



ESG Considerations for CLO Managers and Investors

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What is ESG?

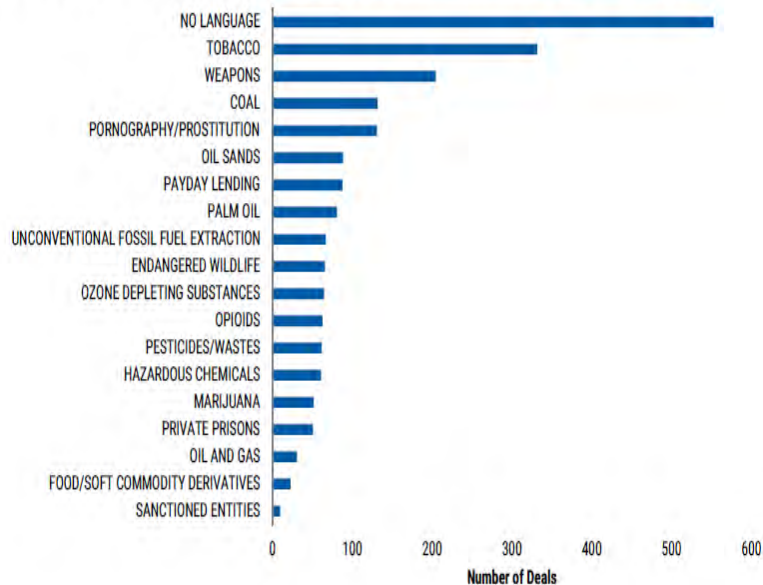
ESG stands for Environmental, Social, and Governance. Investors are increasingly applying ESG factors as part of their credit analysis and investment process to identify risks and opportunities associated with these factors. Common considerations associated with ESG factors would include:

- ❖ **Environmental** – greenhouse gas emissions, energy management, water management
- ❖ **Social** – workplace safety, data security
- ❖ **Governance** – compliance, risk management, audit

The importance of these factors to investment analysis will vary across different businesses. While some ESG factors are seen to be commonly applicable to all business sectors, others are only relevant because of the industry(ies) in which a company does business.

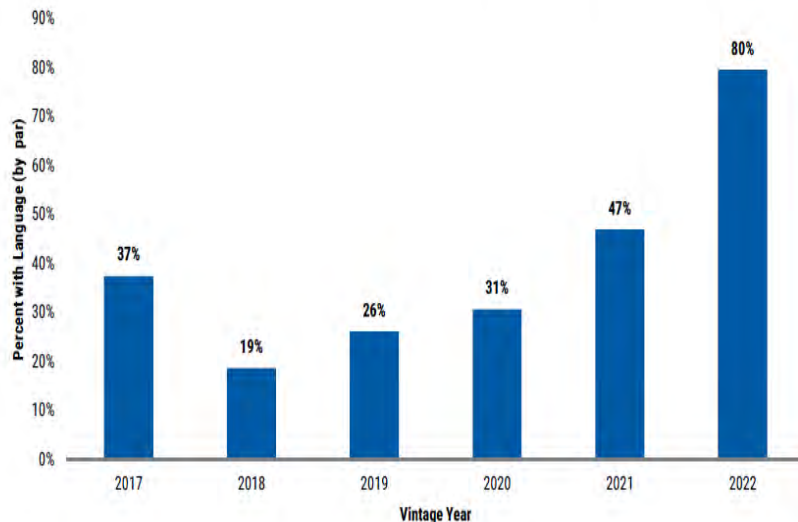
Number of exclusions in CLOs has grown, but common exclusions are not highly represented in the leveraged loan market

Exhibit 1: Industries by prevalence of exclusion



Source: Dealscribe, Morgan Stanley Research

Exhibit 5: Percent of deals with negative screening by vintage



Source: Dealscribe, Intex, Morgan Stanley Research. Note: Deals are categorized in the year of their most recent refi/reset, since those transactions offer opportunities to renegotiate ESG exclusion language.

Robust, comparable ESG information is at the heart of investor demands, regulatory demands and product development

	Industry (SASB)	Sector (SASB)	Revenue (%)
Sector 1	Containers & Packaging	Resource Transformation	
Sector 2	Select Response	No Industry Selected	
Sector 3	Select Response	No Industry Selected	

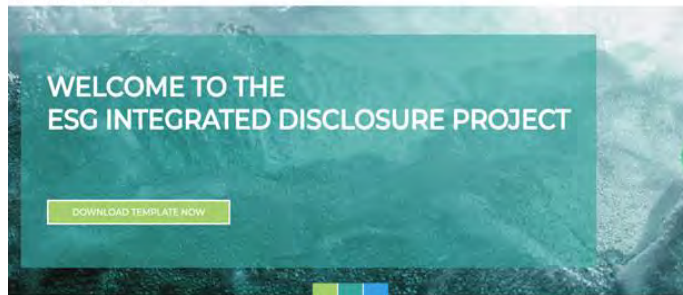
2 General Questions

Topic	Question/Indicator	Response	Comments
Economic size	Annual revenue (LTM) (in USD millions)		
	Number of full-time equivalent (FTE) workers (previous year)		
	Number of full-time equivalent (FTE) workers (current year)		
Location of operations	Country of domicile/headquarters	Select Response	
	Country of primary operations	Select Response	
Location of top suppliers	Supplier 1 (optional)	Select Response	
	Supplier 2 (optional)	Select Response	
	Supplier 3 (optional)	Select Response	
Sustainability policy	Do you have a formal sustainability policy or policies on relevant ESG issues (e.g., code of conduct, environmental, EHS)?	Select response	
	If yes, is the policy publicly available? Please provide a link.	Select response	
	If no, do you have any plans to implement such policy in the next 12 months? Where appropriate please identify any intentions or concepts with respect to sustainability that your company has identified as relevant.	Select response	
Sustainability oversight	Does the company have one or more persons responsible for implementing sustainability objectives? Please provide contact details of person(s) responsible.	Select response	
	Does the board have oversight in sustainability or ESG-related areas?	Select response	
Sustainability incentives	Is sustainability / ESG a factor in management performance evaluation or compensation?	Select response	
Sustainability reporting	Is sustainability / ESG -related reporting made available to investors?	Select response	

Introduction General Questions Containers & Packaging



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The ESG Integrated Disclosure Project (ESG IDP) is an industry initiative bringing together leading lenders in the private credit and syndicated loan markets to improve transparency and accountability.



Template and supporting materials are available at www.esgidp.org.



■ Questions?