

Kalin Anev Janse in interview with Börsen-Zeitung (Germany)

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Interviews

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**Interview with Kalin Anev Janse, ESM Chief Financial Officer
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Börsen-Zeitung: Mr Anev Janse, the ESM is now a signatory of the United Nations Principles for Responsible Investments (UN PRI). What is the main reason for this?

Kalin Anev Janse: The UN PRI is one of the world's leading frameworks for international investors to integrate ESG criteria - environmental, social and governance aspects - into their investment practices. I am pleased that we have joined this large pool of investors who are committed to contributing to a more responsible capital market for investment. We believe that the ESM, as an institution with a public mandate, should integrate ESG criteria into its own operational activities.

What does this mean in terms of investment processes and investors?

In terms of our investment processes, it means that we will now apply ESG criteria. This means that we will impose higher transparency requirements on our own investments, but also on our contractual partners. This does not, of course, mean any restrictions on our previous requirements in terms of credit quality, liquidity and return on our investments. These requirements must understandably be met, as they are directly related to our lending capacity, which we must provide under our mandate. We note that investors in our bonds, like us as a bond investor, are paying increased attention to ESG factors. We want to show them that we also maintain very high standards in this regard. We want investors in our bonds to know that they are investing in an institution that takes ESG issues very seriously.

What are the key elements of the UN PRI that you are convinced of?

The UN PRI provides a robust and credible framework, while leaving room for flexibility. This means that the ESM can implement its own perspectives on ESG within a workable methodology. Worldwide, investments of more than 90 trillion dollars are now managed according to the principles of the UN PRI. This shows that the ESM has now joined a very impressive global initiative with a credible track record.

What part of the capital of the ESM will you invest in accordance with the UN PRI, and will you only invest capital parts of the ESM or capital of the EFSF?

By signing the UN PRI we want to apply the appropriate investment criteria to our total paid-in capital. We are talking about around EUR 80 billion of paid-in capital. I would like to emphasise that this is a very remarkable decision. Because many other signatories of the UN PRI only want to invest parts of their capital in accordance with the UN PRI. The rescue fund EFSF is the precursor institution of the ESM and was established in June 2010. The structure of the EFSF is different from that of the ESM. Capital is not raised through extensive capital contributions from our member states as in the ESM, but through guarantees. Therefore the EFSF has only a limited volume of assets to be invested. Even though the EFSF is not a signatory to the UN PRI, the EFSF's investment portfolios should also be invested in line with our UN PRI approach to the greatest extent possible.

What message do you want to send to capital markets and market participants by signing the UN PRI? What kind of message do you want to send to the market?

Like the rest of the world, Europe faces environmental and social challenges. The way we address these challenges in the coming years will be crucial. And the capital markets must play their part in this respect. This also applies to the ESM, of course. The signing of the UN PRI is an important step in our efforts to bring institutions into line with ESG. We want to send a very clear signal to the capital markets and their players that we are doing our part.

What types of asset classes or capital market products do you want to invest in? Do you invest the money only in the fixed-income universe or also in other capital market segments such as equities?

Our investment guidelines stipulate that we may only invest in fixed-income investments with first-class credit ratings. This will not change. What will change with the signing of the UN PRI is that we will use the UN PRI framework to assess and monitor the ESG dimensions of our investments.

In addition to the UN PRI criteria, have you used your own criteria in relation to green and sustainability? If so, what do they look like?

The UN PRI are very flexible, so we can design our own framework for responsible investment based on the principles. The basis of our framework is that we will measure and monitor investments individually. We will closely analyse each issuer and counterparty in terms of their ESG performance. We will design a valuation system for the entire investment portfolio. We will ensure that these assessments are clearly consistent with our ESG objectives. Overall, we have already established that our investment portfolio has a very strong ESG orientation. We have an investment portfolio consisting of supranational issuers, eurozone countries and public-sector institutions in the eurozone. We believe that these issuers have a very strong social impact on society and markets. They also have a strong focus on environmental aspects and robust governance. Initial estimates have shown that by the end of 2018, about 69% of invested assets were ESG-relevant. In the future, we want to measure the ESG dimension of our investments in an even more granular way.

Have you developed a reporting for the UN PRI compliant investments of the ESM, which is published in order to create a corresponding transparency of these investments for the public?

For a signatory of the UN PRI, there is a clear requirement to develop a comprehensive reporting. This report is then sent to the UN PRI Institution. And part of it is then available to the public, according to the requirements of the UN PRI. This reporting aspect of the UN PRI membership is an important step to further increase the transparency of the ESM Institution. At the same time, we want to operate in the same environment as other market participants.

Do you also expect advantages on the refinancing side due to the fact that ESM is now also a UN PRI-compliant investor?

Our investors know that when they buy our bonds they are investing in a very creditworthy institution. But they also invest in an institution with a very specific mandate. The core of this mandate is to guarantee a public good, namely financial stability. Within the framework of our mandate, we grant loans to states in the euro zone that have serious financial problems or are directly affected by them. We currently have an outstanding bond volume of around EUR 300 billion. We have 1,700 institutional investors invested in our bonds. These investors are convinced of the mission of the ESM. Our bonds should already be regarded as stability bonds. By signing the UN PRI, we want to reinforce this message to the public and to our investors.

Do you also want to issue sustainable bonds?

As mentioned earlier, the core of our mission is to provide a public good. Our mandate, as I said, is to provide assistance loans to eurozone countries that are in financial difficulties or could be affected by refinancing problems. Economic reforms are the prerequisite for our financial aid. The aim of all this is to help states - the so-called programme states - to return to long-term financial stability and economic prosperity through this course of reform. The financial stability of a country is a fundamental prerequisite for progress in environmental and social aspects of the country. Against this background, our bonds can generally already be regarded as an investment in sustainability. Our bonds should also be classified as stability bonds, as I said. ESG aspects should also be addressed across all areas of an

organisation's activity and not only when borrowing.

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