

# SOCIAL MOMENTUM: HOW THE BOND MARKET HAS AN EYE ON THE FUTURE

RESPONSIBLE INVESTING | OCTOBER 2018

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**Ben Kelly**  
Senior Thematic Analyst,  
Global Responsible  
Investment Team

- 10 years on from the first launch, more than 400 entities have issued green, social and sustainability bonds
- The use of codes of best practice alongside the UN SDGs have helped create a thriving investment environment
- Fixed income products can help achieve these goals, offering a particularly effective tool for measuring impact

Just over a decade ago, in 2007, the iPhone made its debut, Tesla unveiled its first electric car, and the England football team returned home to the new Wembley stadium. A potentially overlooked milestone, however, was the launch of the first green bond: a climate bond issued by the European Investment Bank. Since this debut green bonds have exhibited explosive growth, with annual issuance now at \$155 billion<sup>1</sup> – a level likely to be eclipsed in future.

Columbia Threadneedle Investments has a strong heritage in social impact investing, particularly through green, social and sustainability bonds, and we welcome the huge growth in this sector of the fixed income market. Indeed, since the launch of our Threadneedle UK Social Bond Fund in 2014 we have been encouraging sovereigns, supranationals, agencies and corporates to consider a wider range of issuance which address the needs of society more holistically (see Figure 1).

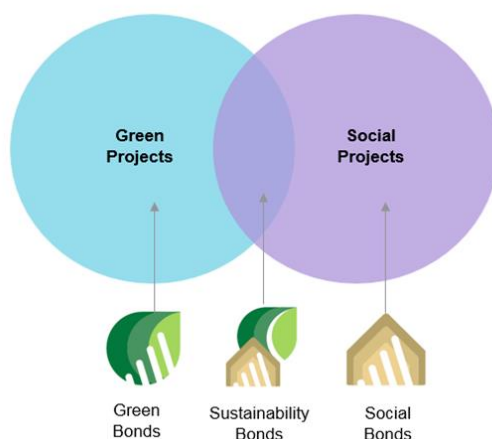
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<sup>1</sup> Source: Bloomberg, 2017

### Market development

Green, social and sustainability bonds are “specific use-of-proceeds” bonds, which means the financing is exclusively channeled to pre-identified projects where the outcome will be green, social or sustainable. Until recently, this was a much-undernourished area of issuance, but in the past 12 months there has been an orientation towards financing which targets specific social and sustainable outcomes.

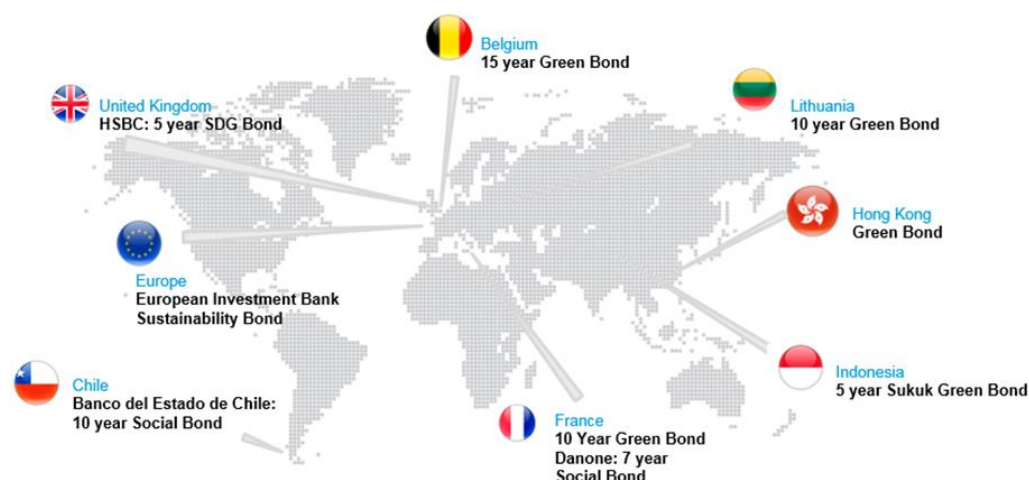
**Figure 1: differentiating bond types**



Source: ICMA/Columbia Threadneedle Investments August 2018.

One of the main drivers of this, alongside increased investor demand, has been the launch of codes of best practice: the International Capital Markets Association's (ICMA) Green Bond Principles, a voluntary framework for good practice around guidelines, transparency and disclosure, were announced in 2014 with a revised version arriving in June of this year; while the Social Bond Principles and Sustainable Bond Guidelines followed in June last year.

As at June 2018, according to Bloomberg more than 400 entities (including 167 year-to-date) have issued green, social and sustainability bonds in excess of 30 currencies in 50 countries.

**Figure 2: selected recent and forthcoming bond issues**

Source: Columbia Threadneedle Investments, August 2018.

The breadth is particularly pleasing, with sovereign bonds issued in Indonesia, Belgium and Lithuania, while the Hong Kong government has announced plans for a sovereign issuance program of up to HK\$100 billion, as well as a grant scheme to support green bond issuance.

HSBC, meanwhile, was the first bank to launch a bond dedicated to the UN Sustainable Development Goals (SDGs) in November last year,<sup>2</sup> which targeted seven of the 17 goals (see below) and is a great example of an aggregator model whereby, through its use of proceeds, we can reach those entities who would ordinarily not be of sufficient size to access the bond market.

When reflecting on the past 12 months, we believe there have been two significant milestones in the growth of the market.

### 1) 'Social Tuesday', November 2017

November last year was a seminal month in the development of the market, with an unprecedented number of specific use-of-proceeds bonds being issued in Europe. In fact, three of these – Cassa Depositi e Prestiti (CDP), Bayern Labo, and African Development Bank (ADB) – were issued on a single day, 14 November. Hot on the heels of Black Friday and Cyber Monday we christened it "Social Tuesday"!

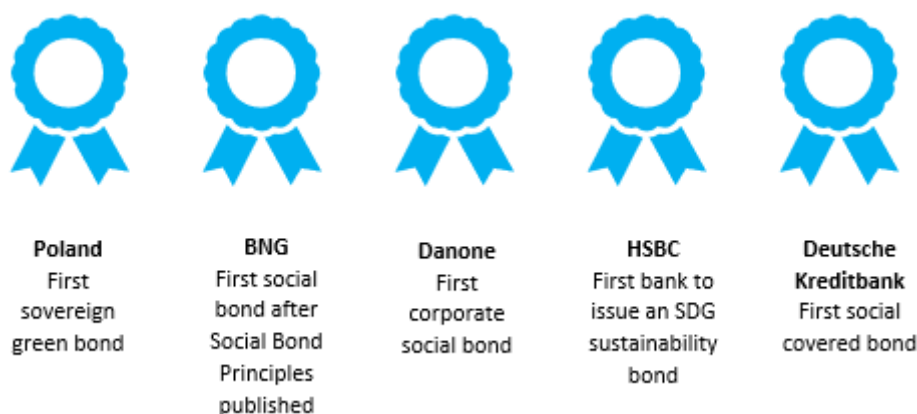
### 2) Danone's social bond, March 2018

A key development in the social bond market came at the end of March, with the launch of the first corporate social bond by Danone, the French multinational specialising in dairy products, water, baby formula and nutrition products for expectant mothers. It will focus significantly on funding the advanced medical nutrition business, supporting research and development. Ahead of the issue, we were able to engage with the company in order to learn more about its

<sup>2</sup> <https://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/hsbc-issues-worlds-first-corporate-sustainable-development>

approach and how it would measure its results, meaning we were well positioned to make an investment when it came to market.

**Figure 3: so many recent firsts**



Source: Columbia Threadneedle Investments, October 2018.

### What next?

We expect sustainability issuance to continue to grow in popularity, in no small part forged by the UN SDGs. These have emerged as a guide for investing towards a more sustainable world for investors and governments alike, by signposting global development priorities (Figure 4).

As the HSBC bond highlights, fixed income products can help achieve these goals. Green, social and sustainability bonds, for example, present an opportunity to invest in a range of projects which, underpinned by rigorous standards and clear impact reporting, help promote and achieve the aims of the SDGs. Bonds are a particularly effective tool for measuring impact precisely because there is the capacity and transparency to measure their outcomes directly. Furthermore, the openness to engagement, free dialogue and sharing of best practice is also a distinctive characteristic of this market.

ICMA recently published a high-level mapping of the principles of the SDGs, upon which Columbia Threadneedle Investments advised, and concluded that green, social or sustainability bonds were relevant to 15 out of the 17 SDGs.

The continued growth in issuance supply was evident in September. In fact, Tuesday 18 September was a callback to Social Tuesday, as four issuers launched either green, social or sustainability bonds, including an inaugural sustainability bond from CDP. EIB also entered the market recently with its first sustainability awareness bond to specifically support the SDGs,<sup>3</sup> with the proceeds to be used to finance projects in the water industry, and it will also seek to raise finance for health and education.

<sup>3</sup> <http://www.eib.org/en/infocentre/press/releases/all/2018/2018-098-eu-bank-pioneers-new-bond-in-support-of-sustainable-development.htm>

**Figure 4: the UN's Sustainable Development Goals**

Source: United Nations.

Governments are also engaging with the private sector to mobilise capital targeted towards social and green projects, given that approximately \$6 trillion a year will be needed between now and 2030 to meet the SDGs.<sup>4</sup>

Since 2007 both the iPhone and Tesla have demonstrated the characteristics of sustainability within their products, and while it has been rare to connect the England football team with longevity, the recent FIFA World Cup showed that even the most entrenched characteristics can change. Certainly, 11 years on from the EIB's inaugural green bond, the outlook for social impact investing looks as sustainable as the characteristics it seeks to represent.

<sup>4</sup> <https://www.un.org/press/en/2017/ga11905.doc.htm>.

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