



# Fixed Income ESG Investment Solution

A growing number of investors are integrating measurable non-financial environmental, social, and governance factors (ESG) into the investment decision making process. According to the Forum for Sustainable and Responsible Investment (US SIF), assets that incorporate ESG factors into the investment process totaled \$12 trillion in 2018, a 38% increase over two years.<sup>1</sup>



Why are a growing number of investors integrating ESG into their investment process? Reasons include:

- The alignment of investment objectives with investor values
- Investor impact on the environment
- Mitigating risk exposure by rewarding issuers that maintain lower ESG risk exposure
- Seeking to increase investment returns by emphasizing issuers with lower ESG risk
- Addressing concerns raised by stakeholders

## The Challenges of Implementing ESG Solutions

Implementing and managing an ESG focused investment strategy has its challenges. These challenges should be carefully considered during the evaluating and planning process. Some of these challenges include:

- **Defining ESG.** There is no commonly accepted definition for ESG or industry consistent method of how to objectively apply ESG principles.
- **Limited investment universe.** In addition to investment policy constraints, eligible investments may be further limited by investors' ESG parameters.
- **Potential opportunity costs.** Integrating ESG requirements into the investment process may reduce investment opportunities and may impact investment return potential.
- **Implementation & ongoing management.** Monitoring compliance with ESG parameters may require additional resources, data sources and reporting.

## Our Solution: A Customizable and Flexible Approach

PFM has developed an investment approach to help our clients implement ESG principles into their investment process and to manage ESG compliance. Our approach provides clients with the tools and methodology to implement a customized ESG fixed income investment solution aligned with its unique objectives.

<sup>1</sup> US SIF Foundation's biennial Report on US Sustainable, Responsible and Impact Investing Trends, October 31, 2018. Accessed August 24, 2019, <https://www.ussif.org/files/US%20SIF%20Trends%20Report%202018%20Release.pdf>.



This approach offers many advantages, including:

- Flexibility and customization
- Transparent, practical, not overly complicated
- “Rules-based” methodology eliminates ambiguity
- Client definition and application of ESG
- Compliance monitoring with investment policy requirements
- Direct ownership of securities
- In-depth investment reporting and analysis

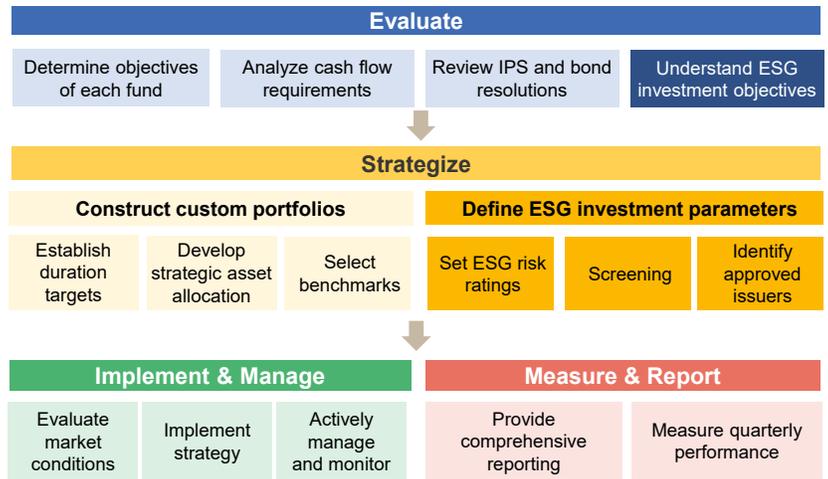
## ESG Investment Strategies

Our approach is to implement an investment strategy based on our clients’ ESG objectives. We offer the potential for further customization through a range of screening tools, which allow our clients to exclude specific issuers or industries based on defined criteria.

Once ESG objectives are defined, we work with our clients to evaluate investment strategies based on their ESG investment parameters. Investment parameters are applied using an ESG risk rating system and other evaluation tools. The risk rating

system is designed to objectively quantify an issuer’s ESG risk from both an industry and issuer-specific standpoint. Much like traditional credit ratings, the risk rating system provides a basis to evaluate issuers on a consistent basis and facilitates direct comparisons across industries and issuers.

Examples of potential ESG investment strategies are provided below:



ESG Investment Strategy	Strategy Description
Quantitatively Focused	To be included in the portfolio, issuers would be required to maintain an ESG risk rating that is below a specified threshold.
Quantitatively Focused + Additional Exclusions	To be included in the portfolio, issuers would be required to maintain an ESG risk rating below a specified threshold, with additional issuers or industries excluded based on investor preference or specific screening criteria.

## Conclusion

Investment in ESG strategies is likely to continue to grow, and offers both benefits and challenges for investors. PFM can offer a robust and customized investment strategy to help our clients navigate ESG investment options aligned with their needs. For more information on how we can help you incorporate your ESG goals into your investment program, please contact us.

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