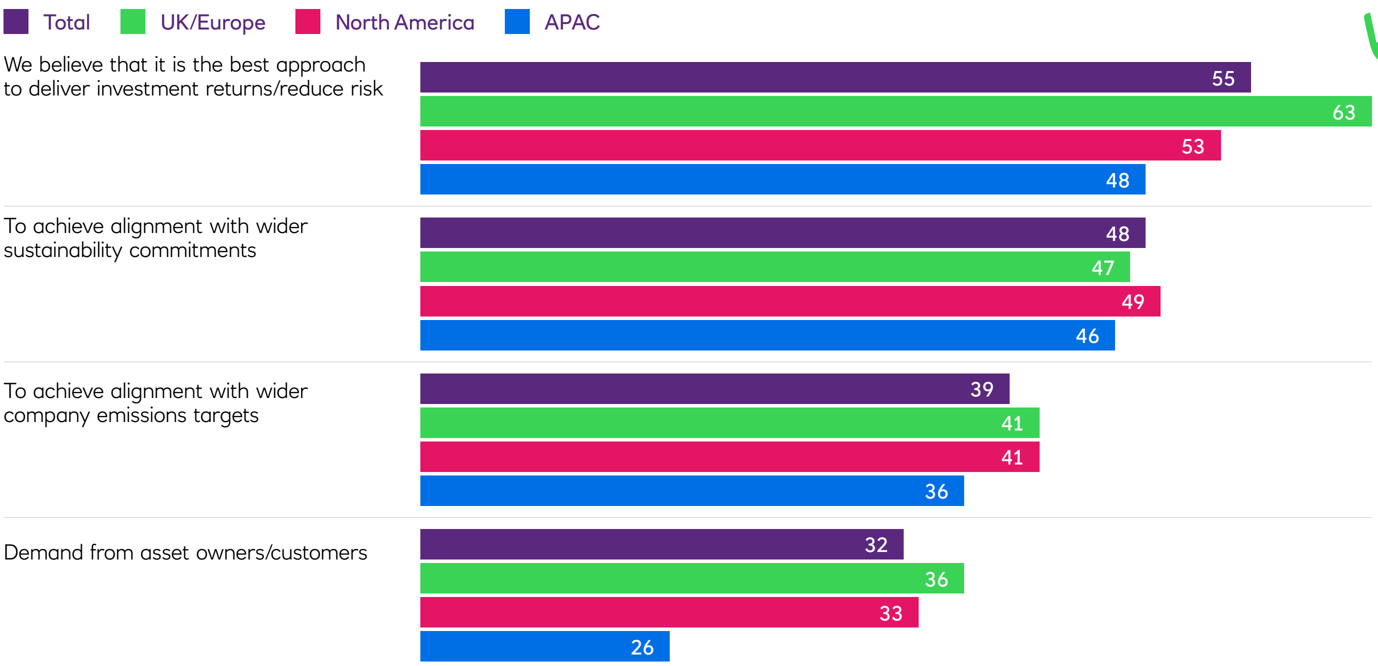
This confidence appears high given that achieving net zero is partially dependent on issuers' progress and disclosures, which – as we'll see in a later chapter – have room for improvement.

Of course, this may reflect some naivety about the complexity of delivering net zero: "I'm amazed that everyone is saying they're confident in their ability to manage critical transition risk particularly given the scale of the challenge," says Sandra Carlisle, Head of Sustainability at Jupiter Asset Management.

Driving investors' adoption of net zero commitments is a belief that it is the best way to deliver investment returns and reduce risk (55%) – which improves overall fund performance (see figure 1).

This belief is especially widespread in Europe (63%), which may be the most sophisticated region in terms of progress with climate investing strategies. Here, investors have moved beyond virtue signalling on ESG matters and acknowledge the clear link between sustainability and enhanced fund performance. It is also important to note that 53% of the respondents based in the US acknowledge the financial benefits of incorporating net zero ambitions.

Figure 1. The drivers of net zero
Why have you made a net zero commitment? (%)



n = 160 respondents with net zero commitments

3 'Financial institutions', SBTi, 2023

Clear climate strategies

Asset managers are now turning their attention to the climate transition risk of their holdings. "We've set corporate targets to get us to net zero by 2050 but obviously that's not where our major emissions are," says Carlisle. "The big commitment is in our financed emissions, i.e, in the investment book."

Currently, funds' net zero commitments only extend to 22% of their assets under management (AUM), on average – which is potentially at odds with their widespread confidence that they are on track to meet their goals. This proportion could increase to just over a third in five years' time, respondents expect.

Nevertheless, this demonstrates the challenges in incorporating net zero ambitions across the majority of portfolios.

Carlisle from Jupiter Asset Management says that "42% of our AUM is under scope at the moment; that is pretty high amongst our peers". TCW, a global asset management firm, does not have a company-level net zero target and is instead focused on driving sustainability through its portfolios.

BNP Paribas Asset Management, meanwhile, has committed to net zero emissions from its portfolios by 2050, and has adopted frameworks from NZAMI, a subset of the Glasgow Financial Alliance for Net Zero (GFANZ).

Asset managers incorporate GHG emissions into their fixed-income investment strategies in a variety of ways, the survey reveals. Just under a third (31%) integrate emissions into their weighted average cost-of-capital models – meaning that these investors may require a higher yield from more polluting companies. This expectation is consistent across all three regions included in the survey.

Almost as many respondents (28%) underweight investments deemed to have high emissions in their portfolios. This proportion is higher in North America (31%) and lower in APAC (25%).

North American investors are more likely to underweight investments with high emissions than those in Asia-Pacific.

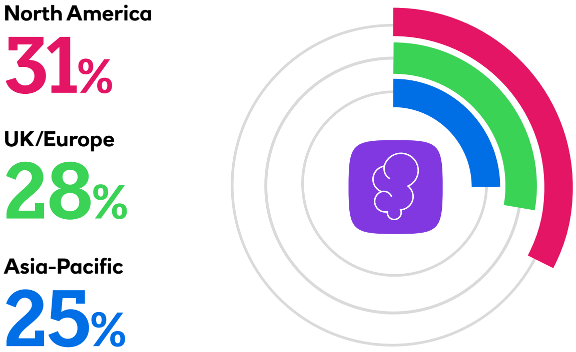


Figure 2. AUM covered by net zero targets, now and in future

Average % of fixed income AUM

n = 160 respondents with net zero commitments

Only 10% of surveyed investors say they rely on engagement alone with their investee companies to minimise emissions. Rather, engagement is an important part of investee relations – and there is appetite among investors for issuers to engage with them and disclose data more proactively. But investors cannot rely on this in isolation. For effective engagement, asset managers are using a range of proprietary scorecards and data providers to create comparable metrics across issuers.

Over time, regulatory frameworks such as SFDR and SDR will hopefully streamline investor requirements, making it easier for issuers to report specific metrics or data points that are needed by investors.

Climate physical risk

The global shift to a net zero economy is the most-discussed dimension of climate risk, but it is not the only one. Climate change exposes businesses to new and more extreme physical risks, which asset managers need to address in their portfolios.

On the surface, climate physical risk appears to be just as high on the agenda as transition risk. Nearly all respondents (98%) say their fixed income investment decisions consider physical risks from climate change.

However, only 18% of respondents say they consider climate physical risk for all corporate investments. For the majority, physical risks are only selectively applied: to investments in developed markets (40%), emerging markets (25%) or certain sectors (15%). On average, respondents say they have conducted a physical assessment for 16% of their AUM.

Flooding, changing weather patterns, and the expansion of tropical pests and diseases into temperate zones are the physical risks most widely identified as being material to respondents' fixed income investments. As climate scientists are highlighting, physical risk models are based on historical climate-related events and do not reflect the increasing frequency and severity of such events, now and in the future, due to changing weather patterns.[4]

For Jupiter Asset Management's Carlisle, climate transition risk is a more immediate concern than climate physical risk, in part because it has received greater attention from policymakers and regulators. "Transition risk is where the impacts are likely to be greater for us as an investor, as we have a relatively small operational footprint," she says. "It's much more engrained in regulation and policy than physical risk."

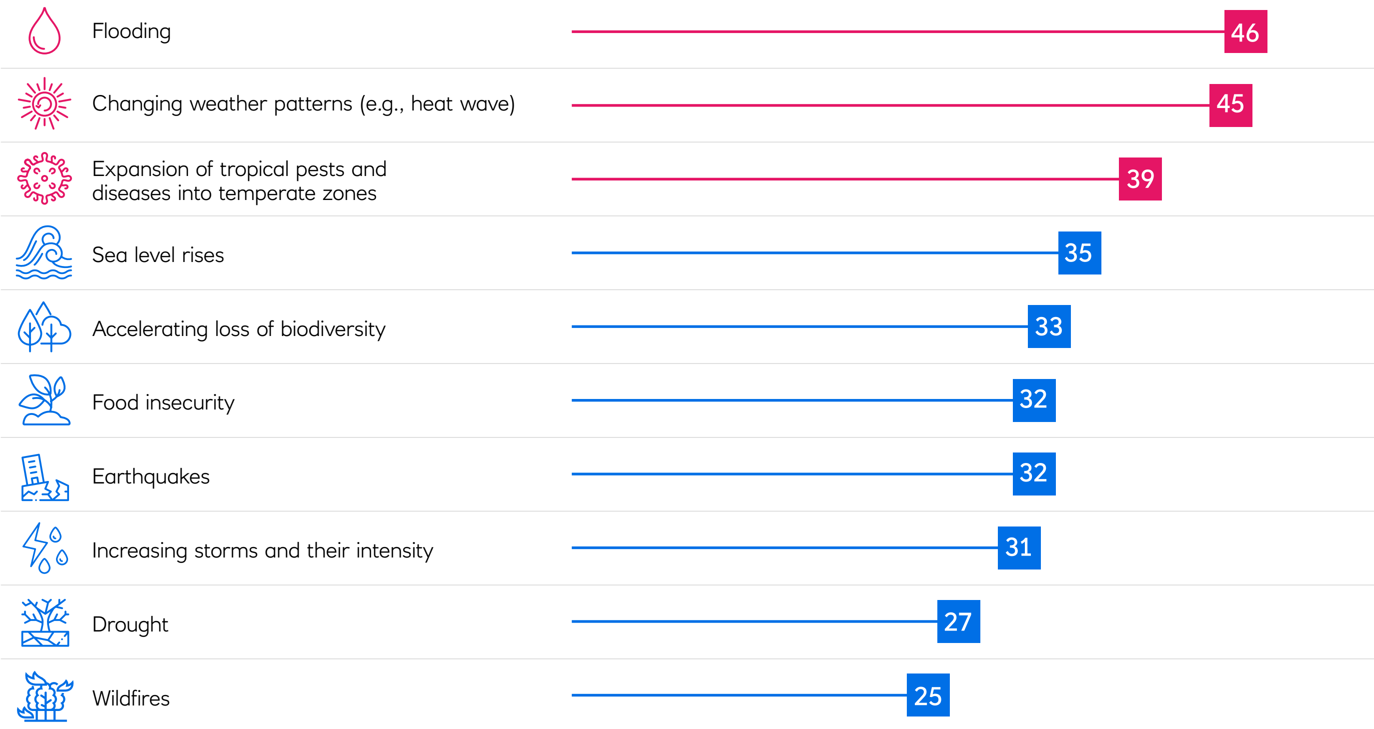
Nevertheless, climate physical risks are impacting investment decisions and issuers should not delay their risk assessments. Not only are the physical risks of climate change likely to become apparent as time progresses, the growing focus among investors and regulators on biodiversity and natural capital may also expand the scope and urgency of physical risk assessments. Examples include the EU Taxonomy Do No Significant Harm (DNSH) criteria for Climate Change Adaptation, which requires climate risk and vulnerability assessments.

The ambition of fixed income investors' sustainability goals is already shaping their investment strategies. Businesses that wish to borrow from them will need to understand their own climate physical risk, as well as transition risks, and communicate to investors how they are addressing them. Those that don't may experience obstacles in their access to capital or markets.

As we'll see in the next chapter, while investors may have plenty of metrics with which to measure debt issuers' current environmental performance, they are in urgent need of greater insights into how they plan to address transition risk.

Figure 3. The biggest climate physical risks to fixed income investments

Which of the following physical risks and impacts have you identified as being material to any of your fixed income investments? (%)



n = 225 respondents

4 'Scientists warn over misuse of climate models in financial markets', Reuters, February 2018

Chapter 2

Metrics that matter

Fixed income asset managers use a range of metrics to assess issuers' climate performance and engage with them directly – but they need more data and dialogue to reach net zero. Issuers should familiarise themselves with investors' decision-making processes to deliver the data they need.

Science-based targets are already guiding decarbonisation plans in the corporate world

Climate risk is now a material factor in investment decisions and, as evidenced in chapter one, fixed income investors use a variety of frameworks to assess their own climate progress and have committed to a range of targets for their investment portfolios.

SBTs are already guiding decarbonisation plans in the corporate world and financial services firms are following suit – but the adoption of these methodologies varies by region.

"One of the patterns that we've seen is that European and Asian companies tend to use SBTs, but Americans tend not to," observes Harun Dogo, Global Co-Head of Sustainable Investment at TCW.

Attempts are under way to standardise rules and frameworks. Europe has developed a single framework to capture sustainable activities with its EU Taxonomy. And the SFDR has attempted to improve transparency around investors' sustainability disclosures.

The TCFD is a globally co-ordinated attempt to standardise disclosures among public companies and other organisations, including financial institutions.

Nevertheless, there is a proliferation of taxonomies and voluntary measurement frameworks. This regional divergence of regulations and frameworks has the potential to confuse investors and issuers alike.

"How is the interplay with some of those national taxonomies going to work?" asks Maier of GAM. "Do bond issuers report a taxonomy alignment according to the European, the UK, the Australian, the Canadian, or Singaporean or Malaysian taxonomy?"

To navigate the complexity, issuers may find it helpful to understand their investors' decision-making process, which typically begins with credit and ESG assessments, followed by their chosen framework and, lastly, looking at the actual bond structure.

Debt investors are not homogenous and the frameworks, metrics, strategies and pressures that apply to accounts in the US, Europe and Asia will all be different.

From data to insight

Whatever framework they may use, fixed income investors need data for their decision-making tools and their risk assessments.

When it comes to climate transition risk, emissions metrics are the primary focus. Most respondents (63%) currently use reported Scope 1 and 2 emissions to track investee performance. Fewer (42%) currently use reported Scope 3 emissions, but 40% expect to be doing so within the next 1-2 years.

Respondents are remarkably positive about the availability of emissions data: nearly three-quarters (74%) agree somewhat or strongly that they have enough emissions data to assess and track their progress against their net zero target.

This confidence may reflect investors' reliance on third-party data providers. When it comes to direct disclosure by investee companies, asset managers are hungry for more, says GAM's Maier.

"Transparency, disclosure and [regularly updated] information; that's really the biggest challenge we face right now," she says. "That would be the most helpful thing to help us make better informed investment decisions.

"We're not asking to be difficult," Maier adds. "We really need to know, to better price risk and opportunity."

Data may be abundant, but it does not tell investors all they need to know about a company's climate strategy, and fixed income investors are increasingly looking for such insights.

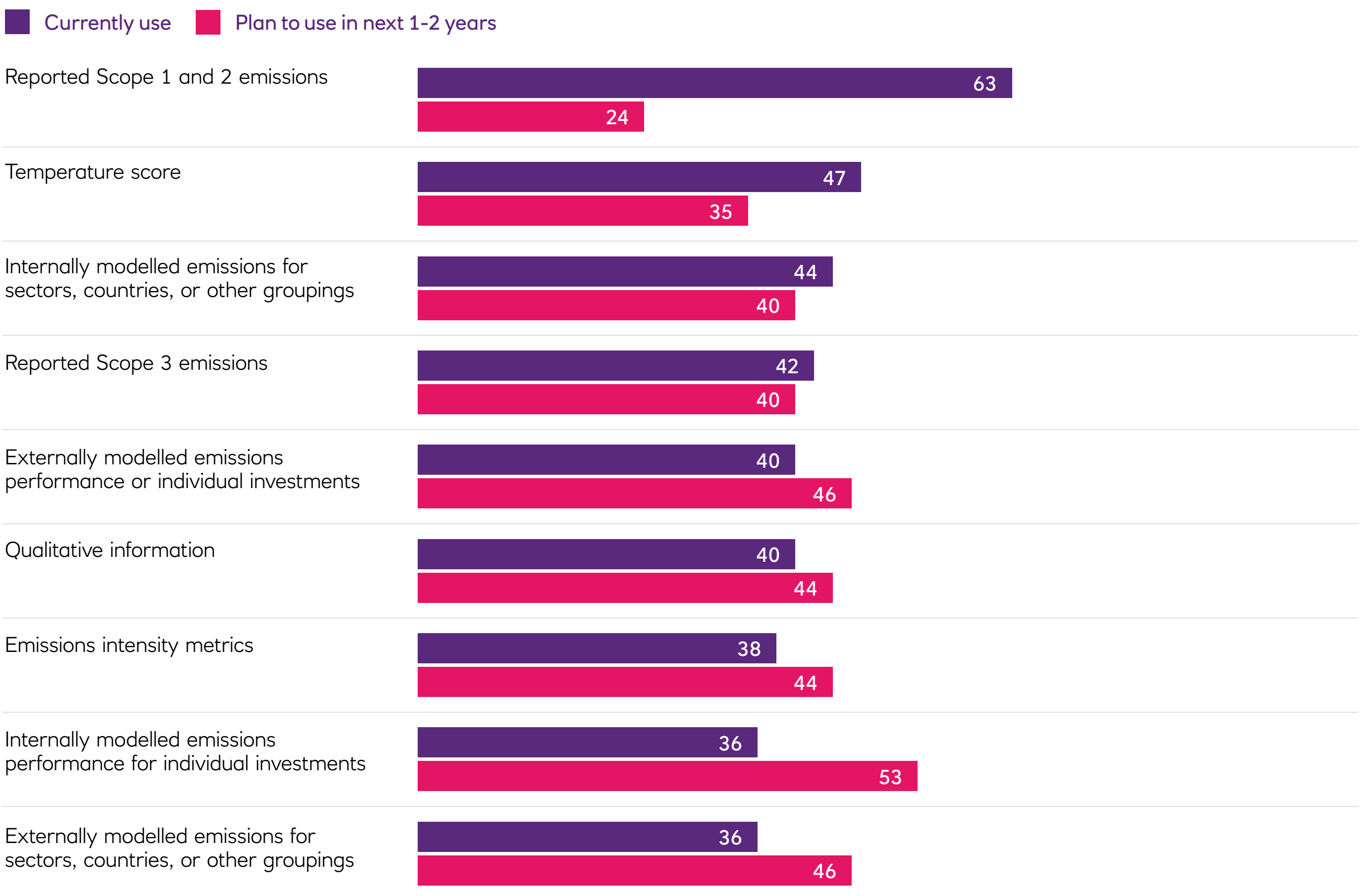
Japanese investment manager, Asset Management One, broadly follows the NZAMI framework to assess its investees, but the application of the criteria is based on an internally developed model, in part because finding consistent climate disclosures is challenging.

Others will follow this lead, our survey suggests: over half of respondents (53%) expect to internally model emissions performance for individual investments in the next 1-2 years, compared with 36% who are doing so today.

For Dogo, this diversity of reporting frameworks – each representing alternative metrics to capture sustainability – shows why investors can't rely on metrics alone to understand a company's approach to climate risk. "What's much more important here is to understand the company's business strategy," he says.

Figure 4. Tracking investee emissions

What metrics do you currently use or plan to use in future to track investee emissions performance? (%)



n = 225 respondents

> **“The question for us is ‘what can we do to encourage a better dialogue between companies and investors?’”**
>
> **Felipe Gordillo, Senior Impact and ESG Specialist, GSS Bonds, Mirova**

“The most difficult part to find is the [companies’] overall decarbonisation strategy with a timeframe and what they are going to do until 2050,” says Minako Takaba, Sustainable Investment Officer at Asset Management One. “Not many companies disclose that with detailed action plans.”

Mirova is one of a growing number of exclusively sustainable global investment managers that is aiming for its portfolios to be consistent with a global temperature rise of less than 2°C.

For Felipe Gordillo, Senior Impact and ESG Specialist, GSS Bonds, at the firm, the ability to understand and interrogate investees’ transition strategies requires not just data, but also dialogue.

As outlined above, credible transition plans have been challenging to define and benchmark. As a result, the UK, through its Transition Plan Taskforce, as well as GFANZ, have published guidance, and the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) has published a summary of developing transition plan frameworks.

Measuring climate physical risk

When it comes to assessing climate physical risk, investors are especially reliant on disclosures by issuers, the survey shows: 47% use such disclosures to manage physical risk, ahead of external data providers (42%) and alternative data providers (40%).

But assessing a company’s true exposure to climate physical risks requires an understanding of its supply chains, explains Takaba. Currently, though, this data is hard to acquire. “Companies do not disclose supply chain information,” she says. “We’re looking for supply chain information from data vendors but we can’t find good ones.”

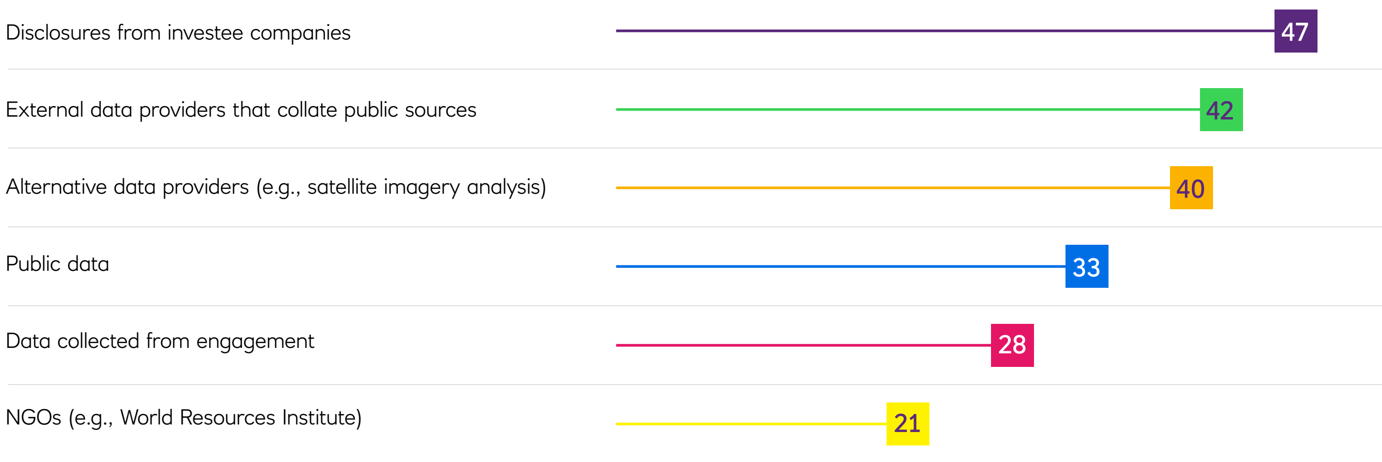
Gordillo at Mirova says that each company’s climate physical risk needs to be assessed on a case-by-case basis. “We don’t think that all physical risks are relevant for every company, across every sector and location,” he explains.

So far, only about half of investors take this approach, our survey suggests: 51% of respondents agree that their physical risk assessment “evaluates different risks depending on the sector or location of the company”.

But as debt markets become more sophisticated in their sustainability assessments, issuers may be expected to report on specific location- and asset-related risks, as well as risks relating to the loss of biodiversity and degradation of natural habitats. Those that cannot may become less competitive as a result.

Figure 5. Measuring physical risk

What data sources does your organisation use to identify and measure physical risks in fixed income investments? (%)



n = 225 respondents

Chapter 3

Driving forward sustainable finance

Green investments support the transition to net zero, and many investors may continue to favour issuances from companies with solid sustainability credentials regardless of the product label. Issuers that align their offerings with credible frameworks and offer detailed reporting should stand out.

Investors increasingly lean on a range of ESG-labelled debt instruments such as green, social, sustainability and sustainability-linked bonds (GSS/SLB) to help meet their targets and demonstrate progress towards net zero. Yet GSS/SLB bonds still only represent 5% of the global bond market[5] and investors largely rely on conventional bonds.

Notwithstanding progress in recent years – global green bond issuances reached a record high in 2021[6]– growth stalled as markets adjusted to the turmoil of the covid-19 pandemic and other shocks. Nevertheless, the GSS/SLB bond market reached a combined value of around US$3.8trn in December 2022.[7]

One aim of our survey was to identify investors' attitudes towards sustainable investment products in 2023 and beyond, and whether investors want more innovation from issuers to help them manage climate risk more effectively.

Nearly three quarters (72%) of respondents selected a sustainable bond structure – use of proceeds bonds, green securitisation, or sustainability-linked bonds – as their first choice for reaching net zero.

An even greater number (78%) preferred these instruments for mitigating physical risk. However, none of these three options was the clear preference, suggesting that no single structure meets every investor's sustainability objectives.

Interestingly, a meaningful number of respondents (28%) indicated that conventional bonds are their preferred instrument for reaching net zero goals, while 22% indicated the same for mitigating physical risk. This perhaps reflects some scepticism over GSS/SLB bonds amidst growing concerns over greenwashing.

In recent years, greenwashing concerns have tainted the reputation of green debt instruments for some investors. There is work to be done on sustainability-linked bonds, in particular, to ensure they have credible targets and appropriate penalties, says Jamie Franco, Global Co-Head of Sustainable Investment at TCW. Investors are therefore looking for assurances that solidify a bond's green credentials, the survey suggests.

Nearly half (47%) ranked 'sustainability-linked bonds that only include SBTi-approved targets' among the top three innovations that would help achieve their organisation's net zero goals. Investors need to validate their climate targets and increasingly prefer the external verification of an issuance that help them to do so.

In relation to physical risk, use of proceed bonds were the top-ranked instrument: "There's got to be very clear, well-defined use of proceeds, and you've got to be able to account for that," says Carlisle at Jupiter Asset Management. "For us as an investor, having to report and disclose with increasing regulatory and client scrutiny, we just can't take the risk of an instrument that does not clearly define use of proceeds."

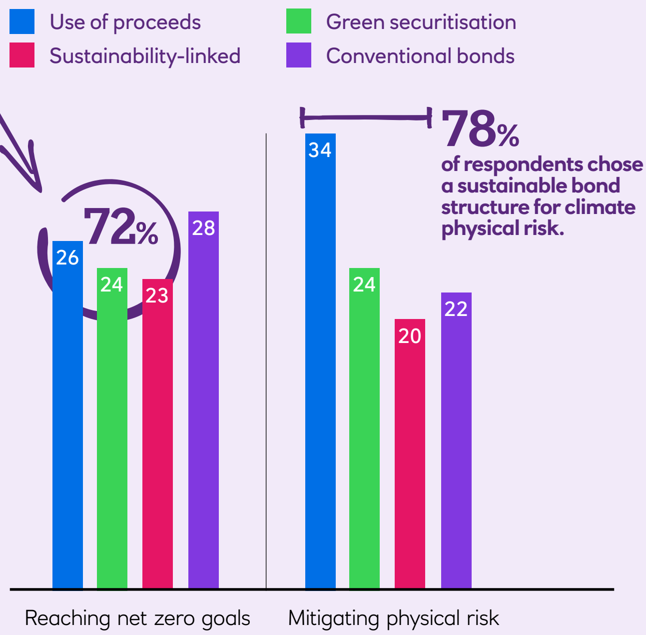
It is no surprise, then, that improved impact reporting on use of proceeds bonds ranks highly as a change that investors would like to see corporate issuers implement when issuing debt. This could include clearly defined impact reports with asset location information, allocation of capital information and standardisation of impact metrics between issuers.

"For green use of proceeds bonds, please incorporate more strategic level KPIs, and please incorporate the transition plans," GAM's Maier implores issuers. "You need to have [a] more detailed climate strategy linked to green bond assets."

Figure 6. Preferred bond structures for managing climate risk

What bond structures do you think are most helpful for reaching net zero goals and mitigating physical risk?

(% who rank each answer #1)



n = 225 respondents

5 'Green and other Labelled Bonds Held Market Share in 2022 Amidst Fall of Global Fixed income', Climate Bonds Initiative, January 2023
6 'Global issuance of sustainable bonds hits record in 2021', Reuters, December 2021
7 'Global State of the Market Report 2022', Climate Bonds Initiative, April 2023

> **"From an investor perspective, we want to buy into credible stories and credible actions. The issuer needs to convince the market it's doing the right thing."**

Xuan Sheng Ou Yong, Green Bonds & ESG Analyst, BNP Paribas Asset Management

The devil is in the data

It is not solely up to issuers alone to fix the sustainable bond market, respondents believe. Two-thirds (66%) agree that more guidance is needed from regulators and market associations to drive innovation in green and sustainability-linked bonds. This could include a mandate that any listed bond must disclose climate transition information, for example.

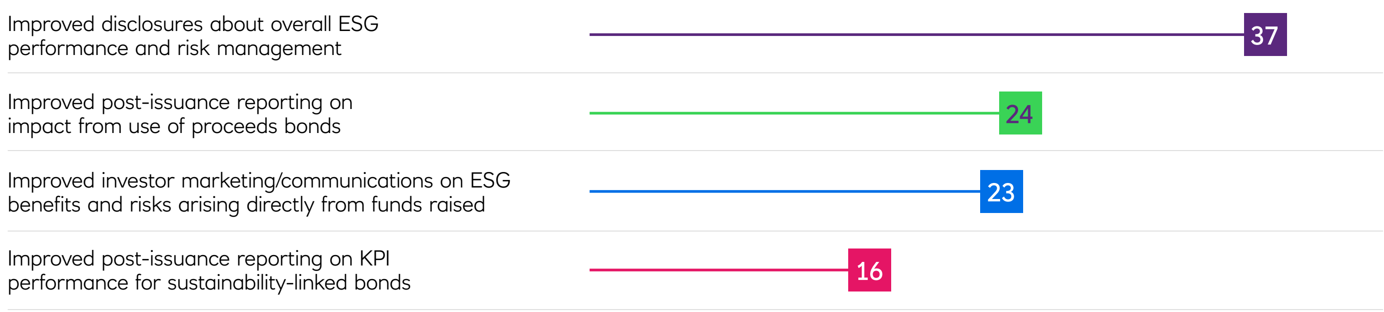
But the overriding message to businesses is to improve existing issuances with greater transparency, additionality and credibility rather than innovate across the product spectrum.

A clear sustainability strategy, combined with reporting in enhanced detail, contributes to an issuer's credibility and makes both conventional and labelled bonds more attractive.

The overriding message to businesses is to improve existing issuances with greater transparency, additionality and credibility.

Figure 7. How issuers could help investors achieve their ESG goals

What would be the biggest improvement that corporate issuers could make when issuing debt to help you achieve your ESG goals? (%)



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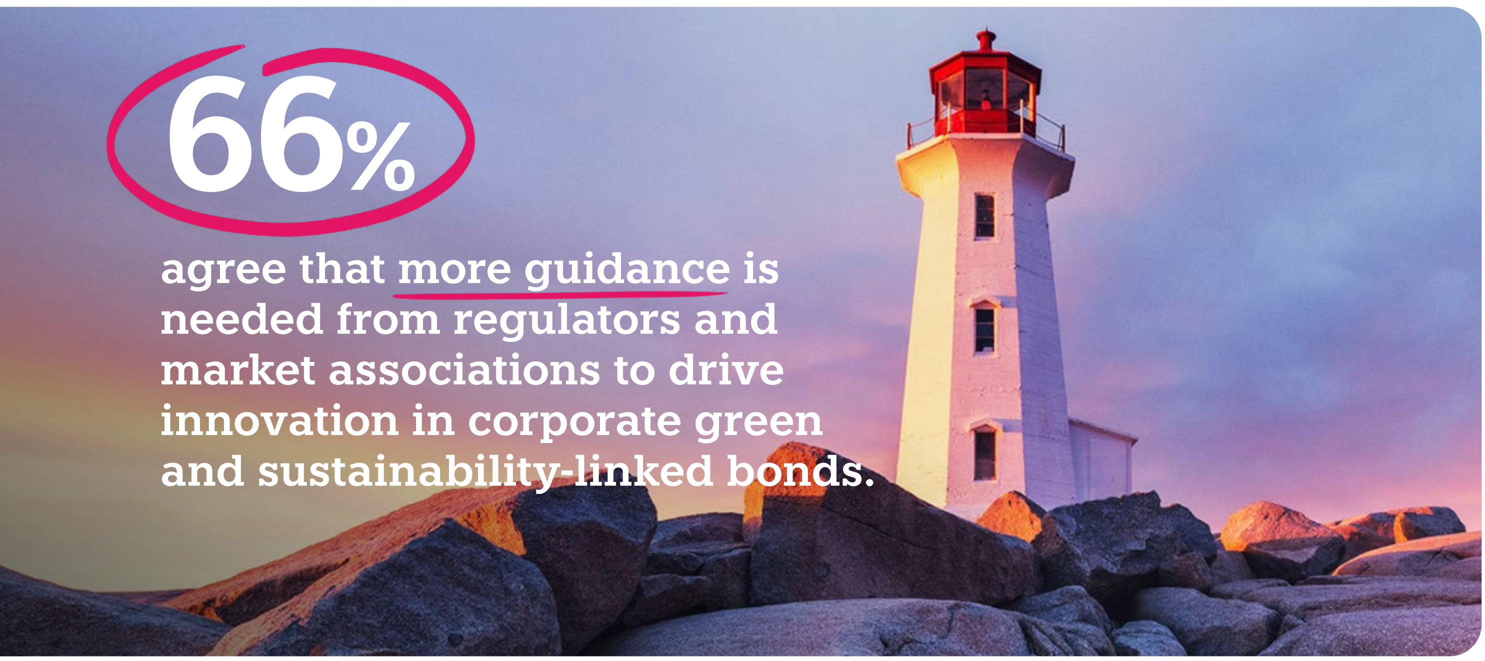

Conclusion

Greater transparency over sustainability credentials and proactive impact reporting should make issuers attractive to fixed income investors as they strive to manage climate risk.

Fixed income investors see climate risk management as critical to their investments' success. But while most are confident of their ability to reach their net zero commitments, the application of climate transition risk factors varies significantly across different types of funds and the frameworks and metrics they adhere to. Furthermore, the gap between their progress to date and future aspirations, and the actions within the bond market, is wide. Investors are not confident that they have sufficient data to meet their ambitions, while the heterogeneous mix of metrics and standards available creates confusion.

Engagement with issuers is paramount given that everyone is broadly in pursuit of the same goal.

There is also room for improvement with regard to their interactions with issuers, and in their approach to climate physical risk.

Until consensus emerges on which metrics are most useful to all investors and stakeholders and how the data should be gathered and presented, it is incumbent on issuers to be transparent so that fixed income investors could incorporate their bonds into their diverse investment strategies.

Engaging with banks is one way to achieve this. Banks can provide an industry-wide overview of what action is being undertaken and encourage dialogue between issuers and investors. Banks are also abreast of rapidly evolving regulatory developments and can help to translate legislation or summarise new standards for those lacking resources internally.

Investor coalitions such as the NZAMI and the Principles for Responsible Investment are also useful forums for understanding which ESG standards and data matter to investors. These resources could be useful guidance for issuers to know what data investors care about and should disclose.

Bond issuers that demonstrate credible decarbonisation strategies and offer investors the data required to validate their own targets may not only preserve their access to capital, but they could also attract investors who are increasingly interested in investing in sustainable businesses that impact the real economy.

The proliferation of various regulations, taxonomies, measurement frameworks and standards pertaining to climate risk looks set to persist. Issuers and investors must collaborate to align on which frameworks and KPIs will guide them towards net zero.

Whether it's reducing the carbon footprint of the overall portfolio, aligning to the Paris Agreement, assessing climate physical risk or building a net zero portfolio over time, engagement with issuers is paramount given that everyone is broadly in pursuit of the same goal.

Actions for issuers

In setting sustainability goals and climate-related targets, bond issuers send a clear signal to the capital markets that they are reducing carbon emissions or increasing climate-friendly activities. More specifically, the following actions on climate risk could help bond issuers improve their relationships with fixed income investors.

Build climate transition considerations into the core business strategy

Issuers must recognise that investors are starting to consider net zero as a core commercial imperative to balance and optimise their risk and returns.
As such, investors will want to see how projects in use of proceeds structures, or targets within sustainability-linked bonds, are linked to the business strategy in a clear and logical way.

Engage with investors on their climate decision-making process

This could be done through dedicated roadshows, surveys, annual general meetings, or other traditional engagement methods. This will allow issuers to better understand the data that investors are using and how external factors, such as sector or relevant government policy, impact the investors' view and vice versa.

Conduct climate physical risk assessments within your company and across supply chains

While not on investors' priority list yet, physical risk assessments may become an increasingly important area of focus, alongside transition assessments. In particular, metrics on the effects of water stress, flooding and heatwaves could be critical.

Continue to improve disclosures on qualitative aspects of climate plans and ESG performance

Consider non-emissions indicators and qualitative information such as your climate governance and risk management approach and any other forward-looking areas of progress across the organisation, including published detail around how any climate targets will be reached.

Connecting sustainability strategy to green or sustainability-linked bonds is essential

Investors are primarily concerned about improvements and strategy at the corporate level, with the nature of the instrument being a secondary concern. If issuing an ESG-labelled instrument, it is advisable to align with the most credible climate and transition frameworks.

Methodology and sample

225

In January 2023, we surveyed 225 asset managers involved in making or executing decisions related to fixed income and ESG. The sample was split equally between North America, APAC, and the UK and Europe.

Respondents include portfolio managers, ESG analysts and credit analysts. Nearly half form part of a fixed income decision-making team, with 16% being the primary decision-maker.

Just under half (48%) have over $50bn in assets under management with an implied average AUM of US$144bn.

Investment grade credit is the most common primary fixed income focus for respondent funds, and ESG integration is the most common sustainable investment approach.