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# If the bond is sustainable then the yield «spread» has no fever

**FINANCE**

A study conducted by Banor Sim on the world of bonds demonstrates how the sustainability rating impacts a bond's expected yield thereby lowering collection costs

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Assets managed at a worldwide level in accordance with sustainable, or ESG (Environmental, Social and Governance) criteria have reached close to 31 thousand billion dollars, up 34% over the last two years (and this is data reflecting the situation at the beginning of 2018). PRI, the Principles for Responsible Investment initiative promoted by the United Nations, has reached 2,500 adhering parties around the world who manage assets for an overall amount of approximately 90 thousand billion euros (€90,000,000,000,000). With a cutting edge initiative Europe is defining a taxonomy of economic sectors and activities in which it is possible to invest in a sustainable manner in the perspective of the fight against the climatic crisis. And in Italy the ***Forum per la Finanza Sostenibile*** (FFS) (the Sustainable Finance Forum), one of the first to be formed at international level (in 2001), has reached 100 members, just now while preparing for the eighth consecutive edition of the Sustainable and Responsible Investment Week, which since 2012 has been promoting the main event in this sector in our country (thirteen appointments, from 12 to 21 November, opening at the Senate with events in Milan and Naples and a closing event once again in the capital, hosted by Cisl at the Donat Cattin Auditorium). These are just a few of the figures that tell us how sustainability has now become a sort of "magnificent obsession" for investors, in Italy, in Europe and in the world. But there is always a great need for figures and quantitative evidence, because notwithstanding the fact that the sustainability "tsunami" is shaking the world of finance to its foundations, there are however, still a number - albeit less and less - of sceptics. Perhaps, they are still convinced that sustainable finance is synonymous, (or almost synonymous), with charity, or that investing with an ESG approach can only penalise returns.

Above all we need numbers with reference to the bond market as, historically, attention in the field of sustainable finance has more often than not dwelled on the equity market, on the relationship between the sustainability of companies and the evolution of the price of their shares rather than on the fixed income they generate.

And so the FFS was right a few days ago, in its first event after the Summer, during an "SRI Breakfast", which is an appointment that is held regularly in Milan, to dedicate attention to an interesting research project which explored the relationship between ESG rating and yield spread of bonds on European markets. Essentially asking whether issuers derive any benefit from being accredited with a good sustainability performance rating when collecting resources on the market by offering their bonds to investors. The study was conducted by Banor Sim together with a research team from the School of Management of the Polytechnic University of Milan coordinated by Professor Giancarlo Giudici. The study was based on 536 bonds (from 146 issuers) listed in European markets in the period from 2014 to 2018. Over 400 indicators were used to calculate the ESG rating.

The research project gave an affirmative answer to the above question: the sustainability rating has an impact on the expected yield of a bond. The bonds with the best ESG performance registered the best performance in the period under examination. In other words, the market seems to attribute a "negative spread" (and therefore an appreciation) to bonds from issuers with a higher ESG rating, evidently considering them less at risk of default in the short to medium term. For issuers this means a lower collection cost.

At a time dominated by global climate strikes, it is somewhat surprising to note that according to the research project investors, at least in relation to fixed revenue, are more mindful of governance issues than environmental or even social performance of issuers. Good corporate governance practices and therefore, for example, the associated lower risk of opportunistic behaviour, represent a stronger solvency guarantee in the eyes of investors.

## Responsible Investments in numbers

**31 thousand**
billion dollars of assets managed worldwide with ESG (Social, Environmental and Governance) criteria

**100**
members in the ***Forum per la Finanza Sostenibile*** (FFS) (the Sustainable Finance Forum) in Italy

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Appointments during the 8th edition of the Sustainable and Responsible Investment Week (12-21 November)

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