

Objective: Evaluate relationship between ESG metrics and corporate bond performance

Breckinridge Capital Advisors

Boston-based registered investment advisor
Manages investment-grade fixed-income portfolios

Environmental, Social, and Governance (ESG)

ESG impact on performance of public equities has been well studied
ESG impact on performance in credit market offers an opportunity

Credit Default Swap (CDS) Spread

- CDSs are like insurance policies against the default of a bond issuer
- Investors use these securities as a proxy of bond performance

Environmental	Social	Governance
<ul style="list-style-type: none"> • Climate Change • Renewable Energy • Air/Water Pollution 	<ul style="list-style-type: none"> • Health and Safety • Human Rights • Diversity 	<ul style="list-style-type: none"> • Transparency/ Disclosure • Incentives Structure • Financial Policy

If ESG is found to have a positive influence on corporate bond performance, ESG becomes a signal to investors to favor responsible and well-operated companies, driving investment toward sustainable corporations.

Sector-Specific Quintile Analysis

Data Universe: Investment Grade Companies in the S&P 500 with CDS spreads (203 companies)

Quintile	1	2	3	4	5
ESG	95.57	65.69	78.74	76.71	64.63
E	95.95	79.67	75.74	61.30	68.71
S	91.10	69.92	74.58	71.05	74.84
G	76.04	84.53	80.19	71.85	68.86

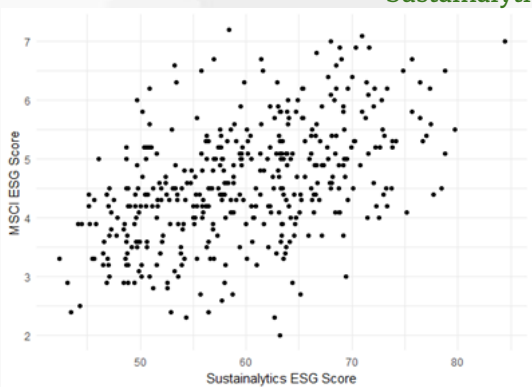
All Sectors

Average CDS spreads for companies in each quintile with regard to ESG, E, S, and G scores, respectively

Quintile	1	2	3	4	5
ESG	106.94	102.46	82.36	70.33	67.56
E	106.94	102.46	64.76	83.69	73.92
S	106.94	110.54	74.28	70.33	67.56
G	102.69	73.79	103.26	82.36	67.56

Information Technology Sector

Sustainalytics and MSCI ESG Scores for S&P 500

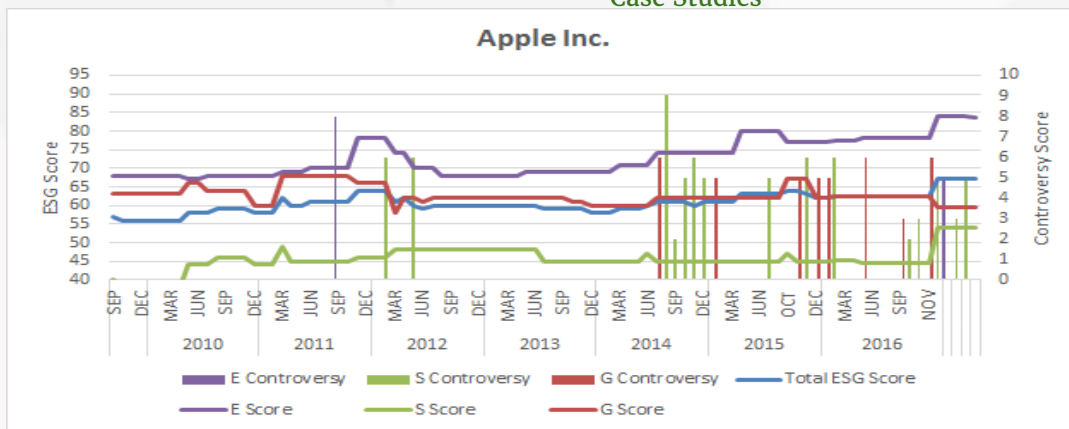


The ESG scores of Sustainalytics and MSCI were somewhat correlated with an R value of 0.500.

E, S, and G scores between the two aggregators were correlated at 0.327, 0.395, and 0.045 respectively.

While perfect correlation between the two would eliminate the need for one or the other, the marked difference in their component scores indicates a significant divergence in scoring calculation. The especially weak correlation in Governance scores points to a possible lack of governance related data or structure around interpretation of Governance practice.

Case Studies



Controversy Score	
10	Very Severe
9	Severe
8	
7	
6	Moderate
5	
4	Minor
3	
2	
1	None
0	

Purpose: To find the relationship between ESG scores and MSCI “Controversy Scores”

Objects: Three companies with the highest number of severe controversies in the sectors showing a positive relationship between ESG score and CDS spread (Information Technology, Industrials, Materials) - Apple Inc. (shown as an example), General Electric Company, and Du Pont De Nemours and Company

Findings: No observable relationship was found between ESG scores and the severity of any one controversy. However, higher E, S, and G scores were found to be negatively correlated with the frequency of E, S, and G controversies.

Limitations: Possible bias in the company chosen, types of controversy reported, and media representation