European Leveraged Finance Association

PRESS RELEASE

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European Leveraged Finance Association ESG Investor Survey: ESG considered in vast majority of high yield bond and leveraged loan investments, but data availability remains a challenge

- **ELFA publishes survey results in latest Insights report, "ESG Integration in Leveraged Finance – Continued Focus Amidst Persistent Data Gaps: ELFA's 2021 ESG Investor Survey Results"**
- **ELFA's ESG Disclosure Initiative to focus on improving availability of ESG data and bridging knowledge gaps for market participants in 2022**

London, 18th January 2022: The European Leveraged Finance Association (ELFA) today publishes the results of its second ESG Investor Survey[1]. The Insights report, "ESG Integration in Leveraged Finance – Continued Focus Amidst Persistent Data Gaps: ELFA's 2021 ESG Investor Survey Results", provides insights into evolving ESG investing practices in the leveraged finance market. The 2021 survey follows ELFA's inaugural ESG Investor Survey conducted in November 2019.

The survey found that ESG analysis in the high yield bond and leveraged loan market is an integral part of European fund managers' investment processes. Over three quarters (77%) of respondents consider ESG factors for over half of their firm's high yield and leveraged loans AUM, with almost two thirds (65%) incorporating ESG considerations for between 75% to 100% of AUM. Incorporation of ESG factors into the investment process continues to be primarily driven by risk management and accommodation of end-investor requirements.

Almost all investors surveyed (98%) have passed on, reduced or sold out of investments due to ESG issues in the last 12 months, with the same number (98%) citing availability of good quality data as the greatest obstacle to comprehensive ESG analysis. This is driven by gaps in knowledge of ESG and related regulations amongst management teams and other stakeholders, as well as limited coverage of European leveraged finance by ESG data vendors.

Credit investors' use of ESG information to exclude investments has decreased considerably over the past two years. As a primary approach to ESG, negative screening is only cited by 6% of respondents, down from just over a third (34%) in 2019. The most common approach to ESG analysis is ESG integration, with 86% of respondents integrating ESG factors systematically and explicitly in the investment process.

Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said: "The integration of ESG factors into leveraged finance investing is continuing at pace, evolving to be much closer to that of public equity markets. Challenges remain for investors in the sector, however, particularly with regard to availability of good quality ESG data and gaps in knowledge among key market participants. These findings will guide the work of ELFA over the coming year. Our focus will be on improving the availability of ESG data and increasing industry-wide engagement with key stakeholders. We will also focus our efforts on ensuring the market is driving substantial change through ESG investing, ensuring that sustainability-linked issuance, KPIs and related pricing adjustments are meaningful."

ELFA's ESG Investor Survey also explored investor views on the EU's Sustainable Finance Disclosure Regulation (SFDR) and climate change.

SFDR is set to remain a prominent challenge in 2022, with 71% of respondents being in scope for the regulation. Almost a fifth of respondents (19.5%) reported that at least half of their high-yield bond or leveraged loan AUM has already been categorised as Article 8 under the SFDR or will be in the next three months. Respondents reported having far less a proportion of their funds classified or having plans to classify them as Article 9, likely due to the far narrower classification in that category. Challenges posed by SFDR align with those of ESG more widely. These include data challenges surrounding availability and standardisation as well as engagement with market participants including private equity sponsors and underwriting banks.

ELFA's survey found that climate change risk assessments have increased in prominence with well over half (57%) of respondents reporting it is extremely or very important to their credit analyses. This again brings to focus a significant data gap as most leverage finance borrowers do not disclose carbon data. Respondents reported using data derived from their internal research, received after sending bespoke questionnaires or using ELFA ESG Fact Sheets to borrowers or from external data providers.

The survey results suggest that the increased focus on climate data is partly driven by end-investor demands. Just over three quarters (76%) of respondents reported an increase in questions relating to portfolio-level climate change risk data by end-investors over the past 12-24 months, including with respect to carbon emissions data and to what extent portfolios are net zero-aligned, with two in five (40%) reporting receiving questions either “usually” or at “almost every meeting”.

Sabrina Fox added: “It is encouraging to see that the work we have done over the past two years is helping to drive positive change within the market, with the vast majority of respondents having used the ELFA ESG Fact Sheets in their ESG assessment of a borrower. Nonetheless, there is still progress to be made. The results of this survey will drive our actions in 2022 as we continue to work towards a more transparent, efficient and resilient leveraged finance market.”

In 2022, ELFA is leading a working group for ESG Data Providers with a view to increasing leverage finance coverage among ESG data providers and facilitating engagement on climate and carbon data reporting. Updates will be made to ELFA’s ESG Fact Sheets, incorporating additional sectors and making it easier for borrowers to discern between the use of quantitative versus qualitative disclosures.

ELFA is hosting an **ESG Workshop for Company Advisers** on 25th January from 3.30pm to engage with a range of market participants, including law firms, private equity sponsors and banks, to discuss important updates the Guide for Company Advisers on ESG Disclosure in Leveraged Finance Transactions. Market participants interested in attending the workshop should email sfox@elfainvestors.com.

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Notes to Editors
[1]The ESG Investor Survey 2021 took place in November 2021 and was open to all investors (not just ELFA members) managing funds investing in high yield bonds and/or leveraged loans. In total, 66 investors from over 37 organisations participated.

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About European Leveraged Finance Association (ELFA)
ELFA is a trade association comprised of European leveraged finance investors from over 55 institutional fixed income managers, including investment advisers, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information, please visit the ELFA website: www.elfainvestors.com.