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A Special Report from

 SAVVY INVESTOR

# Bond Investing: Innovating for impact

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How investors can assess  
and invest in this growing  
opportunity set

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Authored by Savvy Investor

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## Special Report

# Bond Investing: Innovating for impact

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## Introduction

# Bond Investing: Innovating for impact



**Chipo Muwowo**  
Investment Content Specialist,  
Savvy Investor

An economist by training, Chipo has nearly seven years' experience working for Savvy Investor. Since 2021, he's been actively developing his freelance writing career where he specializes in African public and private markets. He's had work published in various business publications including The Financial Times, fDi Intelligence, Family Capital and African Business.

“Such a framework, if well-defined, evaluated, and managed, can help asset owners and issuers better understand the fixed income manager's rationale for investing in particular assets.”

The rapid growth of Environmental, Social, and Governance (ESG) investing has brought about new opportunities for institutional investors and the broader fund management industry. For some time now, asset owners have been paying closer attention to the impact of their investment allocations on the environment and society.

Within the global fixed income sector, there has been a significant rise in green bond issuance. In 2021, green, social, and sustainability (GSS) bonds exceeded US\$1tn for the first time. That number fell in 2022, but the overall trend is clear. However, there have been challenges too.

A new report by Nuveen explores the impact bond opportunity set. It specifically focuses on helping investors address some of the obstacles they face when developing an impact bond investing framework.

Such a framework, if well-defined, evaluated, and managed, can help asset owners and issuers better understand the fixed income manager's rationale for investing in particular assets.

In the 'Ask the Expert' interview, Nuveen's Stephen Liberatore explains in detail more about his team's approach. He also presents some common misperceptions around impact investing and the way creative engagement is opening up the stewardship conversation.

### Chipo Muwowo

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### Nuveen

Nuveen, the investment manager of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has \$1.1 trillion in assets under management and operations in 27 countries. Its investment specialists offer deep expertise across a comprehensive range of traditional and alternative investments through a wide array of vehicles and customised strategies.

With more than 30 years of experience in impact investing, we have deployed over \$10 billion in impact investing strategies that deliver measurable social and environmental benefits to people, communities and the planet. Our strategies pursue positive social and environmental impact alongside competitive financial returns across a broad range of asset classes, offering a range of investment opportunities that support positive outcomes, in both private and public markets. For more information, please visit [www.nuveen.com/impact](http://www.nuveen.com/impact)

Source: Nuveen, 31 Dec 2022



### Nuveen Expert

#### Stephen M. Liberatore, CFA

Senior Managing Director/Head of ESG/Impact – Global Fixed Income

Stephen served on the ICMA Green Bond Principles Advisory Council and was a member of the initial executive committee. He is a member of the UN Capital Development Fund's working group on Climate Insurance Linked Resilient Infrastructure Finance and serves on the UN's Joint Sustainable Development Goals Fund's Blue Economy Investor Advisory Group.

He also serves on S&P's Global Ratings ESG Leadership Council, the Steering Committee of the Orange Bond Principals, Fannie Mae's Green Rental Housing Task Force and Sustainalytics' Investor Committee. He is a frequent speaker at conferences and a subject matter expert across media outlets such as Bloomberg, CNBC, The Economist, and The Wall Street Journal. He and his team were awarded "Investor of the Year" at Environmental Finance's (EF) 2020 Bond Awards, and Nuveen's Global Fixed Income Impact Report won "Impact Report of the Year (for Investors)" at EF's 2022 Bond Awards. Before joining Nuveen in 2004, he held roles at Nationwide Mutual Insurance and Protective Life.

Stephen graduated with a B.S. from the State University of New York at Buffalo and an M.B.A. in Finance and Operations from Wake Forest University. He holds the CFA designation and is a member of the CFA Society of North Carolina and the CFA Institute.

# nuveen

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## Driving change with real-world impact

Access strategies that pursue positive social and environmental impact alongside competitive financial returns. With over 5 decades of responsible investing experience, Nuveen has:

- Over \$10 billion<sup>1</sup> deployed by impact investing strategies to achieve measurable social and environmental benefits to people, communities, and the planet
- A range of article 8 and 9 investment opportunities in both private and public markets across a variety of asset classes
- Sustainable, thematic and impact investing strategies that align to nearly every one of the 17 Sustainable Development Goals

[nuveen.com/impact](https://nuveen.com/impact)

<sup>1</sup> As of 31 Dec 2021.

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Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

## Featured Paper:

# Innovation in impact bonds



[Click to view the full report](#)

“The report is also instructive for investors as it shares important best practices.”

## Setting the scene

In recent decades, the concept of impact investing has grown significantly across the global fund management industry. More specific than the broader Environmental, Social, and Governance (ESG) category, impact investing focuses investors' attention on allocating capital to activities that seek to generate a positive and measurable social and/or environmental outcome.

Demand for this type of investing is growing, especially among institutional investors. Almost three-quarters (74%) consider, or plan to consider, the impact of their investment decisions on the environment and society, according to Nuveen's latest EQUilibrium survey.

Public fixed income markets are helping meet this demand. In 2021, issuance of green, social, and sustainability (GSS) bonds exceeded US\$1tn for the first time, and nearly doubled in 2020 and 2021. While 2022 was a challenging year for bond markets generally, the fall in GSS bond issuance was 16% smaller than the broader fixed income universe.

Within securitized markets, the growth of impact investing has broadened the investor base, as well as the final use of proceeds. In 2022, the top five uses of GSS bonds included renewable energy, clean transportation, green buildings, energy efficiency, and providing access to essential services.

Given the increased scrutiny from asset owners, it has become especially important for fixed income managers to know what's in their portfolio and be able to explain their capital allocation strategy to investors. Having an impact bond investing framework helps this end.

## Incorporating best practices

In this new publication, portfolio managers from Nuveen's public fixed income impact team highlight the various aspects of the firm's impact bond investing framework. The report is also instructive for investors as it shares important best practices.

While managers can take various approaches within their chosen framework (e.g. exclusionary screens, ESG leadership, and thematic & impact investment), it's critical to consider the relative strengths and limitations of each approach and determine how they can work in concert to achieve the desired goals.

So, how might an impact bond manager begin the process of creating a suitable framework?

### 1. Start with intentionality

With impact investing, progress must be deliberate. This involves identifying which specific causes or areas of social and/or environmental impact the institution wants to focus its efforts on. The Sustainable Development Goals (SDGs) can be extremely helpful in providing a common set of goals and language to orient an institution's impact efforts.

“In addition to providing capital for projects, impact bond investors have a powerful opportunity to drive change by engaging with issuers and other stakeholders.”

“Nuveen also invested in a mobile home park whose residents were predominantly lower income in Sonoma County, California, where the price of the average residential property is significantly higher than the US median price.”

## 2. Make impact direct and measurable

An institution needs to provide clarity on how it will deliver on its impact intentions. The team at Nuveen use two important guidelines for impact bonds:

**(i) Direct:** The capital raised must fund specific projects or initiatives that deliver a clearly defined environmental and/or social benefit.

**(ii) Measurable:** The issuer must be willing and able to disclose key performance indicators through appropriate impact reporting for the project.

## 3. Prioritize engagement with issuers

In addition to providing capital for projects, impact bond investors have a powerful opportunity to drive change by engaging with issuers and other stakeholders. Nuveen uses these relationships to engage in ongoing conversations about how to structure bonds, what’s needed to satisfy investor demand, and the requisite quality of impact reporting.

### ‘Skin in the game’

Nuveen has garnered the requisite experience to inform and inspire other investors in this area. For over 15 years, the team has honed its impact bond investing framework and last year, managed US\$7bn in impact bond assets on behalf of global clients.

Having ‘skin in the game’ has always been critical, especially as the industry matures. This maturation is not only being seen through the growth in impact bond issuance globally, but also the pace of innovation in new transaction types. Nuveen’s public fixed income impact team has been involved in a number of these transactions.

The firm invested in an impact bond issued by the World Bank that helped provide access to clean water in Vietnam. The investment was in 300,000 water filtration products and equipment for 8,000 primary and secondary schools in the country.

Nuveen also invested in a mobile home park whose residents were predominantly lower income in Sonoma County, California, where the price of the average residential property is significantly higher than the US median price. The park itself represented roughly the same number of affordable housing units that the county had been able to build over a 25-year period. In addition, the transaction funded an on-site solar array which reduced the cost of energy for the residents by about 90%.

Other impact investments in which the Nuveen team has been involved include the Republic of Seychelles’ Blue Bond, the World Bank’s Wildlife Conservation “Rhino” Bond, and the Women’s Livelihood Bond 5, the world’s first Orange Bond.

While this report captures important actions for making the world a better place, it also inspires conversations about how to drive better investment returns over the long term.

[Click here to download the full report](#)

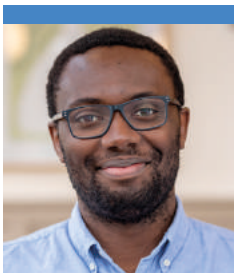
## Ask the Expert with Nuveen:

# Impact investing in fixed income

Stephen served on the ICMA Green Bond Principles Advisory Council and was a member of the initial executive committee. He is a member of the UN Capital Development Fund's working group on Climate Insurance Linked Resilient Infrastructure Finance and serves on the UN's Joint Sustainable Development Goals Fund's Blue Economy Investor Advisory Group.



**Stephen M. Liberatore, CFA**  
Senior Managing Director/Head of ESG/Impact - Global Fixed Income, Nuveen



**Chipo Muwowo**  
Investment Content Specialist, Savvy Investor

**Chipo Muwowo:** In your view, why should fixed income managers create impact bond investing frameworks?

**Stephen Liberatore:** In today's investment product landscape, a dedicated impact bond investing strategy is probably the easiest way for an investor to control how their capital is being deployed. In my view, it's a natural extension of the risk-reward discussion. It's especially incumbent upon fixed income managers to know what's in their portfolio and be able to explain their capital allocation decision making process to investors. Additionally, many topics within "ESG" and "impact investing" are ultimately subjective, which makes having a framework vital for both managers and investors.

**Chipo Muwowo:** Tell me more about Nuveen's approach to public fixed income.

**Stephen Liberatore:** Put simply, we combine the concept of ESG Leadership with impact investing. Our focus is a core fixed income portfolio with higher ESG quality that includes direct and measurable impact investing aims. While we also have pure impact mandates such as green and social bonds, we manage a combination of the two for certain investors. Our ESG Leadership process starts with the Bloomberg Barclays Multiverse Index as the widest possible subset of the fixed income universe. My team then works with Nuveen's separate Responsible Investment team to identify any issues or controversies we believe are relevant to ESG quality on a sectoral basis. We then work with third-party data providers to create an eligible universe that incorporates both our views and theirs. This process allows us to obtain broad-based fixed income exposure, as well as valuable opportunities to engage with various kinds of issuers.

“Our focus is a core fixed income portfolio with higher ESG quality that includes direct and measurable impact investing aims.”

**Chipo Muwowo:** Talk me through how you incorporate "impact" goals within your framework.

**Stephen Liberatore:** We're a "use of proceeds" impact investor which means that we're looking for opportunities that have a direct and measurable social and/or environmental outcome based on our proprietary impact framework. We focus on four thematic areas: affordable housing, community & economic development, renewable energy & climate change, and natural resources. What we're looking for in each of these areas is, first and foremost, attractive total return potential. We then want to see if there's alignment with one or more of these four thematic areas. We also need to be able to show how the proceeds are being deployed, as well as be able to receive back from the issuer and/or appropriate third-party relevant impact metrics.



“Last year, our team had 115 engagements with issuers where we talked to them about our approach, what we’re looking for, and how to structure a transaction that we care about.”

**Chipo Muwowo:** What are some common misperceptions you hear from investors and how do you go about engaging them on these?

**Stephen Liberatore:** The main misperception we hear from investors is the idea that you sacrifice performance to be a responsible investor. That’s just not true and we have the data to show it, including our own performance metrics over a 10-year period. What we’re trying to demonstrate is that the process has changed. When I first started in this space, we were just ending the concept of exclusionary screening. Bond issuers were either good or bad. Now, while we certainly have some restrictions around things like alcohol, tobacco, and firearms, we’re not excluding entire sectors. Back then, you might’ve decided not to invest in oil and gas. But when commodities rallied, your portfolio was structurally deficient.

In our view, that approach is outdated as it doesn’t allow for us to deploy capital to those issuers who are maximizing their opportunity set to become more sustainable while building a diversified portfolio. It also creates little incentive for issuers to engage with managers like us. Given that today our focus is on best-in-class opportunities, we’re now able to get broad market exposure. It’s also led to a change in the discussion because everyone – issuers, managers, and investors – is focused on maximizing the opportunity to become more sustainable. Last year, our team had 115 engagements with issuers where we talked to them about our approach, what we’re looking for, and how to structure a transaction that we care about. Overall, I think that makes us better stewards of our assets, and a better representative for our investors.

**Chipo Muwowo:** What challenges have you faced when creating and working within your framework?

**Stephen Liberatore:** We’re working in an area where definitions are somewhat subjective and that’s a challenge. It’s meant that we’ve had to really define the process we’re utilizing and continually evaluate it, ensuring that we’re also achieving third-party validation. On the impact side, we had a third-party validate that our framework was aligned with the International Finance Corporation’s Operating Principles for Impact Management. It’s a very rigorous process that’s primarily targeted towards private equity. So, we’re constantly trying to be in a place where we’re at the forefront of the market. But that means continual work, evolution, and focus.

“We’re working in an area where definitions are somewhat subjective, and that’s a challenge. It’s meant that we’ve had to really define the process we’re utilizing, and continually evaluate it.”

**Chipo Muwowo:** Impact bond issuances have risen sharply in recent years. What is one major risk associated with this?

“Just because something has the “green bond” label doesn’t mean that it is, and the opposite can be true.”

**Stephen Liberatore:** The biggest risk is ensuring that if you’re an asset owner or some other investor, you understand what approach your asset manager is taking. The labeling of a security – whether it’s green, social, sustainable, or transition – is self-chosen and therefore subjective. Just because something has the “green bond” label doesn’t mean that it is, and the opposite can be true. Some of the most impactful transactions we’ve seen are unlabeled securities, so you have to really understand what the asset manager is looking at, what their process is, how they’re trying to direct your capital and if it aligns with your goals.

“Rising rates impact green bond debt securities just like any other fixed income instrument. However, one could argue that some green instruments may be less correlated with the overall market.”

“Through these engagements, we help issuers become more sustainable. We’re obviously also trying to drive better investment results.”

**Chipu Muwowo: How are central bank hikes affecting the green bond market?**

**Stephen Liberatore:** Rising rates impact green bond debt securities just like any other fixed income instrument. However, one could argue that some green instruments may be less correlated with the overall market. For example, if you’re invested in a solar power project in California, the demand for the project’s energy is not really going to be affected by general market movement, especially if it’s a take-or-pay contract. The economic decision you’re making is to continue to own a green energy source. Having said that, central bank policy still absolutely impacts the overall level of rates, both domestically and internationally, on a relative basis.

**Chipu Muwowo: How is innovation within the impact investing bond market affecting the broader bond market?**

**Stephen Liberatore:** We’re seeing continued diversification and increased granularity within the space. The ability to target very specific desired outcomes continues. Good examples include the rise of blue bonds, gender lens investing, and wildlife conservation efforts. All of these are a sign of market maturation and a broader opportunity set. For us as an active total return manager, that’s fantastic. The more choice you have, the better your portfolio construction process.

**Chipu Muwowo: How would you describe your experience of engaging with issuers?**

**Stephen Liberatore:** It’s been pretty good. As multi-sector managers, we’re investing across the fixed income capital stack so we’re just as likely to talk to a corporation as we are a municipality, or a developed market issuer as we are an emerging market one. What it really does is put us in a position where we’re able to explain how we want to deploy our capital. Through these engagements, we help issuers become more sustainable. We’re obviously also trying to drive better investment results. When taken all together, that, I think, is something people can understand.

**Disclaimer:** Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well. Nuveen provides investment advisory solutions through its investment specialists.

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# Savvy Investor's Top Papers

## Exploring the World of Impact Bonds



THE FOLLOWING TABLE FEATURES 15 OF THE TOP PAPERS UPLOADED TO THE SAVVY INVESTOR SITE EXPLORING THE WORLD OF IMPACT BONDS.

According to ISS ESG, over 70% of social bonds are issued by agencies and supranational issuers like the World Bank. However, these fixed income instruments face a crucial challenge: quantifying the unquantifiable, namely social impact.

Meanwhile, a report by the Climate Bonds Initiative tracks how green bonds performed in the primary market in the second half of 2022. It suggests that the “green” bond label supported deal placement in volatile markets.

PGIM Fixed Income, on the other hand, argues that because banks issue subordinated bonds, debt instruments that can be written off in a crisis at the behest of regulators, it’s questionable whether these bond proceeds will be used for green or social purposes.

Other papers on the Savvy Investor site examine the Chinese green bond market, green property bonds, and the maturation of the sustainable fixed income industry.

## SAVVY INVESTOR'S TOP 15 IMPACT BOND PAPERS (BY DATE)

PAPER TITLE	DATE PUBLISHED
<a href="#"><u>Green Bond Pricing in the Primary Market: H2 2022</u></a> (Climate Bonds Initiative)	21/03/23
<a href="#"><u>Green Bank Bonds: Abuse of Proceeds?</u></a> (PGIM Fixed Income)	03/03/23
<a href="#"><u>Chinese Green Bonds Survive the Global Volatility, What's Next?</u></a> (FTSE Russell)	03/03/23
<a href="#"><u>GSS Bonds: The Sustainable Bond Market of Cities and Regions</u></a> (Franklin Templeton Investments)	28/02/23
<a href="#"><u>Green Buildings, Green Bonds and Greenwashing</u></a> (Insight Investment)	20/12/22
<a href="#"><u>Reaching for Net-Zero Within Active Fixed Income</u></a> (LGIM)	23/11/22
<a href="#"><u>Impactful Short Duration: Green Bonds and Yield Curve Strategies</u></a> (S&P Dow Jones Indices)	31/10/22
<a href="#"><u>The S Factor: Social Impact Considerations in the ESG Fixed-Income Market</u></a> (ISS Governance)	25/10/22
<a href="#"><u>A Green Future for Steel</u></a> (Climate Bonds Initiative, 2022)	13/09/22
<a href="#"><u>Decarbonising Fixed Income Investment</u></a> (FTSE Russell)	11/08/22
<a href="#"><u>Bonds Making Impact: Financing a Sustainable Future</u></a> (Candriam, 2022)	04/07/22
<a href="#"><u>Sustainable Fixed Income Investing Comes of Age</u></a> (Wellington Management, 2022)	27/06/22
<a href="#"><u>Emerging Market Green Bonds – Report 2021</u></a> (Amundi, 2022)	10/06/22
<a href="#"><u>Allocating to Green Bonds</u></a> (Robeco)	16/05/22
<a href="#"><u>Is There Alpha in ESG Data for Sovereign Debt?</u></a> (Man Group, 2022)	12/05/22

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# The world's leading knowledge network for institutional investors



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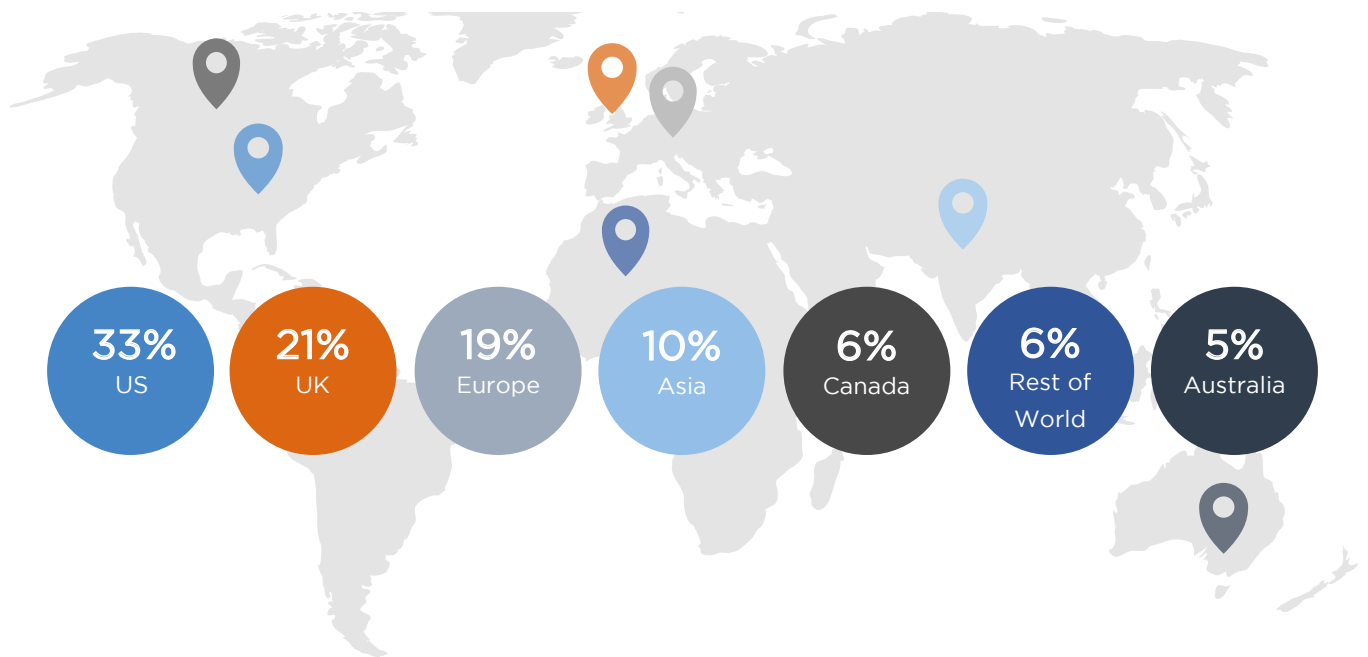
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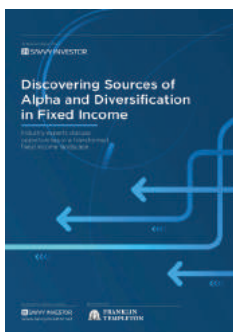


### MEMBERS BY JOB TITLE



# Editorial Schedule

## Past Reports



## Upcoming Reports

- **May 2023**
  - Quant Investing
  - Risk & Portfolio Construction
- **June 2023**
  - Debt & Credit
  - Equity Strategies
- **July 2023**
  - Mid-year Outlook
  - Cryptocurrencies
- **Subject to demand (at any time)**
  - The Business of Asset Management
  - Insurance Asset Management
  - Asset Allocation Quarterly
  - Fund Management Technology
  - Quant Strategies
  - Real Assets
  - FX/Currency Investing
  - Other topics upon request...

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