



## Social Factors

**Tina De Baere, head of ESG and macro strategy at Cairn Capital, argues that securitisation can facilitate the transition to a sustainable economy**

**Q: How consistent can ESG issues be? Ultimately, how subjective is ESG and ESG analysis?**

A: Yes, this is a question that comes up all the time. ESG topics will always be subjective; it is the nature of the beast in many ways.

Given that there are so many values and opinions on those topics, it would be unreasonable to expect a clear consistency or a common framework across investors and asset classes. But similarly, to our standard credit analyses, different analysts can take different views on issuers and bonds.

We all get the same financial data, but we may all have a different cashflow forecast or a different view on relative value in the end. The same applies to ESG analysis as well.

On the topic of ESG scores, it is unreasonable to expect ESG scores to be entirely consistent. However, investors should understand the methodology behind those scores, compare scores against a peer set and track how scores change over time, as there is value in doing this and using scores in this way.

**Q: Given the current sanitary and economic crises, how resilient are ESG discussions/ transactions during more troubled times? Can they still be a priority?**

A: It is too early to say and we will have to wait for studies to come out. Anecdotally however, what the current crisis has shown is the prominence of social factors.

We have seen companies throughout the pandemic either come out as heroes or have their reputation damaged by bad publicity – largely as a result of how they treated their employees. This, I feel, underlines the continued importance of ESG.

**Q: In terms of the market and the current context, would you say that the supply of positive ESG assets is still limited? Or, on the contrary, are you seeing a clear flow of such assets?**

A: With regards to structured credit, it is definitely a major challenge, with a limited source of supply. As a result, we are not seeing many transactions.

Perhaps policymakers or regulators could help stimulate the trade of those assets. They have a clear part to play here.

**Q: In terms of sustainable finance regulations and the concept of 100% ESG assets, would a strict approach be positive towards financial stability?**

A: There needs to be a good balance. Unfortunately, regulation is needed within the space of responsible investment - mostly to highlight the current climate urgency, raise awareness around climate change and the need to take collective actions. However, at the same time, I do not think that regulations should be so prescriptive as to restrict innovation - after all, it is an industry that is constantly evolving.

I would not want to be in the regulator's shoes, as they need to find a nuanced, balanced approach within a very complex environment.

**Q: Finally, in your opinion, can securitisation facilitate a transition to a sustainable economy?**

A: Absolutely, I could not agree more with that! Securitisation enables real economy lending.

RMBS, for example, facilitate real-life mortgages and help people buying their own homes, which can be used by policymakers to stimulate a more energy-efficient housing stock. Securitisation can therefore play a crucial role in the re-orientation of capital towards more sustainable economic activities. It is a very important channel, which should not be ignored by policymakers.

**Vincent Nadeau**

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