



Investor uses Paris Agreement as template for ESG language

by Michelle D'souza

Lupus Alpha Asset Management is supporting the advance of environmental, social and corporate governance (ESG) criteria in European CLOs by embedding language into deal documentation that is linked to the European Union Paris-aligned Benchmark (which derives from the Paris Climate Agreement).

The Frankfurt-based manager runs an ESG questionnaire for CLO managers to fill out and maintains an internal ESG scoring model. According to Stamatia Hagenstein, who is responsible for CLO ESG efforts, Lupus Alpha sees its approach to ESG as a step towards standardisation in the industry.

"While we are able to benchmark CLO managers and deals with our model, our target would be to get all market participants (managers, investors and syndicates) to a standard of ESG and its language for CLOs," she says.

Sources say the firm was behind ESG language in Oak Hill European VIII, which priced on 10 February and was aligned with the EU's green deal. The investment



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Stamatia Hagenstein
Portfolio manager
Lupus Alpha Asset Management

criteria for this CLO is understood to reference maximum greenhouse gas emissions for an issuer alongside screening out United Nations' global compact violations.

Lupus Alpha portfolio manager Michael Hombach says that certain minimum exclusion criteria need to be embedded into prospectuses to get the loan market to a new standard.

"This is not a trend; it is a result of the regulation, responsible investment and an ongoing process," he says. "We know our market is ESG-friendly — ESG investing is

already implemented in most companies' processes, but in terms of transparency, ESG reporting is lagging, especially versus listed stock companies. We just need to get it done together."

A European CLO syndication head agrees and says there has been a significant pick up in ESG requests from investors this year. ESG criteria are present in 85% of European CLOs issued in 2020 and 2021, according to a recent Moody's report. But investors say it can be hard to benchmark deals.