



# Galliard's Approach to Environmental, Social & Governance Investment

AUGUST 2023

## GALLIARD'S RESPONSIBLE INVESTMENT PHILOSOPHY

At Galliard, we believe the role of fixed income in client portfolios is to generate income while providing safety of principal. Galliard's fixed income portfolios are managed with a conservative approach, while maintaining high quality and broad diversification through a disciplined-value investing process with an emphasis on risk control.

As defined by the UN PRI, Responsible Investing is "a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership<sup>1</sup>." Galliard agrees with this definition and we believe it is our fiduciary duty to seek to understand the extent to which Environmental, Social and Governance ("ESG") factors are likely to impact the performance of an investment over the long term. While Galliard does not have ESG-specific products or strategies, our approach requires an acute awareness of risks that might compromise creditworthiness. Galliard views ESG related items as potential risks that could negatively impact portfolio returns for our clients.

## ESG INTEGRATION & ANALYSIS

Fundamental research and relative value analysis are the cornerstones of Galliard's team-based portfolio decision making process. Galliard's Credit and Structured Teams incorporate dedicated research, sector portfolio management and trading for their respective sectors. Within the investment structure, research analysts and traders are fully integrated into the day-to-day management of portfolios, providing a real-time credit perspective into the portfolio oversight process. With respect to fundamental security analysis, the Credit Team is responsible for the analysis of the corporate and taxable municipal sectors, while the Structured Team focuses on the securitized sectors, including MBS, ABS, and CMBS. Each sector team reviews investment ideas in a collaborative, team-based approach where robust discussion and differing viewpoints are encouraged in determining an overall credit opinion. ESG factors are incorporated into these discussions as applicable.

Galliard established an ESG Working Group that is responsible for overseeing adherence to and implementation of our ESG program. The ESG Working Group reports directly to Galliard's Fixed Income Strategy Group.

One of the challenges in integrating ESG factors into our investing process is the availability and comparability of good data from issuers. During meetings with issuers, Galliard analysts discuss material ESG issues and encourage issuers to improve their reporting of ESG factors.

## CORPORATES

Galliard's Credit Team collects and analyzes publicly available information and subscribes to third-party analysis, including MSCI ESG Ratings to obtain a limited scope of ESG data. The Team incorporates ESG considerations as part of the credit underwriting process in reviewing the sustainability of a company's business model. During monthly credit meetings, we also review current holdings for positive or negative credit movements versus the MSCI ESG-ratings (if available).

# GALLIARD'S APPROACH TO ESG INVESTMENT

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## MUNICIPALS & NOT-FOR-PROFITS

Within the municipal and not-for-profit sectors, credit-material ESG factors may vary depending on the type of issuer and the availability of data. While there is less ESG data and reporting for munis relative to corporates, we've been able to leverage our third party municipal data vendor to identify ESG related risks. For example, we've found that Governance factors such as delayed audits, qualified audit opinions, or significant deviations in financial results vs. budgets can signal emerging risks for municipalities.

## SECURITIZED

Material ESG factors are incorporated into the evaluation of securitized assets when applicable. In addition to an evaluation of the issuer/servicer and the collateral characteristics, analysis of relevant ESG risks in asset securitizations also includes structural mitigants such as credit enhancements and pay rules. The application of ESG to asset securitizations is relatively new and we look to adjust our analysis as the industry evolves and develops best practices.

## SUMMARY

Galliard's approach to fixed income credit analysis recognizes that ESG factors can be financially material risks. Like any other data point, ESG factors may be considered as part of the overall credit analysis at times, insofar as they are deemed to be relevant and material to the value of prospective investments. ESG factors are a component of Galliard's analysis but not the sole determinant of investment decisions. As the markets evolve and more ESG data becomes available, we will continue to incorporate relevant factors into our credit analysis and are committed to supporting ESG initiatives where we believe they are in the best interests of our clients. Galliard subscribes to the MSCI ESG Ratings to obtain a limited scope of ESG data. MSCI data is incorporated into our fundamental credit analysis. Other sources of information on ESG-related risks and opportunities include Sustainalytics, Bloomberg, industry conferences, and company calls. Credit write-ups include comments on ESG considerations and, if available, the MSCI ESG rating. Currently, Galliard does not provide ESG reports to current or prospective clients.

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**For more information on Galliard's approach to ESG investing, contact your Galliard relationship manager or our team listed below.**

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1: <https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article>; accessed 12/15/2020

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