



# Breakout Session 1: Implementing sustainability in debt portfolios

2024 Frontier Advisors Annual Conference

Chair:



**Iain McMahon**

Head of Defensives  
and Alternatives,  
Frontier Advisors

Presenters:



**Henrietta Pacquement**

Head of Global Fixed  
Income and Sustainability,  
Allspring Global  
Investments



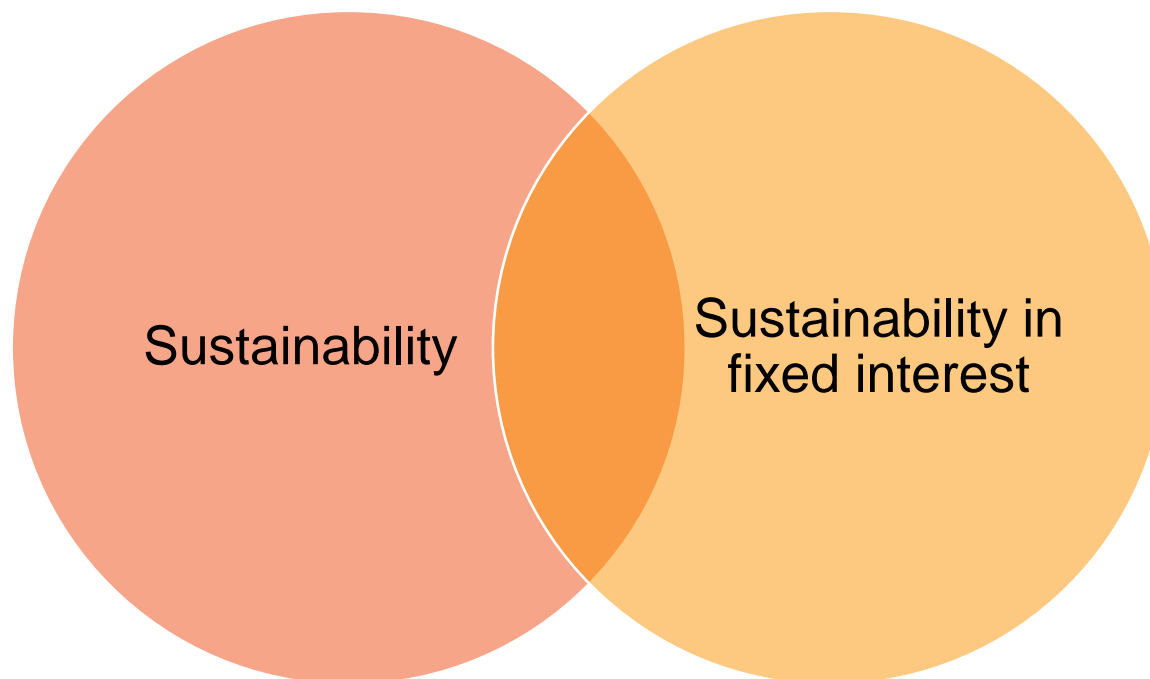
**Artee Khatani**

Credit and ESG Analyst,  
Janus Henderson

# The difficulty of integrating sustainability in fixed interest

Sustainability looks different to each individual investor and its integration in fixed interest likely differs to other asset classes

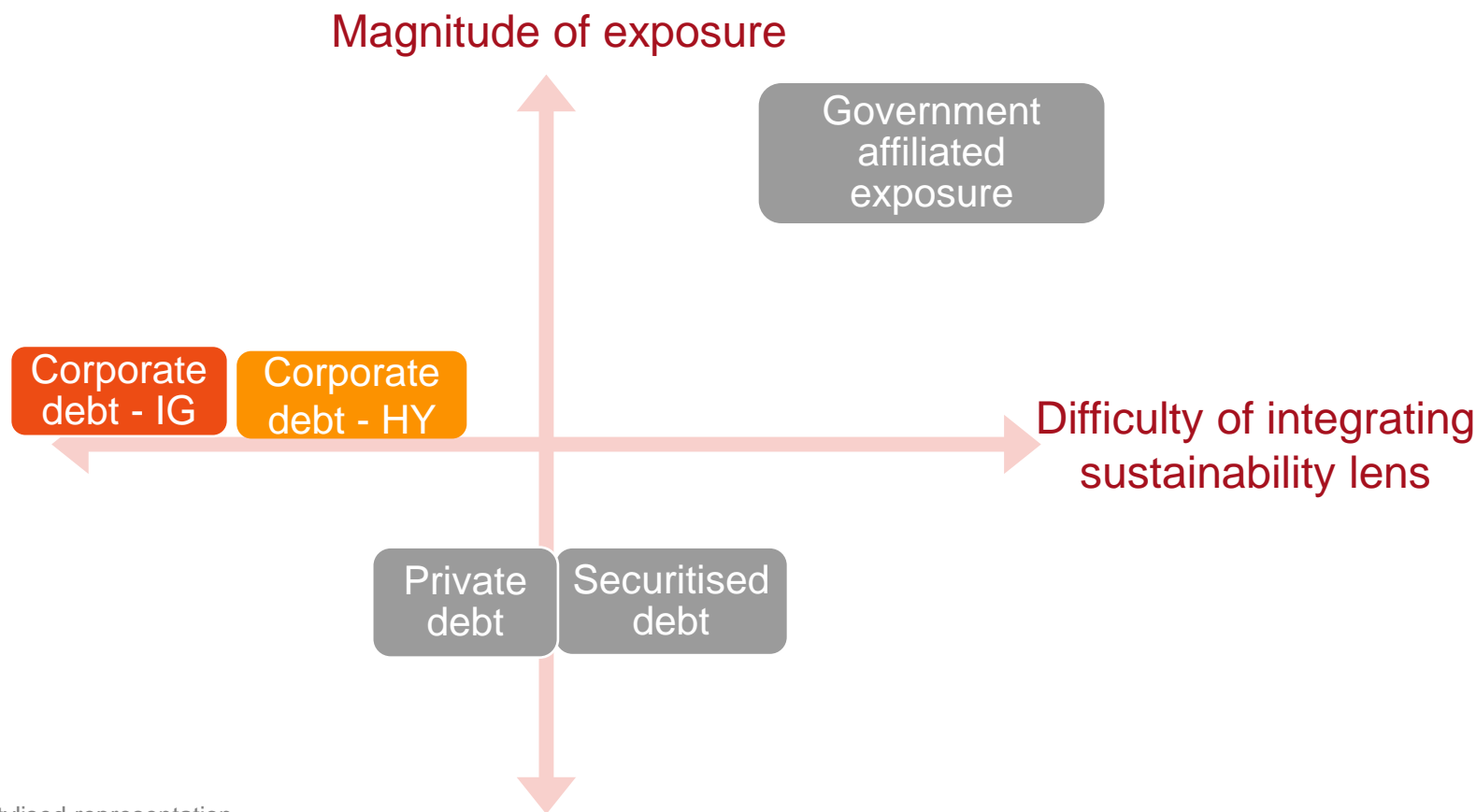
- Definition
- Regulation
- Data limitations
- Market precedent
- Extent of financial risk
- Risk/Return implications



- Data limitations
- Ability to engage
- Alignment of investment horizon
- Size and complexity of investible universe
- Product availability

# Prioritising largest exposures to maximise sustainability impact may not be possible

Ability to integrate without significant return/risk implications has led investors to focus on corporate debt



Source: Frontier Advisors. Stylised representation

# The Future of Sustainability

“The Good, The Bad and The Ugly”

June 2024



**This information is solely intended for the use of wholesale clients and is not for general public distribution.**

This information is issued by Janus Henderson Investors (Australia) Institutional Funds Management Limited ABN 16 165 119 531, AFSL 444266 (Janus Henderson).



# A nuanced approach to sustainability...



## The Good

Supporting key 'people and planet' goals

Sustainable business practices



## The Bad

Hard to abate industries

Poor processes



## The Ugly

Loss of 'social licence'

Outright harmful

# Follow the money...

## Evolving Society

- Social license to operate
- Sustainable business practices
- Changing consumer preferences

## Government

- AOFM Inaugural Green Treasury Bonds
  - National Reconstruction Fund
- Future Made in Australia
- Sustainable Finance Taxonomy

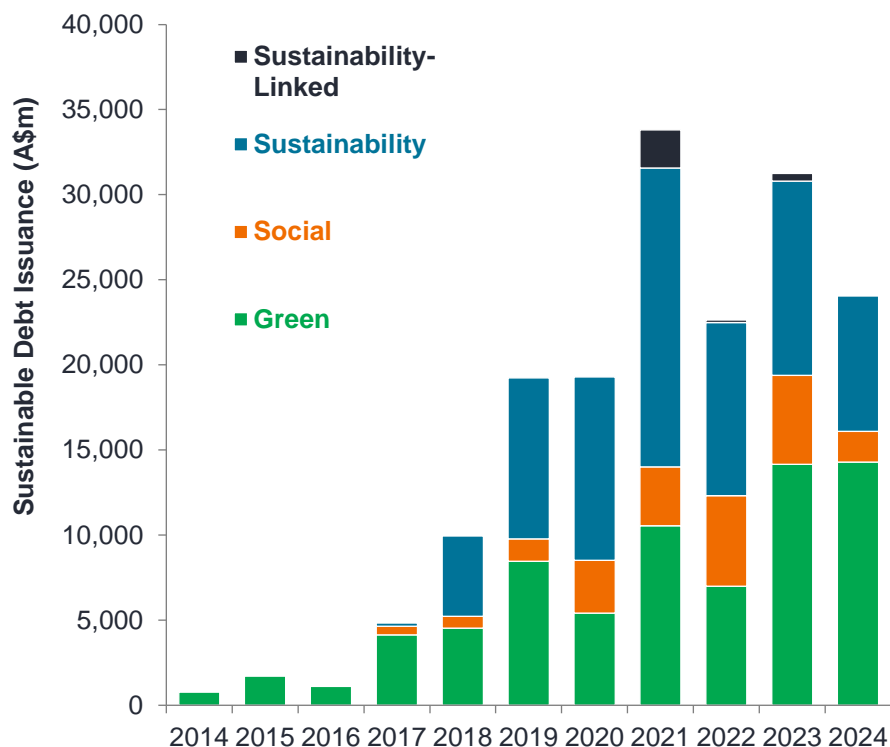
## Regulations

- ICMA 2024 Updates
- Nature Repair Market Act
- ASFI
- ASIC Greenwashing

# Australian sustainable debt market

Seeking to grow the local impact market

### Historical AUD Sustainable Issuance



As at 12 June 2024:

**\$150B**

Total market

**115+**

Issuers

**370+**

Securities

- SAFA issued its inaugural A\$2bn fixed rate Sustainability Bond under the Sustainability Bond Framework launched late last year
- AOFM issued their Inaugural A\$7bn program in June 2024

Source: Janus Henderson Investors, Bloomberg, RBC, KangaNews as at 12 June 2024.

Note: Includes self-certified issuance.

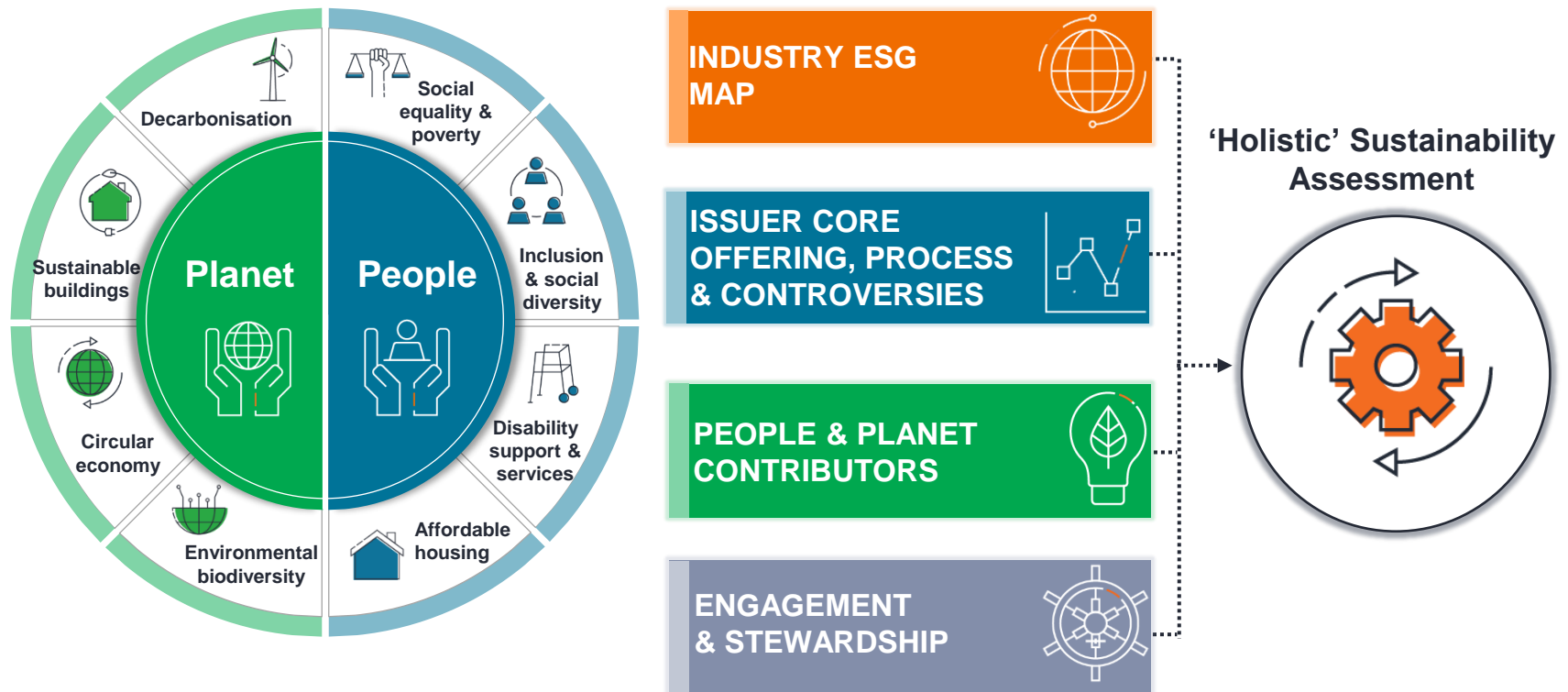


# Sustainability for Australians

## Assessing bond issuers

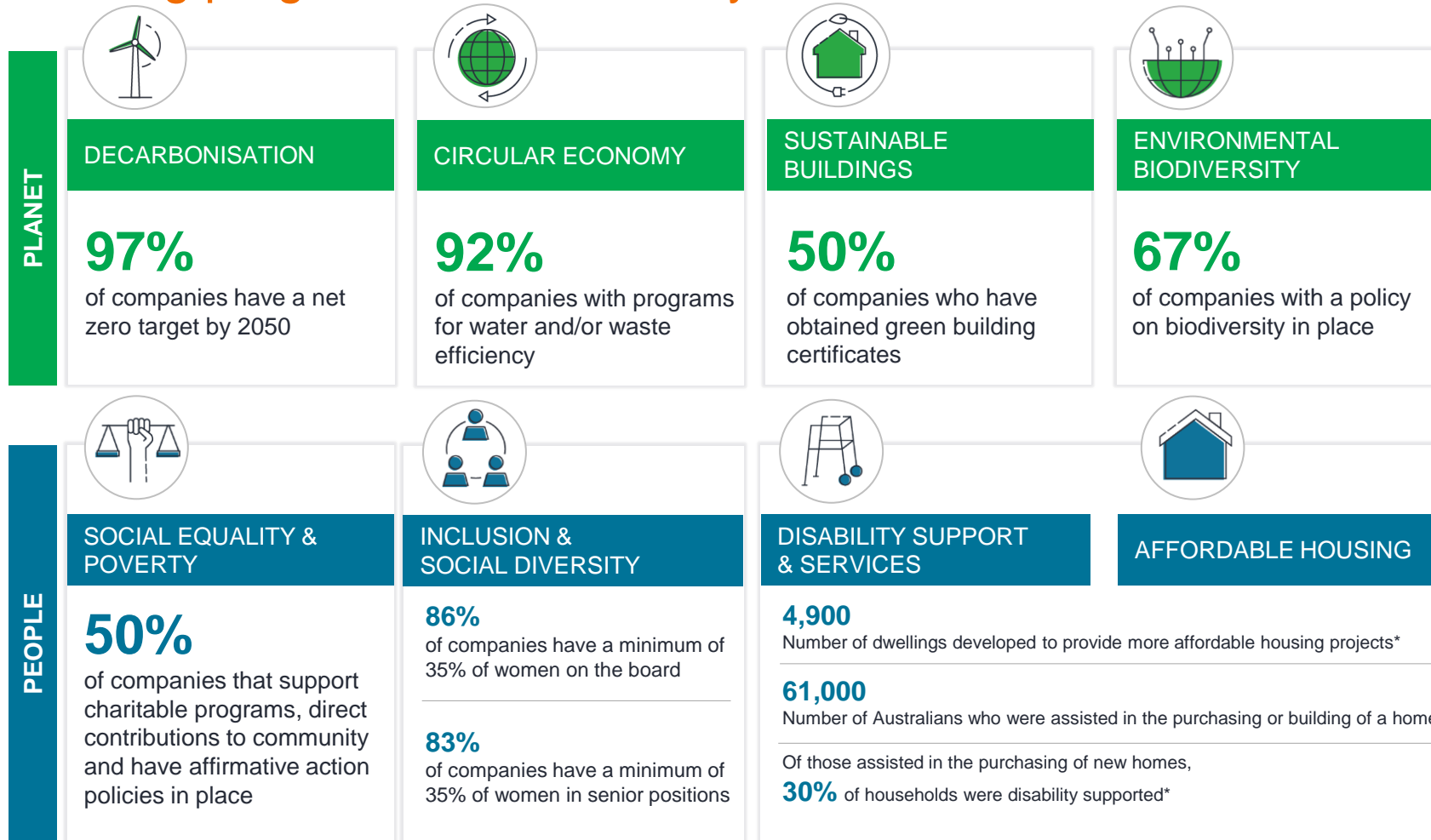
A balanced consideration

Key sustainability components



# People and planet

## Measuring progress in sustainability



Source: Janus Henderson Investors, MSCI, Sustainalytics, Bloomberg, as at 31 December 2023.  
 Note: Measurements refer to the companies that the Sustainable Credit Fund invests in and may be subject to change without notice.  
 Coverage: Decarbonisation (100%), Circular economy (55%), Sustainable buildings (55%), Biodiversity (55%), Social equality and poverty (55%), Inclusion and social diversity (100%). Coverage measures only include the credit exposures (which excludes Supranationals, Agencies, Semis and Sovereigns) \*Figures represent the total sustainability measurement of the social impact bond (NHFC).

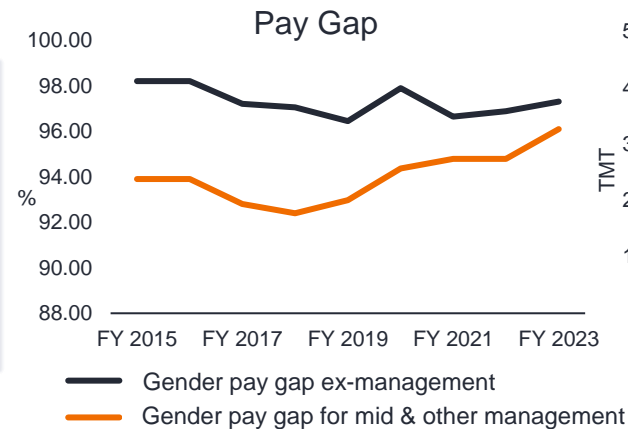
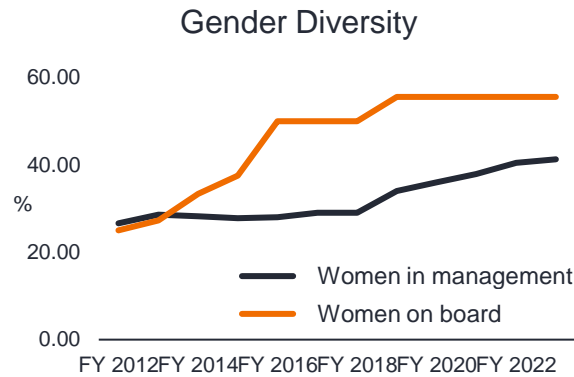
# Corporate issuers

## Assessing sustainability one issuer at a time

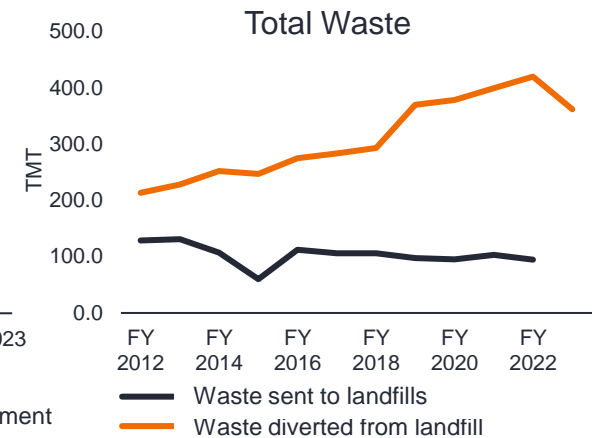
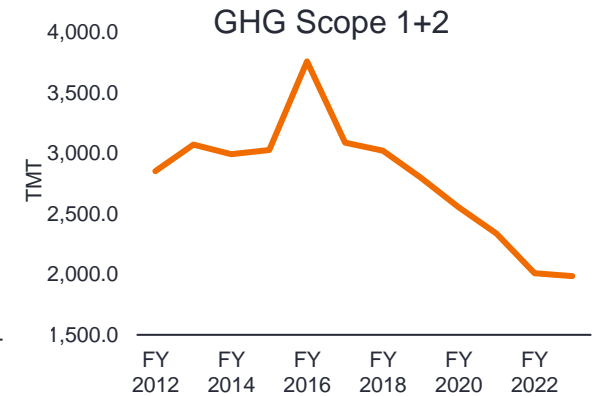


- Key engagements:
- Supply chain issues
  - Nutritional value of products
  - Packaging, recycling
  - Consumer pricing

### People



### Planet



Source: Janus Henderson Investors, Sustainalytics, MSCI, Bloomberg, FactSet, Company Reports as at 31 October 2023.

Note: TMT refers to thousands of metric tonnes. References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable

# Sustainability in action



SA Power Networks

---

Environment

**SUSTAINABLE**



Thames Water

---

Climate Change

**NOT APPROVED**

Price performance of SA Power Networks vs Thames Water



Source: Janus Henderson Investors as at 12 June 2024

Note: References made to individual securities do not constitute a recommendation to buy, sell or hold any security, investment strategy or market sector, and should not be assumed to be profitable. Janus Henderson Investors, its affiliated advisor, or its employees, may have a position in the securities mentioned. Past performance does not predict future returns.

# A force for good



<b>Rating</b>	<b>BBB</b>
<b>Maturity</b>	February 2027
<b>Current yield</b>	5.68%
<b>Issue spread</b>	1.55%

<b>Rating</b>	<b>AA</b>
<b>Maturity</b>	March 2032
<b>Current yield</b>	5.82%
<b>Issue spread</b>	1.25%

<b>Rating</b>	<b>AA</b>
<b>Maturity</b>	June 2030
<b>Current yield</b>	5.21%
<b>Issue spread</b>	1.05%

Source: Janus Henderson Investors, Bank Australia, University of Tasmania, Transpower, Bloomberg as at 30 April 2024  
 Note: References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security

# Follow the money...

ESG wins... with a focus on financial outcomes for investors



## Easy Wins

- Avoiding non-financial risks that can have a material financial impact
- Support practices such as diverting waste from landfill and focus on reduction of plastics, etc
- Diversity and Inclusion



## Moderate

- Supporting those that see immediate wins from their sustainable practices
- Operational decarbonization
- Promote affordable housing



## Long Term

- Avoiding those that have stranded asset risks which may take longer to play out
- Support higher education for the broader population

Source: Janus Henderson Investors



## Contact us

### Janus Henderson Investors (Australia) Institutional Funds Management Limited

Level 36 Grosvenor Place, 225 George Street, Sydney NSW 2000

T +61 (0)2 8298 4000 F +61 (0)2 8298 4001



## Important information

This information is issued by Janus Henderson Investors (Australia) Institutional Funds Management Limited ABN 16 165 119 531, AFSL 444266 (Janus Henderson). The funds referred to within are issued by Janus Henderson Investors (Australia) Funds Management Limited ABN 43 164 177 244, AFSL 444268 unless otherwise stated.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. This information is intended solely for the use of wholesale clients, as defined in section 761G of the Corporations Act 2001 (Cth) and is not for general public distribution. By receiving this information you represent that you are a wholesale client.

Past performance is not indicative of future performance. This information does not purport to be a comprehensive statement or description of any markets or securities referred to within. Tax assumptions and reliefs depend upon an investor's particular circumstances and may change if those circumstances or the law change. Prospective investors should not rely on this information and should make their own enquiries and evaluations they consider to be appropriate to determine the suitability of any investment (including regarding their investment objectives, financial situation, and particular needs) and should seek all necessary financial, legal, tax and investment advice. If you invest through a third party provider you are advised to consult them directly as charges, performance and terms and conditions may differ materially.

This information is not intended to be nor should it be construed as advice. This information is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment. Any investment application will be made solely on the basis of the information contained in the relevant fund's offer document (including all relevant covering documents), which may contain investment restrictions. This information is intended as a summary only and (if applicable) potential investors must read the relevant fund's offer document before investing. Target Market Determinations for funds issued by Janus Henderson are available here:

[www.janushenderson.com/TMD](http://www.janushenderson.com/TMD).

This information has been prepared using information from a variety of sources. The information is believed by Janus Henderson to be correct but no warranty is made with respect to its completeness or accuracy. All opinions and estimates in this information are subject to change without notice. Janus Henderson is not under any obligation to update this information to the extent that it is or becomes out of date or incorrect. This information is confidential and must not be made available, published or distributed to any third party without the prior written consent of Janus Henderson.

Janus Henderson is a trademark of Janus Henderson Group plc or one of its subsidiaries. © Janus Henderson Group plc.

Images sourced from Adobe unless otherwise specified.

647635 08-24



# Climate Transition Investing



FRONTIER ADVISORS CLIENT CONFERENCE | MARKETING COMMUNICATION

Henrietta Pacquement, CFA

Senior Portfolio Manager

Head of Global Fixed Income & Head of Sustainability

20 June 2024

CFA® and Chartered Financial Analyst® are registered trademarks owned by CFA Institute.

FOR PROFESSIONAL/QUALIFIED INVESTOR USE ONLY





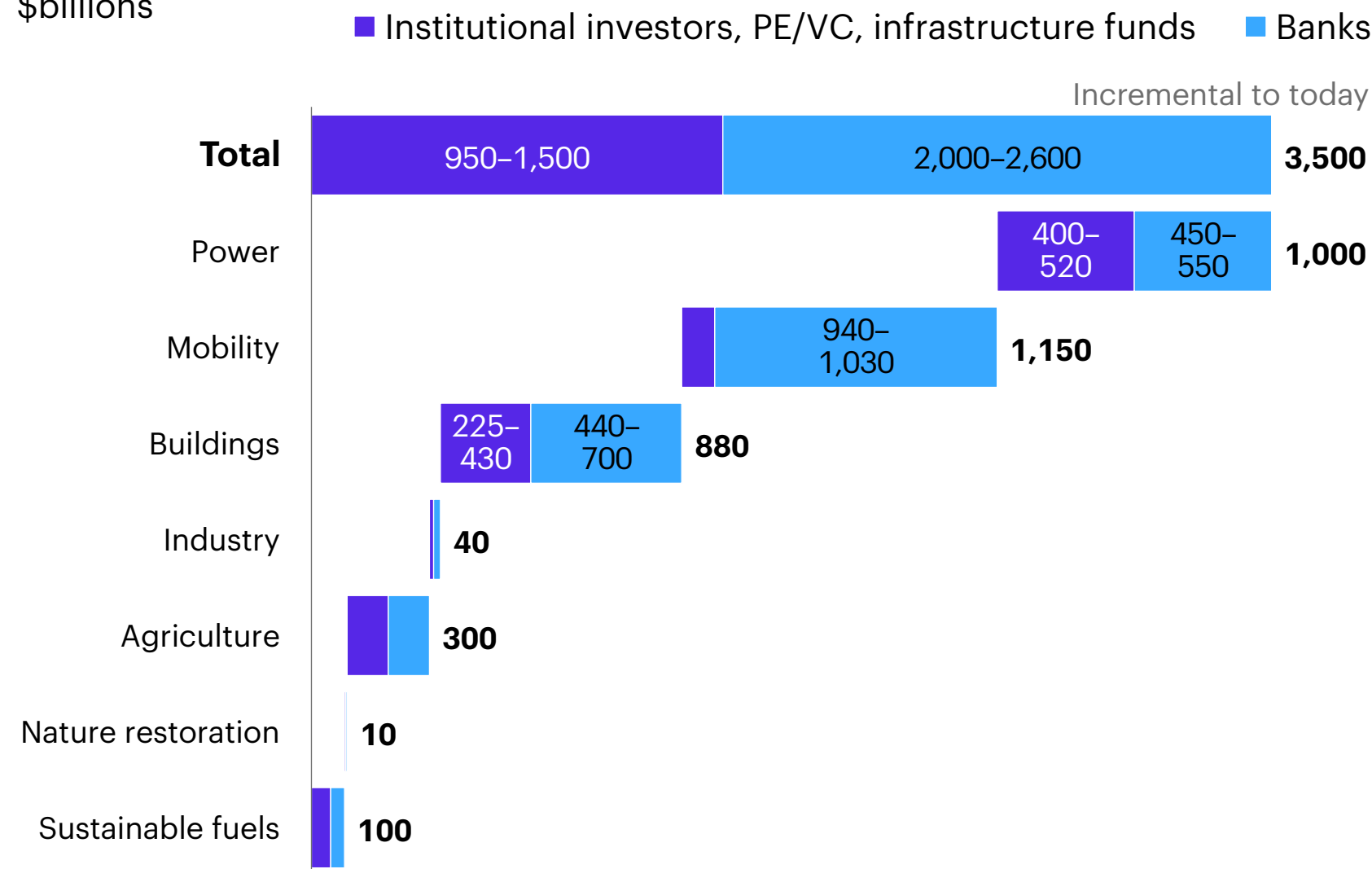
# Fixed income: a key contributor to climate finance

// As facilitators of economic activity, financial institutions are vital contributors to global climate efforts.

– MCKINSEY & COMPANY, JANUARY 2023

Private financial institutions could finance about 55 percent of net-zero investment needs.

Average annual investment needs for low-emission assets, 2022–50  
\$billions





# Climate Transition Approach

A robust climate transition approach should be designed to rigorously assess investment opportunities, their associated risks and deliver optimum investor outcomes through a combined climate and financial lens.

01

Picking climate transition leaders



Supported by bottom-up security selection

02

Decarbonising the portfolio



Supported by top-down construction

03

Prioritize engagement over exclusions

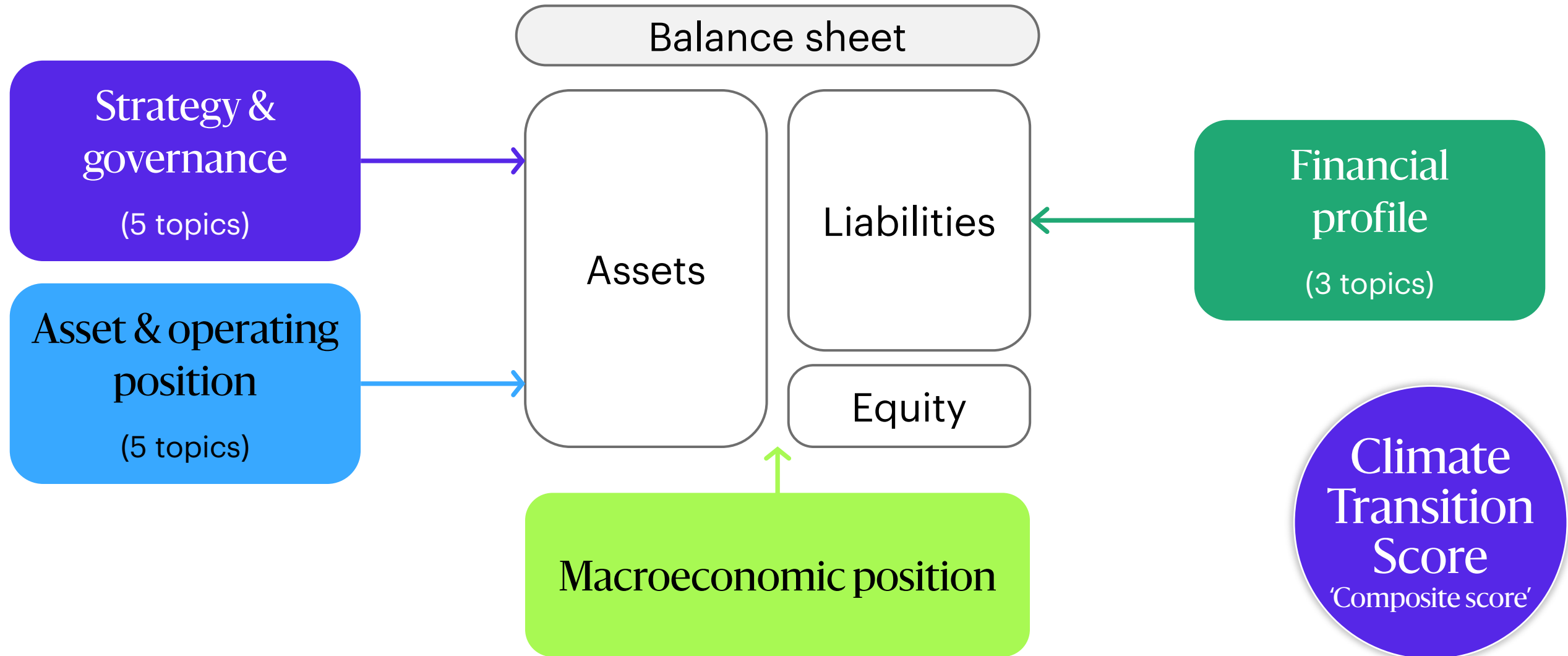


Avoid missing opportunities often seen by broad-based exclusions



# 01 Climate Transition Scoring

## Climate Transition Framework



Source: Allspring. For illustrative purposes only. Investment strategies that are not ESG-focused strategies may consider ESG related factors when evaluating a security for purchase but are not prohibited from purchasing or continuing to hold securities that do not meet specified ESG criteria.



# 01 Climate data sources are evolving and broadening

A comprehensive Climate Transition Score (CTS) should allow for classification of companies across the following spectrum:

<p><b>CTS (1)</b></p> <ul style="list-style-type: none"> <li>• Not aligned &amp; no commitment to change</li> <li>• At fundamental risk</li> </ul>	<p><b>CTS (2)</b></p> <ul style="list-style-type: none"> <li>• Transition awareness</li> <li>• Neutral fundamental risk</li> </ul>	<p><b>CTS (3)</b></p> <ul style="list-style-type: none"> <li>• Targeting Paris alignment</li> <li>• Fundamental beneficiary</li> </ul>	<p><b>CTS (4)</b></p> <ul style="list-style-type: none"> <li>• Paris aligned or better</li> <li>• Strong fundamental beneficiary</li> </ul>
--	--	--	---

<p><b>TREND (-)</b> Paris alignment deteriorating</p>	<p><b>TREND (NEUTRAL)</b> Paris alignment stable</p>	<p><b>TREND (+)</b> Paris alignment improving</p>
---	--	---

## COMPANY INFORMATION

- Company policies and procedures
- Company Sustainability and TCFD reports
- Company engagements

## INDUSTRY DATA

- International Energy Agency
- Carbon Disclosure Project (CDP)
- Science Based Targets (SBTi)
- Institutional Investors Group on Climate Change (IIGCC)

## THIRD PARTY PROVIDERS

- MSCI metrics (e.g., Low Carbon Transition Score, Implied Temperature Rise, Climate VaR)
- Sustainalytics
- Trucost metrics (e.g., Direct & First Tier Indirect WACI and footprint)
- Bloomberg climate screen

## RATING AGENCY REPORTS

- Moody's
- S&P
- Fitch
- KBRA

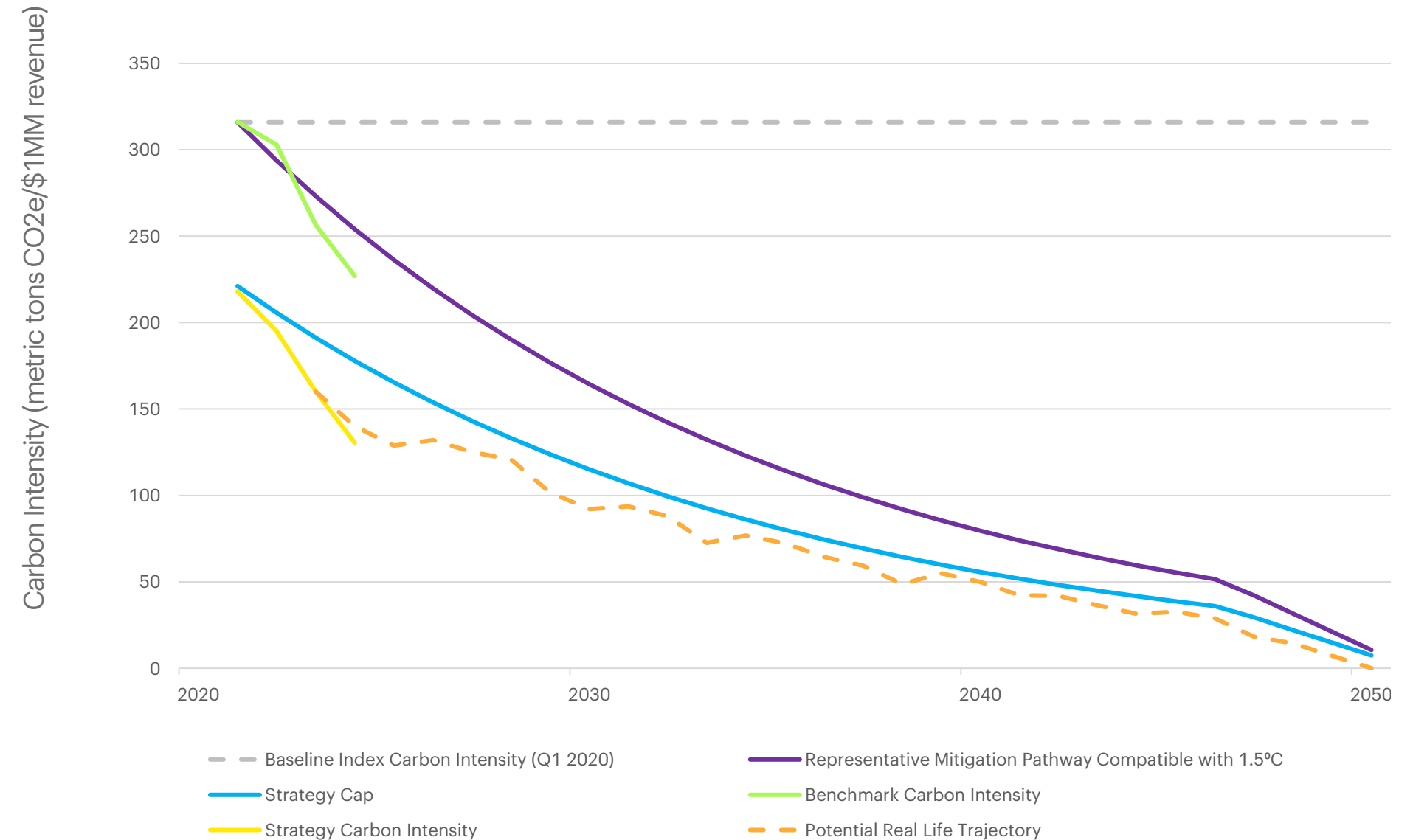


# 02 Targeting an ambitious decarbonization profile

Strategies aim to decarbonize inspired by the EU Climate Transition Benchmark (CTV) pathway reaching net zero by 2050.

- EU CTB minimum standards call for:
  - Portfolio emissions intensity to be capped at 30% below year-end 2019 index intensity
  - A decarbonization trajectory consistent with warming to 1.5 degrees Celsius, by 2100, with no or limited overshoot, corresponding to self-decarbonization of 7% per annum
- The emissions intensity trajectory declines linearly from 2047 to reach zero

Sample Climate Transition Global Investment Grade Decarbonization Trajectory



For illustrative purposes only.  
Source: Allspring, Trucost. As of 31-Mar-24 (updated annually).

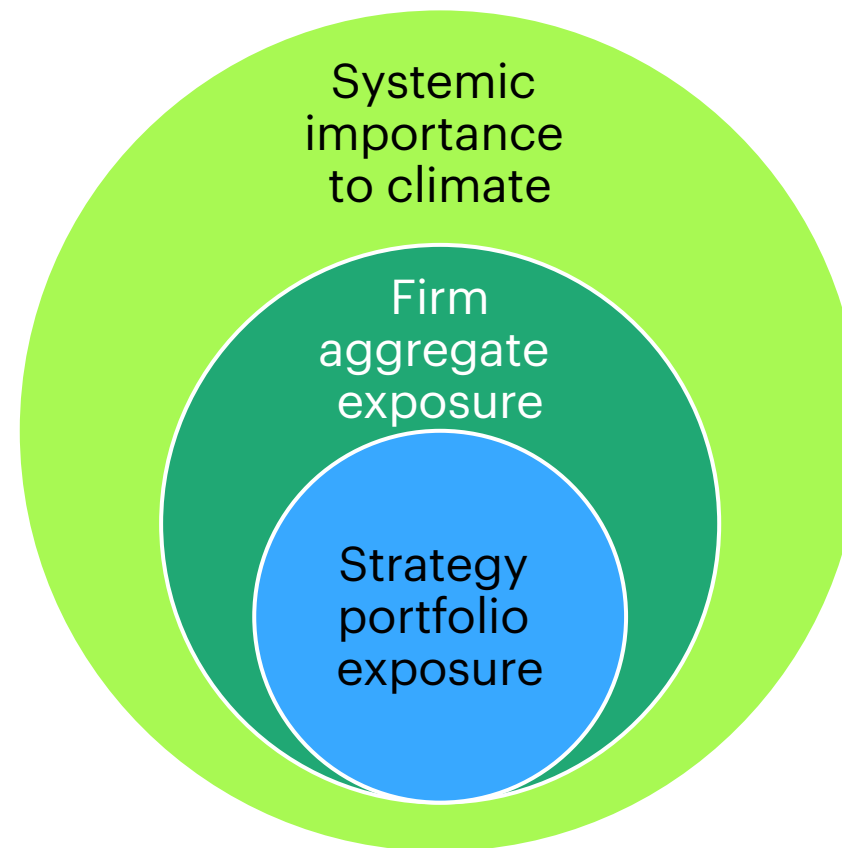
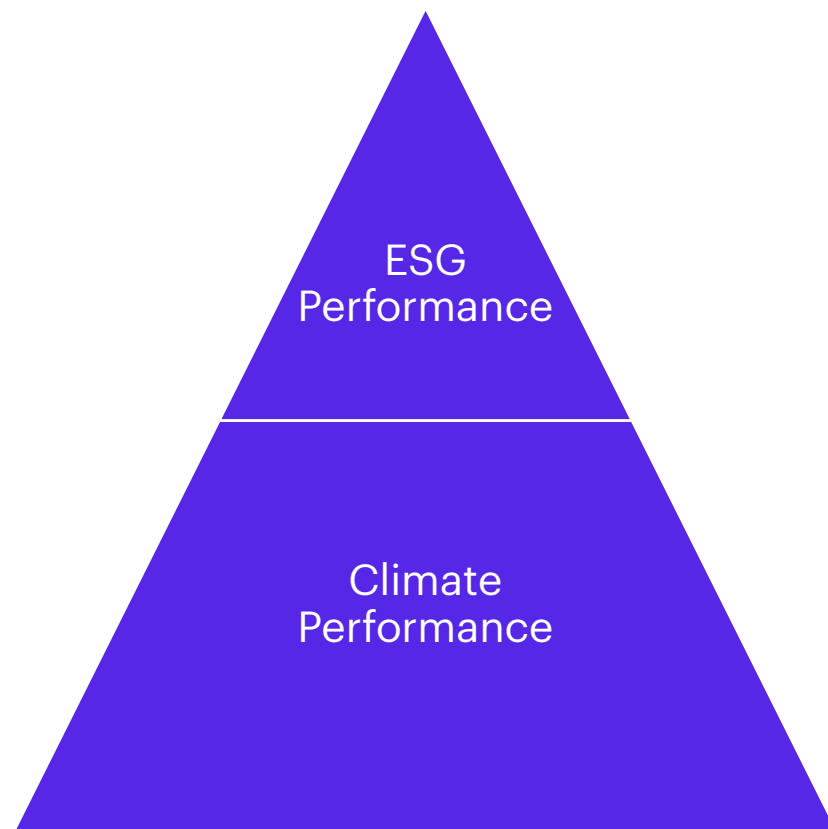


# Engagement objectives for climate

Broad range of potential triggers for engagement

Prioritise engagement based on importance

Determine goal of engagement



Improve/impel climate performance of investee companies

Broaden the universe of qualified companies

Address other material ESG issues beyond climate



# High to low transition story

## Climate change impact

Negatively impacted by



Positively impacting on

Contribution to SDGs

7

AFFORDABLE AND CLEAN ENERGY

9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

13

CLIMATE ACTION

## Industry/segment

State owned Finnish utility



## Issuer summary

Sector	Electric
Moody's	NR
S&P	BBB+
Fitch	BBB

## Sustainability

Quantitative	5
Qualitative	3+
ESGiQ score	4+
Sustainalytics ESG Risk Score	23
MSCI Overall Score	A

## Climate

Strategy & governance	2.4-
Asset & operating position	2.0+
Financial profile	2.33
Macroeconomic position	2.0
Climate transition score	2.24+
Carbon intensity	1,921

Source: Allspring Global Investments, MSCI, Sustainalytics, S&P Trucost and Bloomberg as at 31-Mar-24. This information shall not be considered a recommendation to buy or sell any security. Information provided is created and is provided for illustrative purposes only, to demonstrate our investment management process and capabilities. Information is stale and should not be relied upon. Information shown is not investment research or constitute an investment recommendation. Any reference to a security or market, is for illustrative purposes only and is not a recommendation to trade.





# Enabling decarbonisation

## Climate change impact

 Positively impacted by

 Positively impacting on

Contribution to SDGs

8

DECENT WORK AND ECONOMIC GROWTH

9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

13

CLIMATE ACTION

## Industry/segment

Scandinavian bank



## Issuer summary

Sector	Bank
Moody's	Aa3
S&P	A+
Fitch	AA-

## Sustainability

Quantitative	4
Qualitative	3
ESGiQ score	3
Sustainalytics ESG Risk Score	24
MSCI Overall Score	AA

## Climate


Strategy & governance	2.8
Asset & operating position	2.6
Financial profile	2.7
Macroeconomic position	2
Climate transition score	2.7
Carbon intensity	4.1

Source: Allspring Global Investments, MSCI, Sustainalytics, S&P Trucost and Bloomberg as at 30-Jun-23. This information shall not be considered a recommendation to buy or sell any security. Information provided is created and is provided for illustrative purposes only, to demonstrate our investment management process and capabilities. Information is stale and should not be relied upon. Information shown is not investment research or constitute an investment recommendation. Any reference to a security or market, is for illustrative purposes only and is not a recommendation to trade.



# Demonstrating climate resilience

## Climate change impact

Neutrally  
  
 impacted by

 Positively  
 impacting on

Contribution  
 to SDGs

3

GOOD HEALTH  
 AND WELL-BEING

9

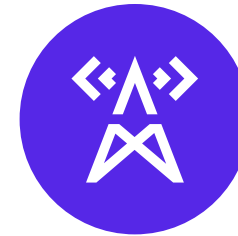
INDUSTRY, INNOVATION  
 AND INFRASTRUCTURE

13

CLIMATE  
 ACTION

## Industry/segment

New Zealand based  
 communications  
 company



## Issuer summary

Sector	Communications
Moody's	Baa2
S&P	BBB
Fitch	NR

## Sustainability

Quantitative	3
Qualitative	3
ESGiQ score	3
Sustainalytics ESG Risk Score	25.4
MSCI Overall Score	AA

## Climate

Strategy & governance	2.2+
Asset & operating position	2.6
Financial profile	2
Macroeconomic position	2
Climate transition score	2.267+
Carbon intensity	29

Source: Allspring Global Investments, MSCI, Sustainalytics, S&P Trucost and Bloomberg as at 31-Mar-24. This information shall not be considered a recommendation to buy or sell any security. Information provided is created and is provided for illustrative purposes only, to demonstrate our investment management process and capabilities. Information is stale and should not be relied upon. Information shown is not investment research or constitute an investment recommendation. Any reference to a security or market, is for illustrative purposes only and is not a recommendation to trade.



# Disclosures

This information is a marketing communication, unless stated otherwise, for professional, institutional or qualified clients/investors (as defined by the local regulation in the respective jurisdiction). Not for retail use.

THIS MATERIAL DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION OR TO ANY PERSON WHERE IT WOULD BE UNAUTHORISED OR UNLAWFUL TO DO SO.

Past performance is not a guarantee or reliable indicator of future results. Any past performance, forecast, projection, simulation or target is indicative and not guaranteed. All investments contain risk. The value, price or income of investments or financial instruments can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Your capital may be at risk.

Allspring Global Investments™ (Allspring) is the trade name for the asset management companies of Allspring Global Investments Holdings, LLC (Allspring Holdings), a holding company indirectly owned by certain private funds of GTCR LLC and Reverence Capital Partners, L.P. Unless otherwise stated, Allspring is the source of all data (which is current or as of the date stated); content is provided for informational purposes only with no representation regarding its adequacy, accuracy or completeness and should not be relied upon; views, opinions, assumptions or estimates are not necessarily that of Allspring Holdings, Allspring or their affiliates and are subject to change without notice; and this communication does not contain investment advice, an investment recommendation or investment research, as defined under local regulation of the respective jurisdiction.

Distribution in Australia: Allspring Global Investments (UK) Ltd. (Allspring UK) is exempt from the requirements to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. Allspring UK is regulated and supervised by the Financial Conduct Authority under the laws of the United Kingdom, which differ from Australian laws. Allspring Global Investments, LLC (Allspring Investments), is exempt from the requirements to hold an Australian financial services licence under the Corporations Act 2001 in respect of the financial services it provides to wholesale clients in Australia. Allspring Investments is regulated by the United States Securities and Exchange Commission under US laws, which differ from Australian laws.

# Should we implement fixed interest sustainability exclusively?

## Sustainability approaches and availability of product offerings in fixed interest continue to evolve

- Frontier recommends active sustainable/ESG fixed interest strategies aligned with an investors' sustainable philosophy, including climate change strategies.
- Frontier notes that any sustainable implementation will depend on an investor's preferred fixed interest configuration as participation in certain sectors is more difficult.
- At this time integrating sustainability fully and equally across an entire fixed interest configuration is challenging, although blending dedicated sustainable/impact manager allocations with traditional ESG screens can ensure consistency of desired financial outcomes.
- Frontier can assist with;
  - Assessing firm and fixed interest level ESG practices (including assessment of existing managers).
  - Identifying managers with superior sustainability/ESG credentials (or those with suitable passive exclusions e.g. fossil fuels).

# Thank you for joining us.

## 2024 Frontier Advisors Annual Conference

Disclaimer:

Frontier Advisors Pty Ltd ABN 21 074 287 406 AFS Licence No. 241266.  
Level 17, 130 Lonsdale Street, Melbourne Victoria 3000.

The information contained in this presentation is current as at the date of preparation but may be subject to change. The information contained in this presentation is intended as general commentary and should not be regarded as financial, legal or other advice. This presentation has been prepared without taking into account your objectives, financial situation or needs. You should consider this presentation in light of these matters. Should you require specific advice on the topics or areas discussed please contact the presenter directly or an appropriate advisor. This presentation may contain forward-looking statements. These are not facts, rather, these forward-looking statements are based on the current beliefs, assumptions, expectations, estimates, and projections of Frontier Advisors Pty Ltd about the business, the industry and the markets in which we operate. Past performance is not a reliable indicator of future performance. Frontier Advisors Pty Ltd makes no representation or warranty that any of the information contained in this presentation is accurate or complete. To the maximum extent permitted by law, Frontier Advisors Pty Ltd does not accept any liability for loss arising from any reliance placed on the use of this presentation including the information contained within it. The contents of this presentation are confidential and must not be disclosed to any third party without our written consent. This presentation must not be copied, reproduced or distributed without the written consent of Frontier Advisors Pty Ltd. Frontier Advisors Pty Ltd does not provide taxation advice and you should seek your own independent taxation advice from a registered tax agent.