



## Green Bonds: Impact Investing with Fixed Income

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The financial services industry is constantly developing new products to serve the ever-changing wants and needs of a diverse array of investors. While Wall Street financial innovation often leads to problems (*e.g.*, the exotic mortgage debt instruments that helped fuel the 2008 financial crisis), investment banks occasionally launch new products worthy of investors' attention. We think green bonds are an interesting product that is worth considering.

Green bonds, like traditional bonds, are fixed income instruments that are used by governments, companies, and NGOs to raise capital through the debt markets. Their structure is not fundamentally different from the corporate bonds, government bonds, and municipal bonds with which many of us are familiar. However, green bonds differ from traditional bonds in that the issuers of green bonds publicly state that the capital raised through the issue will fund projects, assets, or business activities with an environmental benefit. These activities might include renewable energy, sustainable forestry, or energy-efficiency projects, to name a few examples. Also, capital might be used to fund projects with social or community benefits, such as improving social services or increasing accessibility to healthcare.<sup>1</sup> In order to provide transparency to bondholders, green bond issuers typically provide periodic reporting on the use of funds and project success, though such reporting is not currently a requirement.

While green bonds are a relatively new phenomenon (the first green bond was issued in 2007 by the European Investment Bank), the global green bond market has grown from \$810 million in 2007 to an estimated \$95 billion at the end of 2015.<sup>2</sup> With new issuers and investors continuing to enter the market, the total value of green bonds outstanding is expected to climb as high as \$158 billion worldwide by the end of 2016.<sup>3</sup> While there is currently no standardized set of criteria for what qualifies a bond as 'green,' we expect this to change as the market develops. Several international organizations have developed guidelines that issuers are encouraged to follow in order to be able to label their bonds as 'green.' We expect that a single international green bond standard will emerge in the near future, which should only add to the credibility and size of the green bond market.

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<sup>1</sup> Bonds with a social impact or community focus are sometimes referred to as 'social impact' bonds, though they remain under the umbrella of green bonds.

<sup>2</sup> <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/sustainable-insight/Documents/gearing-up-for-green-bonds-v2.pdf>

<sup>3</sup> <http://www.bloomberg.com/news/articles/2016-01-26/green-bond-market-will-grow-to-158-billion-in-2016-hsbc-says>



For example, Apple Inc. recently entered the green bond market, issuing \$1.5 billion in bonds in February 2016, with the proceeds used to finance renewable energy, energy storage and energy efficiency projects, green buildings, and resource conservation efforts. Apple is undertaking these projects in order to reduce the company's carbon footprint and the carbon footprint of its supply chain. In issuing these bonds, Apple developed a green bond framework which was reviewed by a third party consultancy, while Ernst & Young was hired to conduct an annual audit to determine how the bond proceeds were used.

At Pekin Singer Strauss Asset Management, we have been helping our clients align their investment portfolios with their personal values for many years, and we continue to make this an integral part of our investment process. We have deep experience in values-based and socially responsible investing that has given us unique insight into how environmental, social, and governance (ESG) factors can be integrated into investment analysis. For some clients, this has meant avoiding certain companies or industries, while for others it has meant investing in private, impact-focused alternative investments. Green bonds provide yet another opportunity for our clients to direct their capital in ways that align with their values.

In order to help our clients capitalize on the opportunities that green bonds represent, we have developed relationships with several bond vendors who maintain substantial inventories of green bonds that we can purchase for our clients who wish to be involved in this type of investment. If you are interested in investing in green bonds or would like to learn more about them, please reach out to us to discuss how they might fit into your financial plan and your investment portfolio.

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