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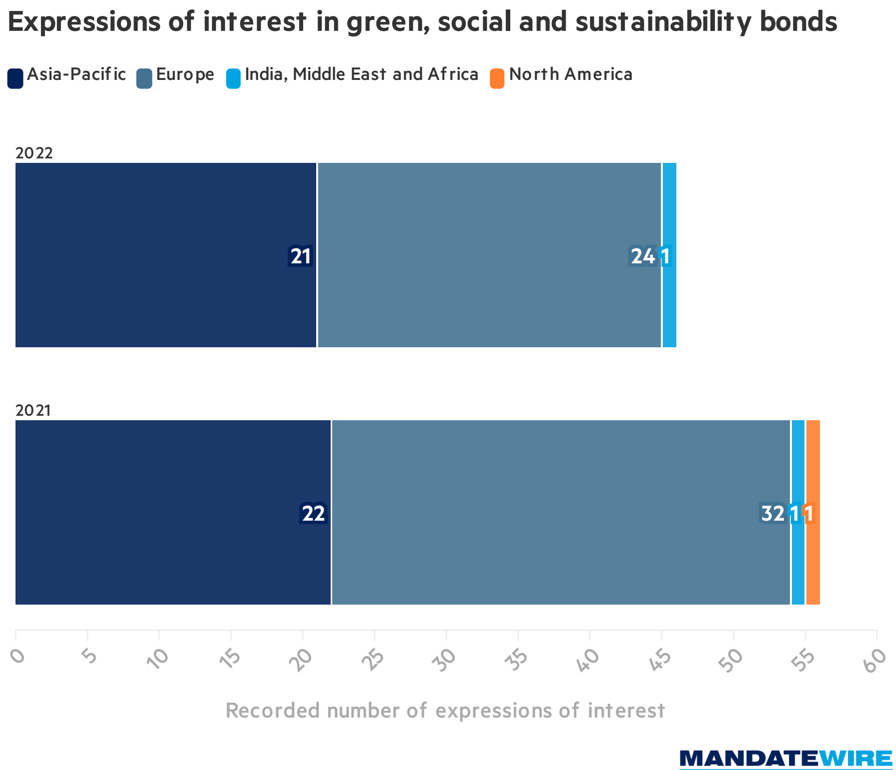
Global view: North American investors show little appetite for green bonds

Amid mounting global efforts to tackle climate change, asset owners in North America, India, the Middle East and Africa appear to be shunning green and sustainability bonds. MandateWire data shows that institutional investors in the Asia-Pacific region lead the way in embracing sustainable fixed income strategies, closely followed by asset owners in Europe.

Asia-Pacific asset owners have shown the strongest appetite, with MandateWire recording a total of 65 expressions of interest* and executed investments** in green, social and sustainability bonds last year, compared with 71 in the previous year.

For instance, MandateWire reported in December that Japan Post Bank, with assets under management of Y222.8tn ($1.7tn), had invested an undisclosed amount in the Y10bn green bond issuance by local infrastructure developer Organization for Promoting Urban Development. The proceeds will be used to finance various businesses and projects that aim to develop green infrastructure and other environmentally friendly buildings. The target bonds carry a 20-year maturity with a 1.21 per cent annual coupon rate.



MandateWire also reported last year that Bank Indonesia and the Bangko Sentral ng Pilipinas had invested in the US dollar-denominated open-ended Asian Green Bond Fund managed by the Bank for International Settlements. The Asian Green Bond Fund or BISIP G3 will finance environmentally responsible projects in the Asia-Pacific region through high-quality bonds issued by sovereigns, international financial institutions and corporates that comply with strict international green standards.

Bank Indonesia governor Perry Warjiyo said the Asian Green Bond Fund initiative shows the strong commitment of central banks in the Asia-Pacific region to promoting green financial instruments.

BSP's governor Benjamin Diokno said participation in the fund is expected to provide the central bank with "an additional source of return and investment diversification that is consistent with our prudent approach to reserve management."

He added that BSP's decision to invest in the fund bolsters its sustainability efforts and supports its sustainable central banking agenda. The BSP has invested a total of $550mn in BIS's first green bond fund.

Europe

European asset owners have also shown strong demand for green, social and sustainability bonds last year, with a total of 59 planned and actual allocations last year, compared with 69 in 2021.

MandateWire reported in February 2022 that the €32.1bn ($34.4bn) Stichting Pensioenfonds INGset targets to increase its exposure to green and social bonds and implement long-term carbon-reduction pathways.

After cutting back the CO_2 footprint of its equities portfolio by 50 per cent in 2020, the fund told MandateWire it has set targets to increase the weighting of green and social bonds within its liability-driven investment mandates.

Other European asset owners targeting green bonds last year included the SKr251.5bn ($23.8bn) KPA Pension, which invested SKr1.6bn in a green bond issued by the World Bank, bringing the Swedish pension insurer's total holding of green bonds up to SKr27bn.

Also, the €4.1bn Finnish pension fund, Veritas Pensionsförsäkring, committed €20mn as a seed investment to Aktia Bank's new European sustainable development bond fund, UI-Aktia Sustainable Corporate Bond, which invests in green, social, and responsible bonds as well as sustainability-linked bonds.

The bonds included in the fund are primarily investment grade, but the fund can diversify up to 20 per cent to high-yield bonds with a rating of at least BB- and up to 3 per cent in unrated bonds.

According to Aktia, the fund is classified as a 'dark green fund' in accordance with Article 9 of the EU Sustainable Finance Disclosure Regulation.

India, Middle East, and Africa

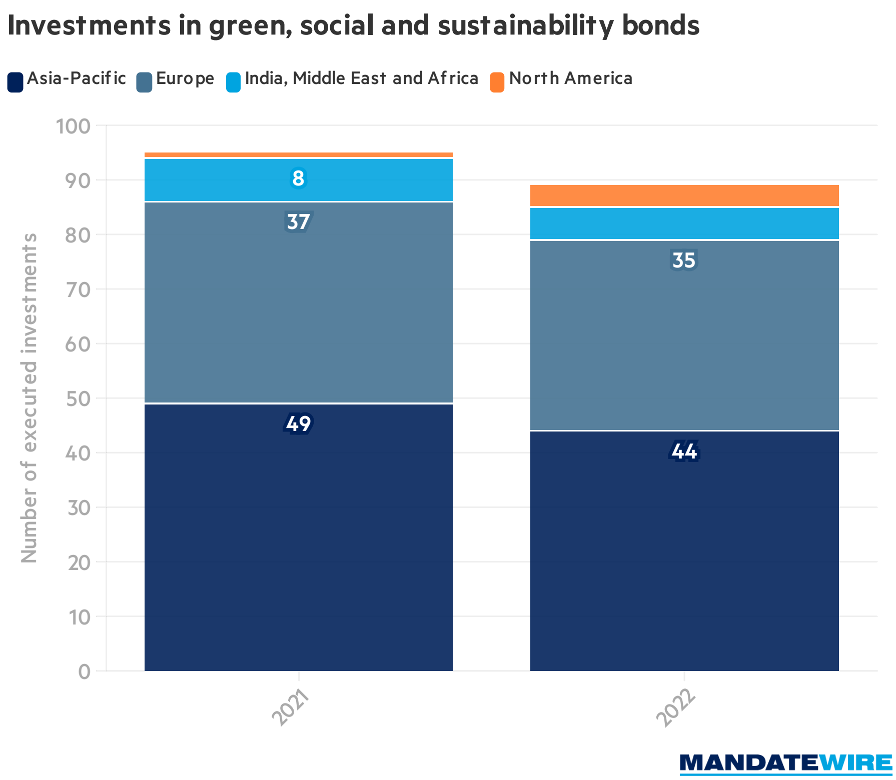
Unlike their Asia-Pacific and European counterparts, asset owners in India, the Middle East, and Africa have shown scant interest in green, social and sustainability bonds, with MandateWire registering a total of seven planned and actual allocations last year, compared with nine in 2021.

Last October, Saudi Arabia's Public Investment Fund, with estimated assets under management of around $620bn, raised $3bn through its inaugural green bond to finance or refinance eligible green projects, including renewable energy, energy efficiency, sustainable water management, pollution prevention and control, green buildings, and clean transportation.

Also in 2022, Qatar Investment Authority, with assets under management of around QAR1.2tn ($327bn), agreed to allocate €2.4bn to support the green energy strategy of German energy company RWE AG.

The deal was a convertible bond purchase, under which the debt may be converted into new ordinary shares representing just under 10 per cent of RWE's existing share capital once the conversion price is hit.

"We are proud to support RWE's vision to become a leader in the global renewable energy market. QIA is actively investing in companies that can have a positive impact on society and shape the future of sustainability by making energy transition a reality," said Mansoor bin Ebrahim Al-Mahmoud, chief executive of QIA. QIA's stake in RWE post bond conversion will correspond to approximately 9.09 per cent of the enlarged share capital.



North American asset owners have also shown little appetite for sustainable fixed income strategies, with MandateWire tracking only four investments and no expressions of interest in green, social and sustainability bonds in 2022 compared with just two in the previous year.

Among the investors last year was the $105bn Virginia Retirement System which committed $80mn to the MetLife climate-aware fixed income strategy.

With an emphasis on climate-readiness, this fund deploys a long-only, multi-asset fixed income strategy.

For the $233.2bn New York State Common Retirement Fund, green investing is part of its investment policy statement and is a core value for the fund, Mark Johnson, press secretary for the fund, tells MandateWire.

Johnson says the fund invests in green bonds periodically as part of its $20bn commitment to sustainable investments. "We anticipate additional green bond activity, partly due to the climate-oriented mandates of the recently passed Inflation Reduction Act," Johnson says.

He mentions that the fund continues to work extensively with consultants and various service providers on presenting information about green bonds as well as with its active managers who make similar investments.

In Massachusetts, the $94.4bn MassPRIM has also been working to incorporate more sustainable investment initiatives into its portfolio, Seth Gitell, chief external affairs officer, tells MandateWire.

Gitell says PRIM utilises external managers for fixed income who are permitted to invest in green bonds if the "appropriate opportunities arise" as part of their full discretion mandates.

He adds that the fund owns green bonds in portfolios managed against the Bloomberg US Aggregate Index and the ICE BofA US High Yield Constrained Index.

Future growth prospects

That institutional investors in Europe show a strong appetite for green bonds is borne out by a report by Morningstar, which reveals that the main growth within sovereign government green bonds has been in Europe.

In 2021, France issued a 23-year green bond, Germany a 30-year bond, and Italy sold its first-ever issue with a maturity of 24 years.

The report, published in June 2021, says an important driver of growth in sovereign green bond issuance in Europe is the EU's €750bn Recovery Fund, an instrument created to help repair the economic and social damage caused by the coronavirus pandemic. The plan was to raise around 30 per cent of the capital through green bond issuance, in this case issued by the European Commission.

Some €430bn of green bonds were issued globally in 2021, according to research by Goldman Sachs Asset Management and Bloomberg, which put the total size of the green bond market at €1.5tn as at September 30 2022. Global green bond issuance in 2022 and 2023 is estimated to be worth €500bn and €600bn respectively.

In an article posted on its website in January, the asset manager says Europe has been the main driving force in the green bond market with five of the top six issuers in 2022 being the EU itself, Germany, France, the European Investment Bank, and the Netherlands.

Goldman Sachs Asset Management says: "One limit on expansion of the US green bond market is that issuance continues to be driven by corporates and local authorities, and it remains unclear if the Treasury will start issuing green bonds in the future."

It also notes that "the recent amendment of green bond standards [in China] helps align the domestic standards with global principles, increasing transparency and fuel market growth by making Chinese green bonds more attractive to international investors."

**Expressions of interest comprise manager searches, planned investments in a new asset class, and planned investments in existing asset classes recorded by MandateWire.*

***Investments comprise the number of awarded mandates and asset reweights tracked and reported on by MandateWire.*