

PRESS RELEASE

Banor SIM continues its ESG analysis **of the bond market**

Milan, 16 November 2020 – For the third consecutive year, Banor SIM and the Politecnico di Milano School of Management have carried out new ESG research which focuses on the bond market.

Following previous, more precise analyses, first of the stock market, then of the bond market, this time, the objective was to answer a specific question about the quarterly trend of ESG ratings and their possible relationship with corporate bond returns. Both *high yield and investment-grade* bonds were considered for the study, which observed the relationship between improvement or worsening of the sustainability rating of each one and its respective return.

When the insolvency risk is negligible, i.e. on the investment grade market, the performance of ESG metrics does not have such a relevant impact on return. Looking at the improvement (or worsening) brings to light a healthy correlation with the Social component, particularly regarding the management of security and disputes with customers and any awards for social responsibility. When, on the other hand, the insolvency risk is higher, i.e. considering high yield securities, ESG factors are notably more important. More specifically, a portfolio built according to a “dynamic” approach (therefore by looking at improvement and worsening) to the Environmental and Governance factors was able to generate significant extra return.

The insignificant impact of ESG factors on investment grade bond return is probably linked to the fact that the default rate of investment grade bonds is practically zero (the average for the last 10 years is 0.01%, meaning that only 0.01% of I.G. companies went bankrupt within 12 months), so the return dynamics seem more determined by the policies of the Central Banks than by the fundamentals of the issuer. In the high yield world, where the dynamics of the issuer are indeed crucial, the quarterly performance of the ESG rating has an impact on return. The conclusion is that dynamic portfolio management that also includes ESG considerations shows better parameters than more static management.

“The partnership with Banor SIM over these three years has made it possible for us to develop in-depth knowledge of the relationship between market performance of financial securities and ESG metrics of issuing companies”, commented Giancarlo Giudici, full professor of Corporate Finance at the Politecnico di Milano School of Management. “This expertise will be placed in the service of an upcoming new Master’s degree in Sustainable Finance, which the Politecnico di Milano will offer from 2021, with the objective of training professionals who can integrate sustainability valuations into the fundamental financial analysis”.

Methodology

The analysis involved 799 bonds listed on European markets—of which 234 had an investment grade rating and 565 were high yield—issued between January 2014 and December 2018, excluding bonds with put or call options, convertible bonds, and bonds issued by banks, financial companies and real estate investment companies.

The prices published by Refinitiv were used to calculate the quarterly Total Return (TR), including any dividends distributed. Furthermore, the figures published by Refinitiv Eikon were used to calculate the ESG Rating Momentum (ESGM), i.e. the increase in the ESG rating recorded during the same quarter, if positive, or the decrease, if negative.

For each quarter considered over the 4 years, two portfolios were created, one (High ESGM) composed of bonds with an above average ESGM value, the other (Low ESGM) with other securities and, therefore, with a below average ESGM value.

Thereafter, each security in the High ESGM sample was accompanied by a comparable security in the Low ESGM sample. This matching procedure is necessary to estimate, with maximum precision, the differences in return attributable exclusively to the ESG performance dynamic and not to other factors.

Highlights

The study brought to light that, between 2014 and 2018, high yield securities had a significant and positive differential return of around 9%. For the investment grade bonds, the only component that positively impacted the return was the Social factor, whereas the high yield securities were positively affected by the Environmental and Governance factors. When compared with a “static” strategy, where the issuers with the best ESG ratings in absolute terms are chosen, the “dynamic” strategy that looks at incremental progress linked to corporate strategies proved to be more efficient for high yield securities from 2015 onwards.

“Though there is no guarantee that the correlations identified also apply to the future”, concludes **Angelo Meda, Head of ESG Research at Banor SIM**, “we still believe that the results are interesting, since comparing the ESG rating of one issuing company to another can be complicated, but it is certainly easier to examine whether the same agency makes positive or negative progress over time. Looking at this evidence, it is possible to add some new information that is helpful for actively managing bond portfolios”.

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BANOR SIM, which has been active on the market since 1989 as a private banking vehicle for a group of banks in northern Italy, **was taken over in 2000 by a group of private investors and managers led by Massimiliano Cagliero, the current Chief Executive Officer**. The objective of Massimiliano Cagliero and his partners was to create an independent private banking hub in Italy that would put the principles of value investing into practice. With **offices in the heart of Milan and Turin**, BANOR SIM is now one of Italy's leading securities firms, specialising in capital management and consultancy services for high-value assets. The experience and independence of judgement of the managers at BANOR SIM have contributed towards building unique relationships on the international capital market over time, relationships that have made BANOR a point of reference for many foreign investors intending to invest in Italy or who simply wish to have an independent view of the Italian market. **BANOR SIM applies a model developed in-house to evaluate ESG sustainability when selecting securities**, and is exceptional for the transparency and quality of its investment process. It is one of the few management companies in Italy to have achieved **GIPS (Global Investment Performance Standards) certification**, issued by PricewaterhouseCoopers. BANOR SIM is also a **Member of the Italian Sustainable Investment Forum**, which aims to contribute to the creation of a widespread culture of sustainability.

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The **Politecnico di Milano School of Management**, founded in 2003, hosts multiple activities related to research, training and high-level consulting services in the field of Economics, Management and Industrial Engineering that the Politecnico di Milano processes through its various internal and associated resources. In 2007, the School was granted the prestigious **EQUIS** accreditation. In 2009, it featured for the first time in the **Financial Times ranking** of the best European Business Schools, and today, it is recognised for its Executive MBA, Full-Time MBA, Master of Science in Management Engineering, Customised Executive programmes for business and for Open Executive programmes for managers and professionals. In March 2013, the school achieved the prestigious **AMBA** (Association of MBAs) international accreditation for its **MBA** and **Executive MBA** programmes. In 2017, the School of Management was the first in Italy to be recognised for the quality of its courses delivered through digital learning in the Executive MBA courses through EOCCS (EFMD Online Course Certification System) certification. The School can rely on a teaching staff made up of more than two hundred professors, research analysts, tutors and other staff members, and each year, more than six hundred students join the undergraduate programme. The school is a member of **PRME** (Principles for Responsible Management Education), **Cladea** (*Consejo Latinoamericano de Escuela de Administración*) and **QTEM** (Quantitative Techniques for Economics & Management Masters Network). The School comprises the **Industrial Engineering Department** and the **MIP Graduate School of Business**, which focuses particularly on the training of executives and Master's programmes.

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