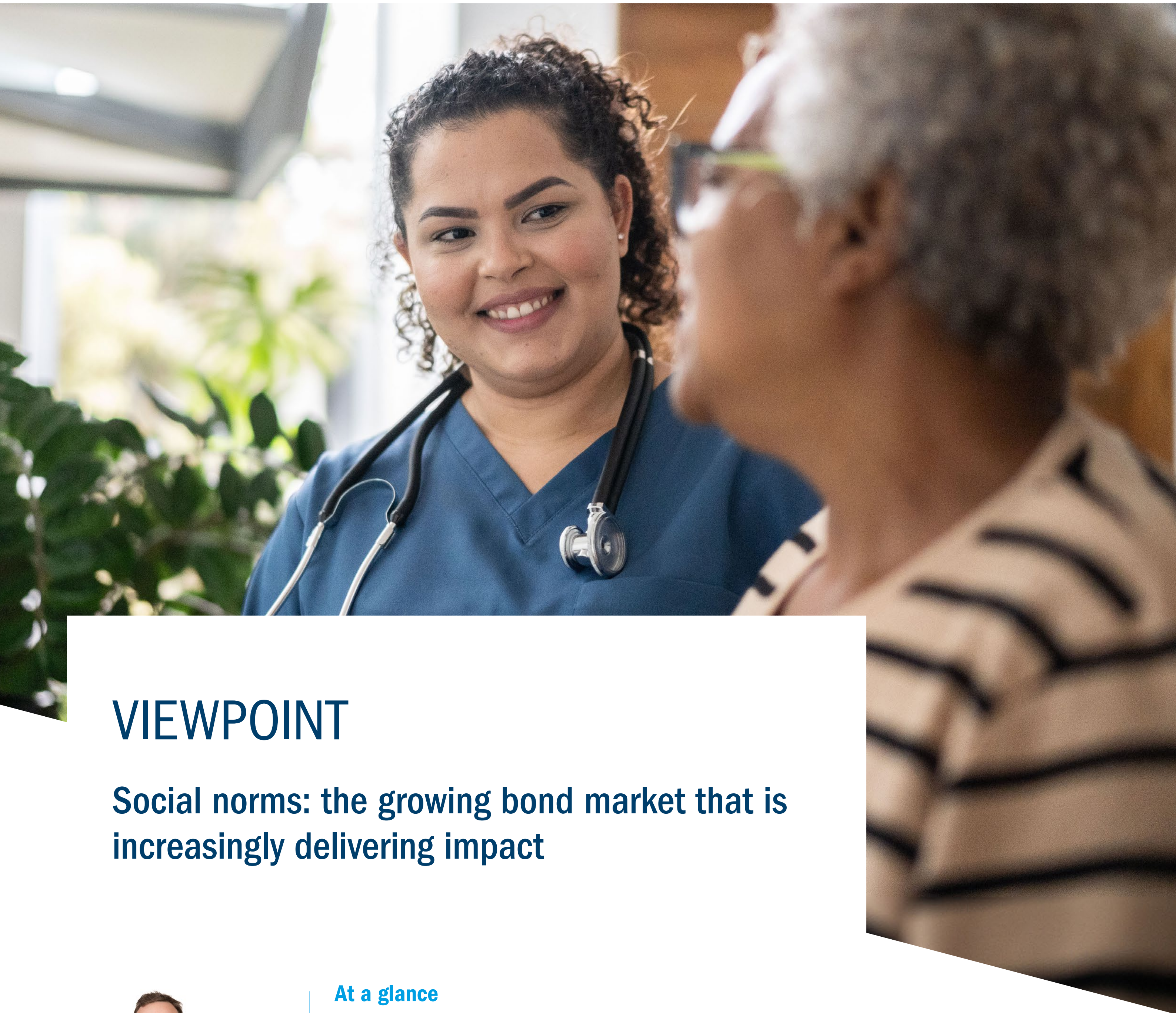

VIEWPOINT

Social norms: the growing bond market that is increasingly delivering impact

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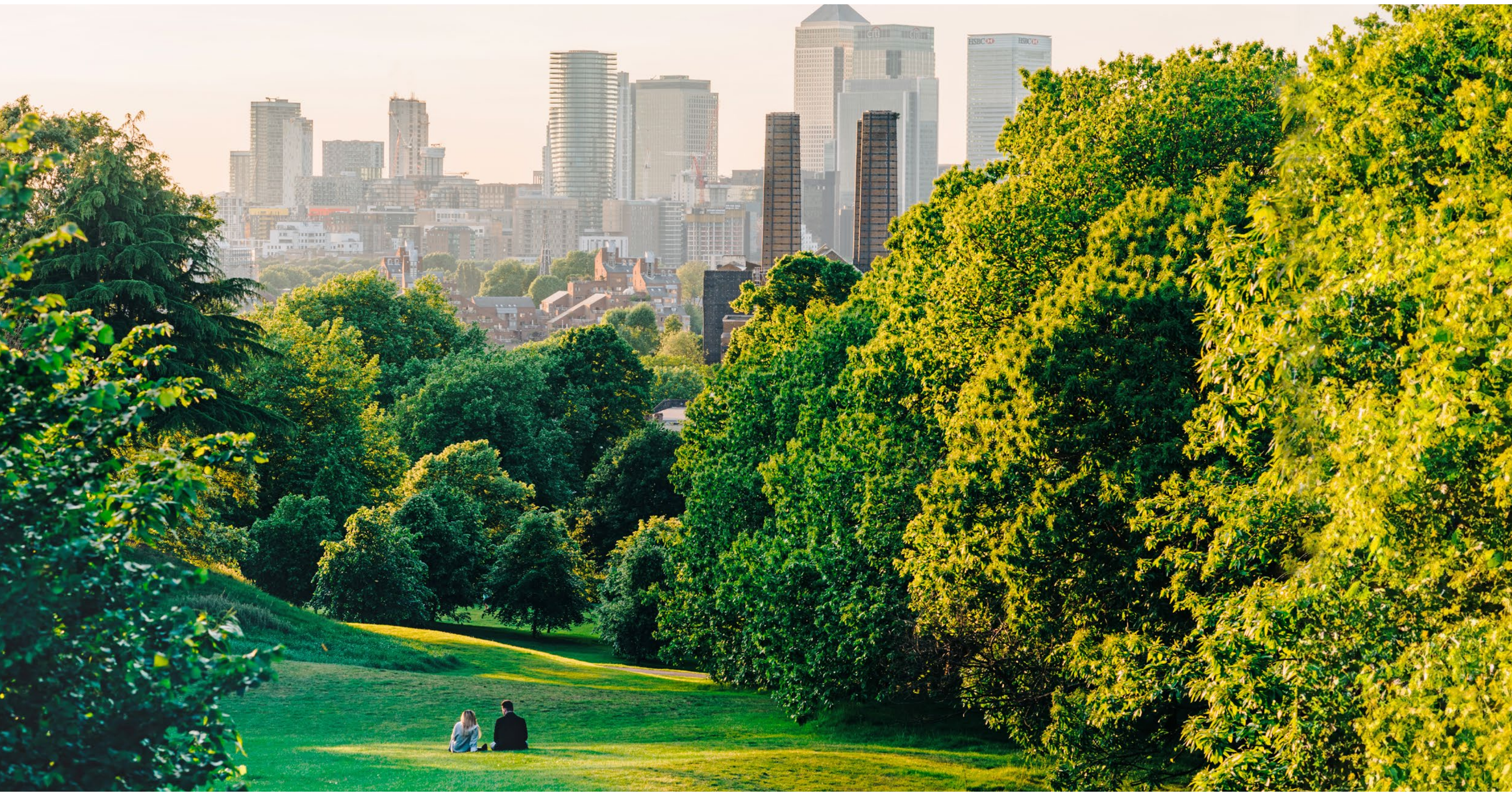
At a glance

- Since the Covid pandemic we have seen a greater awareness of financing which targets social outcomes, and the breadth and depth of the labelled social bond market has steadily increased
- Continued innovation in the bond market is a positive indicator of how financial instruments can produce solutions to real world issues, with gender bonds, geography-targeting bonds and healthcare and education bonds all being issued
- After a decade of investing in the space we remain excited about the social impact potential of the market and look forward to further influencing its development

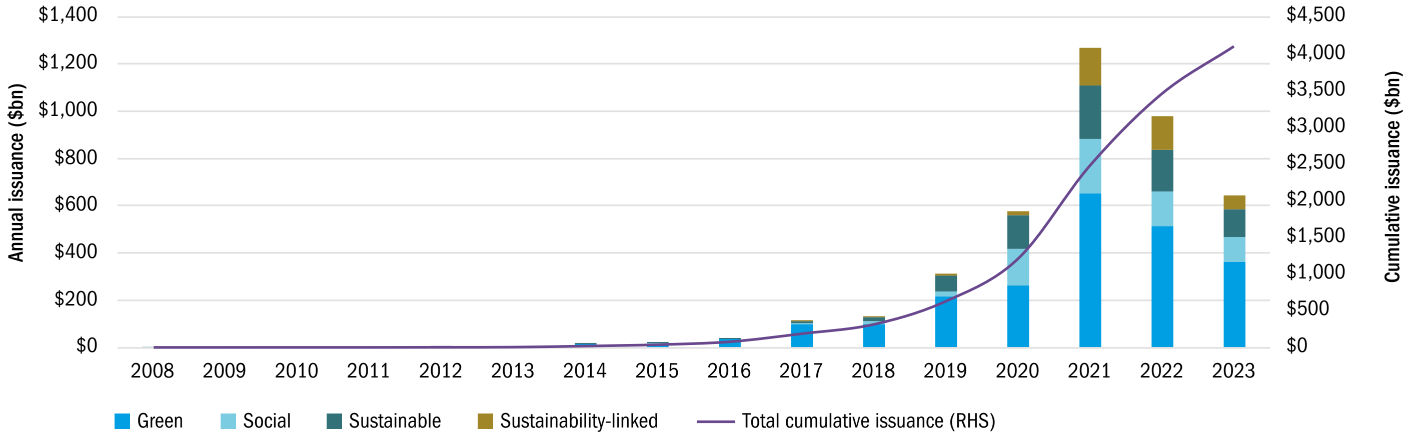


Increasing awareness

In 2016 the Social Bond Guidelines were published, hot on the heels of the 2014 Green Bond Principles.

The guidelines paved the way for corporates to issue bonds where the proceeds would be ringfenced for purely social projects – these were labelled "social bonds". The social bond market subsequently saw some issuance, mainly from sovereigns, but it really took off during the Covid-19 pandemic (Figure 1).

Figure 1: green, social and sustainability bond issuance



Source: Bloomberg, Columbia Threadneedle Investments, as at 23 August 2023

Post-Covid we have seen a greater awareness of financing which targets social outcomes, and the breadth and depth of the labelled social bond market has steadily increased. Corporates are now issuing labelled social bonds, with banks among the most impactful social bond issuers: Intesa issued an inaugural $750 million social bond in May 2023 which relates to programmes aimed at alleviating or preventing unemployment stemming from crises, and relief from natural disaster and health or social emergencies; AIB has $1.75 billion of social issuance related to healthcare, education, social and affordable housing, as well as affordable basic infrastructure; and CaxiaBank has issued $5 billion since 2019 mostly relating to jobs creation and business loans.[1]

Indeed, the conversation has now switched from whether to issue a green bond to how to issue the right type of green, social or sustainability bond. Our engagement in this sector is targeted at increasing the number of issues in the social bond market.

Recognition of social Issues in the wider labelled market

As well as social bonds, there are also green bonds which ringfence proceeds for green projects, and sustainability bonds which may fund both green and social projects. Within both these bond structures, however, we have seen improvement in the prevalence and awareness of social issues. For example, we have seen some first-time green bond issuers such as the Western Australian Treasury come to market with a commitment to report on the social co-benefits of its green projects[2]. We first saw this from the UK Treasury green gilt, whereby the use-of-proceeds is focused on green infrastructure[3] and social co-benefits through the creation of green jobs.

The reporting around these bonds will improve the understanding of how green projects may produce social co-benefits such as job creation, improved transportation and more energy-efficient homes.

We have also seen an increase in sustainability-linked bonds (SLB) issued with social key performance indicators (KPIs). For example, the Chile government issued an SLB[4] which included carbon targets and a commitment to improve the number of women in board positions to at least 40% in companies under the scope of the Financial Market Commission by 2031. This is not to say, however, that we have changed our view that the SLB market still requires significant improvements in thought and intent, particularly around the setting of stringent

The sustainability-linked bond market still requires significant improvments in thought and intent

[1] BofA Global Research, Social Bonds: a developing market, 10 July 2023
[2] WA.gov.au, Western Australia issues inaugural $1.9 billion green bond, 14 June 2023
[3] Gov.uk, UK's first Green Gilt raises £10 billion for green projects, 21 September 2021
[4] Gobierno de Chile, Sustainability-linked Bonds, June 2023

and challenging targets. But we are pleased that social KPIs are coming into play alongside the commonly used carbon emissions targets.

Impact reporting is making strides

Reporting in the labelled bond market started from a good base due to the principles and guidelines which detail examples of KPIs for different types of project. While the reporting requirements outlined by ICMA (International Capital Market Association) guidelines are useful, we still believe there is scope for improvement in the reporting and understanding of impact.

We would like to see greater focus on evidence of impact across the market – for example, listing key social and environmental metrics in relation to the impact generated is essential, regardless of the bond label. We also propose that reporting should include metrics relating to surveying target populations in order to assess how beneficial the projects have been. Few issuers do this, although CaxiaBank's social bond impact report[5] is an exception and, in our opinion, the best-in-class to which all impact reports should aspire.

Experimenting with different bond structures

Themed bonds are now being issued commonly in the market, ringfencing proceeds for projects which support a specific issue. One such example is Asia Development Bank (ADB), which issued a series of ICMA-compliant social inclusion gender bonds in 2022. Through this Gender Thematic Bonds programme ADB has raised more than US$2.9 billion. These bonds focus on programmes, projects, investments and loans in gender equality and women's empowerment. The goal is to mainstream gender equality, develop gender targets across employment, increase economic participation, improve social protection and health programs, and support prevention of and response to gender-based violence. These programmes also recognise the vulnerability of women in climate shocks, as well as the important role women need to play in climate adaptation and in resilience strategies that deal with disaster and climate-related shocks and stresses.

We have now seen further gender bonds, specific geography-targeting bonds, healthcare and education bonds issued in the market by various issuers. This continued innovation in the bond market is a positive indicator of further thought as to how financial instruments can produce solutions to real world issues.

Reporting should include metrics relating to surveying target populations to assess how beneficial projects have been

[5] CaixaBank, Social Bonds Report, December 2022

Conclusions

The social bond market has come a long way, with the breadth and depth of issuance growing hugely over the past five-plus years – but there is still much to do.

At Columbia Threadneedle Investments a big part of what we are trying to do as an active investor is to positively influence the market and encourage the right kind of issuance – but we also want to lobby governments, agencies and other market participants to alert them to the potential of social bonds and show them how they can get involved.

To that end, we are working on engagement within reporting and in particular to increase the prevalence of surveys; we want to see sustained improvements in sustainability-linked bond targets, which we believe can be a powerful tool; and we want to see new forms of issuance from governments and corporates – where, for example, is a National Health Service (NHS) bond?

We are a leading voice and advocate of the social (and green) bond markets and are excited about the ongoing potential of this growing market.

Meet the authors

Ben Kelly, Deputy Fund Manager

Ben joined Columbia Threadneedle in 2017 as a thematic analyst within the Responsible Investment team covering green mobility and infrastructure. He is now a portfolio manager and impact analyst within Investment Grade Credit focusing on impact strategies, and he serves as Deputy Fund Manager across the social bond strategies. Prior to this he worked in BlackRock's Investment Institute where he combined macroeconomic research across equity, fixed income and real asset teams with expertise in behavioural finance and investment decision making. Outside of work he plays golf, cricket and squash.

Letitia Byatt, Social Impact Analyst

Letty joined Columbia Threadneedle Investments in 2022 having previously worked at RLAM. She is a Social Impact Analyst for the UK, European and Global Social Bond strategies, working closely with fund managers to identify positive social impact opportunities for the Social Impact Bond funds. She holds the CFA ESG Investing Certificate and has completed a Sustainable Finance course at the University of Cambridge Institute for Sustainability Leadership. Outside of work Letty adores sailing and being in the ocean.

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