

Seven years of engagement through social bond investing

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Through our constant engagement we are influencing the development of the market and having a wide-ranging social impact

In January 2014, we launched the UK's first fixed income strategy to offer ordinary people, as well as institutional investors, the opportunity to invest for social as well as financial return. While that concept is far from unusual today, seven years ago it was trailblazing.

The social bond market has grown substantially over the past few years, especially since 2019 when supranationals and public authorities raised debt to address the socio-economic damage done by the Covid-19 pandemic. Issuance totalled \$135.2 billion for 2020 – an eightfold increase on 2019, according to the International Capital Market Association (ICMA). Year-to-date issuance to September 2021 is \$195 billion, once again surpassing the previous year.

During the past seven-and-a-half years we have played a part in the social bond market's development, both in the UK and Europe, where we launched a fund in 2017. We have worked with others to help grow the market, lobbied for green gilts and continually talked with organisations looking to issue social bonds about how to maximise their intensity. As such, it has been our goal not just to have an impact through the funds' investments, but also to influence the wider market.

When it comes to impact investing, fixed income as an asset class has three clear advantages: scale, scope and targeting. Through engagement, we have worked to maximise all of those advantages. We have sought to increase the size of the market, to encourage a broad range of organisations from charities to large companies to issue social bonds, and to help improve the targeting of social problems through "ring-fenced" or "specific use of proceeds" issues.

Enhancing the market

A topical example of how we have sought to influence the market's development is the UK's green gilt, which was successfully launched earlier this year. In May 2019, immediately after the UK parliament passed a motion to declare a climate emergency, we wrote to the Debt Management Office and Ministers of Parliament and initiated the campaign for the issuance of green gilts. Through subsequent meetings and the formation of working parties, including the formation of the Impact Investing Institute (which we were a funding and founding member), the engagement culminated in Chancellor Rishi Sunak's announcement in November 2020 that he would issue these gilts.

While other governments have already issued green bonds, the UK's is the first to also target social benefits. In addition to supporting a green economic recovery, the gilts aim to create "green collar" jobs. Since the announcement, an overseas government has asked for our advice about its own plans for a similar green government bond with social benefits.

Beyond this, Columbia Threadneedle Investments was part of the working party that developed the ICMA's Social Bond Principles, which were published in 2017. By setting out the parameters required for social bonds, along with guidance for the reporting on use of proceeds, these principles effectively standardised the market. Just as was the case with the earlier ICMA Green Bond Principles, published in 2014, these new principles paved the way for the explosion in issuance that followed, encouraging issuers and investors alike.

Engaging with issuers

Turning to individual bonds, we are continually talking informally to issuers about the benefits of issuing social bonds and the best way to maximise the social outcomes or impacts. In 2019, for instance, RBS issued its inaugural social bond, a €750 million issue raising funds for lending to small and medium-sized enterprises (SMEs) in deprived areas of the UK. Ahead of the issue, we explained how targeting more socio-economically deprived areas would maximise its social impact. The proceeds ended up financing several thousand SMEs in deprived postcodes of the UK, particularly the north of England and creating more than 6,000 jobs in sectors such as social and healthcare.

Another great example is Triodos Bank. Triodos is a small lender based in the Netherlands – the world leader in sustainable banking. We had a meeting with the company in November 2019 when it was considering a sterling private placement. The meeting deepened our understanding of the business and our relationship with the company. In October 2021, when Triodos was ready to issue a larger deal for institutional investors, we had another meeting with management before making an investment across our funds. We will continue to engage with the issuer with a follow-up meeting in Q4 2021.

Looking forward

When we launched the first social bond strategy seven years ago, we did so partly because we wanted to influence the direction of the market. We wanted to influence the type of bonds issued and the approach of companies towards issuing them. We can safely say we have done that through our work on industry associations and direct discussions with issuers.

Looking forward, there is still a lot of scope to engage with both the wider market and individual issuers. At ICMA, for instance, we are in groups working on gender bonds and a "just transition" to a zero-carbon economy, designed to guard against the transition being on the backs of the poorest in society. Through engagement and influence, the impact of our activities goes beyond the specific investments made by our funds. We are encouraging the growth of the market as a whole, as well as the social intensity of the bonds within it.



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