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# Social bond market responds to the coronavirus crisis

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The coronavirus outbreak is a social issue that threatens the well-being of the world's population. With the ICMA Social Bond Principles published in 2017, the past few years have seen the bond market develop products that address social issues, with \$59 billion issued to date<sup>1</sup>. It therefore stands ready to support the financing of projects aimed at addressing the Covid-19 threat.

We have already started to see a trend from the supranational community, with more than \$7 billion of debt<sup>2</sup> issued in the past three weeks in the guise of the IFC Social Bond, IADB Sustainability Bond, African Development Bank Social Bond and the Nordic Investment Bank Response Bond. In aggregate, these will support products and services contributing to health conditions and maintaining living standards for communities impacted by Covid-19, and we are particularly pleased to have supported them in the Threadneedle (Lux) European Social Bond Fund:

- **IFC Social Bond** The World Bank Group, of which IFC is a constituent, will help developing countries strengthen health systems, including better access to health services to safeguard people from the epidemic, strengthen disease surveillance, bolster public health interventions, and work with the private sector to reduce the impact on economies.
- **IADB Sustainability Bond** The IADB is offering up to \$2 billion in resources that can be programmed to countries requesting support for disease monitoring, testing and public health services, as part of its coordinated efforts to fight the Covid-19 outbreak.
- **African Development Bank** The proceeds of these bonds will be allocated in line with the ADB's social bond program to provide support and financing to countries and businesses fighting against Covid-19.

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<sup>1</sup> Data from Bloomberg, March 2020

<sup>2</sup> Data from Bloomberg, March 2020

- **Nordic Investment Bank** Loans financed by NIB Response Bonds will support the provision of products and services contributing to health conditions and maintaining living standard for groups challenged by the Covid-19. More specifically, loans will target the financing of small and medium-sized enterprises which have been impacted by the virus, and large companies in the medical equipment and healthcare sector facing an increasing demand for equipment or services related to the pandemic.

The issues these specific-use-of-proceeds bonds will tackle fall within the ICMA Green and Social Bond Principles and target healthcare, access to finance for small businesses, employment and longer-term green infrastructure projects among others.

The current crisis also provides an impetus to widen the scope from green to social and sustainability bonds. For example, IFC has been issuing social bonds since 2017, raising \$1.46 billion across 28 bonds as at 31 December 2019<sup>3</sup>. Their latest social bond this month is a \$1 billion issue<sup>4</sup>, thus almost doubling its social bond book overnight.

The global coronavirus pandemic continues to make these unique times in which to operate, but we are doing so as normally as possible. Beta has been falling, but with spreads much wider we are minded to add to it. Asset allocation favours credit at these levels. Our main focus, however, has been on liquidity management and cash is now up over 5.5%.

Yield on the European Social Bond Fund is less than the benchmark<sup>5</sup>, we are overweight utilities, agencies and supnationals, and we are slightly overweight duration – but have a curve position that would benefit from a flattening of yield curves value.

Turning to the market, it is illiquid and difficult but we have managed to add to positions and found the following firms attractive:

- **Carrefour** This French supermarket has established market-leading coronavirus measures such as priority checkouts, special timeslots for healthcare workers and vulnerable groups, a new telephone ordering service with free home delivery, and an online express delivery service.
- **DLR Green Bond** This is the first data centre real estate investment trust (REIT) to issue a green bond. We like it because it is enabling essential communication and economic activity (especially relevant during a lockdown) in a more environmentally friendly way.
- **TenneT Green Bond** TenneT provide transmission and distribution infrastructure which is an essential component of moving to a low carbon economy

Our focus at this stage is on new issues as they tend to come at wider levels than secondary issues. Not only does this present an opportunity, but buying secondary runs the risk of a new issue coming and marking secondary markets wider.

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<sup>3</sup> IFC, Social Bond fact sheet, November 2019

<sup>4</sup> Global Capital, IFC brushes off vol with impressive social bond, 11 March 2020

<sup>5</sup> ICE BofA Euro Non-Sovereign ICE / BofA Euro Corporate Euroland Issuers



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