

Media update

Insight Investment launches country sustainability risk model for sovereign assessments

Country rating shows sustainability risks important for fixed income analysis

SYDNEY - 12 November 2018 - Insight Investment, a leading global investment manager, has developed a country rating model to explore how environment, social and governance - 'ESG' factors - affect sovereign debt portfolios. Insight's rating model links sustainability and individual country risk, and responds to increased client interest in ESG portfolios.

Against a backdrop of rising political and economic uncertainty, investors are sharpening their focus on the sustainability risks of individual countries. Yet most ESG research and ESG portfolios continue to focus on corporate issuers said Joshua Kendall, senior ESG analyst at Insight.

"Sovereign debt investors need more information to make informed decisions about the extent to which ESG factors are reflected in market prices," said Kendall. "We developed this model in response to client interest and expect to refine it over time as the quality and quantity of third-party research and data grows."

The model's initial findings show most countries' ESG performance has deteriorated and that governance in particular has been on a downward trend across more than half of developed market countries. You can read the full report, 'Sovereigns and Sustainability', [here](#).

Notes

Initial insights include:

- Countries with higher GDP per capita typically have better ESG scores. This is generally driven by governance and social factors, not environmental scores
 - More countries are deteriorating on ESG than improving – with the majority of developed markets receiving a negative ESG momentum score
- ESG momentum has a weak relationship overall with standard industry measures of sovereign credit risk, but there are outliers

Best performer:

New Zealand boasts robust institutions and governance, stable social relations with a broad acknowledgement of human rights based on the rule of law, and limited exposure to environmental risks.

Worst performer:

Afghanistan has suffered after many years of conflict. Politically and socially unstable, little data is available on environmental factors.

Australia: A developed market case study

Australia's ESG performance is generally strong, driven by social and governance scores, though its environmental score is average. In terms of momentum, its environmental performance has slightly improved and its social performance has deteriorated somewhat – but momentum of its governance score is materially negative.

Australia has experienced a long period of political change. The country's 2007 election led to the defeat of Prime Minister John Howard, who had been in power for over a decade. Since then, the country has been led by six prime ministers. This political instability has meant there is little direction on some fundamental environmental and social issues facing the country, with the influence of independent and minority-interest politicians limiting progress in political discourse. In short, policymaking has become less effective. For example, in recent years, access to housing has become more limited, but the political sensitivities around the issue have led politicians to avoid discussing potential solutions.

Aside from politics, the Australian economy has an impressive record, with almost three decades of continuous growth. This was in part enabled by a sizeable boom in the mining sector, driven by China's continued near-double-digit growth during the global financial crisis. This more than mitigated the negative impact of the global financial crisis, making Australia somewhat unique among developed economies. However, this has had consequences. The majority of mines are foreign-owned (c.80%), resulting in income flowing out of the country. Also, workers in the industry have been somewhat reluctant to take jobs in other generally lower-paying sectors.

As a result, levels of underemployment have risen. The dominance of mining has also led to division over environmental issues. There is concern that legislation to protect the environment will add to pressure on the mining industry at a time when momentum is slowing, and so some politicians are looking to change previous environmental commitments, which would mean reducing enforcement of environmental regulations and renege on previous laws.

Despite these political, social and environmental risks, Australia retains an AAA rating, although agencies have kept the country on negative watch. For example, in May 2018, S&P Global Ratings reaffirmed its negative outlook.

Insight's country sustainability risk model shows that while Australia's governance score remains among the highest in the world, it has notable negative momentum, which reflects the challenging political environment. It also aligns with our view that the country is likely to underperform on ESG performance at least in the near term, as government policymaking is unlikely to be effective; social issues – such as underemployment and deteriorating social cohesion – are likely to have a negative impact; and the lack of enthusiasm for environmental regulations suggests little will happen to support an improvement in

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environmental risks. We do not currently expect economic indicators or the markets to reflect Australia's ESG performance.

However, the ESG scores from our model reinforce our view of Australia's weak fundamentals and overall direction, and reflect positioning in our investment portfolios.

For a copy of the full report or to interview Bruce Murphy, Director Australia and New Zealand, Insight Investment, please contact:

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Ends

Insight Investment is a leading asset manager focused on designing investment solutions to meet its clients' needs. Founded in 2002, Insight's collaborative approach has delivered both investment performance and growth in assets under management. Insight managed A\$1,088bn (£604bn) as at 30 September 2018 across liability-driven investment, fixed income & currency, global multi-asset and absolute return, global farmland and specialist equities¹. Insight Investment is owned by BNY Mellon, a global leader in investment management and investment services with US\$1.8 trillion in assets under management. The value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested. Past performance is not a guide to future performance.

More information about Insight Investment can be found at: www.insightinvestment.com

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