COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Building on 2019's green bond resurgence

GREEN, SOCIAL AND SUSTAINABILITY BONDS

By Simon Bond, Director of Responsible Investment

In almost whatever country you care to mention, climate change and social inequality are exploding into the public consciousness. Extinction Rebellion in the UK or the Gilets Jaune in Paris are just two of the more high-profile signs. Yet in the financial markets, too, green, social and sustainability bonds are growing in number and sophistication.

2019 was the year when green bonds caught their second wind, with a resurgence of issuance. There was also a growth in issuance and innovation for other types of 'impact' bonds, with proceeds earmarked for specific environmental, social or broadly sustainable purposes.

We believe that 2020 will see more of the same. The green bond market's growth will continue, but we expect momentum to spread increasingly to social and sustainability bond markets as well. Furthermore, there is likely to be more innovation during the year, with perhaps the first issue of a 'transition' bond that finances the evolution of a business to a more sustainable model.

After two flat years, 2019's buoyancy caught us, and the market generally, by surprise. Global green, sustainability and social bond issuance for 2019 reached $196 billion by the time of writing (in early November), which compared with a total of $133 billion for the whole of 2018.[1] Green bond issuance rose by about almost 40%, and accounts for three quarters of the broad impact bond market. Sustainability bond issuance almost tripled from a low base. Only social bond issuance lagged, with issuance growing just slightly from 2018.[2]

2019's resurgence

Sovereign green bonds dominate the market. France's green OAT bond is the biggest (€20.7 billion), followed by bonds from Belgium (€6.9 billion), The Netherlands (€6.0 billion) and Ireland (€5.0 billion).[3] Corporates are also increasingly issuing green bonds. And Italy, Sweden and Germany are expected to issue green or sustainability bonds in 2020. Notable by its absence is the UK government, where we have been leading a lobbying campaign for the first green gilt.

This revival makes 2019 the most significant year for the impact bond market generally since 2017. That was the year when impact bonds generally crossed the Rubicon, or reached a point of no return. It was the year when the International Capital Market Association (ICMA) published the Social Bond Principles (and the Sustainability Bond Guidelines), following on from the Green Bond Principles of 2014. HSBC raised a US$1 billion bond that year to finance projects linked to the UN's sustainable development goals (SDGs). The French government also launched its green OAT bond, which it then drew on again in 2019.[4]

[1] Source: Bloomberg, 2019.
[2] Source: Bloomberg, 2019.
[3] Source: Columbia Threadneedle Investments, 2019.
[4] Source: Columbia Threadneedle Investments, 2019.

It's not just the growth in issuance that signals the market is enjoying a new lease of life. 2019 has also seen more innovation. The year's innovations included Spain's first bank social bond, from CaixaBank, as well as RBS's social bond, the first of its kind from a UK bank. Enel, the Italian energy giant, issued a general corporate purposes bond with a coupon linked to its performance against the SDGs.

The next chapter

Looking forward to 2020, the surge in volumes and innovation is likely to continue. Not only are more sovereigns expected to issue green bonds for the first time, but we would also expect to see the impact bond concept broadening out to include more sustainability and social bond issues.

In terms of innovation, ICMA will decide on whether to set up a new set of principles for transition bonds that finance positive environmental or social evolutions. For example, a move from combustion engines to electric vehicles or from coal power to more sustainable energy sources. Alternatively, these bonds could be issued under existing green or social bond principles. Whatever the outcome, we would expect the first of these structures to be issued during 2020.

The year's major event will be the COP26 environmental conference in Glasgow at the end of the year. How will it follow the 2016 Paris Agreement targets to mitigate greenhouse gas emissions? Will it encourage competition among nations to set more ambitious carbon reduction targets? Will it lead to new innovations in the bond market, possibly a net zero green bond? We are optimistic about the potential for financial markets to step up to these targets and to help make them happen.

I would like to see more funds like ours that effectively democratise finance. If people can put green, social or sustainability bond funds into their ISAs or defined contribution pensions, they can vote financially for what they believe in.

However, we also need to see a large proportion of institutional money moving into these bonds. 2019 showed that the momentum is growing, although there is a long way to go.

BOND ISSUANCE DATA

	Social	Sustainability	Green	Total
Total	**30,652**	**60,164**	**472,581**	**563,397**
2019	11,313	32,921	151,424	195,658
2018	10,019	12,048	110,614	132,681
2017	7,218	7,766	111,711	126,695
2016	1,240	4,518	58,330	64,088
2015	724	1,962	22,616	25,302
2014	0	494	11,881	12,375
2013	0	0	5,410	5,410
2012	40	408	360	808
2011	0	0	14	14
2010	38	0	209	247
2009	60	0	7	67
2008	0	47	5	52

Source: Bloomberg, November 2019.

»»

To find out more visit

columbiathreadneedle.com

COLUMBIA THREADNEEDLE INVESTMENTS

 Issued 12.19 | J30073 | 2841517