European Leveraged Finance Association

PRESS RELEASE

ESG in Private Credit: More dialogue needed between investors and issuers

September 26 2023, London: ELFA and KBRA co-hosted an event on the 13th of September discussing 'ESG in Private Credit' with experts across the sector. Topics included how firms integrate ESG into their investment process, enhancing and accessing ESG data in private debt, and the evolution of ESG regulation. While it is clear that the sector is on the right trajectory, ESG is still a complex space, with participants encouraging more regulation, disclosure and guidance from the market.

Underpinning the discussions was that integrating ESG into the investment process should be data-informed, not data-driven. Speakers concluded that while ESG data can help investors to monitor risks and opportunities across their portfolios, it requires active engagement with the data.

Another key takeaway from discussions is that despite progress and awareness in the market, there is still a lack of dialogue between investors and issuers. It is clear that enhanced engagement will be needed to ensure better disclosure going forward.

Sabrina Fox, CEO, ELFA, commented: "By improving collaboration across the industry through education, borrowers are incentivised to engage with ESG to have better access to capital . Stakeholders are keen to have this information. At ELFA we have created ESG FactSheets as a way to educate the market and provide guidance as to how borrowers can engage."

Gordon Kerr, Head of European Research, KBRA said: "ESG is evolving rapidly and it is critical for us at KBRA to understand changes in market sentiment and needs on ESG issues. What we heard during the event really reinforces KBRA's strategy: ESG factors require nuanced analysis to determine and understand financial materiality and KBRA's place in the market is to deliver information on exactly how ESG factors affect financial metrics and the risk of default."

Key takeaways:

1. We are still in the early stages of ESG disclosure. As a result, without proper management and analysis, when solving one ESG problem, it may consequently lead to another one.
2. Panellists observed that while regulation may push forward progress, it is important to recognise that these changes may not be perfect initially. Both the regulators and the regulated will be adjusting to a new system, therefore the data disclosed will be evolutionary.
3. During discussions it was highlighted that non-disclosure of data essentially forces firms to rely on often conservative third-party estimates which is likely to increase standardisation and self-disclosure.
4. While there are commonalities in ESG for borrowers, there are also issuer specific nuances that need to be considered on a case-by-case basis. ESG data alone does not evaluate performance. Therefore, the investment process should be data informed, not data driven.
5. Private Credit investors are in a position to drive forward engagement with ESG because of the influence and direct relationship they have with borrowers.

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About ELFA

ELFA is a trade association comprised of European leveraged finance investors from over 60 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 ELFA's website: www.elfainvestors.com.

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