# GOVERNANCE IS KEY TO CREDIT ANALYSIS

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When we launched our SRI Credit fund four years ago, our objective was to approach the analysis of issuers from a fixed income perspective. We were careful to take into account the risks induced by the company's financial strategy, based on the principle that good news for shareholders is not always positive for bond holders over the long term.

We observed that the priority given by a company to its key stakeholders* can vary over time. Among existing extra-financial criteria, we chose to give a stronger weight to the quality of financial communication and accounting risks. We also set a new criterion: **the bond-holder risk**, which assesses the company's strategy from the perspective of its bond holders and measures the vulnerability of their position in the event of unfavourable decisions being taken. These decisions can range from the out-of-control use of debt, or the pledge of assets as collateral for other creditors, to an overly-generous dividend policy.

Let's look at the example of Lafarge, which has experienced a period of strong external growth, followed by a rather tense episode after the 2008 crisis. Once the company was back on track, in June 2012, the management stated it wished to regain its Investment Grade status. From that moment on, all decisions that were taken were biased in favour of the company's bond investors.

> **"... GOOD NEWS FOR SHAREHOLDERS IS NOT ALWAYS POSITIVE FOR BOND HOLDERS OVER THE LONG TERM."**

Conversely, in the telecom sector, Altice carried out a series of acquisitions in Europe - including SFR, and later in the United States. Most and foremost, the group's objective was to maximise shareholder value by leveraging on the restructuring of the telecom industry's landscape, on easy access to low interest rate capital, and on its ability to make considerable cost savings.

**The implementation of this strategy clearly demonstrated that the company gave no precedence to the interests of its employees or suppliers, or even to its clients, who were negatively affected by the lack of investment in the networks**. For the company's creditors, these acquisitions gradually increased the gearing ratio, and therefore the company's risk profile. We consequently excluded the company from our bond investment universe, as management had clearly favoured shareholders over other stakeholders.

**Shareholders, creditors, employees, clients, suppliers.*