Breckinridge Marks a Decade of ESG Integration in 2021

Author

PETER COFFIN
PRESIDENT AND FOUNDER

Key Takeaways

- In 2021, Breckinridge Capital Advisors achieves a decade of experience integrating ESG analysis into its investment process.
- Breckinridge Founder and President Peter Coffin shares his reflections on the decision 10 years ago and ESG's expansive influence across the firm's operations.
- ESG and sustainability concepts shape Breckinridge's efforts to better understand its investments and its role in business and society.

Tracing the Roots of ESG Investing

In 2011, with the intention of better understanding corporate and municipal bond risks, Breckinridge developed a formal sustainability modeling framework that integrated fundamental financial measures with environmental, social and governance (ESG) metrics. It is worth recalling the investment environment at the time. The world was only a year or so removed from the Great Financial Crisis, with its so-called black swans and tail risks.

As an investment team, we believed the extraordinary market dislocation was largely the consequence of investors overlooking long-term risks in pursuit of short-term thinking and near-term profits. We saw that integrating ESG analysis with traditional fundamental analysis could offer a more holistic and forward-looking way to identify, analyze, and understand risks.

We launched two investment strategies in 2011 to explore the validity of our ideas about integrating ESG analysis to avoid exposure to underpriced or unpriced risks before they are recognized and reflected in the broader market.

Looking back on the last decade, I am struck by how our exploration of ESG, and broader sustainability concepts, grew beyond our initial intention of enhancing our investment process. Today, ESG concepts also are essential to our daily operations and corporate culture.

Following in Others' Footsteps

We take pride in being among the early practitioners of the discipline, particularly in fixed income markets. It is now heartening for us to see the growing recognition of the investment case for ESG by investors and managers.

It is fair to say that ESG can be traced to socially responsible investing (SRI), which dates to the colonial era in the U.S. Religious groups refused to invest endowment funds in the slave trade.[1] Similar expressions of investment views through the allocation or withholding of investment capital on issues central to what is called ESG today can be found in the many decades that followed.

"The story of ESG investing began in January 2004," wrote George Kell in *Forbes* in 2018.[2] That is when former UN Secretary General Kofi Annan invited chief executive officers of major financial institutions to participate in an initiative to find ways to integrate ESG into capital markets. In 2006, the United Nations Principles for Responsible Investment (PRI) encouraged investors to consider ESG factors that are material risks and opportunities when making an investment, rather than precluding investments.

Independence Accommodated Our ESG Exploration

ESG analysis continues to evolve with investors' understanding of material risks. New insights are emerging into the non-financial risks inherent in a security issuer's response to climate change, natural resources management, or policies and practices around health and safety, or management of its supply chain, its people (human capital management), or diversity, equity, and inclusion.

Many of the largest asset managers in the world today are helping to advance ESG insights. A decade ago, as ESG was developing, ESG was being pursued by a more limited set of investors. At the time, our independent status proved to be an advantage to our efforts.

As ESG initiatives at other organizations competed for development resources, our full embrace of the science and art of ESG meant that we could dedicate the resources—financial and human—to our effort. In addition, our focus on investment grade fixed income allowed us to target our work to a single market segment, while others spread efforts across a wider spectrum.

Contributing to a Growing Field

Over the years, we further developed our ESG approach. We added new municipal bond frameworks, updated our corporate bond sector and industry comparability sheets, and we refined our capacity to identify and analyze emerging issues. We adapted policies, practices, and security ratings to recognize changes in material ESG risks.

We also built and maintain a robust issuer engagement program. In 2020, members of our research teams met with with more than 100 corporate and municipal bond and industry subject matter experts to discuss key ESG issues. (See: *Municipal Engagement Yield Municipal Insights* and *Engaging with the Tech Sector Re: Diversity, Equity and Inclusion*). We advocate for best practices in ESG and sustainability reporting.

We collaborate with peers, non-government organizations, academics and thought leaders to contribute what we learn to advance ESG analysis and the interest of sustainability. We share our knowledge and experience through reports and articles, often in cooperation with other thought leaders.

Changing Our Corporate Culture

Integrating ESG in our investment process inspired our work to integrate sustainability across our operations. As we asked bond issuers to share more information about their ESG practices, we decided we should ask ourselves the same questions and hold ourselves to the same standards we sought in bond issuers. This effort transformed our corporate culture.

In 2013, we became a Certified B Corporation and, subsequently, a Massachusetts Benefit Corporation. B Corp certification structures benchmarking of our own ESG performance and challenges our team to fully understand and improve our ESG impacts on all our stakeholders.

We published our inaugural corporate sustainability report (CSR) in 2013. Our 2020 CSR (insert link when available) tracks continued progress on our efforts to improve our own operational sustainability and to create positive, long-term impact for our stakeholders including clients, employees, suppliers, and communities.

A decade ago, we began integrating ESG into our investment research process with the intention of knowing bond issuers better. The effort is consistent with our founding mission to provide the highest caliber of investment grade fixed income management, thereby facilitating a sustainable flow of capital from long-term investors to responsible bond issuers. A decade of progress in ESG integration reflects our commitment to that mission and our relentless pursuit to push our investment research forward. As we have continued to enhance our understanding of ESG principles, we have come to know ourselves, our investors, and our key stakeholders better as well.

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FOOTNOTES:

1. Caplan, Lauren; Griswold, John; Jarvis, William. From SRI to ESG: The Changing World of Responsible Investing, Commonfund, September 2013.
2. *https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/?sh=279d376a1695*