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 areas that absorb more carbon than they release, the reality is that the scale and urgency of the global sustainability challenge means we need to expand our focus.

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.

To find out more please visit bluebay.com or email ESG@bluebay.com

My-Linh Ngo
Head of ESG Investment, Portfolio Manager

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