

**Fixed Income:  
Preparing for  
the Big Shift**

# ESG Moves Mainstream in Fixed Income

In our recent survey of over 350 institutional investors, responses confirmed that there are some substantial shifts underway in fixed income investing. This paper is the second in a series that focuses on what these findings mean for fixed income investors.

**Fixed Income ESG is  
Here and Growing**

Already a key factor in equity decision-making, our survey revealed that ESG is now truly a mainstream consideration for fixed income investors.

Globally, over the next three years the majority of institutional investors are planning to increasingly integrate ESG factors into their fixed income portfolios. A mere 3% had no plans to do so and for 61% of investors globally ESG incorporation was either a top or high priority.

**80%**

**Australian**  
Respondents

**61%**

**European**  
Respondents

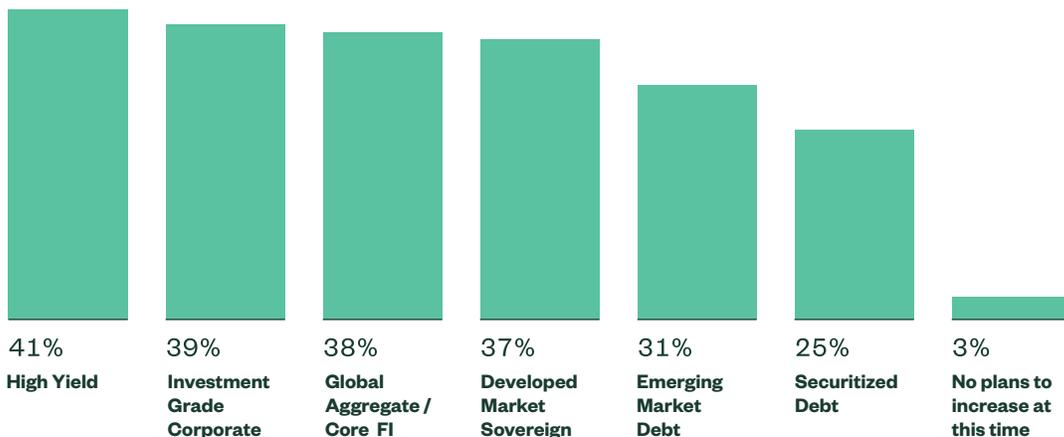
**57%**

**North American**  
Respondents

Percentage saying ESG integration in fixed income is a high priority over the next 3 years.

In terms of future focus for investors, there was a fairly even spread across the whole fixed income spectrum, as can be seen below.

Figure 1  
**Where are investors  
planning for deeper  
ESG integration?**  
By Strategy

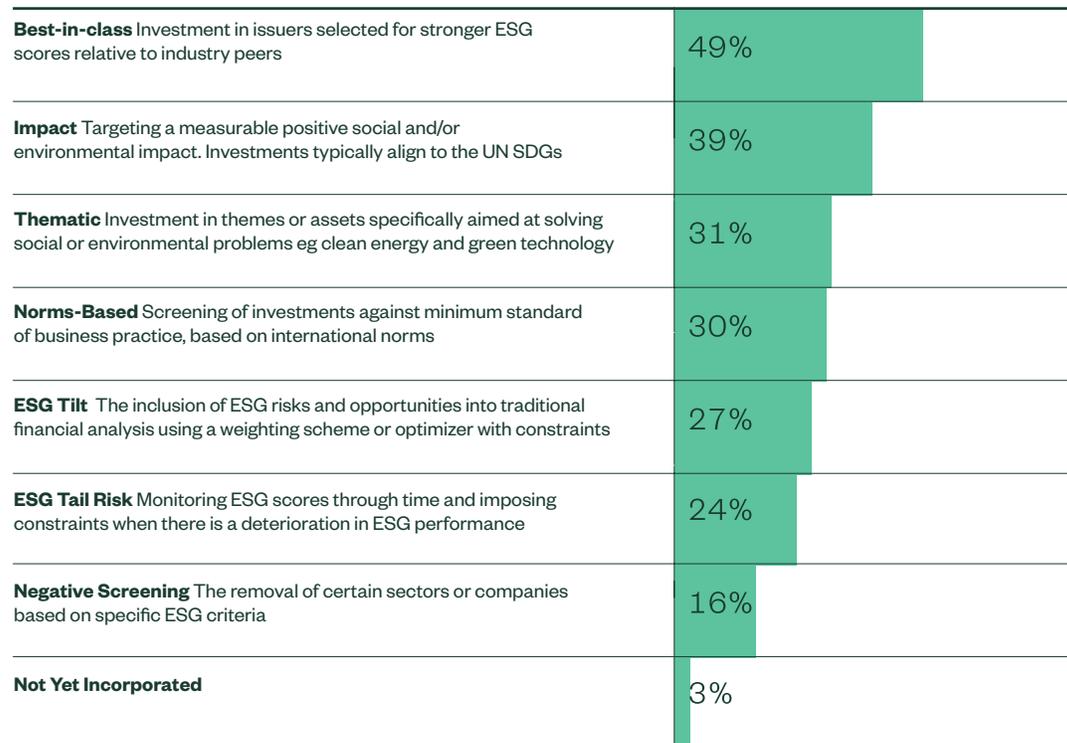


Source: State Street Global Advisors. Which segments of your fixed income portfolio will you prioritize for deeper/more comprehensive ESG integration over the next three years? Respondents were asked to select all that applied. N=358.

## Changes in Approach

In terms of current approach, best-in-class came out top with impact investing second. Thematic, norms-based and ESG tilt were close behind.

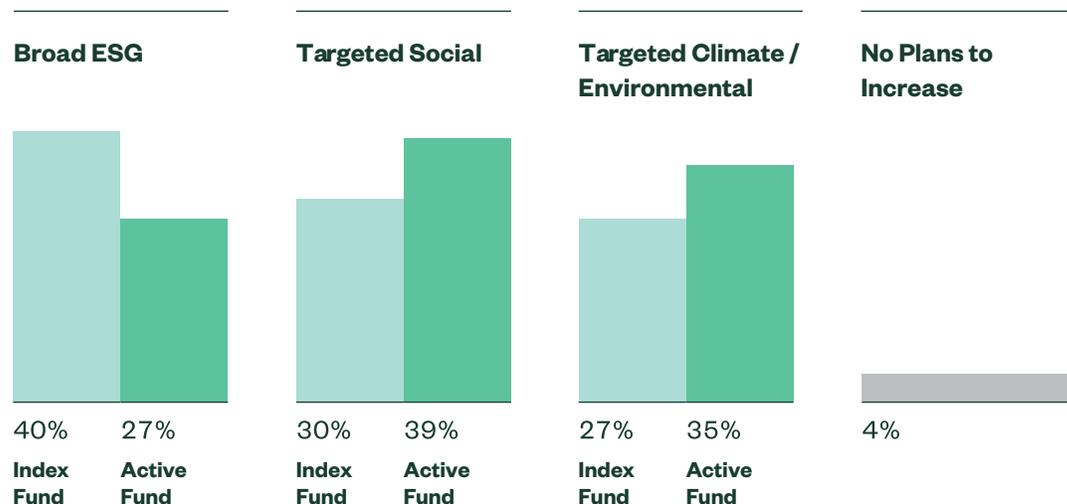
Figure 2  
**What approaches do investors currently employ?**



Source: State Street Global Advisors. *What approaches does your institution or the external asset managers you employ currently take to incorporate ESG issues into its fixed income portfolio?* n=358.

However, when we asked investors what types of ESG strategy they were likely to increase allocations to in the next three years, a different picture emerged. Respondents said they are likely to increase their allocation to three key types of fixed income ESG strategies over the next three years: broad ESG, targeted social, and targeted climate/environmental.

Figure 3  
**What approaches do investors intend to employ?**



Source: State Street Global Advisors. *What type(s) of fixed income ESG strategy is your institution likely to increase allocation to over the next three years?* n=358.

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## Our Take

Fixed income is following a similar trajectory to that of equities as ESG increasingly becomes a key factor in all investment decision-making, from top-down strategy design to bottom-up security selection.

While best-in-class solutions are currently most common, as investors' gain more ESG expertise, we're seeing rising allocations to more focused approaches such as those with targeted social or climate aims.

These approaches gel with conversations that we have with our clients. Investors are growing more sophisticated in how they undertake their ESG implementations and are targeting specific key objectives.

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## The Takeaway

With mounting attention on ESG, investors and asset owners have responded with new products and solutions that make it evermore achievable to attain performance and the right ESG results, whether that's a broader-based focus or a specific target such as social or climate.

For example, as COP26 brings attention to climate and with climate change being the number one priority for the over 3,000 UN PRI signatories, we're seeing increasing allocations to climate-focused strategies. New strategies that can substantially improve your portfolio's climate profile while maintaining broad benchmark alignment are particularly relevant.

ESG will clearly be more deeply integrated into fixed income portfolios of the future. It therefore makes sense to begin that journey by considering how your own portfolio aligns to this new reality.

**For the full survey, please visit [ssga.com/insights/fixed-income-research](https://www.ssga.com/insights/fixed-income-research).**

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## Further Reading

### **Understanding the journey to net zero.**

<https://www.ssga.com/capabilities/esg/journey-to-net-zero>

### **The case for climate bond strategies.**

<https://www.ssga.com/insights/case-for-sustainable-climate-bond-strategy>

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- Start with rigour
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 31 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$3.9 trillion\* under our care.

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\* This figure is presented as of 30 June 2021 and includes approximately \$63.69 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLO (SSGA FD) acts solely as the marketing agent. SSGAFD and State Street Global Advisors are affiliated.

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