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Sustainability Markets Insights

Balancing trick - unlocking value through dialogue

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LLOYDS

Balancing Trick

Introduction

The landscape for sustainability data in investment has transformed rapidly. Even with greater availability of ESG data though, the ecosystem is laden with blind spots, overlaps, frustrations and missed opportunities.

We therefore point the spotlight to issuer-investor dialogue. Despite sustainability's deeper integration and stricter regulation, we're often surprised by how few ESG questions crop up during bond marketing. There's never been a more crucial time to ask the right questions.

This edition distils what debt investors are seeking from sustainability engagement, how issuers are responding, and why this is happening now. The data for this article was gathered in April 2025 through a combination of desk research, a series of interviews with UK-based issuers and investors, and a themed roundtable event hosted by Lloyds.

Investor Priorities: Engagement Dynamics

When asked what would prompt an investor to increase an order size - the consensus was clear: there is no one-size-fits-all answer. Fund mandates and internal approval processes vary widely.

Despite this variability, investors held the consistent opinion that engagement on sustainability topics matters. Asset owners might stipulate portfolio engagement targets for asset owners. This can require outreach to specific sectors or to a minimum proportion of issuers on topics such as financial inclusion, human rights, transition plans and biodiversity.

Thematic engagements like this can be led centrally by Responsible Investment teams and we heard that these are typically initiated via letters and followed by meetings. Collaborative efforts, such as the Net Zero Engagement Initiative (NZEI) and its joint statement with Veolia, show how engagement can drive improved climate disclosures and strategic shifts.[1]

Meanwhile, ESG analysts and credit analysts often handle reactive queries. This can be engagement connected to a new issuance or in response to controversies, attending non-deal roadshows and Annual General Meetings.

As one investor explained,

> "If we feel we are not being paid for the risks identified, either initially or post engagement, then that can impact order size."
>
> – Asset Manager, interview, April 2025

[1] Responsible Investor. *Collaboration or confrontation? Investors publish joint statement with Veolia on climate plan.* , 13 June 2025.
Joint statement: Productive cooperation between the Net Zero Engagement Initiative and Veolia regarding Veolia's climate plan, 10 June 2025

Investor Perspectives: ESG Thresholds

"A better ESG profile will normally unlock further capital due to the additional demand from sustainability-integrated funds, which are, in most cases, a sub-set of a "parent" investment strategy."

– Asset Manager, Lloyds Roundtable event, April 2025

"If we engage with a company that has received negative press which we deem to be material to its sustainable profile and they are unable to provide us with relevant data and clear actions to improve, it is unlikely they would meet our criteria for sustainable funds."

– Asset Manager, interview, April 2025

When it comes to sustainable bonds e.g., Green, Social, Sustainability, Transition or Sustainability-linked, some funds have set minimum targets for the portion they seek to hold. However, not just any sustainable bond will do – investors typically have an additional layer of approvals. They will carry out sustainability-related assessments both at the company level and on the specific bond to evidence the integrity of such investments, typically comparing them with an in-house sustainable, impact, or nature positive investment framework. If an investor's expectations are not met, a company risks rendering the bond ineligible for sustainable funds.

Here, engagement can prove useful. Positively viewed responses to investor questions can address concerns, and mean the issuer and bond now qualify for sustainable funds. With more funds permitted to invest, there is the possibility of a larger order from that investor, which can help the success of a transaction for both issuer and investor.

Examples of where a company might fall short of investors' expectations and definitions include weak decarbonisation strategies, failure of management to answer ESG questions adequately, misaligned use of proceeds, or insufficient impact reporting.

Climate change remains the most common ESG theme raised by investors, though biodiversity and the allocation of bond proceeds are also queried frequently.[2] Some investors use Science-Based Target Initiative (SBTi) targets as a verified decarbonisation indicator in investment assessments.[3]

Advances in data verification and provision goes some way to explaining the observation of fewer investor questions. A large proportion of decision-useful metrics can now be collected and collated for investor use by third party data providers and rating agencies. This reduces the need for direct investor-issuer engagement and hopefully saves time for both investor and issuer in baselining a company's sustainability positioning.

Alongside databases and dashboards, we heard that direct engagement on sustainability themes is still an essential tool for investors, and indeed issuers. While it demands more resources, dialogue helps to draw out nuances, tackle specific questions, and build a relationship between investors and their holdings. Finding the optimal balance between different methodologies is key – that way decision-making processes can become more efficient and effective.

"We have restrictions around buying 'brown' and we would expect a premium to compensate for the ESG risks and any hit to the Weighted Average Carbon Intensity of our portfolio."

– Asset Owner, Lloyds Roundtable event, April 2025

[2] Responsible Investor. *How are investors capturing biodiversity opportunities in fixed income?*, 29 May 2025.
[3] Sustainalytics. *Setting SBTi Targets is Good, but Far from Sufficient*, 21 February 2025.

Sector Spotlight: Where Investors Want to Engage

Research interviews carried out with investors as part of this research revealed sector-specific preferences for ESG-themed engagement such as:

- **Real Estate**: Sometimes investors seek further details on sustainability reporting, and in ESG ratings.

- **Water and Power Utilities**: Mixed views were expressed. Some thought that dialogue was sufficient due to being frequent issuers, others welcomed further engagement with water utilities for example.

Furthermore, investors showed enthusiasm in speaking with any issuers questioning the value of labelled debt in their financing strategy. Those investors with sustainability objectives are eager to articulate the benefits and their appetite for high-quality sustainable issuance. In the same breath though, investors stressed that they aren't willing or able to pay more for the label on its own merit. Their view on the fair value of a bond, whether labelled or not, is based on financial and credit characteristics. The issuer's sustainability performance might influence this but ultimately, they invest if they see an attractive total return profile.[4]

See a previous edition in this series – Sleeve of Impact – for more on the 'greenium'.

Issuer Reflections: Seeking Clarity and Efficiency

Issuers are navigating a complex ESG landscape, with year-round cycles of data collection, reporting and planning. Collaboration between Investor Relations, Funding and Sustainability teams, as well as subject matter experts is typical for both the reports and investor engagement.

It takes a wide range of skillsets and knowledge to cover all bases. Aiming to optimise their processes, there's clear appetite from issuers for feedback and a desire to ensure their disclosures are fit-for-purpose.

[4] Environmental Finance. *Amundi: EU GBS-induced sustainable bond slowdown is 'not a worry' :: Environmental Finance*, 30 July 2025.

Quotes from the Field: Issuer voices

Perspectives shared during research interviews with bond issuers, conducted in April 2025:

"Consistent questions give the impression that strong ESG principles are still valued."

"The more curious questions come from ESG analysts on an ad hoc basis, typically asking for a call – we're happy with that."

"ESG/sustainable investment is a key focus for UK and EU investors, but generally less of a focus for investors in the US."

"Publishing good disclosure increases effectiveness and efficiency."

"We hear about once a month on sustainability questions from debt investors. We like that we do it over e-mail as it gives us time to get the answer prepared and to share links to relevant data, which gives investors the autonomy to make informed decisions at their own pace."

"Investor Relations seem to get a lot more enquiries from the equity investors, compared to the debt investors. ESG comes up a lot in equity."

"ESG-related questions come from both analysts and portfolio managers – many of which are during meetings at bank-hosted conferences."

"It's always been pretty light touch, if anything they [ESG questions from investors] are less frequent now. When we first published our green finance framework and started issuing labelled bonds, we received more attention and more technical questions from investors. For the bond this year, there was only one technical question."

"We are hosting more non-deal roadshows to engage more with investors. For instance, we held a debt investor breakfast following our full year results."

"We had low engagement on ESG for the deal – we had the Head of Sustainability and Counsel lined up for 11 calls – on the last day, after no questions, we stood them down."

Conclusion

Finding the Right Balance

Sustainable investment processes are evolving. Investors and their sustainability data providers are harnessing advances in technology and seeking to present greater volumes of data in a decision-useful format.

Our research suggested the monitoring of ESG factors by investors is not fading, and that there is still a need for direct engagement between investors and issuers.

It's a balance between making the most of accessible data and assessment tools that make comparisons easier, and the time investment in active dialogue.

Investors want to understand the "why" and the "how" behind sustainability strategies, going beyond the "what." Issuers, in turn, want to ensure their efforts are recognised and their reporting is meaningful. The opportunity lies in creating forums that facilitate this exchange - efficiently, transparently, and with mutual benefit.

In the balance, we have the pursuit of clarity, consistency and credibility. Structured engagement efforts - whether through bilateral calls, sustainability-themed events or non-deal roadshows - can help bridge the information gap, connecting action and investment with impact.

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