



CLIMATE TRANSPARENCY REPORT 2020

Muzinich & Co

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US\$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (<https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-365B37B0-99D6-4FC9-A310-F4F279291D9D/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1>). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as “private”. Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the [PRI website](#) and on the [Data Portal](#).

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	-	Public				
SG 07.7 CC	-	Public				
SG 07.8 CC	-	Public				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Private				
SG 14.2	✓	Private				
SG 14.3	✓	Private				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Private				
SG 15.2	✓	Private				
SG 15.3	✓	Private				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation
Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.	

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Muzinich & Co
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US\$ 30 - 50 billion AUM
Main Asset Class	>50% Fixed Income CNF Internally Managed
Signed PRI Initiative	2010
Region	North America
Country	United States
Disclosure of Voluntary Indicators	57% from 38 Voluntary indicators

Muzinich & Co

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General
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New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1 Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General
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SG 01.6 CC Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

Yes

Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

In 2019 Muzinich started a process to identify, monitor and manage exposure to physical and transitional business risks related to climate change and climate-related public policy and regulation. Among the measures we have taken so far, we are sourcing environmental and greenhouse gas emissions audits of our UCITS regulated funds and a number of separate accounts which account for the majority of our assets under management. These reports provide us with an overview of the relative carbon efficiency of those funds in relation to their respective benchmarks. They also provide insights into the proportion of green and brown revenues derived from portfolio companies, exposure to fossil fuels and potential stranded assets, environmental impacts and the alignment of energy utility holdings with various climate scenarios including Paris Agreement targets.

In addition to producing reports on the measures described above, Muzinich sources climate environmental and climate data on a wider research universe of companies from specialist data provider Trucost. We are also gathering supplementary data from non-commercial sources such as the Transition Pathways Initiative to gain more forward-looking insights into corporate climate trajectories. These data sources will be incorporated into our fundamental bottom up credit research process and will also be used for engagement purposes.

No

SG 01.7 CC Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

Yes

Describe the associated timescales linked to these risks and opportunities.

As part of recent developments in our ESG data and research process, Muzinich now sources climate-related data which considers the likelihood and impact of specific climate risks such as physical risks, transitional risks including litigation, regulation, shifts in consumer preferences and otherwise. Muzinich has not yet developed a proprietary system for measuring these risks however individual analysts have undergone training on climate risk assessment tools and are increasingly expected to consider potential climate-related risks to the sectors their research covers. In this regard, particular attention is paid to the energy, utility, transportation and other heavy emitting sectors. We consider climate change to present risks in the short, medium and long term - many of which are immediately apparent while others are more dependent on the response of financial regulators and other policy makers.

No

**SG 01.8
CC**

Indicate whether the organisation publicly supports the TCFD?

Yes

No

**SG 01.9
CC**

Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

Yes

No

Describe how and over what time frame the organisation will implement an organisation-wide strategy that manages climate-related risks and opportunities.

In the course of 2019, Muzinich did not publicly report a strategy to address climate-related risks. We have taken the first steps to addressing these risks by sourcing relevant data and initiating a training programme for our investment team. We expect to further address this by publishing a climate policy and developing an internal climate strategy in the course of 2020.

**SG 1.10
CC**

Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

- Public PRI Climate Transparency Report
- Annual financial filings
- Regular client reporting
- Member communications
- Other
- We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC

Mandatory to Report Voluntary to Disclose

Public

Descriptive

General

**SG 07.5
CC**

Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

Board members or trustees

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Other Chief-level staff or heads of departments

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Portfolio managers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Investment analysts

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

Dedicated responsible investment staff

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

External managers or service providers

- Oversight/accountability for climate-related issues
- Assessment and management of climate-related issues
- No responsibility for climate-related issues

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1
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SG 13.1 Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

- Yes, in order to assess future ESG factors
- Yes, in order to assess future climate-related risks and opportunities

Describe

We have commenced reporting with Trucost and through other providers that allow us to model

investments toward various climate outcomes such as the 2-degree temperature limit increase established in the Paris accords.

No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.2

Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

We do the following

- Allocation between asset classes
- Determining fixed income duration
- Allocation of assets between geographic markets
- Sector weightings
- Other, specify
- We do not consider ESG issues in strategic asset allocation

SG 13.3

Additional information. [OPTIONAL]

Muzinich analysts perform risk-based ESG analysis as part the Firm's routine investment process, which applies to all potential candidates for investment. For public debt investments, analysts are generally organized by industry. As ESG issues vary from industry to industry, each analyst would be responsible for addressing ESG issues specific to the industry they cover. In private debt, analysts are more regionally-focused. Analysts formally incorporate positive and negative ESG attributes in our credit review process and write-ups. Some write-ups have specific ESG sections when credits are particularly relevant to strategies with specific ESG policies. These write-ups may include an analysis of sustainability issues, as related to the risk of investing in a particular issuer.

SG 13 CC

Mandatory to Report Voluntary to Disclose

Public

Descriptive

General

SG 13.4 CC

Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

Initial assessment

Describe

We have commenced assessment and reporting of climate-related risks with Trucost and through other providers that allow us to model investments toward various climate outcomes such as the 2-degree temperature limit increase established in the Paris Climate Agreement. We also source data from Trucost's broader research universe to compare the emissions of issuers within our investment universe. Furthermore, we have recently started considering data from the Transition Pathways Initiative and are using that to further inform our view on the climate trajectory of companies in our portfolio.

Incorporation into investment analysis

Describe

In certain investment strategies, the portfolio emissions reports sourced from Trucost detail top ten emitters. This information has informed investment decisions to sell some of the heaviest emitting holdings to reduce the overall climate impact of the portfolio. This has been conducted on a common-sense basis rather than a rules-based approach.

- Inform active ownership

Describe

The level to which companies are addressing climate-related risks to their ongoing success and the way they report on those risk exposures recently became a key element of our engagement activity. We are using data from external data specialists and analyst research to inform this engagement activity and have joined the Climate Action 100+ to further our commitment to engaging with heavy greenhouse gas emitters.

- Other

**SG 13.5
CC**

Indicate who uses this analysis.

- Board members, trustees, C-level roles, Investment Committee
- Portfolio managers
- Dedicated responsible investment staff
- External managers
- Investment consultants/actuaries
- Other

**SG 13.6
CC**

Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

- Yes
- No

Please explain the rationale

Although we recognise more forward-looking analysis of future climate risks as critical to our long term success as an investor, we have not yet started to incorporate this analysis into our research process. One of the key challenges we face is the lack of information reported by privately held companies and emerging market debt issuers that are not required to or inclined to report on their climate targets and metrics. Over the coming year we intend to focus on future climate risks.

**SG 13.7
CC**

Indicate whether a range of climate scenarios is used.

- Analysis based on a 2°C or lower scenario
- Analysis based on an abrupt transition, consistent with the Inevitable Policy Response
- Analysis based on a 4°C or higher scenario
- No, a range is not used

Provider	Scenario used	
IEA	<input type="checkbox"/> Beyond 2 Degrees Scenario (B2DS)	
IEA	<input type="checkbox"/> Energy Technology Perspectives (ETP) 2 Degrees scenario	
IEA	<input type="checkbox"/> Sustainable Development Scenario (SDS)	
IEA	<input type="checkbox"/> New Policy Scenario (NPS)	
IEA	<input type="checkbox"/> Current Policy Scenario (CPS)	
IRENA	<input type="checkbox"/> RE Map	
Greenpeace	<input type="checkbox"/> Advanced Energy [R]evolution	
Institute for Sustainable Development	<input type="checkbox"/> Deep Decarbonisation Pathway Project (DDPP)	
Bloomberg	<input type="checkbox"/> BNEF reference scenario	
IPCC	<input type="checkbox"/> Representative Concentration Pathway (RCP) 8.5	
IPCC	<input type="checkbox"/> RPC 6	
IPCC	<input type="checkbox"/> RPC 4.5	
IPCC	<input type="checkbox"/> RPC 2.6	
Other	<input checked="" type="checkbox"/> Other (1)	<div style="background-color: #0070C0; color: white; padding: 2px;">Other (1) please specify:</div> No range used as above.
Other	<input type="checkbox"/> Other (2)	
Other	<input type="checkbox"/> Other (3)	

**SG 14.6
CC**

Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measure of absolute and relative carbon intensity to assess portfolio level climate risk and opportunity.	tCO2e/mEUR	Weighted Average Carbon Intensity
Portfolio carbon footprint	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measure of absolute and relative carbon intensity to assess portfolio level climate risk and opportunity.	tCO2e/mEUR	Carbon to value invested
Carbon intensity	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measure of absolute and relative carbon intensity to assess portfolio level climate risk and opportunity.	tCO2e/mEUR	Carbon to Revenue
Exposure to carbon-related assets	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Measure of absolute and relative carbon intensity to assess portfolio level climate risk and opportunity.	Percentage of holdings by weight	Multiple fossil fuel and stranded assets metrics
Other emissions metrics	<input type="checkbox"/> All assets <input checked="" type="checkbox"/> Majority of assets <input type="checkbox"/> Minority of assets	Energy transition	Percentage alignment of fund.	IEA 2 degrees scenario analysis.

**SG 14.8
CC**

Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

- Processes for climate-related risks are integrated into overall risk management
- Processes for climate-related risks are not integrated into overall risk management

Please describe

While it is our intention to incorporate climate-related risks into our overall risk management we have not begun to formally implement this process. The climate metrics listed above appear in the portfolio reports for Muzinich's key commingled vehicles and certain separate accounts however we have not applied this analysis to all Muzinich investments as many of those lack sufficient climate disclosures to deliver a meaningful result. We have not provided metric units for the climate measures above as these are conducted at an individual fund level and cannot be aggregated across all of Muzinich's investments.

**SG 14.9
CC**

Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

Yes

Please describe

Encouraging TCFD aligned disclosures from heavy emitting issuers is a core focus of our engagement activity. In the course of 2019 we engaged with a number of issuers including fossil fuel exploration and production companies and cement producers. We are also actively participating in the Climate Action 100+ initiative to encourage (improved) climate disclosures and action on climate change.

No, we do not undertake active ownership activities.

No, we do not undertake active ownership activities to encourage TCFD adoption.