

# Investing in the blue economy

Better ocean health is vital for addressing climate change. As fixed income investors, we're seeing growing opportunities to make a difference.



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The world is changing. Global environmental and social megatrends, like climate change and social demographics, are fundamentally shaping our future. Investing using a sustainability lens to identify those companies which are proactively offering solutions will drive both future investment performance and facilitate the sustainable development transition.

Sustainable thematic investments are rare in mainstream bond investing. However, the recent surge in demand for environmental, social and governance (ESG) labelled bonds, such as green and sustainability bonds, illustrates that positive impact investing is alive and well in this space. However, these markets are still in the early stages of their development, with demand outstripping supply. This means yields are low and pricing is not optimal compared to other bond sectors. Furthermore, diversification can be challenging with issuance limited to certain sectors. Ultimately, whilst the ESG-labelled issuance market should continue to grow materially, the reality is that the scale and urgency of the global sustainability challenge means we need to expand our focus.

Part of this expanded focus should take in the 'blue economy'. The recognition of the power of the ocean as our largest carbon sink is increasing the focus on the blue economy as a critical natural resource – a term that refers to all economic sectors that have a direct or indirect link to the ocean.

Carbon sinks have become pivotal in the fight against climate change. Simply put, they are areas that absorb more carbon than they release. While green forests spring to mind as obvious carbon sinks, we must not overlook the power of the ocean. The world's oceans have absorbed about a quarter of the carbon dioxide released into the atmosphere since we began burning fossil fuels for energy, thanks to phytoplankton. These microscopic marine algae and bacteria play a huge role in the world's carbon cycle – absorbing about as much carbon as all the plants and trees on land combined. But pollution means plankton are eating microplastics, which is decreasing the rate at which they can trap carbon.

Which sectors could benefit from the push for cleaner oceans?

To date, efforts by investors to promote healthy and sustainable oceans have included lobbying companies and governments to operate responsibly, as well as ensuring there are appropriate policies and regulations in place to protect the environment. The emphasis has been on conduct, but it's now expanding to include developing products that are more sustainably sourced or designed. Examples include engagement around sustainable fishery practices and developing alternative proteins, as well as efforts to cut plastics waste across industries. Efforts are also being made to reduce ocean pollution generated from extractives, such as offshore oil and gas production, and shipping industries that are operating in these environments. Companies involved in leisure and tourism also benefit from the push for cleaner oceans, alongside those offering consultancy services around sustainable management practices.

How are you investing around the blue economy theme?

Through our BlueBay Impact-Aligned Bond Fund, we are looking to invest thematically in companies providing solutions to some of the world's biggest environmental and social challenges. These include the better management of natural resources such as oceans. Oceans fit within our 'Enabling a Circular Economy' investment theme, which targets companies offering products with a lower environmental impact, as well as those which enable better natural resource management. The latter currently has a limited investable universe, but we anticipate this will expand.

Investing with positive intentionality

While thematic investing is well established in the equities world, there are relatively few thematic

bonds funds beyond ESG-labelled ones. However, with sustainable investment developing as fast as it is, we believe allocators should seriously consider funds that invest across the spectrum of fixed income to fully benefit from the range of ESG opportunities available in the bond markets.

We think investing with intention involves not only identifying the contributors resulting from a changing world, but also avoiding the detractors. This means robust and thorough analysis of the first-, second and third-order effects of these trends to highlight the companies that are likely to face access to capital and increasing costs of capital issues over the long term, and see a deterioration in credit ratings and potentially in creditworthiness.

Evidencing the positive contribution we are looking to make means reporting will be a crucial aspect of assessing the success of an impact-aligned strategy. The BlueBay Impact Aligned-Bond Fund's management team will report regularly on how the portfolio and its investments are performing on a range of relevant ESG metrics.

Climate change is the biggest challenge facing the world. By helping to finance innovative companies in the blue economy and beyond, investors can support the global move to lower carbon emissions and create a more sustainable future.

To find out more please visit [bluebay.com](https://bluebay.com)  
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