

Around The Horn



ESG INVESTING

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# Credit Analysis: Incorporating ESG Into Our Process

ESG risks are important to consider when assessing future cash flows as well as the probability of default and recoveries

ESG considerations are explicitly factored into our methodology when assigning internal ratings

We highlight ESG issues that are material to our risk assessment in our research and related communication

ESG considerations are rarely the main driver of credit outcomes but have resulted in material rating differences (AAM vs. rating agency)

# Credit Analysis: Incorporating ESG Into Our Process

Examples of sectors and credits where ESG drivers affected

AAM's risk assessment:

Environmental – Pollution, Regulations, Policies

- *Refining, Autos*

Social – Health and Safety

- *Chemicals (Sherwin Williams)*

Governance

- Board oversight, composition, practices – *Petrobras, CBS/Viacom/Redstone family*
- Executive – quality, compensation, accountability, incentives – *Community banks*
- Risk Management - *Cyber security (Equifax)*

Equifax Inc	vs History	vs Peers
Summary		
Environmental	Neutral	Neutral
Social	Neutral	Neutral
Governance	Worse	Worse



Bloomberg ESG portal (June 2018)