



INTEGRATING RISK AND SUSTAINABILITY TO DRIVE INVESTMENT IN THE 21ST CENTURY

CEPS conference: Brussels, March 2019





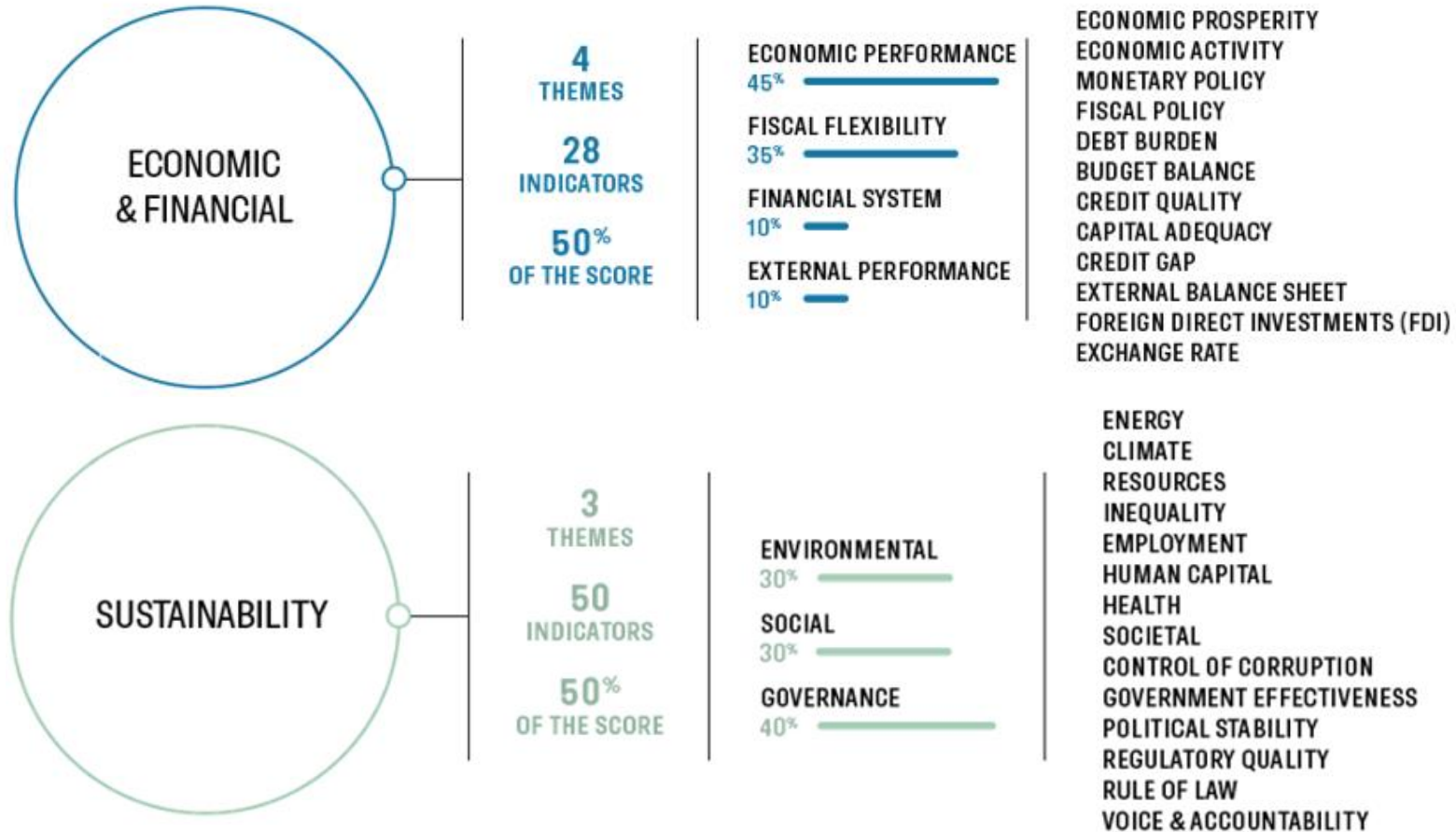
1. SOVEREIGNS ARE THE 800-POUND GORILLA OF SUSTAINABLE FINANCE





2.1

INTEGRATING ESG IN A TRANSPARENT AND SYSTEMATIC MANNER INTO CREDIT RATINGS





2.2 ESG CAN HAVE A SIGNIFICANT IMPACT ON RATINGS

Figure 2: From Profile Scores to Quantitative Indicative Ratings

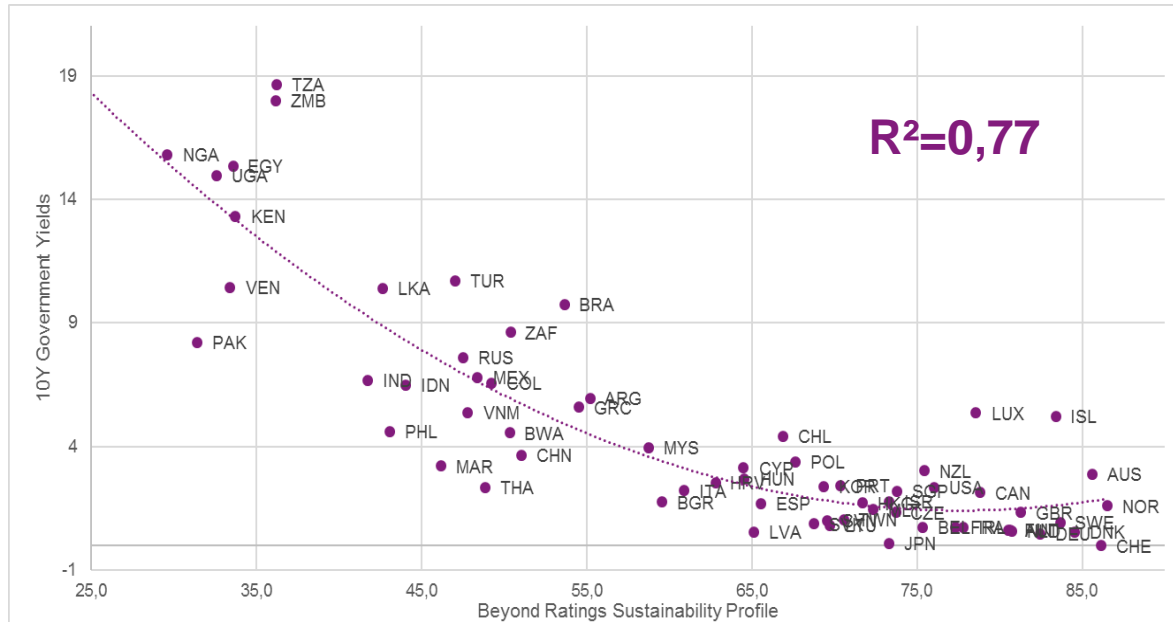
		Economic and Financial Profile										
Scores		[100;65]	[65;60]	[60;55]	[55;50]	[50;45]	[45;40]	[40;37.5]	[37.5;35]	[35;32.5]	[32.5;30]	[30;0]
Sustainability Profile	[100;75]	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+
	[75;70]	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB
	[70;65]	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-
	[65;60]	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+
	[60;55]	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B
	[55;50]	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-
	[50;45]	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC
	[45;40]	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC
	[40;0]	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	CC	C



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ESG PERFORMANCE CAN HELP EXPLAIN SOVEREIGN RISK

Beyond Ratings' Sustainability Profile vs 10Y Government Yields, Q4 2017



The Sustainability profile and long-term sovereign yields

- Following the previous literature, the objective of the Beyond Ratings Sustainability Profile is to capture different components of ESG factors and their potential impact on sovereign credit risk.
- Governments with weak Sustainability profiles present a higher risk of sovereign default, and vice-versa
- Governance performance has immediate credit implications and policy issues with long-term economic and investment impacts
- Countries with weak social performance are often more prone to shocks from social events, leading to greater sovereign risk

Correlation (R ²) with 10y yields	
Aggregate Score	0,79
Sustainability Profile	0,77
Economic & Financial Profile	0,78
CRA Financial Ratings	0,59



There is a negative relationship between country Sustainability profiles and long-term sovereign yields



THANK YOU FOR YOUR ATTENTION

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