

Investment stewardship from a fixed income perspective

While the responsibility of investment stewardship is often attributed to shareholders through proxy voting, fixed income investors, too, have a key role to play in influencing corporate decision-making through engagement.

By Savannah Irving

Stewardship and engagement have traditionally been considered a shareholder tool, largely because of a general focus on proxy voting and ownership. However, fixed income investors have a larger seat at the table than ever before, due to the capital that companies need to draw upon to address pressing global challenges. The debt financing lifecycle provides bondholders with multiple opportunities for engagement, including pre-issuance, during the holding period, and through to refinancing. Additionally, fixed income investors have the unique opportunity to influence



private companies issuing public bonds. Approximately 40% of issuers in the global high yield market are privately owned.¹ Access to these issuers gives the ability to drive influence with companies that are not typically reached by equity investors.

The sheer size of the global fixed income market further emphasizes the importance of bondholder engagement: in 2023, global long-term fixed income issuance was \$ 25.2 trillion compared to \$ 422 billion in global equity issuance.² While some investors utilize the labelled bond markets as a tool to

allocate capital towards intended sustainability outcomes, the size of the market remains limited, with labelled bonds accounting for approximately 5% of total debt market issuance.³ Thus, bondholders must employ other tools to drive change, such as engagement, which we believe is an essential part of long-term active ownership.

Engagement philosophy

As bondholders lack the ability to influence companies via voting, they must develop robust approaches for issuer engagement to drive change. Ideally, stew-

FIGURE 1: MULTI-STAGED ENGAGEMENT TRACKING SYSTEM⁴

Systematic evaluation of issuer's willingness and ability to engage on the SDGs



Source: Neuberger Berman

ardship and engagement responsibilities are embedded within investment teams, which allows them to integrate related insights into the research process and into investment decisions. Thus, a deep commitment can be maintained to foster ongoing partnerships with the management teams. Through such an investment team-led engagement approach, our credit research teams conducted over 1,400 engagement meetings in 2023.

Moreover, we find that access to senior management provides a superior ability for effectively driving change, which is why over half of these engagements were with the CEO or CFO. These relationships provide valuable insights into the nuances of managing ESG risks across sectors and markets, and allow positioning as a resource for issuers in developing and advancing company sustainability strategies – all with the intention of achieving investment returns for clients. We utilize our established relationships with issuers in both developed and emerging markets to engage meaningfully with management teams on financially material issues, such as climate change, human capital management and community relations. While the broad range of sustainability topics we engage upon presents differing challenges and complexities, we consider transparency and accountability to be a key starting point for companies.

Engagement approach in action: our fixed income toolset

Within high yield sustainable development goal

(SDG) engagement strategies, the opportunity for engagement with each issuer is a critical factor in deciding whether to invest. For example, we assign our own engagement potential indicator to each issuer, which reflects our evaluation of an issuer's ability and willingness to engage.

Additionally, we establish formal engagement objectives for each issuer in these strategies, which aim to amplify their contribution to the SDGs. We closely monitor our engagement activity for progress toward our objectives by assigning specific indicators that measure and track issuer responses. We track progress toward these objectives using a multi-staged tracking system and the goals are always ambitious and specifically designed to challenge issuers. We believe that having objectives that are closely tied to financially material operational risks and opportunities for issuers helps us gain traction in our engagements to effectively influence and support positive corporate decision making.

Multi-staged engagement

To recapitulate, in recent years a variety of market-disrupting events have underscored the importance of active ownership and the analysis of financially material ESG factors in fundamental credit research and investment decision-making. Issuers seek guidance from long-term partners and capital investors. While bondholder stewardship is often overlooked, fixed income investors have a key role to play. The size of the fixed income market and access to private issuers

provides a ripe opportunity for engagement.

Investors should work to build meaningful relationships with issuers through established engagement frameworks, complemented by a rigorous fundamental research process. Key to a successful strategy are engagement relationships. They should be led by credit analysts who maintain extensive knowledge of individual issuers and sectors and can leverage their access to and deep relationship with senior management.

Investors who position themselves as a resource for issuers have the opportunity to provide guidance on best-in-class standards, share transparent feedback on the factors most material to the business, and encourage issuers to set targets and improve performance on these material factors.

Where an issuer may not progress toward its objectives as expected, the most important next step is to analyse and provide transparency on what happened and attempt to course-correct. ■

- 1 JP Morgan, as of 31 December 2023
- 2 2024 SIFMA Capital Markets Factbook
- 3 Climate Bonds Initiative
- 4 Neuberger Berman Engagement Potential Indicator

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SUMMARY

While bondholder stewardship is often overlooked, the size of the fixed income market and access to private issuers provide a ripe opportunity for engagement.

Engagement relationships should be led by credit analysts who maintain extensive knowledge of individual issuers and sectors, with transparency and accountability as a key starting point for companies.

Having objectives that are closely tied to financially material operational risks and opportunities for issuers helps gain traction in engagements to effectively influence and support positive corporate decision making.