INCOME RESEARCH + MANAGEMENT

ESG MONITOR

SECOND QUARTER 2020

ESG in the Investment Industry

- The SEC's internal investor advisory committee approved a recommendation that the SEC update reporting requirements for public companies to include ESG factors.
- Numerous US environmental regulations have been relaxed or rolled back in an attempt to address the economic impact of COVID-19.
  - Fuel economy and emissions standards were lowered, rules for soot air pollution were frozen, and enforcement of some monitoring and reporting regulations for those impacted by the coronavirus were temporarily loosened.
  - California is joined by 22 states and the District of Columbia in suing against the eased requirements for vehicle miles per gallon.
  - Since 2017, over 60 environmental rules have been officially reversed with an additional 30 rollbacks currently in progress.
- Numerous groups are pushing governments and businesses to "Build Back Better" and emerge from the pandemic in a more sustainable world.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainabilty
Yield to Worst	1.34	1.24	1.29	1.19
Duration	6.01	6.30	5.81	5.71
Spread	76	66	71	61
Convexity	0.43	0.58	0.37	0.33
1-Yr Return (%)	9.42	9.95	9.39	9.54

As of May 31, 2020

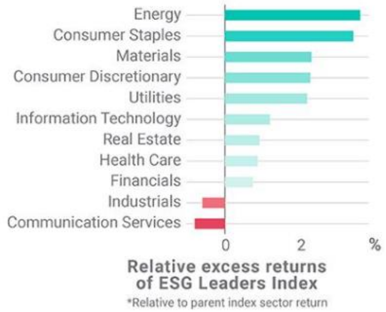
The Renewed Social Focus

- Increased attention on the social aspect of ESG continues as a result of the coronavirus pandemic.
- Social bond issuance has typically lagged that of green and sustainability bonds due in part to the difficulties in measuring and monitoring social impact.
  - Social and sustainability bonds are significantly outpacing 2019 issuance YTD and are expected to exceed previous year levels.
  - Recently, issuers have tied their social or sustainability bonds to COVID-19 specifically as they look to finance healthcare systems, small businesses, or otherwise mitigate social issues caused by the economic lockdown.
- The coronavirus is also shedding light on the disproportionate effect of the pandemic on lower income and minority families; investors will look to monitor how companies address this issue.

Keeping Sight of ESG

- Despite the seeming lack of focus on ESG during the volatility experienced in the first quarter, we are seeing evidence that ESG often played an important role in risk mitigation and relative outperformance.
  - Over the first quarter, issuers across all sectors with higher MSCI ESG Ratings largely outperformed the market. Issuers with positive ESG trending scores outperformed those with negative ESG trending scores.
- The pandemic and associated market dislocations further highlight the benefits of holistic credit analysis, including ESG factors.
  - Our research analysts remain focused on the material ESG factors impacting their credits alongside traditional financial metrics. As we look to an economic recovery, it will be important to focus on the long-term impacts of COVID-19 on different industries as they may be forced to transform.
- Numerous companies have been or are expected to be downgraded to high yield; many of these names may not recover as quickly given the increased focus on ESG issues and the tendency of these companies to score poorly in this area.[1] We believe this is further evidence of the importance of incorporating material ESG factors in our credit analysis.
- As more green, social, and sustainability bonds are issued, our analysts continue to focus on the overall credit and relative value and not simply the label.

Relative performance of MSCI USD IG ESG Leaders Corporate Bond Index sectors[2]



ESG Headline Events[3]

- ESG factors influence headlines and can impact credit performance. Social factors continue their prevalence in the media.

\+ Dunkin' Brands' senior management team is voluntarily reducing their base salaries from May to August of 2020 and its Board of Directors has agreed to a decrease in their cash compensation; these savings will be contributed to the Dunkin Family Fund, which supports employees in times of crisis.

\- Diamond Offshore Drilling Inc., after filing for bankruptcy, is attempting to cut employee salaries by 20% and has simultaneously requested permission from the bankruptcy court to pay executive bonuses of $10 million – the same amount recently received in CARES Act relief.

Sources: Bloomberg, Bloomberg Barclays, Financial Times, MSCI, NY Times, and S&P Global Market Intelligence as of 6/3/2020

[1] This abstract from the Financial Times was produced by IR+M.

[2] MSCI Research Blog (Hitendra D Varsani and Rohit Mendiratta, MSCI, April 14, 2020, Corporate-bond performance by factors and ESG).

[3] This is not a recommendation to purchase or sell any specific security listed above.

IR+M DISCLOSURE STATEMENT

The views contained in this report are those of Income Research & Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission from Income Research & Management.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license. Bloomberg or Bloomberg's licensors, including Barclays, own all proprietary rights in the Bloomberg Barclays Indices. Neither Bloomberg nor Barclays approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.