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Insight  
INVESTMENT

# 2019 CLIMATE RISK INDEX

FOR CORPORATE DEBT ISSUERS

DECEMBER 2019





There is a general absence of tools and methodologies to enable fixed income investors to assess the climate-related risks within portfolios. We have therefore decided to share our methodology and our results with our peers in the investment industry and with wider stakeholders. We hope to encourage other investors to analyse their portfolios and take action to reduce the climate-related risks that their portfolios are exposed to.

Over time, we plan to develop our tool to provide a nuanced assessment of issuer performance on climate change. We encourage readers to provide feedback – on the methods, on the results, on the usefulness of the tool – so that we can continue to refine it over time.

JOSHUA KENDALL, SENIOR ESG ANALYST



# EXECUTIVE SUMMARY

IN 2017, WE INTRODUCED THE INSIGHT CLIMATE RISK INDEX, THE INVESTMENT INDUSTRY'S FIRST COMPREHENSIVE RANKING OF FIXED INCOME CORPORATE CREDIT ISSUERS. ALIGNED WITH THE FRAMEWORK DEVELOPED BY THE FINANCIAL STABILITY BOARD'S (FSB) TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD), THE INDEX RANKS OVER 1,800 ISSUERS BASED ON HOW THEY MANAGE CLIMATE CHANGE-RELATED RISKS AND OPPORTUNITIES, AND HOW THEY ARE POSITIONING THEMSELVES FOR THE TRANSITION TO THE LOW CARBON ECONOMY.

Our aim is to improve the consideration of climate-related risks in the investment industry. Therefore, we have decided to share our methodology and results openly, and we welcome any feedback. We encourage all stakeholders to engage with the index, for example investors looking to assess the climate-related risks and opportunities in their investment portfolios; issuers looking to improve the impact of their climate-related activity; and regulators or other industry groups looking to encourage greater consideration of climate-related risks.

## KEY FINDINGS AND IMPLICATIONS FROM THE 2019 RESULTS

1

**Fixed income issuers' disclosure on climate change remains very poor, despite pockets of excellence.**

Most companies simply do not provide enough information for investors to properly assess the risks and opportunities; their scores in the Index suffer as a result.

**Implications:** Credit risk arising from climate-related risks can be significant. The industry needs to do more to encourage issuers to provide more disclosure on the topic and investors need to conduct their own, deeper assessment of the climate-related risks to issuers.

2

**No issuer received a clean scorecard of our best rating across all four broad assessment categories.**

Generally, issuers are stronger in Governance and Strategy, but weaker in Risk Management and Targets and Metrics.

**Implications:** All issuers have work to do, and that includes improving disclosure, rather than 'working behind closed doors'. The TCFD provides guidance<sup>1</sup> to help issuers understand what constitutes effective financial disclosure. The Sustainability Accounting Standards Board (SASB)<sup>2</sup> also provides sector-specific guidance to issuers on the most relevant environmental risks to disclose.

3

**The worst scores are concentrated in a few areas.**

The majority of sectors have a reasonable number of issuers generating strong scores. However, the energy, utilities and materials sectors – as well as high yield issuers – have the highest proportion of issuers receiving the worst scores.

**Implications:** The intra-sector discrepancy in scores allows experienced and skilled investment managers to carefully select those issuers that are leading in managing their climate risks. It also means that investors need to apply more scrutiny in high risk sectors and in high yield.

4

**Data points make comparison challenging** as using multiple research inputs can lead to inconsistent data methods and results.

**Implications:** The prevalence of obscure and unavailable data points underlines the importance of conducting independent, in-depth research. For this reason, the Index is just one of many tools we consult when analysing the climate-risk profile of an investment.

<sup>1</sup> <https://www.fsb-tcfd.org/> and <https://www.tcfdhub.org/>

<sup>2</sup> <https://www.sasb.org/standards-overview/download-current-standards/>



An aerial photograph of a city street. A red car is parked on the right side of the road. Several pedestrians are walking on the sidewalk. The street is paved with light-colored bricks. The background shows a city skyline with various buildings.

## HOW THE RESULTS COMPARE TO THE 2018 INDEX

- The availability of material climate-related data remains a challenge in the latest version of the Index. Our main sources remain unchanged, with CDP providing more than 90% of data points and supplementary data coming from MSCI ESG Research and Bloomberg. We have not identified significant differences in the breadth and depth of data between ESG research data providers.
- A lack of historical data can limit a quantitative approach to some areas, such as a company's progress against its carbon reduction targets. This is likely due to the fact that many areas of carbon reporting are new to most companies, with many only recently introducing explicit targets or activities. In some areas, we have identified improvement between last year's Index and the 2018 Index, especially around disclosure of absolute emissions. Many larger companies have more than five years of data that can help us compare carbon targets and actual carbon reduction.
- The leaders remain consistent between years, with a similar group of large issuers scoring well across a range of pillars. These companies often have a lower carbon risk profile but are effective in communicating their activities to investors.
- A long tail of poor-disclosing companies exists, consistent with last year's results. The companies in this position are relatively stable, but we have identified examples of issuers looking to improve.

# INSIGHT'S CLIMATE RISK INDEX

## AN OVERVIEW

THE INDEX PROVIDES AN ANNUAL ASSESSMENT OF 1,846 CORPORATE FIXED INCOME ISSUERS<sup>1</sup> – INVESTMENT GRADE AND HIGH-YIELD – AND ANALYSES HOW THEY ARE MANAGING THE RISKS AND OPPORTUNITIES PRESENTED BY CLIMATE CHANGE. WE CREATE OUR SCORES BY ANALYSING CLIMATE-RISK DATA FROM THIRD-PARTY PROVIDERS – CDP, MSCI AND BLOOMBERG – COMBINED WITH OUR OWN PROPRIETARY ANALYSIS. WE DERIVE THE SCORES BY CONSIDERING FACTORS GROUPED UNDER FOUR BROAD CATEGORIES CONSISTENT WITH THE TCFD CLIMATE-RISK REPORTING FRAMEWORK: GOVERNANCE, STRATEGY, RISK MANAGEMENT AND TARGETS AND METRICS (SEE FIGURE 1).

Figure 1: How we derive the Insight Climate Risk Index ratings

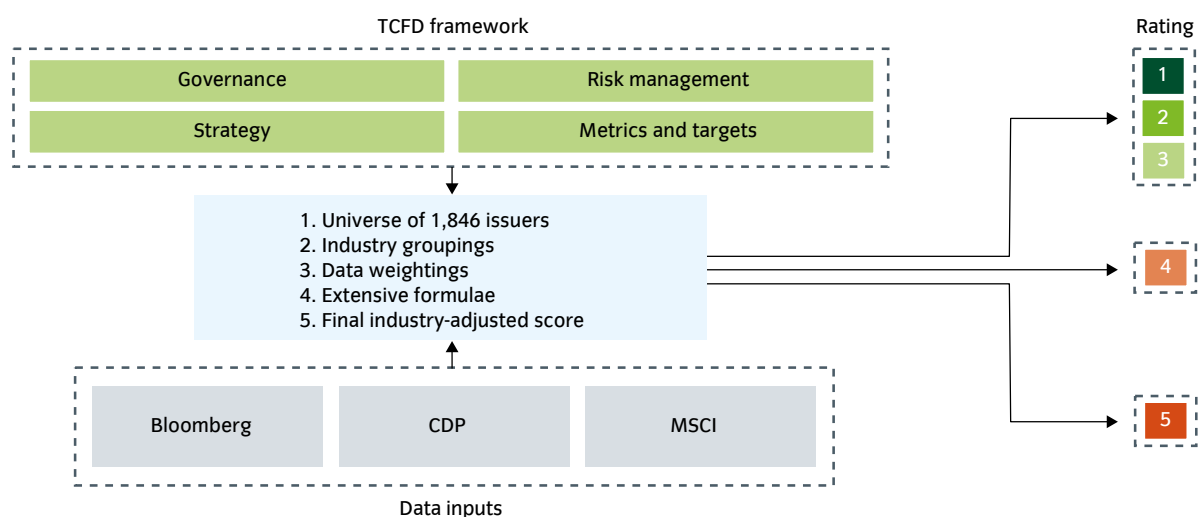
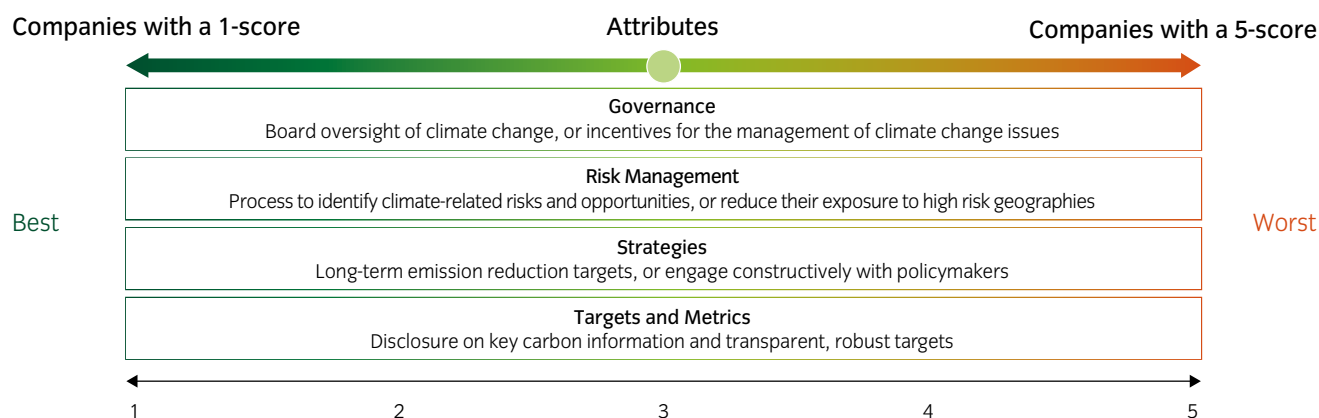


Figure 2: What are the attributes of low- and high-scoring issuers?



<sup>1</sup>Data collected and analysed as at September 2018.



# THE 2019 RESULTS

## FINDINGS AND IMPLICATIONS

### 1 DISCLOSURE NEEDS TO IMPROVE



#### KEY FINDINGS

- Disclosure remains poor in many areas and finding accurate, comparable data is one of the biggest challenges for Environmental, Social and Governance (ESG) analysis. As an example, only around 2,500 companies (out of 6,000) disclose environment KPIs to initiatives like the Carbon Disclosure Project (CDP), which is recommending disclosure of carbon emissions data.
- Poor disclosure is particularly prevalent for issuers that are not publicly listed, for smaller companies, and for companies that are classed as high yield. Our results indicate that large companies have better disclosure practices than smaller issuers.

Credit risk from climate-risk change can be significant and identifying leaders and laggards will be crucial over the long term. However, poor disclosure can make it difficult to discern how a company is performing against this responsibility. Issuers that provide insufficient disclosure on climate related activities will likely receive lower climate risk scores than otherwise would be the case, potentially leading to lower investor demand.

We hope that disclosures will improve as the TCFD recommendations are adopted, as governments move to introduce formal climate change disclosure requirements for companies, and as investors start to increase the pressure on companies to improve their climate change-related disclosures.

There are some green shoots of progress in this area. As an example, on 18 April 2019, the European Parliament endorsed the legislation setting the building blocks of a capital markets union, including the regulation on disclosures relating to sustainable investments and sustainability risks. This new legislation will make it mandatory for large companies to disclose their ESG activities.

We welcome this recent activity, but the industry needs to do more to encourage issuers to provide more disclosure on the topic. Until then, investors need to conduct their own, deeper assessment of the climate-related risks to issuers.



## NO ISSUER RECEIVED A CLEAN SCORECARD OF OUR BEST RATING ACROSS ALL FOUR ASSESSMENT CATEGORIES



### KEY FINDINGS

- No company in the Index received a clean scorecard of our best rating of '1' across all four categories.
- Governance and Strategy are more established as focuses for corporate activity when managing climate-related issues, with about a third of issuers achieving a score of '1' or '2'.
- No company achieved our best rating for Risk Management nor Targets and Metrics, with about 5% scoring our second best rating in either category. This indicates that companies have considerably more work to do to improve the quality of their internal targets and meet the carbon reduction strategies that are often set at a corporate level.
- A large contributor to weak scores was the lack of transparency from companies. This means that potentially positive climate risk management efforts are often shrouded by a lack of information.

Companies that effectively communicate their activities to investors tend to receive better scores across a range of pillars. These issuers acknowledge the salience of climate issues and promote their activities on their websites directly or engage with independent ESG rating agencies to apply this data within their evaluation models.

We find the keen focus of many companies on Strategy and Governance encouraging, and we would urge issuers to continue to ensure their commitment in these areas in line with their climate-related goals.

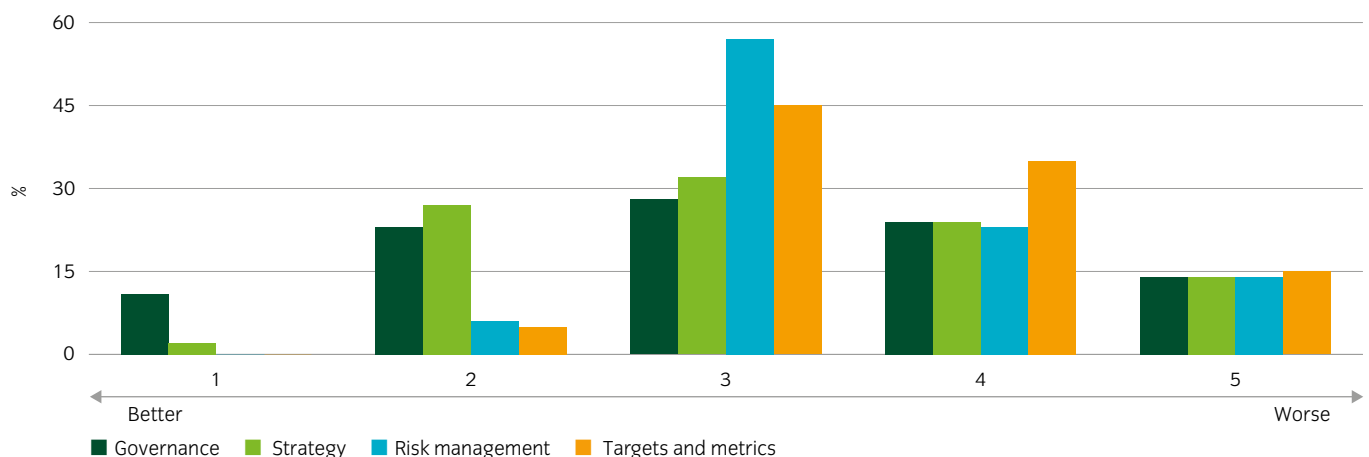
However, Insight's recommendation to issuers would be to focus on all four attributes that generate a strong Index score. In particular, improve the quality of their internal targets and meeting the carbon reduction strategies that are often set at a corporate level – factors that will help them improve their Target and Metrics and Risk Management scores.

In our view, it is not enough to carry out climate risk management behind closed doors; it is essential for issuers to disclose the steps they are taking and to provide consistent reporting. Insight would recommend that issuers provide comparable metrics over time, and provide an update on these metrics at least on an annual basis.

There is much guidance in the industry to help issuers improve disclosure. As an example, the TCFD provides guidance<sup>2</sup> to help issuers understand what constitutes effective financial disclosure. Also, the Sustainability Accounting Standards Board (SASB)<sup>3</sup> provides sector-specific guidance on the most relevant environmental risks to disclose.

Please contact us if you would like more guidance.

Figure 3: Index ratings split by the four main assessment categories<sup>4</sup>



<sup>2</sup> <https://www.fsb-tcf.org/> and <https://www.tcfhub.org/>

<sup>3</sup> <https://www.sasb.org/standards-overview/download-current-standards/>

<sup>4</sup> Source: Insight Investment. Please note that all future sources, unless otherwise indicated, come from Insight Investment.



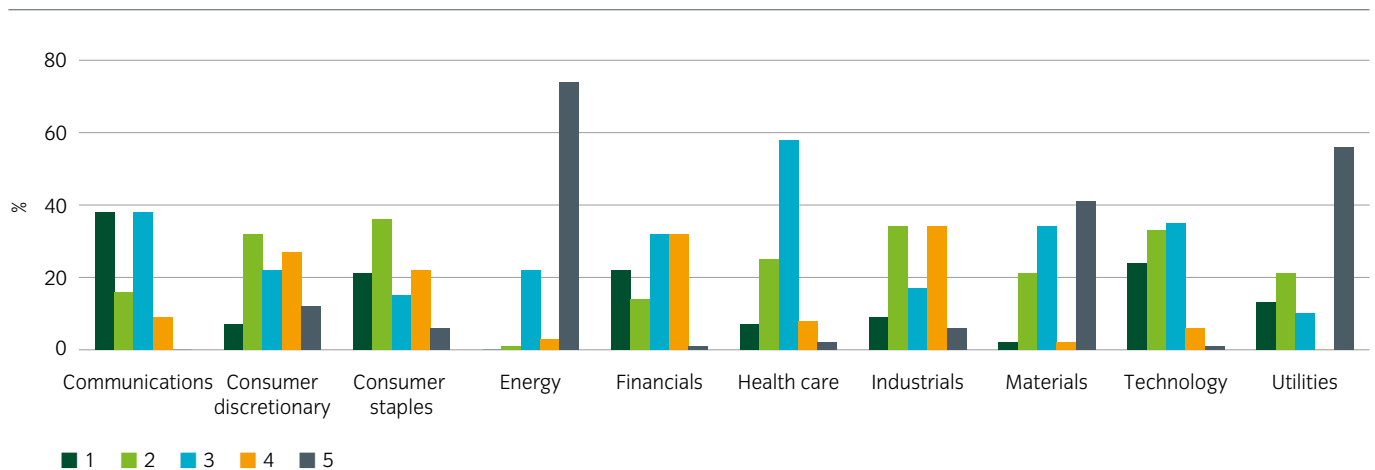
## KEY FINDINGS

- The majority of sectors have a reasonable number of issuers generating strong scores.
- The high-risk sectors are energy, materials and utilities.
- Investment grade issuers manage climate risks better than their high-yield peers.

### The majority of sectors have a reasonable number of issuers generating strong scores

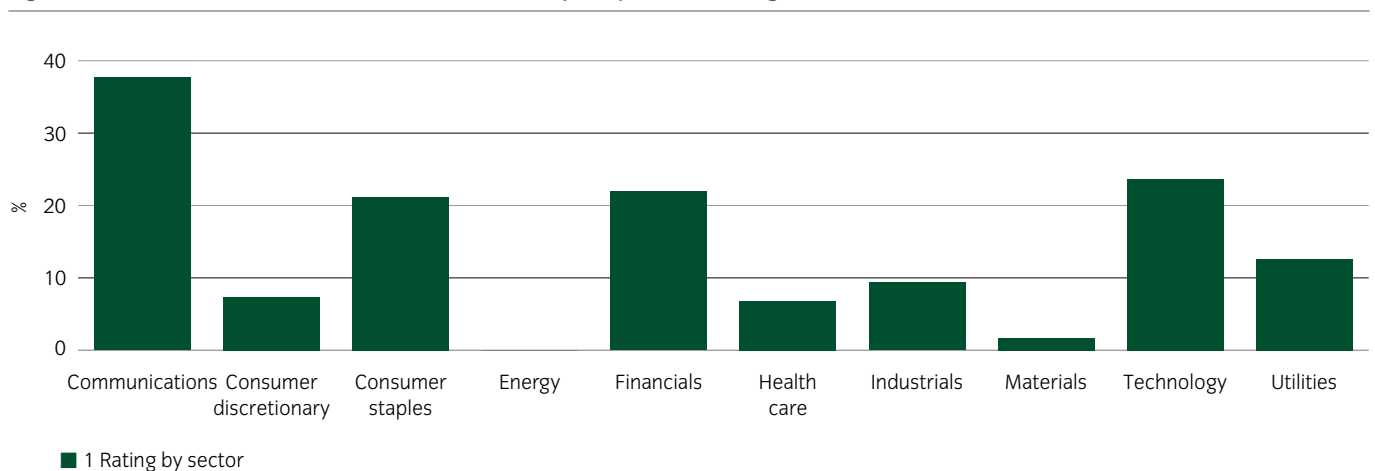
Most sectors have a range of climate leaders (issuers scoring '1') and climate laggards (issuers scoring '5'), as illustrated in Figure 4. The intra-sector differentiation means that an experienced and skilled investment manager can carefully identify those issuers that are leading in managing their climate risks.

Figure 4: Most sectors have a range of climate leaders and laggards



Most sectors have a reasonable number of issuers generating our best score ('1') score, with the exception of energy and materials sectors that have a limited number. Issuers within the communications sector most frequently receive our best score (38% of the sector), with more than a fifth of consumer staples, technology and financial issuers also scoring '1' (see Figure 5).

Figure 5: Issuers within communications sector most frequently score '1' ratings

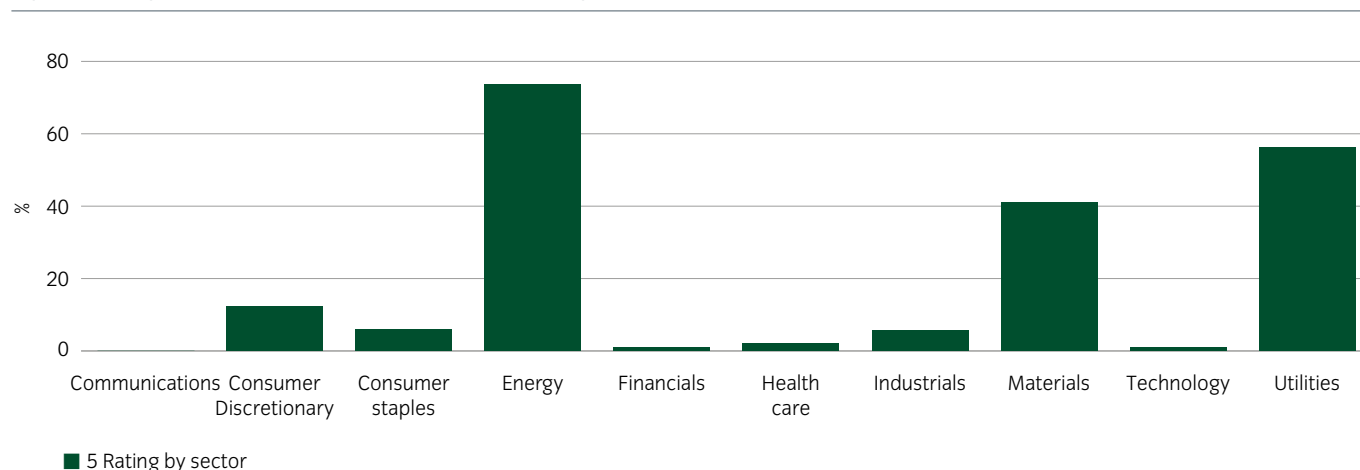




## The high-risk sectors are energy, materials and utilities

While leadership in managing climate risks is widespread, there are some exceptions in the energy, materials and utilities sectors, which provide a considerable opportunity for issuers in these high-risk sectors to develop an effective climate plan. In terms of laggards, the energy sector has the highest concentration of issuers generating our worst score ('5'), at over 70% of the entire sector, with utilities at just over half and materials at just over 40%.

Figure 6: Energy, materials and utilities have a markedly higher proportion of '5' scores



## High-risk sectors call for greater due diligence

The skew towards poorer scores in utilities, energy and materials is not surprising due to the nature of their operations; these companies often operate assets that have high absolute carbon emissions and exposure, as well as a greater likelihood of stranded assets<sup>5</sup>.

To recognise the higher scrutiny required from certain high-risk sectors, we classify sectors into three 'risk-impact' groups based on the average carbon intensity calculation for the sector<sup>6</sup> (see Figure 7).

Figure 7: Classifying the risk-impact of each sector based on average carbon intensity

Risk Impact Classification	Average carbon intensity band	
	Lower value	Upper value
Low	0	25
Medium	25.1	300
High	300.1	2516.2

Examples of high-impact sectors include chemicals, metals and mining, and utilities. Meanwhile, software, banking and consumer services are examples of low-impact sectors. We include the risk-impact classification for each category in the Appendix.

Being high-impact doesn't automatically penalise a business in our Index; however, it does mean we set a higher hurdle rate for what qualifies as being a suitable expected performance. Also, to avoid making the hurdle too high, we examine factors that are comparable across all sectors. For example, we consider senior decision makers at a company with ultimate responsibility for implementing a climate-change strategy, as well as carrying out a quantitative assessment of the aggressiveness of reduction targets compared with current carbon emissions.

<sup>5</sup> Stranded assets are assets that suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities; for example, coal reserves which are no longer mined in order to help meet lower carbon emission targets.

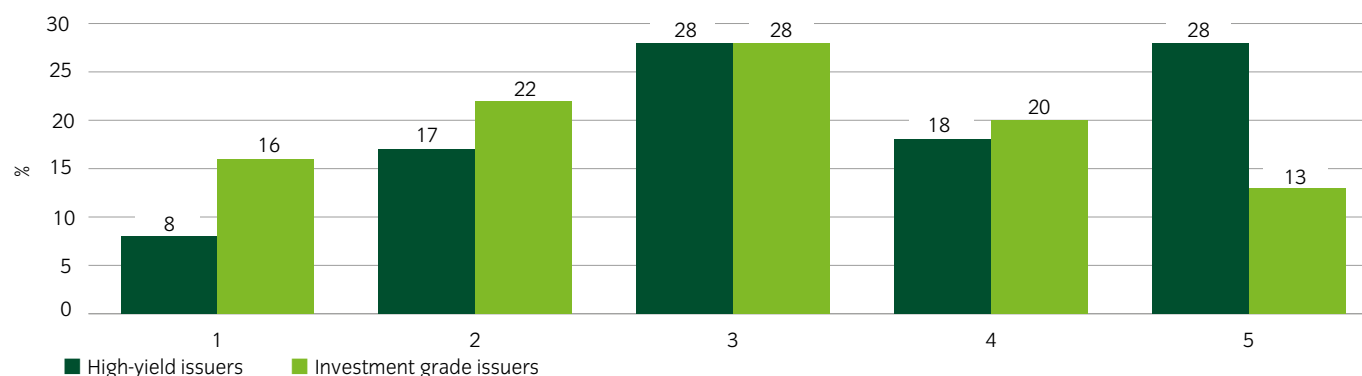
<sup>6</sup> See appendix for further information.

## Investment grade issuers manage climate risks better than their high-yield peers

The Index found a notable difference in investment grade and high-yield issuer scores: 16% of investment grade issuers in the Index received our top rating, compared to just 8% of high-yield issuers. High-yield issuers are also more likely to score our worst rating, with 28% receiving a '5', versus only 13% of investment grade issuers.

The charts below show the ratings distribution for the two investment universes included in the Index.

Figure 8: Over a quarter of high-yield issuers scored '5' rating, more than double that of investment grade



The divergence aligns with our expectation that investment grade companies are more likely to have strong governance and climate-risk management strategies. Further, investment grade companies typically have better disclosure, with many of these bonds being issued by listed companies where there are local market disclosure standards, which requires companies to publish key climate risk information to investors.

In high yield, some issuers may have a smaller corporate presence, with fewer management resources to devote to climate change issues (for example, the development of management systems and processes, or reporting). This lower corporate focus reflects in the ratings, with smaller issuers in high-risk sectors more likely to be penalised by the Index methodology.

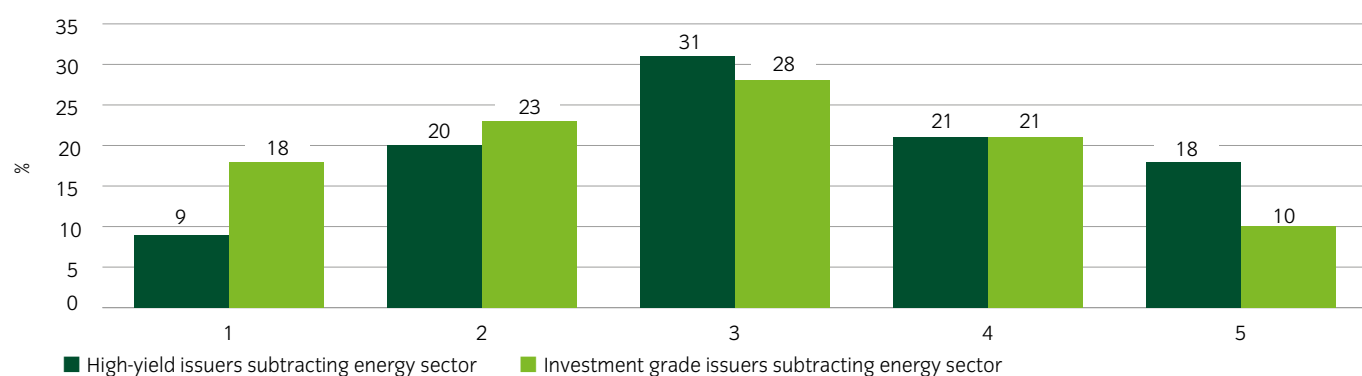
As we know, the Index acknowledges and rewards companies with better disclosure, which is one of the reasons why

investment grade companies tend to receive better ratings. It's also worth noting that the high-yield universe is skewed towards energy and oil and gas issuers, which we know to be high-impact sectors. This is another reason for the divergence between high yield and investment grade performance in the Index.

That being said, even when the effects of the energy sector are removed, there are still almost double the amount of high-yield issuers scoring our worst rating (18%), compared to their investment grade counterparts (10%) (see Figure 9).

Despite the prevalence of poorer-scoring issuers in high yield, as with the intra-sector discrepancy, these findings do not mean that all high-yield issuers are to be avoided. Instead, we believe this bifurcation presents an opportunity for skilled investment managers who are able to carefully select those high-yield issuers that are performing well in managing their climate-related risks.

Figure 9: Even when the effect of energy issuers is removed, almost double the amount of high-yield issuers scored our worst rating compared to investment grade



## DATA POINTS CAN MAKE COMPARISON CHALLENGING

Data points sometimes make comparison challenging, as using multiple research inputs can lead to inconsistent data methods and results. One such reason is that carbon emissions information for a company can be reported differently. Another is that an information provider can have different frameworks for capturing Scope 1 vs. Scope 2 emissions<sup>7</sup>.

It is also worth noting that sustainability is not legally required to be audited, which can mean that obtaining consistent information across companies can prove difficult. In addition to some data points not being easily comparable or efficiently collated, it can also be the case that the data is simply incomplete.

Two primary information sources the Climate Risk Index uses are the CDP and MSCI. The CDP provides issuer-disclosed emissions data, with MSCI also provides an ESG research rating on carbon risk management; however, these data points can conflict. In these instances, Insight ranks the information provided by the CDP first.

For Insight, the prevalence of obscure and unavailable data points underlines the importance of conducting independent, in-depth research. For this reason, the Index is just one of many tools we consult when analysing the climate-risk profile of an investment.



The prevalence of obscure and unavailable data points underlines the importance of conducting independent, in-depth research.



<sup>7</sup> The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For more information: [https://ghgprotocol.org/sites/default/files/standards\\_supporting/FAQ.pdf](https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf)



# THE INDEX IN PRACTICE

## CASE STUDY: THE AUTOMOTIVE SECTOR

Name	Industry	Governance	Strategy	Risk management	Targets and metrics	Score
GENERAL MOTORS	Automotive	1	1	2	4	1
KIA MOTORS	Automotive	4	4	4	4	5

The automotive industry overall has strong management of climate risk factors, with 40% overall achieving a '1' or '2' rating, which suggests that the industry is effectively embedding climate factors. However, despite the importance of climate change for the industry, we are starting to identify a widening gap between manufacturers on their management of climate risks. Figure 10 shows the divergence between scores within the automotive industry.

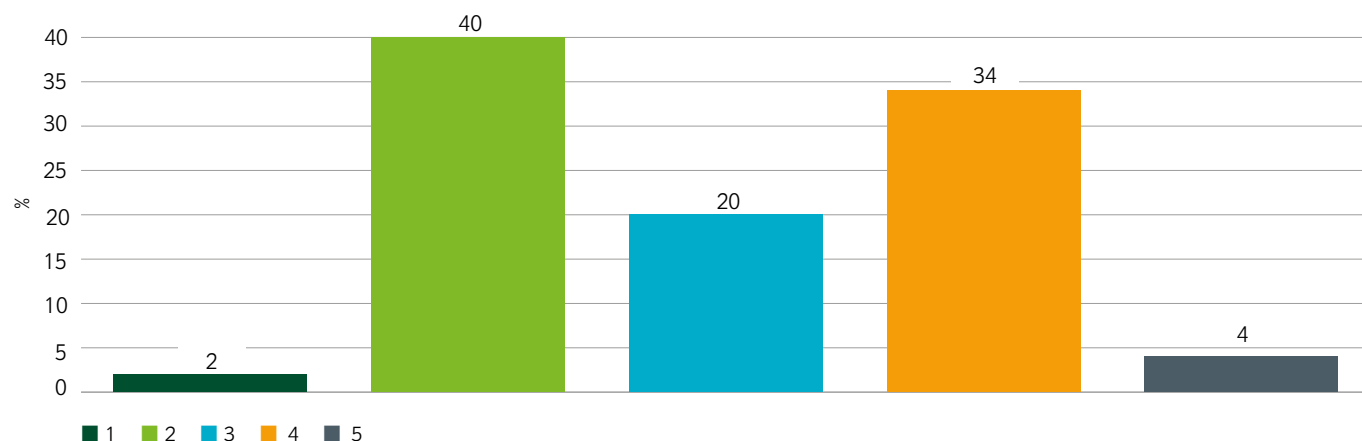
Our Index results show a large divergence between the scores of General Motors (GM) and Kia. GM scores a '1', whilst Kia scores a '5', with the key driver for Kia's poorer score deriving from its

failure to disclose its environment activity in detail to CDP.

Moreover, the responses that are supplemented using alternative data were also poor scores, meaning that Kia's overall score was worse than the average score for the sector.

In contrast, GM disclosed that it has built climate change factors into company-wide risk-management processes, which are monitored annually. Moreover, GM has an ambitious target to use 100% renewable energy by 2050 and has made progress against reducing its Scope 1 and Scope 2 emissions. This puts the company ahead of 98% of its peer group.

Figure 10: Very few automotive issuers scored a '1', with the majority scoring '2'



# HOW INSIGHT USES THE INDEX

## TO INFORM OUR CREDIT ANALYSIS

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- We have incorporated ESG risks into credit analysis for a number of years. Our process involves using research and ratings to identify companies potentially showing elevated risk levels. The research is considered in the context of materiality. For example, how material is weak carbon disclosure to the company? Are there examples of weak environment performance having a financial or reputation impact?
- We use the Index as an additional risk screen, and as part of our review of credits. Our credit analysts consider scores and determine whether the companies' financial performance and valuation is commensurate with the ESG risk.
- The Index is designed to supplement, not replace, other fundamental, bottom-up analysis and ESG assessments conducted by analysts or third-parties. We consider a wide variety of third party analysis – from ESG specialists and sell-side research firms – and benefit from qualitative analysis not considered in detail within our Index, such as water, biodiversity and waste risk.

## TO SELECT COMPANIES FOR ENGAGEMENT

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- As a result of last year's Index output, we engaged with multiple issuers and have had several positive conversations with low-scoring companies.
- We focus on companies that we believe have stronger climate change strategies in place than their disclosure may suggest. For example, Alliander, a utility company based in the Netherlands, scored a '5' in last year's Index. The company was very responsive to our questions and concerns, and subsequently agreed to consider future disclosure, in addition to looking into TCFD recommendations.
- We focus our stewardship activity on the companies where we have the greatest credit exposure. We also concentrate on issuers with whom we have strong existing relationships, and will participate in collaborative initiatives with other investors to target improvements in behaviour. This includes our involvement in the Climate Action 100 initiative, where Insight collaborates with other investors to seek improved corporate action on climate change.

# MAKING A DIFFERENCE

ON REVIEW OF THE FIXED INCOME CLIMATE RISK INDEX 2019, IT'S CLEAR THAT IMPROVING UPON THE MANAGEMENT OF CLIMATE RISKS IS A WORK IN PROGRESS FOR BOTH ISSUERS AND INVESTORS.

At Insight, we are doing our part to try to alleviate some of the obscurity within the industry, as we think that transparency will be crucial in order to foster improvement in the management of climate risks.

In our view, companies must make concerted efforts to increase disclosure. Existing frameworks, such as those set forward by CDP and TFCF, should be utilised by all issuers. Meanwhile, the introduction of stricter regulation should also drive forward change, at least in Europe.

As investors, we must work to identify those issuers that are managing their climate risks optimally, and engage with those that are not. Greater transparency benefits investors, who are empowered to make informed decisions based on the disclosure of climate-risk information, which can be material, particularly over the longer term.

We encourage readers to provide feedback so that collectively we can make a difference.



As investors, we must work to identify those issuers that are managing their climate risks optimally, and engage with those that are not.





# APPENDIX

## METHODOLOGY OVERVIEW

### 1 UNIVERSE

The universe of companies in the Index is based on a consolidated list of issuers from both the Bloomberg Barclays Global Aggregate Index and the Bloomberg Barclays Global High Yield Index. The universe was filtered to remove issuers from select sectors, such as education and hospital administration.

In total, 1,846 issuers were assessed in this year's iteration of the Climate Risk Index, which is slightly less than last year's Index (2018: 1,895 issuers).

### 2 DATA INPUTS

The Climate Risk Index is based on a thorough review of key information provided by companies in their responses to the CDP survey, from MSCI ESG Ratings and from Bloomberg.

A total of 45 indicators were identified as relevant and useful inputs classified under the four dimensions recommended by TCFD, namely Governance, Strategy, Risk Management and Targets and Metrics (see Figure 11).

Figure 11 – Data input breakdown

Theme	Number of data inputs
Governance	12
Risk Management	10
Strategy	10
Targets and metrics	13
<b>Total</b>	<b>45</b>

### 3 CALCULATIONS

Issuer performance for every question is graded from '1' (best) to '5' (worst). The grading process accounts for issuer performance on individual indicators (questions), with the results weighted to reflect sector-specific characteristics, and the carbon performance of issuers relative to their sector peers. For example, when calculating the score for Scope 1 carbon emissions, the average metric for the sector is calculated before identifying individual company performance and the extent performance deviates from the mean.

All sectors (and, in turn, issuers within sectors) are divided into one of three risk groups:

- Exposed to high climate-related risk
- Exposed to moderate climate-related risk
- Exposed to low climate-related risk

The categorisation is determined by the average sector carbon intensity, with the boundaries shown below (see Figure 12).

Table 12: Defining risk impact boundary values

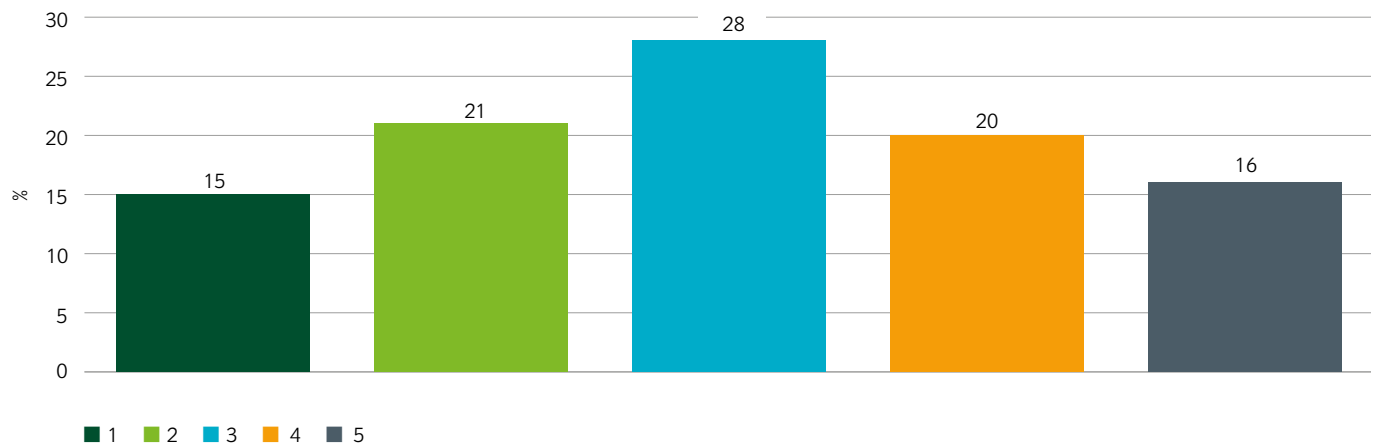
Risk impact boundaries	Lower value	Upper value
Low (L)	0	25
Medium (M)	25.1	300
High (H)	300.1	2516.2

For every relevant question, where a company has incomplete or non-disclosed data a score is calculated that is determined by whether the sector is categorised as high, medium or low risk. For example, if a low-risk company does not report Scope 3 carbon emissions we would score this a '3'. If a high-risk company does not report Scope 3 emissions we would calculate this as a '5' score.

To calculate the final industry score, the four TCFD pillars are weighted following an internal review of the material issues facing each sector. The sectors and the final weightings are shown in the table below.

The final weighted scores are subsequently bucketed to give a reasonable rating distribution spread on a '1'-5' basis (see Figure 13).

Figure 13: Reasonable rating distribution spread



To calculate the final industry score, the four TCFD pillars are weighted following an internal review of the material issues facing each sector.



Figure 14: Industry classification weight categories and risk impact category

Industry	Governance	Strategy	Risk management	Targets and metrics	Risk impact
Aerospace and Defence	20%	20%	30%	30%	M
Apparel and Textile Products	25%	25%	25%	25%	L
Asset Management	40%	20%	30%	10%	M
Automotive	20%	20%	20%	40%	M
Banking	40%	20%	30%	10%	L
Biotech and Pharma	30%	20%	30%	20%	M
Chemicals	10%	10%	40%	40%	H
Commercial Services	30%	20%	30%	20%	M
Construction Materials	10%	10%	30%	50%	H
Consumer Products	25%	25%	25%	25%	M
Consumer Services	25%	25%	25%	25%	L
Containers and Packaging	25%	25%	25%	25%	H
Design, Manufacturing and Distribution	25%	25%	25%	25%	M
Distributors – Consumer Staples	25%	25%	25%	25%	M
Distributors – Discretionary	25%	25%	25%	25%	L
Electrical Equipment	25%	25%	25%	25%	M
Engineering and Construction Svcs	25%	25%	25%	25%	M
Forest and Paper Products	25%	25%	25%	25%	H
Gaming, Lodging and Restaurants	30%	25%	25%	20%	H
Hardware	20%	20%	30%	30%	M
Health Care Facilities and Svcs	30%	20%	30%	30%	L
Home and Office Products	25%	25%	25%	25%	M
Industrial Services	25%	25%	25%	25%	L
Institutional Financial Svcs	40%	20%	30%	10%	L
Insurance	30%	20%	30%	20%	L
Iron and Steel	10%	20%	20%	50%	H
Leisure Products	25%	25%	25%	25%	L
Machinery	25%	25%	25%	25%	M
Manufactured Goods	25%	25%	25%	25%	M
Media	40%	25%	25%	10%	L
Medical Equipment and Devices	30%	20%	30%	20%	M
Metals and Mining	10%	20%	20%	50%	H
Oil, Gas and Coal	10%	10%	20%	60%	H
Passenger Transportation	10%	25%	25%	40%	H
Real Estate	40%	10%	40%	10%	M
Recreation Facilities and Svcs	25%	25%	25%	25%	M
Renewable Energy	20%	30%	20%	30%	L
Retail – Consumer Staples	40%	10%	40%	10%	M
Retail – Discretionary	40%	10%	40%	10%	M
Semiconductors	25%	25%	25%	25%	M
Software	40%	10%	40%	10%	L
Specialty Finance	40%	20%	30%	10%	L
Technology Services	25%	25%	25%	25%	L
Telecom	40%	10%	40%	10%	M
Transportation and Logistics	10%	25%	25%	40%	M
Transportation Equipment	10%	25%	25%	40%	M
Utilities	20%	30%	20%	30%	H
Waste and Environ Svcs and Equip	20%	30%	20%	30%	H



## IMPORTANT INFORMATION

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### RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

### ASSOCIATED INVESTMENT RISKS

#### Fixed income

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

Where high yield instruments are held, their low credit rating indicates a greater risk of default, which would affect the value of the portfolio.

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