

# Making an impact with fixed income

Impact investing is an increasingly compelling consideration for core bond allocations



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The market for publicly traded bonds that provide intentional, direct and measurable social and/or environmental impact has evolved significantly.

Over the past decade, five themes have supported this, resulting in a deeper and more diverse set of opportunities for investors seeking to incorporate impact goals into their fixed income portfolios.

## 1. Market growth

Estimating the size of the impact bond market is a challenge. Market participants have yet to coalesce around a consensus definition of an impact security. Data providers, however, have generally come to agree on GSS as an acceptable acronym for this market: green, social and sustainable bonds.

Issuance of GSS-labelled bonds exceeded \$1 trillion for the first time in 2021 and nearly doubled in 2020 and 2021, according to Environmental Finance's Sustainability Bond Insights 2023. And while 2022 was a challenging year for bond markets generally, and GSS bond issuance declined, the underlying trends for 2022 signal the ongoing maturation of this market. Issuance declined 26% across fixed income markets, yet green-labelled bonds experienced a significantly lower fall of 10%. The sustainable bond market's share of the outstanding global bond market rose to 13.5%, an increase from 12% in 2021 and 7% in 2020.\*

## 2. Range of issuers

A decade ago, issuance overwhelmingly came from large corporations in developed markets and multinational organisations with missions to support developing markets. Today, smaller companies, organisations, agencies, municipalities and sovereigns from across developed and emerging markets are active issuers. In addition, a wide variety of structured securities including mortgage-backed, commercial mortgage-backed and asset-backed securities have also tapped this growing market. The greater breadth of issuers has expanded diversity in tenors too.

## 3. Use of proceeds

The impact bond market was initially focused on financing renewable energy projects, but over the last decade has expanded across a myriad of social, community, sustainable and climate-aligned themes and outcomes.

Recent developments include blue bonds that focus on ocean preservation and restoration, and orange bonds that raise funds to support initiatives related to gender equality. Social impact investment broadly has grown with areas such as racial justice and even vocational training generating significant interest and activity. COVID-19 relief bonds funded the manufacturing of personal protective equipment, increased staffing at hospitals, expanded access to vaccinations and other health services, and, in some countries, unemployment benefits for workers displaced by COVID shutdowns. In 2022, the World Bank issued the first-ever Wildlife Conservation Bond — dubbed the Rhino Bond given the endangered animal population the proceeds will support.

## 4. Reporting improvements

Over the past decade, vocal investors engaged with and pressed issuers to provide reporting with increasingly granular impact data, geographical precision, more frequent and timelier updates, and alignment with UN Sustainable Development Goals (SDGs). These advancements in reporting allow investors to allocate capital and track the real-world results of their investments with more precision.

## 5. Frameworks and regulation

As the market for impact-related bonds has grown, it has attracted increased scrutiny from regulators and questions from issuers, ratings agencies and investors about nomenclature, disclosures and other important areas. Until recently, the growth of the impact bond market has outpaced the widespread adoption of industry standards and clear regulation. Organisations are addressing this gap by creating frameworks that bring increased rigor, transparency, consistency and best practices to the market.

## Best practices

Today, there are ample opportunities for investors seeking compelling risk-adjusted absolute and relative returns while financing initiatives that are driving positive environmental and/or social outcomes. At Nuveen, we have been refining our impact bond framework for more than 15 years with a focus on transparency and disclosure. We have identified several best practices for investors focused on expanding their exposure to impact bonds:

## 1. Start with intentionality

Identify the specific causes or areas of social and/or environmental impact your institution wants to focus its efforts on. In developing our fixed income impact framework at Nuveen, we engaged our clients in discussions and evaluated the opportunities across bond market sectors. We then decided to direct impact capital across four themes: affordable housing, community and economic development, renewable energy and climate change, and natural resources.

## 2. Make impact direct and measurable

An institution needs to provide clarity on how it will deliver on its impact intentions. At Nuveen, we use the following guidelines for impact bonds:

**Direct:** The capital raised must fund specific projects or initiatives that deliver a clearly defined environmental and/or social benefit, including pure-play issuers; typically, general purpose debt does not meet this standard.

**Measurable:** The issuer must be able and willing to disclose key performance indicators through impact reporting for the project or initiative. Such disclosure enables investors to assess efficacy on a financial and outcome basis.

## 3. Prioritise engagement with issuers

Engagement with issuers is an essential aspect of Nuveen's approach to responsible investing broadly and impact investing particularly. As one of the world's largest fixed income managers, we maintain strong relationships with issuers, underwriters, policy makers, ratings agencies and asset owners. We use these relationships to engage in ongoing dialogues about how to structure bonds, what characteristics are needed to satisfy investor demand and the appropriate level and quality of impact disclosure and reporting.

We explore these steps and the trends that are shaping the impact bond market in more detail in our latest paper: scan the QR code or visit [nuveen.com/impact](https://nuveen.com/impact) to download



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\* Data sourced from Environmental Finance's Sustainability Bond Insights 2023

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