GREEN & SUSTAINABLE BONDS

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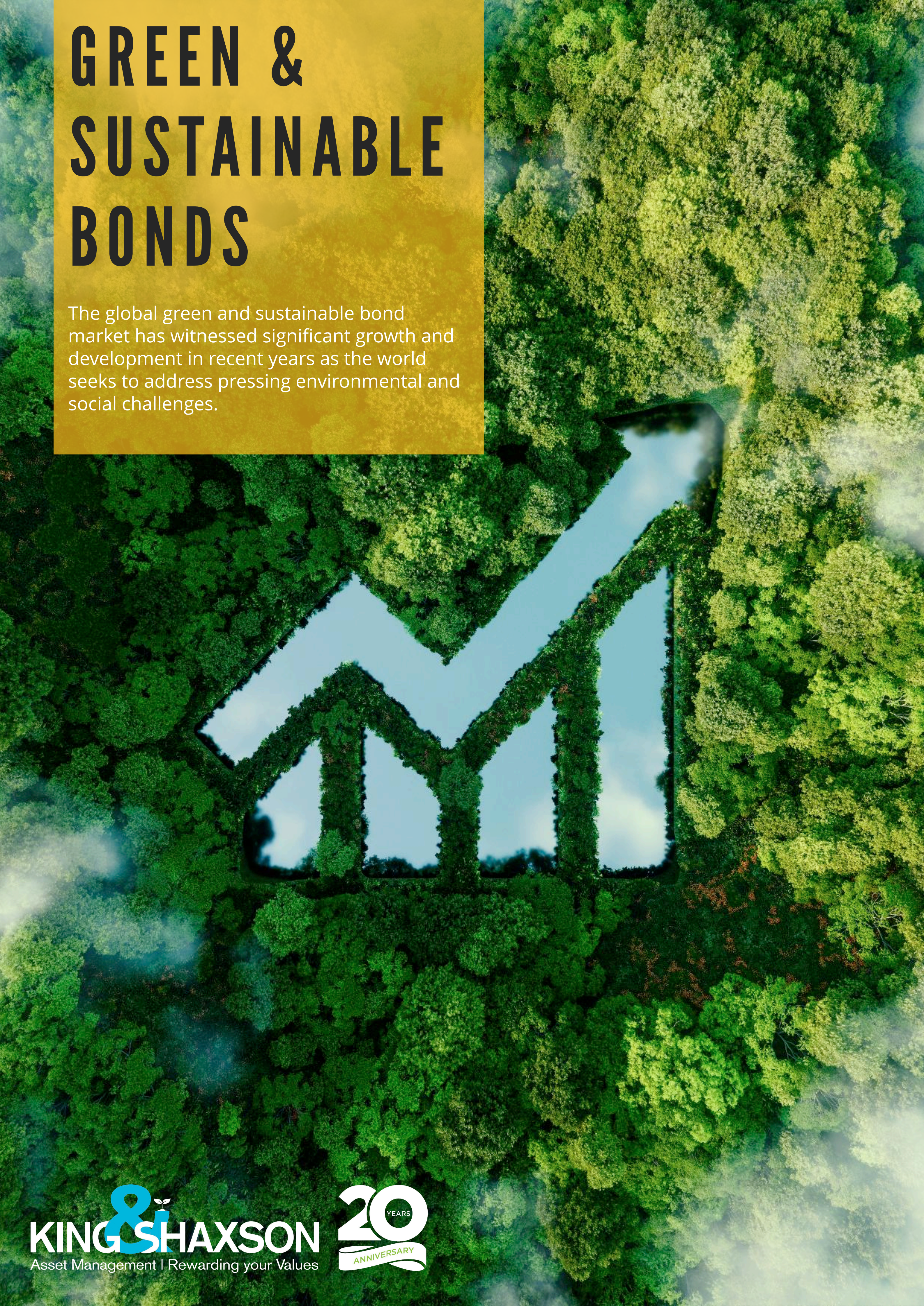

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20 YEARS ANNIVERSARY

The global green and sustainable bond market has witnessed significant growth and development in recent years as the world seeks to address pressing environmental and social challenges. According to the Climate Bonds Initiative, $863bn of green and other labelled bonds were issued in 2022, with green bond issuance representing around a half of this volume. This did mark a decline from the record issuance in 2021, which topped $1 trillion, due to macro-economic concerns brought about by the Russian invasion of Ukraine and sky rocketing interest rates. [1]

The market for green and sustainable bonds is global, with issuers and investors from various regions. Europe has been a frontrunner, accounting for a significant share of issuance. They are issued by governments, municipalities, and corporations to raise capital for projects related to renewable energy, energy efficiency, sustainable agriculture, clean transportation, affordable housing, and social welfare. Notable issuers include sovereigns like Germany and the Netherlands, development banks such as the European Investment Bank, but various corporates such as Orsted. Since 2008, the World Bank has issued around $18bn in green bonds across 200 bonds and 25 currencies. [2] The Rampur Hydropower Project was one of the bank's first green issuances, which provided low-carbon power to Northern India's electricity grid, which was financed by the issuance of green bonds. The project produces nearly 2 MW per year of clean electricity, preventing 1.4 million tons of carbon emissions.

To soak up the increased issuance, the investor base for green and sustainable bonds has expanded significantly. It includes institutional investors such as pension funds, insurance companies, and asset managers, as well as retail investors. This includes dedicated green bond funds, where portfolios have seen an increase in exposure in recent times.

Whilst green bonds make up a large part of the market, there has also been an expansion in product offerings to meet increasingly diverse investor demands. This includes social bonds, sustainability-linked bonds, and transition bonds. Sustainability-linked bonds, for instance, link the issuer's financial or ESG (Environmental, Social, and Governance) performance targets to the bond's coupon or redemption price.

Regulatory initiatives have played a crucial role in the growth of the market, with policies like the European Union's Sustainable Finance Action Plan, China's green finance guidelines, and the Climate Bonds Initiative's certification standards providing clarity and standardisation. Of particular note is the Green Bond Principles (GBP) from the International Capital Market Association. They have provided support to issuers by providing voluntary guidelines which promote transparency and disclosures, in turn promoting integrity in the market.

The level of transparency and credible information regarding use of proceeds remains a challenge, and in previous years, has always been a hurdle for us to invest into green bonds. However, the improvement in the consistent reporting framework and verification of environmental and social impact of projects, has meant we are more confident in allocating to this asset class. It comes at a similar time where bonds are more attractive from an investment perspective as well.

[1] Climate Bond initiative - Green and other Labelled Bonds Held Market Share in 2022 Amidst Fall of Global Fixed-Income

[2] https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-green-bonds

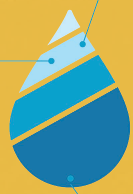
IMPACT CASE STUDY

As part of the Tamil Nadu Urban Flagship Investment Program in India, capital was raised and directed to develop ‘priority water supply, sewerage, and drainage infrastructure in at least 10 cities in strategic industrial corridors in Tamil Nadu.’

According to the Asian Development Bank, Tamil Nadu is one of India’s most urbanised states, with just below half the population living in urban areas, which is expected to increase to 67% by 2030.Within the region, only 48% of households have access to piped water and only 42% are served by a sewerage network. [4]

The capital was directed towards construction of new water distribution and sewage pipelines, as well as India’s first solar-powered sewage-treatment facility. With the aim of addressing water inequality, and improving climate resilience. On top of this, the project has also been able to empower women through the training of 12 all-female community organisations around water and sanitation.

Key positive outcomes of the project:



Whilst issuance has accelerated, there needs to be a significant scale up in in order to meet sustainability targets. With global warming accelerating on a path beyond 1.5 degrees warming since pre-industrial levels, there is a risk of irreversible damage to the planet. Rapid and colossal investment is required to scale up critical solutions and infrastructure to tackle various issues, such as the climate crisis, but also other social issues. The scale of the requirement is highlighted by the World Economic Forum who estimate the funding gap each year in emerging and developing economies in the renewable energy sector is $1.35 trillion. [3]

Bond markets have the ability to be hugely influential given the amount of capital that is raised each year and directed towards various projects. Green bonds offer a platform for raising capital for sustainable projects, mobilising investor funds toward environmental initiatives, and promoting the transition to a more sustainable economy. They align financial goals with environmental objectives, providing benefits to issuers, investors, and the broader society.

Green bonds can help companies and governments manage environmental risks and capitalize on emerging opportunities associated with the transition to a low-carbon economy. By investing in sustainable projects, issuers may reduce their exposure to climate-related risks and enhance long-term value by aligning their activities with evolving environmental regulations and trends.

Where we have allocated to green and sustainable bond funds in the model portfolios, we have favoured active managers, who are able to scrutinise the frameworks and use of proceeds to ensure the capital is being used appropriately.

[3]https://www.weforum.org/agenda/2022/09/renewable-energy-gap-solar-finance/
[4]https://www.adb.org/projects/49107-005/main#project-pds