

ESG Engagement Example

Q1 2023

BACKGROUND

This quarter, we met with Blue Owl (“OWL”), a US alternative investment asset manager with three main operating lines of business. As a result of having a decentralized legal entity structure and a centralized operating model, its legal structure poses challenges related to providing full transparency into the ESG risk and exposures of its subsidiaries’ underlying funds. One of its three main lines of business is being the manager to a number of Business Development Companies (“BDCs”) under its OwlRock brand, many of which have issued bonds publicly in addition to the bonds issued by the ultimate parent company, OWL.

ENGAGEMENT FOCUS

We held two meetings with the company, one in December 2022 and another in January 2023 with additional members of the management team. Our conversations focused on the issuer’s reporting and product governance, particularly:

- Disclosure of ESG risks and exposures of investments held by entities lower in OWL’s legal structure.
- Robustness of their sustainability reporting (ambitions regarding CSR, etc.) and alignment with regulatory (e.g., SEC) and voluntary sustainability reporting frameworks (e.g., TCFD, SASB, GRI).

As a public company, OWL will be required to comply with the impending new SEC rules for sustainability reporting. In early 2022, they hired a Head of ESG to address current gaps in reporting and disclosure.

PROGRESS & MONITORING

We requested the meetings with OWL after our fundamental research team identified insufficient reporting on the ESG risks and exposures of both OWL and its subsidiaries. While OWL and their asset manager peer group all face legitimate challenges with regards to ESG risk reporting, we would like to encourage OWL to act as an industry leader and take initiative to not only incorporate ESG within their underwriting and investment processes, but to also track and report ESG data, including GHG emissions, both for the parent company entity as well as the BDCs that issue debt. We believe that not doing so could be deemed a risk related to their product governance practices, although we acknowledge the challenges with producing such reporting.

In hiring the Head of ESG and developing a concrete plan with visible improvement since early 2022, Blue Owl and its subsidiaries are making sustained progress. We are encouraged by their willingness to discuss and receive feedback from debt investors. The company acknowledges that it still has progress to make; however, and we look forward to the ongoing engagement discussions, as well as continuing to monitor their reporting and investment practices, including the targeted publication of their inaugural Sustainability Report in 2023.

RECOMMENDATIONS

We provided several points of feedback to Blue Owl on our recent calls. We would like to see the company doing the following:

- Acting as a leader in the alternative asset manager and BDC sectors, specifically having more clarity on the measurement of its climate impact (Scopes 1, 2, and 3).
- Setting meaningful emissions reduction targets or a net-zero plan and beginning to see demonstrable execution of any plan.
- Creating an ESG Governance Framework and the forming a dedicated ESG research team and an ESG committee to strengthen the company's ESG framework and governance.
- Expanding commitments to the social pillar, building on the Blue Owl Community Loan Program.
- Eventually considering a green, social, or sustainable bond or sustainability-linked bond issuance.

We have already followed up with OWL since the second meeting, sending them specific requests for data that we would like to see included in their reporting in future periods.

In addition, we discussed the specific criteria for exclusion from the RPIA Fossil Fuel Exclusion (FFE) strategies and requested information on whether there are any precluded activities at the subsidiary levels that cannot be identified in BDC company disclosures.

We intend to hold another meeting with management in due course to receive feedback on our discussion and forwarded materials and questions.

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