European Leveraged Finance Association

PRESS RELEASE

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Climate reporting by leveraged finance investors hampered by data availability – European Leveraged Finance Association

London, 1 March 2022: Efforts by investors to analyse climate change risks and report on topics such as net zero alignments and the Task Force on Climate-Related Financial Disclosures (TCFD) in leveraged finance and private credit markets are being hampered by data availability issues, according to the European Leveraged Finance Association (ELFA).

The findings come from ELFA's Climate Workshop with members, held in November 2021, during which participants discussed the steps that investors are taking to assess climate change risks at the firm, portfolio, and investment level. The outcomes of the workshop are reviewed in ELFA's Insights Report: Climate in Focus for Leveraged Finance Investors: Perspectives from ELFA's Climate Workshop, published today.

ELFA reports that many investors find measuring carbon emissions at a portfolio level difficult, as not all borrowers disclose this data. This comes despite climate change risk being an important part of credit analysis for over half (57%) of leveraged finance investors, and with almost three quarters (73%) increasingly being asked by end investors about portfolio level climate risk data and net zero alignment, according to ELFA's recent annual ESG Investor Survey.

The main findings of the Climate Workshop, by asset class, include:

- For high yield bonds and broadly syndicated loans, investors expressed the need to have both qualitative and quantitative climate change risk data that can be aggregated at the portfolio level to better facilitate reporting to stakeholders.
- Private credit participants highlighted that the lack of data makes setting targets and metrics, as per the TCFD recommendations, particularly challenging in this market. Lack of data availability in private debt makes meaningful net zero-alignment difficult to achieve.
- In the CLO market, investors are keen to gather climate information at both the portfolio level and the loan level, given the reliance on the underlying corporate portfolio inherent in the structure of CLOs. Importantly, for some CLO investors, a CLO manager's ESG credentials make up 50% of the investor's overall ESG assessment of a new CLO transaction.

While measuring carbon emissions is an important part of reporting, and there is more to be done, participants in the workshop also highlighted that the overemphasis on carbon emissions could risk overshadowing other key areas of ESG. ELFA outlines the various drivers of this trend in the report. These include the global focus on carbon emissions, a metric that is relatively easy to understand; the ease in tracking, measuring, and reporting such data in numerical terms; and the link to the Paris Agreement and support by existing reporting frameworks for carbon emissions.

Despite the issues that remain, investors noted that progress has been made in the European leveraged finance market with respect to ESG data in the last 18 to 24 months, including climate change risk data, supported by ELFA's ESG Fact Sheets. In private credit, data collection efforts are in development at the borrower and industry level, but more work is yet to be done to support the growth of ESG investing in this market. To support these efforts, ELFA is supporting the ESG Data Convergence Project and have included relevant data points in the ELFA ESG Fact Sheets.

Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said: "Measuring the carbon footprint of a portfolio is difficult, if not impossible, when not all borrowers disclose this data. Even where the data are disclosed, borrowers may not do so in a consistent, comparable or timely manner within individual sectors, let alone across sectors. Asset managers are forced to make estimations where gaps exist."

"ELFA's workshops provide a forum for our members to exchange views on these critical issues and help drive areas of focus for our organisation, and our subsequent Insights reports are designed to share this feedback with the wider market. Even though the industry has come a long way, it is clear that there is still much more to be done to improve data disclosures among borrowers, and this will remain a core workstream for us over the coming year."

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The next members-only workshop will be on ESG Engagement at the end of March. The aim of this workshop is to discuss amongst ELFA member firms the current state of play with respect to engagement on ESG and to exchange ideas on how to engage with impact. The information gained from the workshop will ensure that our ESG Committee initiatives remain targeted precisely at the issues impacting investor's ability to engage on ESG topics.

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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.