

## “G for governance comes first”



### INTERVIEW

#### Angelo Meda

*Head of equities Banor Sim*

■ “Considering the ESG acronym, bondholders are interested, above all, in the letter G for governance. The reason is simple, they want to avoid a company default before they recover the money that they have lent. For this reason, the considerations linked to the environment and social responsibility are not the bondholder’s main concern.” This was stated by Angelo Meda, head of equities at Banor Sim, the company that carried out a research project on “*The relationship between ESG ratings and the yield spread of bonds on European markets*” (see article above).

#### Does G for governance come first?

This is what emerges from the research that was carried out by

comparing bonds with the same characteristics for rating, duration and other contractual clauses.

#### Have you also conducted an assessment of the individual Environment, Social and Governance categories?

Yes, exactly. Be it for investment grade, as well as high yield bonds, G for governance plays the most important role. For the more speculative bonds, environmental and social responsibility remain in the background.

#### That is not the way it turned out last year in the equity research project, is it?

Indeed, the weighting of the three ESG factors in that case was less biased in favour of Governance.

#### According to the conclusions of the research project, which focused on the 2014 - 2018 period, there was

#### a strong emphasis on the difference in cumulative yield between high and low ESG bonds. Does “no basis points” not seem too low?

In a period of low interest rates, the basis points do not seem to me to be low. And then, 110 basis points are related to bonds with a higher rating, or rather investment grade bonds.

#### And the high yield bonds?

Basis points are as high as 466.

#### Will your analysis also be extended to government bonds in future?

Of course. In order to undertake such a project, however, it will be necessary to have more substantial and reliable data available with respect to the data that is available at the moment. — **V.D’A.**

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