INVESTMENT GRADE FIXED INCOME | RESPONSIBLE INVESTING

Green bond issuance in Q1 triples from a year ago

By: Henry Mason | & Brian S. Ellis, CFA | April 22, 2021

Washington - Green bond issuance was $111 billion in the first quarter (Q1), nearly three times the amount in Q1 2020 after the onset of the COVID-19 pandemic depressed issuance in March.[1]

The pandemic, however, heightened the awareness of environmental, social and governance (ESG) factors as drivers of social responsibility and impact as well as financial performance — turning 2020 into a pivotal year for responsible investing, especially in fixed income. Green bonds generally refer to how the proceeds will be used, and identify specific eligible categories of assets that address environmental challenges.

On the rise with institutional investors

Curbing climate change is the top reason that national governments issue green, social and sustainability (GSS) bonds, according to the Climate Bonds Initiative (CBI). Those sovereign issuers have also served as catalysts for corporate and institutional issuers, according to green bond analysts. From public pension plans to banks to endowment funds, we are seeing ever-greater institutional interest and mandates for sustainable and green investment.

The asset growth in green bonds is a factor in their attraction. With overall green issuance now approaching the size of high-yield offerings, green bonds are recently offering greater liquidity and diversification opportunities — a major concern for institutional investors.

We also see institutional investors looking for deep, proprietary work behind green bond offerings as well as measurement and reporting of impact metrics. That is particularly true for consultants and banks who now have dedicated sustainability teams to help evaluate the ESG profiles of issuers and securities.

Calvert is one of the largest green bond managers in the U.S. and a pioneer in applying financial materiality and impact metrics to investments. As green bonds are newer to the industry, developing metrics is a younger work in progress, and Calvert has led in applying deep ESG research to both the issuers of green bonds as well as the securities themselves. We believe proprietary research — like Calvert's — is especially vital with so many new issuers and projects that need specialized analysis.

Debt aligned with strategic environmental goals

During the quarter, we invested in a U.S. electric power producer whose parent company is the first U.S. utility to commit to being carbon neutral by 2050. The company plans to use proceeds of the issue to develop wind power capacity, which, along with other expanded renewable capacity, will replace the coal facilities it is retiring.

We also initiated a position in a leading memory semiconductor producer whose parent company last year became the first South Korean company to commit to transitioning to 100% renewable energy. Proceeds of the issue will be used for the development of projects related to sustainable water and wastewater management, energy efficiency, pollution prevention and biodiversity conservation.

We continue to be selective in independently evaluating the structure of green bonds and the overall issuer profile across sectors, industries and countries to identify the most attractive securities for our portfolios. Importantly, across our green bond strategies, we seek issuers with strategic environmental goals that are aligned with the green debt they are issuing.

Bottom line: Green bond issuance is surging as more investors seek alignment with climate-risk and other environmental solutions. Increasingly, this market represents a growing opportunity for financial advisors and institutional investors.

1. Source: BofA Global Research. Notably, these figures are not comparable to data provided by Climate Bonds Initiative (CBI), frequently cited here. CBI data was not yet available for this quarter.

Read more about Calvert's green bond and ESG fixed-income approach in the recently updated white paper:

Responsible *fixed-income* Investing: How Calvert delivers for asset owners

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About risk: *The value of investments may increase or decrease in response to economic, and financial events (whether real, expected or perceived) in the US and global markets. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of nonpayment of principal and interest. The value of debt securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. As interest rates rise, the value of certain income investments is likely to decline.*

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