

European Leveraged Finance Association (ELFA) Highlights Industry Commitment to Climate Action at Climate & Net-Zero Member Workshop

5 December 2023, London: The European Leveraged Finance Association (ELFA) successfully convened the Climate & Net-Zero Member Workshop on 18 October, 2023. The workshop, attended by representatives from 20 different investment firms, addressed the challenges of addressing climate risks and advancing credible corporate climate transition plans within the leveraged finance sector.

The workshop provided a unique platform for the participants to engage in in-depth discussions on critical aspects of climate risk integration. Notably, Planet Tracker, a renowned non-profit sustainable finance think tank, shared insights into the enduring significance of climate considerations for credit managers. The event looked at how to evaluate climate change risks at firm, portfolio, and investment levels, revealing diverse approaches to industry initiatives and unveiling challenges in aligning with global net-zero ambitions.

Out of the 20 participating investment firms, five organizations publicly declared their commitment to achieving net-zero and are proud members of the Net Zero Asset Managers Initiative (NZAMI). This commitment underscores the growing momentum towards climate action within the leveraged finance sector, with participants sharing details about the proportion of assets under management (AUM) subject to decarbonization targets.

Participants also addressed practical challenges in aligning net-zero ambitions globally, particularly in light of changing sentiments regarding Environmental, Social, and Governance (ESG) and climate ambitions in certain US states. The importance of third-party verification for setting science-based targets was underscored, with the workshop highlighting the critical role of credible transition plans and the ongoing need for collaboration, transparency and data standardisation within the industry.

At the portfolio level, workshop attendees discussed the external partners they employ to collect and measure greenhouse gas (GHG) emissions. Interestingly, climate change risk assessments are not yet common among credit managers, but some participants expressed optimism that frameworks proposed by the Transition Pathway Initiative (TPI) and the International Sustainability Standards Board (ISSB) will accelerate the adoption of such frameworks across the industry.

The workshop also delved into existing climate transition frameworks available to investors to assess a portfolio company's climate transition plan. Noteworthy contributions were highlighted, including Planet Tracker's and CDP's, a not-for-profit charity that runs a global disclosure system for investors, companies and states to manage their environmental impacts, work in this area. For instance, CDP's data revealed a discrepancy between disclosed targets and transition plans, emphasizing the importance of credible plans outlining how companies intend to achieve their science-based targets.

In summary, the ELFA Member Workshop offered a panoramic view of the current state of climate considerations within leveraged finance. The discussions celebrated achievements while pinpointing challenges, underscoring the crucial role of credible transition plans. The event signalled a collective industry commitment to navigate the evolving landscape of climate-related finance, transparency, and collaborative action.

Sabrina Fox, CEO of ELFA, commented: "ELFA remains committed to fostering a sustainable and resilient leveraged finance sector, paving the way for a greener and more responsible financial future. This workshop was an opportunity for members to discuss the current landscape of climate risk integration and credible corporate climate transition plans within the European leveraged finance market. We will continue to leverage the experiences and insights of our members by hosting these ELFA Member Workshops on topics of interest, which also included SFDR and engagement with borrowers on ESG topics."

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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.