# **GREEN BONDS:** Investor Demand, Advisor Edge

## Conversation with George Gay, Guy Benstead and Bill Mock

**GEORGE GAY,** CEO, First Affirmative Financial Network – the leading advisor network serving the responsible investment community overseeing more than $1B in AUM and advisement and working with 400+ specialist SRI advisors. He also has produced and hosted the SRI Conference since 1990.

**GUY BENSTEAD,** Portfolio Manager for the Shelton Tactical Credit Fund and the Firm's fixed income separately managed accounts.

**BILL MOCK,** lead member of the portfolio management team for Shelton's Fixed Income and Money Market funds.

With an aging client base and an estimated $68 trillion in U.S. wealth expected to change hands from older generations to younger generations (Cerulli), ESG investing/investing with a purpose are growing priorities for investors. Advisors need to be prepared to address these changing investor preferences.

Shelton Capital Management is an experienced Green Bond manager, utilizing an active approach to fixed income portfolios which seek to generate total investment return and income. The firm offers mutual funds and SMA strategies for clients seeking an environmental, green or sustainable focus. Here, George Gay delves into Shelton Capital Management's approach to ESG and impact investing in the U.S. fixed income markets, as well Green Bonds.

**GEORGE:** Green Bonds have an evolving definition and are certainly defined in different ways by different investment managers. How does Shelton Capital define this category?

**BILL:** Shelton Capital's simple definition is a bond that uses the proceeds to make a quantifiable contribution to a sustainable future. The world isn't always black or white, and that's true for Green Bonds too. Our analysis is informed by the Climate Bonds Initiative; the International Capital Markets Association's green, social, and sustainable bond criteria; the U.N. Principles for Responsible Investing and the U.N. Sustainable Development Goals.

I'd also say that the most important factor that has influenced us over time is direct feedback from advisors and their clients.

**GEORGE:** How long has Shelton Capital been working in this area? And how long have Green Bonds been a category?

**BILL:** Shelton Capital has been managing Green Bond portfolios since 2015. Green Bonds as a category really kind of took off about 10 years ago when the Climate Bonds Initiative and the World Bank started defining what constituted a Green Bond.

But the notion of environmental investing has been around for several decades. Although they weren't labeled "Green Bonds," individual investors have historically valued these kinds of opportunities. It's just become much more formal in the last decade, and it continues to grow every year. I would say 10 years ago we started to define things and in the last five years we've made massive leaps forward. It's still evolving, but we are coalescing around a lot of common definitions and the market continues to grow.

**GUY:** And as Bill said, there have been bonds that could qualify for these criteria for a long, long time, particularly in the municipal bond world.

There have been pollution control facilities, public works projects — all kinds of projects that have been financed in the markets that were always a public good, but never got defined as impact or green, per se, that now would qualify.

**GEORGE:** How big is the market now? And how fast is it growing?

**GUY:** It's safe to estimate that the new issue volume and size of the market could easily double every year for the next 5 to 10 years. The demand is there, it was almost nothing 5 years ago, and now it's estimated to be $350B. So, the market is growing very fast.

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**GEORGE:** How have you seen Green Bonds perform relative to the standard bonds in the same category? And the same thing on both performance and risk.

**GUY:** Well, again, the benchmarks are evolving. There are a couple of benchmarks that are probably reasonable proxies. There is the Bloomberg Barclays Global Bond Index and then there's a Bloomberg Barclays MSCI Global Green Bond Index (the "Green Index"). It is important to note, a lot of these are international. So, to look at it just versus, the Bloomberg Barclays U.S. Aggregate Bond Index, you're going to get distorted performance.

Green Bonds have slightly outperformed, by about 12 basis points a year annualized over the last five years. We've seen lower standard deviation, similar return and a better risk-return profile in the Green Indices over the last five years. [1]

If you look at 2019, which was a very strong year for fixed income, the Green Index outperformed the Bloomberg Barclays Global-Aggregate Index by 215 basis points. And year to date, which has been extremely volatile, it's outperforming by 156 basis points. So, overall, as a proxy green bonds have typically outperformed their non-green counterparts.

**GEORGE:** What distinctions do you see between municipal bonds and high-yield taxable and tax-exempt? And in the green space, have you identified any unique or extraordinary opportunities?

**BILL:** I would say that there are green bonds within municipals, both taxable and tax-exempt, and corporates, which are generally going to be taxable. There really isn't — beyond the use of proceeds, a huge distinction. Green bonds are not given any passes in the credit qualifications. They are evaluated from a credit perspective the same way any bond would be in terms of the issuer's ability to pay back the bond.

**GUY:** I think there's some distinctions between the corporate market and the muni market. Buying bonds, we're effectively creditors. So, the credit work needs to follow the same underwriting integrity of risk and probability of payback and return that's commensurate with analyzing green or not green; that's just a factor.

The bond market is accessed by large borrowers, large companies or large municipal borrowers. So, they may not be as an entity uniquely qualified as a "green-compliant" or their score might not be a "10." It might be a "7" or an "8" or a "6." But if the use of proceeds of the specific issue are valid, then that's something I think that we could support.

What we do uniquely here at Shelton is we dig through both the corporate and the muni world and try and identify criteria that aligns with a public good. Then we'll look beyond maybe the name on it. For example, toll roads and managed lanes. There are all kinds of reasons why we think those qualify, although it's still use of a car, it reduces commute time which has social benefit and less air pollution if the car is moving. I think our value-add is being thoughtful and creative and not formulaic when it comes to identifying the opportunities.

**GEORGE:** In the Green Bond space, what resources are there for advisors to evaluate investments and how can they use those tools to help their clients?

**BILL:** I'd ask them to call us, we've been managing Green Bonds for years and we're happy to share our experience with advisors. I have told advisors who are interested in bringing themselves up to speed to look at the International Capital Markets Association, which has published a set of criteria for green, social, and sustainable bonds (https://www.icmagroup.org/green-social-and-sustainability-bonds), and the Climate Bonds Initiative (https://www.climatebonds.net).

**GUY:** Another great source of information would be their own clients, asking clients what their views are because I've found that there's a variety of different views.

One thing that's particularly important for advisors to understand — is the wealth transfer effect over the next 10, 15, 20 years which will be going to a generation that has greater interest in sustainable and impact investing. But even before that, just look at demographics, more women are going to be in control of larger pools of assets. The statistics show that women tend to have more socially responsible points of view when it comes to investing, and certainly their children do.

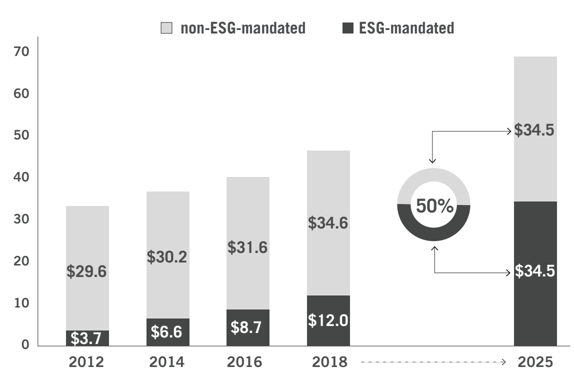
Advisors ought to be, at a minimum, conversant in what these topics are and how to access them, because clients are going to ask. It's a matter of time before clients are asking.

Green Bonds are here to stay as a decision criteria. It's wise for advisors to have the ESG conversation in their arsenal, at a minimum. And they really should have investment solutions available.

I also like to mention the SRI Conference which is held annually (November 9-11 this year in Orlando, FL). We've been an advocate and supporter of that conference for years. Fortunately, I was able to attend last year and it's a fabulous event. Orlando will be a tremendous attraction for people from all around the country.

To learn more about the conference:
**https://www.sriconference.com/**

**PROFESSIONALLY MANAGED ASSESTS IN THE UNITED STATES (US$ TRILLION)**




SOURCE – US SIF Foundation and Deloitte Center for Financial Services Analysis

[1] Comparing the Bloomberg Barclays MSCI Global Green Bond Index to the Bloomberg Barclays Global-Aggegrate Index over the previous 5 years ending March 31, 2020