

ENGAGING WITH ISSUERS

SIGNATORY TYPE

Asset Owner

OPERATING REGION

Germany

ASSETS UNDER MANAGEMENT

USD 29.1bn

AUTHOR

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Sustainability is a core value in [KfW's](#) mission statement. We signed the Principles for Responsible Investment in 2006 and consequently implemented a sustainable investment approach for our liquidity portfolio. The €24 billion portfolio comprises bonds issued by governments and supranational organisations, financials, covered bonds and ABS. The bonds are selected on the basis of diversification criteria, issuer credit ratings and, since 2008, ESG criteria. Engagement with the bond issuers represented in this portfolio is a key element of our responsible investment approach.

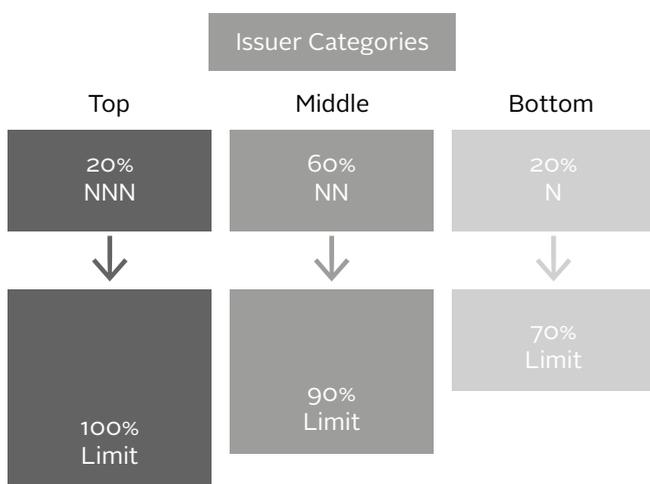
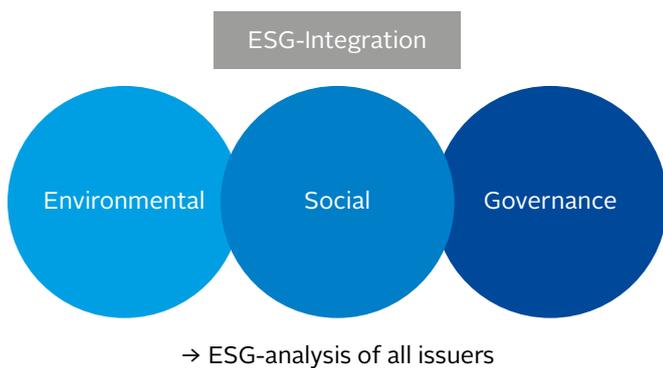
The PRI's Fixed Income Case Study series highlights examples of interesting and innovative approaches to responsible investment. Written by fixed income practitioners from around the world, the case studies cover topics such as integrating ESG, negative and positive screening, thematic investment and engagement.

Sharing these examples will enable investors to collectively build a concept of emerging good practice. The PRI aims to publish a set of these short pieces every quarter. If you would like to learn more or contribute your own case study please [contact us](#).

WHY ENGAGE WITH ISSUERS?

We initially assess issuer creditworthiness and set individual investment volume limits, before incorporating sustainability ratings from an ESG research provider. Issuers are divided into sovereign and non-sovereign and their ratings are assessed against other issuers in their sector, with the given limit volume maintained for the top 20% of issuers, reduced 10% for the middle 60% and reduced 30% for the bottom 20%. The sustainability ratings are then updated every month.

Focusing on an issuer's sustainability rating relative to other issuers means that the issuers in the liquidity portfolio are in competition with each other: an issuer's rating can improve or deteriorate relative to other issuers, impacting its investable limit volume. We therefore consider it essential to inform the issuers about this competitive element, update them regularly on their sustainability rating and encourage them to maintain or strengthen their sustainability commitment.



HOW WE ENGAGE WITH ISSUERS

In 2011, we started writing engagement letters to the financial institutions and supranationals/agencies that issued the bonds in our liquidity portfolio. (As a development bank owned by the German government and the Federal states, we do not see ourselves as having a mandate to engage with sovereign issuers.)

In 2015, we wrote 97 letters to financial institutions worldwide informing them about their current sustainability rating with us and the impact on their investable limit volume. An example for this letter is available online: https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-Originators_E_2014.pdf.

In 2013, we started to invest in ABS transactions for our liquidity portfolio, and consequently implemented a sustainable investment approach for these transactions that is almost identical to the approach for financial issuers, using the sustainability ratings of the ABS originators. In 2015, we wrote four letters to non-bank ABS originators (as many banks are also ABS originators and already get the engagement letter for financials). An example for this letter is also available online: https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-ABS-Originators_E_2014.pdf.

RESPONSES

Although we do not directly ask for feedback on our letters, we have received extensive feedback by the issuers. We have had extensive discussions or interaction with approximately 70% of the issuers that we contacted over the years. The vast majority of responses are very positive and support our approach to reward banks' sustainable behavior and business practices.

Feedback comes via email, phone calls/conferences or in-person meetings.

We have a dialogue with issuers about their sustainability activities and the implications of those activities on the various facets of their business model. We have received anecdotal evidence that some issuers changed their organisational structure to include sustainability teams or departments as a reaction to our engagement letters. Others put stronger emphasis on sustainability aspects of their daily business and working processes.

Issuers tell us that their dialogue with sustainability rating agencies about preparing their rating has improved. Some issuers were being marked down in their sustainability rating due to the lack of policies or strategy documents relating to specific ESG criteria: better reporting or more transparency over company strategies resulted in higher scores. We also exchange views with issuers over the pros and cons of the rating methodology used by sustainability rating agencies.

Issuers also ask us questions about our sustainable investment approach for the liquidity portfolio.