



# ESG integration and fixed income

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio regarding asset allocation and security selection, to accommodate your investment requirements.

## Summary

Supported by industry frameworks such as the PRI<sup>5</sup>, Quilter Cheviot's Responsible Investment and Fixed Income Research teams seek to ensure best practice is applied where appropriate into our investment decision making. A significant part of our bond exposure is through third party funds, therefore the fund research approach of understanding the underlying manager's responsible investment process also applies. Environmental, Social and Governance (ESG) factor analysis for direct holdings in credit issuers is on a similar basis to equities.

## Integration

The direct holdings are predominantly in UK, US and EU government bonds as well as supra-national issuance. Integrating ESG factors into the selection of sovereign debt issued by developed countries is likely to increasingly incorporate issues such as climate risk over time and best approached by seeking to influence government policy where appropriate.

There are around 60 corporate issuers (as of 30 June 2024) in which we invest, and the primary considerations are whether these issuers are senior, BBB rated, and if the bonds will maintain that BBB rating over the period to maturity. We believe identifying the ESG challenges and opportunities that impact the debt issuer are an important factor in evaluating the likelihood of the bond retaining the BBB rating over its lifetime.

ESG risks for corporate issuers mirror those covered by equity markets. Most debt issuing entities we invest in are companies that are already evaluated by the equity team (approx. >75% dual coverage) and therefore the fixed income research can leverage the existing equity research. The remaining entities are not within the equity research universe and in some cases are not listed, typically these include non-profit and social housing associations. A brief ESG comment is included in the research note for all issuers although this may be more detailed for entities not covered by the equity team such as housing associations and building societies. For all the holdings within the centrally monitored corporate bond universe, the analyst has assessed the issuer's ESG related credentials, and monitors these on an ongoing basis. The data sources include several ESG data providers and Bloomberg composite research.

## Screening

Quilter Cheviot's fixed income investments must adhere to the firm's Controversial Weapons policy<sup>6</sup>. Issuers directly involved in the manufacture, sale and distribution of cluster munitions and anti-personnel landmines are screened out of the investment universe.

Our Fixed Income Research team will also exclude direct issuance with a credit rating below a BBB rating<sup>7</sup>.

## Thematic

The growth of green bond issuance, and newer areas like bonds linked to the UN Sustainable Development Goals, and transition bonds, adds a new dimension which we would expect third-party managers to evaluate appropriately. Sovereign bond analysis can be limited for developed markets but could increasingly incorporate climate risk in the future.

## Engagement

While bondholders do not have voting rights in the way that shareholders have, larger fixed income houses can influence the funding structure of issuers. They can also engage on similar matters to equity investors and reconsider their funding if no progress is made. Within our centrally monitored universe, we have very limited exposure to corporate bonds on a direct basis and therefore are unable to influence the funding structure of issuers as larger holders are sometimes able to.

For fixed income funds, we engage with third-party managers on:

- The firmwide approach to responsible investment.
- Manager and strategy approach to responsible investment.
- Engagement on ESG risk and exposure.
- The firmwide approach to net zero

Through Quilter Cheviot's equity holdings, we collaborate with other investors, industry groups, and ESG initiatives to drive systemic change on ESG issues that require collective action. For further information see our Engagement Policy<sup>8</sup>.

6 [qc-responsible-investment-controversial-weapons-policy.pdf](#) (quiltercheviot.com)

7 Bonds are rated according to their credit worthiness and quality using a letter-based credit scoring scheme.

8 [qc-responsible-investment-engagement-policy.pdf](#) (quiltercheviot.com)

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