



Bringing an ESG focus to fixed income investing

An interview with Eagle Asset Management's Sheila King

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Sheila King, CFA, Portfolio Co-Manager and Fixed Income Research Analyst for Eagle Asset Management, has been thinking about responsible investing for years, but it was a visit in 2018 to the Aspen Ideas Festival that set her on the path to something entirely new.

Now, King and a team of investment professionals have a new ESG-focused strategy – the first ESG fixed income offerings at Eagle, an affiliate of Carillon Tower Advisers. Focusing on sustainability and responsible governance from bond issuers is not just a community good, but also good money management, King says. Read on to learn more about this purposeful approach to fixed income investing.

How did this effort get started?

In June 2018, I was at the Aspen Ideas Festival and there were a lot of different panel discussions about responsible corporate governance and sustainable investing. I just came out of there saying “You know, we’re lending clients’ money to these corporations and municipalities. Why can’t we lend to those that are focused on ESG – environmental, social and governance – and those that are focused on sustainability of their communities?”

I approached James Camp, the Managing Director of Eagle Fixed Income, and he thought this could have great potential. I reached out to our analyst teams, and they also thought it would be a great opportunity. Management was strongly supportive.

In formulating these strategies we reached out to a lot of private wealth management professionals. We really wanted to understand what their clients needed. What they lacked were more conservative, balanced approaches. Fixed income did indeed check that box and fit that bill.

What is the strategy you created and who is it designed for?

The strategy is called Eagle ESG-Focused Fixed Income. The program is focused on ESG integration into the investment process rather than just ESG “aware.” We have three different objectives:

- Tactical - a blend of corporate and tax-exempt municipal bonds
- Municipal only
- Corporate only

There is the Tactical strategy, which is a blend of corporate and tax-exempt municipal bonds. Then we have a Municipal only and a Corporate only.

Within the strategy there are enough objectives to cover all client tax brackets, whether they are looking for tax advantages or are investing in a 401(k) or IRA.

Discuss the investment process for the strategy.

It includes our traditional, fundamental research. Then, in an additional step, we’re doing ESG research to formulate an overall assessment. We are looking at the material factors for each industry or sector and what their risks may be. For example, if you’re in the food and beverage space, working conditions for companies in the supply chain might be important, where supply chain may not be relevant in a different industry.

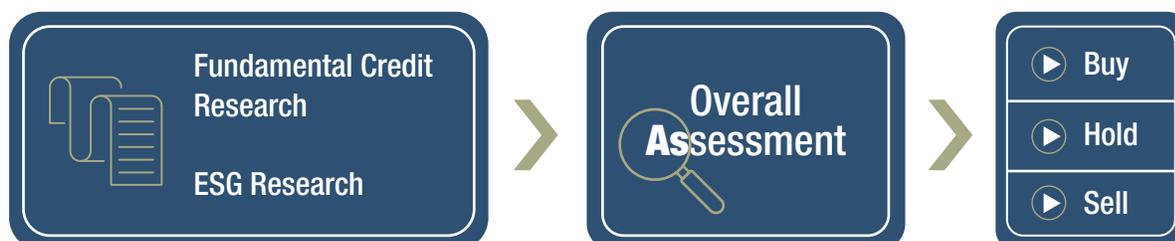
We are trying to make this a win-win. We want to educate ourselves, and we want to educate bond issuers. We’re not here to shame a corporation or a municipality because they are not doing it. We’re all in this together, and we are hoping to move forward in a way that benefits everyone.

A lot of fixed income ESG investing focuses on the use of the bond proceeds – so-called “green bonds.” Eagle’s strategy is different. How so?

We are focused on evaluating the obligor of the bonds. Let’s say a corporation brought a green bond. If there isn’t revenue specifically generated from the green project to pay those bonds back, then the parent company is the one responsible. What we are doing for ESG integration is judging risks. Are the risks increased or decreased? A project could be an ESG green initiative, but if the proceeds are coming from the parent company and it is taking on risks, have you really reduced your risks?

We’re lending money, and we want to make sure the client’s money is coming back.

Eagle's ESG-Integrated Security Analysis and Selection Process



Many investors are more familiar with ESG equity investing. Are there special challenges or opportunities in fixed income, especially municipals?

I think the municipal space is perfect for ESG because a lot of what municipalities are trying to do is make their communities sustainable. However, we find there is very little data that municipalities make available because the ESG requests are somewhat new for them. Some municipalities do have sustainability directors that are helping the city or state grow in a sustainable way. But for a lot of these smaller municipalities, it's a newer concept.

Our municipal analysts, Eric Kreiger and Christina Ashmore, are already doing their traditional fundamental analysis. Then they are looking through the prospectus statements and going to conferences and reaching out to municipalities to ask more questions of what they are doing from a sustainability front. It is extra analysis that can be time consuming.

With corporations, even if you are a bondholder, there also is typically a stock issue where corporations have already been providing the data for a long time. Therefore, corporates are qualitative and quantitative. Municipals right now are more qualitative and subjective. It's fairly new in the municipal space.

You've mentioned assessing risk several times. Can you explain why that's so important to your process?

From a bondholder standpoint, risk is important to your return. Our whole premise is diversification. Sustainability is important. For us, lowering the risk is a good fit for a bondholder. We're not sacrificing return. Truthfully we believe we can get the same risk-adjusted returns or better risk-adjusted returns because we have lowered the risk.

We will not be comparing these strategies' returns to an index that's ESG-focused. I'm trying to look at our returns based on normal indices. Our goal over the long term is to try to outperform those indices and do it with less risk. Many people think that clients have to give up returns to participate in impact investing or ESG. We don't believe that to be the case.

How much can a portfolio manager or investor effect change through their investments?

Hopefully, by growing supply and demand. It truly is an evolution. What I would hope to see is the process in our investment chart become the norm. The evolution is that your fundamental analysis includes all the ESG components and becomes the norm. For that to happen, everybody has to accept it. Europe has certainly been a driving force, as has the institutional side as the institutional side has realized the returns are there.

It truly will take everyone for that to happen. Companies are smart enough to know, as are municipalities, that if a lot of money is flowing into ESG strategies and they feel like they are missing the boat, they might ask "What can we do to make ourselves more sustainable and more in demand?" And so it really has to do with the flow of funds.

Assets have consistently been flowing into ESG strategies. What are your thoughts on future demand?

I think it's ready to explode. What we really want to do is help educate professionals so they know what is available, what we're offering and how we invest so they can educate their clients. We do feel there's a lot more interest from clients than they are aware of. If we can provide this set of solutions along with our other traditional objectives, we think it could be a good asset gatherer for professionals. We don't think ESG is that prevalent in the fixed income space right now. There have been some who have been doing it longer, but we still feel like we're in the early stages.

It's a new decade, it's a new approach, and Eagle is adapting to change. We're excited at the fact there is growing interest and demand for this product. Everything's coming together at the right time.

The Investment Team



James Camp, CFA

Managing Director of Fixed Income and Strategic Income

- 31 years of investment experience
- 23 years with Eagle Asset Management



Sheila King, CFA

Portfolio Co-Manager and Fixed Income Research Analyst

- 33 years of investment experience
- 33 years with Eagle Asset Management



Christina Ashmore

Senior Research Analyst

- 16 years of investment experience
- 5 years with Eagle Asset Management



Bishop Jordan, CFA

Senior Research Analyst

- 19 years of investment experience
- 3 years with Eagle Asset Management



John Lagowski, CFA

Research Analyst

- 13 years of investment experience
- 5 years with Eagle Asset Management



Eric Kreiger

Research Analyst

- 6 years of investment experience
- 4 years with Eagle Asset Management

About Eagle Asset Management

Eagle Asset Management is built on the cornerstones of intelligence, experience, and conviction, driven by research and active portfolio managers. Our long-tenured investment teams manage a diverse suite of fundamental equity and fixed income strategies designed to meet the long-term goals of institutional and individual investors. Our teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

About Carillon Tower Advisers

Carillon Tower Advisers is a global asset management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. Together with our partner affiliates — ClariVest Asset Management, Cougar Global Investments, Eagle Asset Management, Reams Asset Management (a division of Scout Investments) and Scout Investments — we offer a range of investment strategies and asset classes, each with a focus on risk-adjusted returns and alpha generation. We believe providing a lineup of institutional-class portfolio managers, spanning a wide range of disciplines and investing vehicles, is the best way to help investors seek their long-term financial goals.

Risks Associated with Fixed Income Investing

Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors which may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. The risk of a change in the market value of the investment due to changes in interest rates is known as interest-rate risk. Interest-rate risk is subject to many variables but may be analyzed based on various data (e.g., effective duration). The risk that the issuer may default on interest and/or principal payments is often referred to as credit risk. Credit risk is typically measured by ratings issued by ratings agencies such as Moody's and Standard & Poor's®. Bonds issued by the U.S. Government have significantly less risk of default than those issued by corporations and municipalities (see below for a discussion of the risk associated with convertible securities). However, the overall return on Government bonds tends to be less than these other types of fixed-income securities. Finally, reinvestment risk is the possibility that the proceeds of a maturing investment must be invested in a lower yielding security, all other things held constant, due to changes in the interest-rate environment. Investors should pay careful attention to the types of fixed-income securities which comprise their portfolio, and remember that, as with all investments, there is the risk of the loss of capital.

Disclosures

Past performance does not guarantee or indicate future results. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Investing involves risk and you may incur a profit or a loss. Investment returns and principal value will fluctuate so that an investor's portfolio, when redeemed, may be worth more or less than their original cost. Diversification does not ensure a profit or guarantee against a loss.

Income earned from investments in municipal bonds, while exempt from federal taxes, may be subject to state and local income taxes. All capital gains, as well as income earned from other sources, are subject to taxation. Income from municipal securities may also be subject to the Alternative Minimum Tax. Municipal securities typically provide a lower yield than comparably rated taxable investments in consideration of their tax-advantaged status. Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Please consult an income-tax professional to assess the impact of holding such securities on your tax liability.

Learn more about Eagle's ESG-Focused Fixed Income Strategy

Financial Professionals: 1.800.237.3101 | Investing Public: Contact your financial professional

