

## PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) STATEMENT ON ESG IN CREDIT RATINGS

We, the undersigned, recognize that environmental, social and governance (ESG) factors can affect borrowers' cash flows and the likelihood that they will default on their debt obligations. ESG factors are therefore important elements in assessing the creditworthiness of borrowers. For corporates, concerns such as stranded assets linked to climate change, labour relations challenges or lack of transparency around accounting practices can cause unexpected losses, expenditure, inefficiencies, litigation, regulatory pressure and reputational impacts. At a sovereign level, risks related to, *inter alia*, natural resource management, public health standards and corruption can all affect tax revenues, trade balance and foreign investment. The same is true for local governments and special purpose vehicles issuing project bonds. Such events can result in bond price volatility, and increase the risk of defaults.

In order to more fully address major market and idiosyncratic risk in debt capital markets, underwriters, credit rating agencies and investors should consider the potential financial materiality of ESG factors in a strategic and systematic way. Transparency on which ESG factors are considered, how these are integrated, and the extent to which they are deemed material in credit assessments will enable better alignment of key stakeholders. In doing this the stakeholders should recognize that credit ratings reflect exclusively an assessment of an issuer's creditworthiness. Credit rating agencies must be allowed to maintain full independence in determining which criteria may be material to their ratings. While issuer ESG analysis may be considered an important part of a credit rating, the two assessments should not be confused or seen as interchangeable.

With this in mind, we share a common vision to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness.

### How credit rating agencies support this vision

The credit rating agencies listed below recognize the needs of investors for greater clarity on how ESG factors are considered in credit analysis. In order to achieve this shared goal to enhance systematic and transparent consideration of ESG factors in the assessment of creditworthiness, the credit rating agencies listed below affirm their commitment to:

- evaluate the extent to which ESG factors are credit-relevant for different issuers;
- publish their views transparently on the ways in which ESG factors are considered in credit ratings;
- review the ways ESG factors are integrated into credit analysis as our understanding of these factors evolves;
- maintain organizational governance and resourcing to deliver quality ratings, including ESG analysis where relevant;
- participate in industry-wide efforts to develop consistent public disclosure by issuers on ESG factors that could impact their creditworthiness;
- participate in dialogue with investors to identify and understand ESG risks to creditworthiness.

### Credit rating agency signatories

### How investors support this vision

The investors listed below are all signatories to the six UN-supported Principles for Responsible Investment. In signing the Principles the investors listed below affirm their commitment to:

- incorporate ESG factors into investment analysis and decision-making processes;
- seek appropriate disclosure on ESG issues by investee entities;
- report on activities and progress towards implementing responsible investment.

Specifically, as fixed income investors, and as the primary users of credit ratings, the signatories of this statement will support formal integration of ESG factors into ratings. This helps ensure ESG risks are appropriately addressed in investment decision making, which will increase investor confidence in the quality and utility of those ratings. To support these efforts, these investors seek to participate in dialogue and engage in collaborative initiatives with other investors and credit rating agencies to further efforts to integrate ESG.

### Investor signatories

**Signing this statement**

Your organization has been invited to sign this Statement on ESG in Credit Ratings. Credit rating agencies and investors can sign the Statement at any time, but to be included in the initial launch of the Statement, signatories must provide their full details as requested below.

To confirm that you would like to organization’s name to appear on the Statement, please submit the following details to the PRI, signed by a member of your senior management team. The person who signs the Statement should have the appropriate authorization within your organization to sign off on these commitments.

By signing this document **University of Toronto Asset Management Corporation** agrees to the points laid out in the Statement above.

Organization name **University of Toronto Asset Management Corporation**

Signature 

Print name of person signing the Statement Lisa S Becker.....

Job title of person signing Chief Operating Officer, Chief Compliance Officer

Type of organization (delete as applicable) Investor

Date signed July 4 2017.....

Contact phone number for primary point of contact 1 416 306 8750.....

Contact email for primary point of contact [Lisa.becker@utam.utoronto.ca](mailto:Lisa.becker@utam.utoronto.ca)

**Instructions for returning signed statements**

Please sign and return a scanned copy of this statement as an attachment to email address [FI@unpri.org](mailto:FI@unpri.org) including “[COMPANY NAME] ESG Statement” in the subject line.

**Thank you for participating in this important initiative.**