

# POI ESG CLUB

***Research claims that climate change, biodiversity loss and other environmental risks are not being priced into bond yields. This month's ESG Club looks at what this could mean for investors.***

# JUL-AUG 2024

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## NATIONAL WEALTH FUND AIMS TO BRING UK CLOSER TO NET ZERO

The fund has been launched to mobilise private investment.

The UK's new government has been busy setting out its plans to boost the economy, which includes a key initiative to improve our chances of achieving net zero.

The National Wealth Fund, which aims to invest in industries focused on decarbonising the economy, was launched in July by chancellor Rachel Reeves and business secretary Jonathan Reynolds.

Under the government's plans, the fund will bring together key institutions and institutional investors with the aim of mobilising billions of pounds in investment.

Reeves and Reynolds' approach is to align the UK Infrastructure Bank (UKIB), created by Rishi Sunak when he was chancellor in 2021 to help reach the government's 2050 net-zero target, and the British Business Bank which opened a year later as the nation's economic development bank.

The UKIB will allocate £7.3bn of additional funding, so investments can start immediately, focusing on priority sectors such as net zero and with the aim of catalysing private investment at a potentially greater scale.

This funding is in addition to existing UKIB funding.

### Pools of capital

As part of this initiative, reforms will be made to the British Business Bank, which is overseen by the department for business and trade, to ensure it can mobilise pools of institutional capital by harnessing its pipeline of investments as the UK's largest venture capital investor.

Further details will be set out ahead of the government's international investment summit, which will be held later in the year. In the meantime, Reeves hopes institutions will get on with delivering financing for businesses and infrastructure across the country. Although how and where exactly is less clear.

In a big photo opportunity in July, Reeves and Ed Miliband, the secretary of state for the department for energy security and net zero, convened a meeting of the National Wealth Fund Taskforce at Number 11 Downing Street to start the work.

Chaired by the Green Finance Institute, the taskforce includes former Bank of England governor Mark Carney, Barclays chief executive CS Venkatakrishnan, Aviva CEO Dame Amanda Blanc, and leaders of other large institutional investors.

### Building green

One of those investors was David Vickers, the chief investment officer at Brunel Pension Partnership, who said: "Building a green economy requires a step-change in co-ordination

between the government and investors, so that the policy and regulatory environment is truly enabling for long-term investors. The National Wealth Fund comes at a crucial moment in the political cycle to help set that course."

Also present was António Simões, chief executive of Legal & General, who said: "We welcome the ambition of the government to encourage further institutional investment into UK assets, and mobilise more private capital towards the energy transition, and look forward to engaging with the next steps set out in the report."

Another attendee was Paul Thwaite, chief executive of NatWest Group. "This is a major challenge and collaboration across not just the financing but also policy space is critical to deliver it in a way that supports economic growth across the UK," he said.

And Shaun Kingsbury, co-chief investment officer of Just Climate, said: "As private investors we welcome this announcement by the chancellor and look forward to supporting this initiative to encourage public and private capital to work together."

The government will bring forward new legislation when parliamentary time allows to cement the National Wealth Fund in statute, making it a permanent institution at the heart of the country's long-term growth plans.

Dr Rhian-Mari Thomas, chair of the Taskforce and CEO of the Green Finance Institute, added that the taskforce recommendations set out how a combination of "catalytic capital, deployed in partnership with a government delivering policy certainty, can make the UK the destination of choice for global investment".

And she added: "The National Wealth Fund will reshape the way we approach public, private risk-sharing, providing private investors with the confidence needed to fund the technologies and infrastructure needed to drive growth and create new jobs across the UK."

And Amanda Blanc, Aviva's group chief executive, said: "At Aviva we are backing the UK and stand ready to invest even more to help boost growth, create jobs and deliver net zero. We need closer working between government and business to make that happen."

Not present at the event was Nigel Peaple, director of policy and advocacy at the Pensions and Lifetime Savings Association (PLSA). Nevertheless, he made some observations: "In examining the role pensions might play in providing additional investment in UK growth assets, the PLSA recommended last year that the government take steps, alongside the British Business Bank, to improve the pipeline of investible assets available to pension funds." What happens next will be interesting.

As UKIB and the British Business Bank were welcomed when they were launched, and did see some activity, but have failed to live up to their billing.

## ESG INTERVIEW – JONNY PAGE

# “We are a mission-aligned investor.”

The head of social and impact investment at the Esmée Fairbairn Foundation talks to *Andrew Holt* about fulfilling a mission, focusing on community and being idealistic.

## What is the Esmée Fairbairn Foundation’s approach to impact investing?

We start from a base of how we can use our investment for our mission. We are a mission-aligned investor. We focus on three impact areas: our natural world; a fairer future; and creative, confident communities.

The way we think about how our capital is used is increasingly referred to as the “spectrum of capital”. This frames how we can shape investment to deliver on different mandates and each one is a tool in our toolkit to support our strategy.

We have our grant funding on one side, and then as we work across the spectrum, we have our social investment allocation, which is our impact-first investing, where we start with what impact is needed to progress our three aims.

Next, we have impact investing. We think thematically here. We are taking the mission-aligned impact-first investment strategies and deep diving into themes that can generate a compelling return, driven by impact. There are so many

exciting themes here, from food systems, to circularity, to nature finance. We are using impact investing to test the potential to achieve market-like returns.

Then we move across to our enhanced sustainability allocation. That is what are, for us, the best-in-class sustainability funds, stemming from our investment policy statement.

## Is sticking to those three impact aims restrictive or does it give you a point of focus?

As we go across the spectrum of capital, we think about what is complementary or aligned to our impact aims so that our capital works in the same direction, but the outcomes will be less specific to our detailed impact priorities than our grant funding and impact-first investing. So, our impact themes naturally broaden, but remain aligned. Also, we can expand our pipeline beyond the UK as we move across the spectrum.

In fact, I would argue that the in-depth expertise in the impact areas gives us an

edge for traditional portfolio building, understanding opportunities and risk as we transition to sustainability.

When we think about our impact-first investing, it is closely aligned with the foundation’s impact roadmap, working in tandem with our grant funding. For example, within our natural world impact area we have nature-friendly farming as a goal. Through our impact-first investment allocation we have invested in Oooby, a technology that connects local farms and food hubs directly to homes.

Then, through our impact investing, we build out, deep diving into compelling investing opportunities that create an ethical and sustainable food system, from sustainable farming practices to novel food production technologies.

## How much of your assets are allocated to social and impact investments?

Our impact-first social investment allocation is £60m, and our impact investment allocation is an experimental £10m. The enhanced sustainability allocation is



targeting 5% of the main portfolio, and the recently re-written investment policy statement has a dual mandate for our target return and a transition to sustainability.

**Are you looking to increase those impact and social allocations?**

It's worth being clear that just because we have an impact carve out, it doesn't mean the rest of the endowment is not doing impactful work. We are in some exciting impact funds. We have just increased our impact-first allocation and the impact investment allocation is still deploying and driving our new thematic strategy. So, watch this space.

**You have touched on the importance of social and impact investment, but could you expand on its importance to the organisation?**

There are three elements for us. The first, as I have mentioned, is that they are tools in our toolkit to deliver our strategy. The second, is a more holistic view: what

total impact are we having as a foundation? So, thinking about the impact of the whole of our portfolio as well as our grant funding.

Third, is more outward looking. This is thinking about the financial system and our role in that system as an asset owner. Innovating to solve huge planetary and social issues, internalising externalities and creating a more sustainable and equal financial system – investment has a huge role to play.

At Esmée we want to share what we are doing. We may be small, but we can be the first mover in something to test it out, with the ambition that others will follow.

**How does impact-first and impact investing fit into Esmée Fairbairn's overall ESG approach, as it seems closely knit?**

We don't use the phrase "ESG" too much. Albeit we do have an ESG framework that we work closely with our advisers on. Social and impact investing allows us to do some of the innovative work that then passes up the spectrum of capital.

**It seems that traditionally social and impact investing has been low down the priority list for institutional investors. Has that been the case and what do you attribute this to?**

Traditionally that is right. Impact investing is perceived to be concessionary. It is critical that we understand the distinction between an impact-first strategy that does not target competitive financial returns, and impact investing where impact can be a driver for performance.

Addressing the first, labelling impact-first social investing as "concessionary" is a major under-sell. It can be concessionary on a financial risk/return basis, but looking holistically across impact, financial return and risk, it is not concessionary at all. It is about what you are optimising for, and what it can catalyse. It sounds pedantic, but language matters here.

Impact investing has at times been wrongly lumped in with impact-first strategies. It is a misunderstanding that many managers labelling their fund as 'impact' are likely to be able to share plenty of stories on. Many impact strategies are set to, in my view, outperform the market. There is a growing evidence base for this.

**Do investors sometimes fail to take a long-term view on social and impact investing?**

That is where the type of investor matters. Different investors have different mandates.

It is not only long-term investors like ourselves that have to think about the climate risks that will materially impact portfolios. And investors across all mandates have the ability to unlock significant [shareholder and wider stakeholder] value now with an impact-orientated approach.

**You have alluded to it, but it seems that social and impact investing is becoming more important to institutional investors: why is that and what's driving it?**

Like anything in the investment sector it needs a track record. That is developing now. There are earlier movers now build-

ing up 10-plus years of strong experience, which is starting to turn the heads of larger chunks of capital, with something they can back.

Add that to the severity and immediacy of problems around us that capital has a role in. It is hard not to have a conversation about the fact that climate issues are here and now, and inequality is going in the wrong direction. Capital has a critical role.

As one example, Esmée co-funded a piece of work with the Green Finance Institute, the Bank of England, Defra and others to quantify the potential loss to the UK economy from nature degradation. That drives not only risk management, but also presents the question of what opportunities there are to invest in nature restoration.

**In which areas of social and impact investment would you like to see more institutional investment going into and why?**

There are so many. Investors can be intentional and measure their impact across every asset class. It is a framework to invest rather than a separate asset class. That said, we have a strong focus on ethical and sustainable food in the UK. It is an important example as the food system contributes 25% of global greenhouse gas emissions, 70% of freshwater use and 50% of habitable land use.

Globally, farming is the largest contributor to biodiversity loss. So, this one system is huge in terms of the impact that can be had and there is a significant journey to go on. That journey presents huge investment and impact opportunities.

**Where are the gaping holes when it comes to the UK's social and impact investment? How can these be filled?**

One that immediately comes to mind are community-led approaches. We see incredible community leadership in our grant funding. But then, there is how that lifts into scaled real estate strategies. The underlying asset may well be the same, but the approach differs.

If you take a community-led approach for place-based investing, you are not only assessing the economics of the asset, but you are looking at say rent affordability, what assets the local communities want and need in that area, and how this contributes to wider community-led regeneration in that place.

A second that comes to mind is that we are seeing a lot of natural capital strategies, which is brilliant. Fund managers are jumping on this. But there is further to go in mitigating for impact risks here: from biodiversity to community wealth building, to the role of voluntary carbon markets and offsets. Addressing impact risks can unlock the opportunities and pull in more capital.

**Sometimes though there seems to be a lack of trust between those involved in community initiatives and the investors wanting to supply the capital.**

For me, the key is investing the time to build up partnerships to collaborate in places, to build trust so that the capital works to enable community-led change, rather than working against it, and share in the upside, rather than extract it.

**Will the change in government be beneficial to social and impact investment?**

While we work closely with public bodies

we don't do a great deal directly with central government. Although, that said, I would love to have a government where we are working more closely going forward, aligned to the work from the BVCA, UKSIF, Green Finance Institute, Impact Investing Institute, Access Foundation and others.

**You are also a trustee/adviser of some organisations. How does that feed into your work at Esmée Fairbairn?**

In a positive way, I hope. There is the advisory role on impact venture capital and private equity with the BVCA, and roles to practice what we preach around collaboration, such as my co-chair role in the Social Impact Investors Group, which is run by the Association of Charitable Foundations. I also help a social enterprise and ventures' work on their investment and financial strategies.

**What are your social and impact investment ambitions at Esmée Fairbairn?**

As a foundation we are on the right course: building on our track record in social investment to unlock a holistic thematic-led investment strategy; thinking about how we allocate by asset class and theme/impact class.

And there is the broader ecosystem work. This is how we work together with peers to create an impact-driven financial sector of the future. One that understands and measures its impact and actively works capital for people and planet.

**What has been the biggest lesson of your career?**

My whole career has been in finance. It's important, as it is humbling, for me to understand that the financial system is a means, not an end, to what we want to create. It is not about that great venture deal that returned X, it is about the impact that the venture had on its customers and wider stakeholders.

Investment facilitates, but it's not the end goal.

**We are using impact investing to test the potential to achieve market-like returns.**





**Joe Dabrowski** is deputy director of policy at the Pensions and Lifetime Savings Association (PLSA).

## THE LGPS GATHERS FOR PLSA'S ANNUAL LOCAL AUTHORITY SUMMIT

As the UK's political parties began sharing their manifestos ahead of the general election, representatives of the Local Government Pension Scheme (LGPS) arrived at the Pensions and Lifetime Savings Association's (PLSA) annual local authority conference to reflect on where we are and what the future holds for the scheme. The conference was a crucial moment for the industry to review the LGPS' journey and discuss pressing issues.

The event began with a discussion on the England & Wales Scheme Advisory Board's annual report, exploring the future for schemes in England, Wales, Scotland and Northern Ireland. Key topics included productive finance, pooling and consolidation, with a particular focus on asset pooling guidance – a hot topic at the Department for Levelling Up, Housing and Communities.

The PLSA has been proactive in arguing for the right policy framework to support the orderly transition of fund assets into the eight designated pools. The PLSA and its membership are now examining the relationships between funds and pools and plan, in due course, to publish a paper on this topic.

Recruitment and retention within the pension sector remain a significant challenge, worsened by the pandemic and the shift to remote working, which allows funds to recruit nationwide.

A dedicated session on talent management addressed practical solutions to these challenges, highlighting the importance of attracting and retaining skilled professionals within the LGPS.

Another popular session was the PLSA's retirement living standards. The latest update revealed increases in the amounts needed to fund minimum, moderate or comfortable retirement lifestyles, reflecting changing expectations and the rising cost of living.

For many LGPS members in modestly paid jobs, understanding their potential retirement lifestyle and associated costs is crucial. The working group's proposal, developed through a series of roundtables, aims to enhance member communication and ensure a clearer understanding of retirement planning.

LGPS employers also play a pivotal role, with more than 15,000 active employers in England and Wales, 500 in Scotland and 170 in Northern Ireland. The pressures of the cost-of-living crisis, local authority funding challenges and questions regarding funding surpluses have reshaped the landscape. The conference addressed these issues, exploring strategies to balance the long-term health of the scheme with employer needs.

Looking to the future, the PLSA is working on its vision for the pensions system during the next decade, with the LGPS a significant part of that. The LGPS – the largest funded defined benefit (DB) pension scheme in the UK – faces ongoing and potential future regulatory and policy initiatives. A climate of rapid change and reform has characterised the LGPS during the past decade and is expected to continue.

Discussions covered the shape and size of the pensions sector, future consolidation and the impact of social care, the tax system, demographics and artificial intelligence on pensions.

The panel on LGPS in 2035 delved into securing the best future for the LGPS over the long term.

The PLSA's latest survey revealed key regulatory initiatives expected to impact the LGPS during the next decade, including government demands to invest more in the UK (38%), pensions dashboards (38%), the green transition (35%) and LGPS consolidation (29%).

Additionally, two-thirds of those surveyed (67%) believe LGPS funds should become separate legal entities from the authority, and six in 10 respondents (62%) think there should be one regulator for all DB and DC private pensions as well as funded and unfunded public sector pensions. Views on consolidation within LGPS were mixed, with 43% supporting it and 32% opposing it. The main benefits of consolidation are seen to be lower costs (60%), better administration (47%) and improved investments (42%).

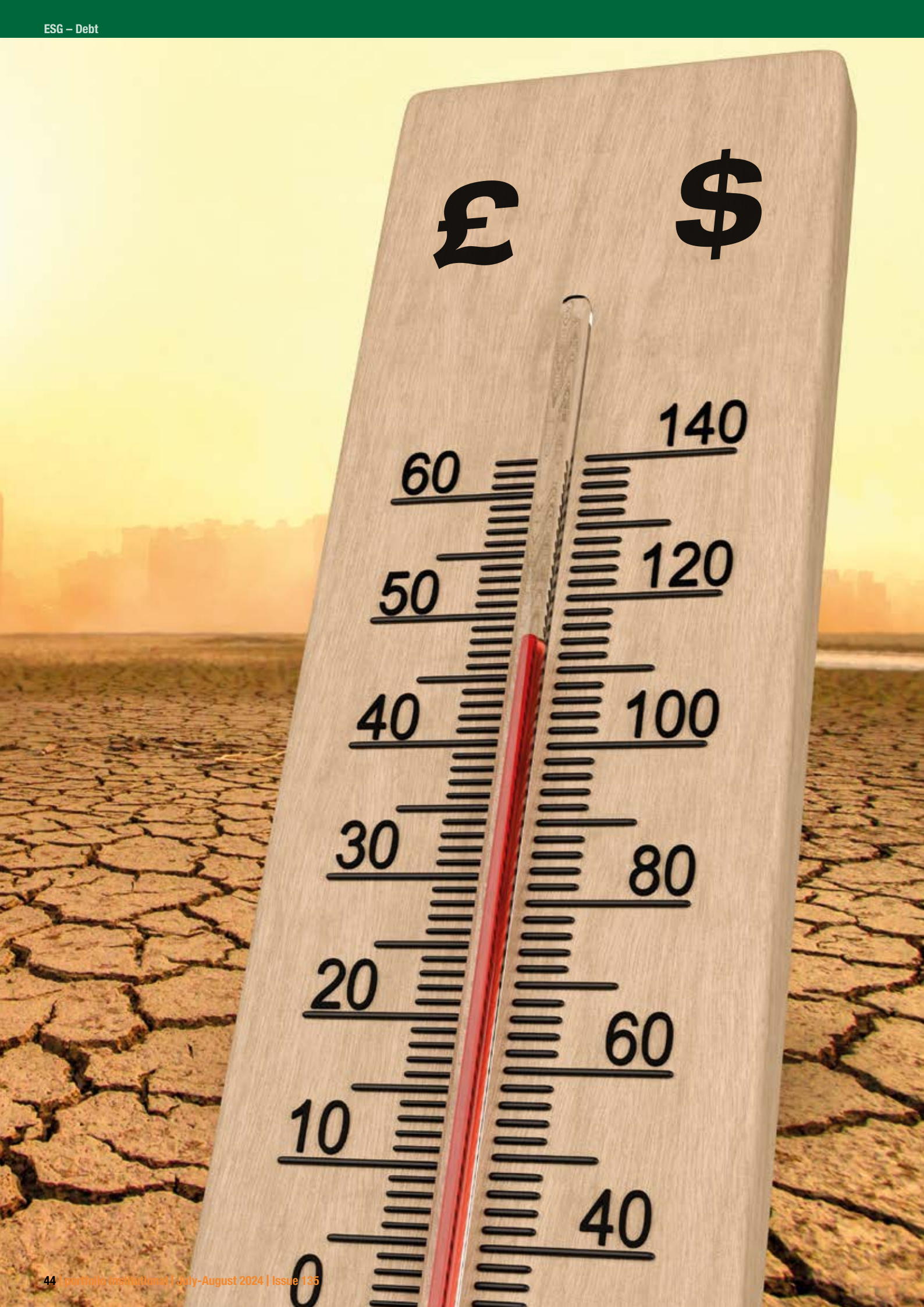
The PLSA's local authority conference provided a platform for robust discussions on the future of the scheme, addressing immediate challenges and long-term goals.

The participation and engagement of attendees, alongside the support of speakers and sponsors, underscored the collective commitment to the success and sustainability of the LGPS.

The event not only reflected on past achievements but also paved the way for a promising future in local government pensions.

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# SUSTAINABILITY AND DEBT: GET READY FOR A RE-RATING

When it comes to bonds, the higher the risk the more a borrower pays. So has the market overlooked something? *Mark Dunne* takes a look.

Cargill serves the world breakfast, lunch and dinner.

The food giant puts eggs in McDonald's' muffins while its meats, oils, sweeteners and salts are used in kitchens across 125 countries.

These products helped Cargill to collect \$177bn (£136bn) in revenue last year. This was 7% more than in the previous 12 months and highlights its growing influence over what we eat. However, the company faces some tough headwinds, which could mean handing over more of those revenues to fund its vast operations through debt.

The issue is that Cargill, along with many others operating in the agriculture sector, carries huge environmental risks. And how sustainable a company's practices are could impact how much it pays to be funded by debt.

The theory is that the better aligned to global temperature targets a business is the tighter its cost of capital will be. Yet it appears that some of these risks are not priced in.

Research into the impact of climate and other environmental risks on bond ratings and, ultimately, on pricing has been conducted by several organisations, including the European Central Bank, the International Monetary Fund and the Principles of Responsible Investment.

Also examining the link between sustainability and funding spreads is the Anthropocene Fixed Income Institute.

"Our core research thesis is that climate risk, and now by extension nature loss risk, is not priced into fixed income spreads," says Josephine Richardson, the think tank's head of research.

Cargill is an example of a corporate which could be vulnerable to a re-rating over its environmental practices. Two of the ingredients it cultivates are soy and palm oil – major culprits in the destruction of the rainforest and, therefore, biodiversity loss.

There is growing political pressure on companies to stop harming our climate and the natural world in the pursuit of profit. If, for example, such political will leads to the introduction of legislation designed to halt such practices, it could trigger mispricings in the credit markets.

One such event is the European Union's new deforestation laws. The EU Regulation on Deforestation-free products (EUDR) comes into force at the end of December, by when companies trading certain products within the bloc need to prove that their supply chains do not cause deforestation.

Although Cargill has set a target to remove all deforestation from its supply chains by 2030 the company could be vulnerable to a re-pricing in the debt markets. Indeed, the EU's deforestation law appears to be a "significant" credit-relevant event, Richardson says.

Research published by the think tank believes the market is concerned that Cargill, which carries more than \$50bn (£38bn) of debt, may not hit its deforestation target.

"Given limited underperformance in Cargill bond spreads since the regulation was announced, these supply chain-driven risks do not appear to be fully reflected in market pricing. For holders of Cargill's bonds, this may present pricing risks as well as an opportunity for engagement," Anthropocene's research read.

The costs associated with that legislation could be relevant for a stock's rating but are not priced into the fixed income market. "[EU deforestation] regulation is being enacted as we speak, so we view that as very much a near-term catalyst for repricing," Richardson says.

The introduction of carbon taxes, for example, could be another price-altering event and should be taken seriously. "I'm not saying that regulation necessarily brings additional costs, but they tend to be a mechanism to incorporate some of the unpriced costs of lots of unsustainable practices," Richardson says.

## Not steep enough

Not all environmental risks manifest themselves in bond spreads in the near term. Some are already present but may not be considered a material risk for decades.

One example is oil and gas, a sector which carries huge transition risk. Anthropocene's research shows that the steepness of



oil and gas bond curves does not change based on production intentions. So expectations that demand for oil and coal will fall in the coming years, as renewable sources of energy become more productive and reliable are not priced in.

“Over five years the transition isn’t going to be a driver of oil and gas credit performance,” Richardson says. “But over 30 years, companies which are actively engaging in exploration have unrealistic demand and price scenarios.

“That is going to be a credit-relevant event in 30 years’ time and so that should have a steeper bond curve, but we don’t see that at all,” she adds.

Anthropocene presents this to investors as evidence that aligning portfolios to net zero is “a sensible investment decision”.

“If more investors align to net zero that would deliver a differentiated cost of capital, which would drive behavioural change. That would be a key lever to some of these actors,” Richardson says.

“If oil and gas companies have to pay more for their long-dated debt, then they probably wouldn’t be drilling for oil as much,” she says, adding: “Pricing is a motivator and an incentive for change.”

### A dirty business

Another issue that could trigger price moves in the debt markets is divestment. Despite engagement being the preferred route for many investors to solve environmental and social problems, some practices are firmly on the exclusion list.

One such product is oil sands, or bitumen, which produces three times more pollution than traditional fossil fuel extraction and processing methods. It also creates toxic waste and poisons our drinking water.

“Now, whatever you think about oil sands, if significant pools of capital have made an algorithmic decision to exclude issuers who meet certain thresholds, there is going to be a clear negative flow on that name, so you can suggest it is going to be negative for the bonds spread,” Richardson says.

### A different approach

It appears that there is a need for greater awareness of what could happen in the fixed income markets if more investors start factoring in the environmental risks corporates are carrying into their decision-making.

Unfortunately, the approach to assessing ESG risk in debt portfolios is not a standard research consideration as it is for some other asset classes.

“The materiality of what credit investors care about is different to what equity investors care about,” Richardson says, pointing out that stewardship and responsible investment is often focused on equities.

Bondholders may not have a say on who sits in a corporate’s boardroom like shareholders do, but they can still catch the

attention of companies that they believe need to change.

The people investors with sustainable strategies are trying to influence are frequently funded by debt. This typically means heavy infrastructure, energy, sovereigns and state-owned entities. So debt is a way to engage with “dirty” companies and industries to help create impactful change.

A big opportunity here is refinancing. Lenders may not get a vote at the AGM, but issuers come back to the market every five years or so to ask for more money. This gives lenders some influence. If companies don’t make progress on any requested changes, they should be considered a higher-risk investment and therefore have to pay more for the debt or not be offered it at all.

But for Anthropocene, this is about targeting those who are not running sustainable mandates. It is about making this approach to risk management a mainstream consideration.

“We can work harder on the financial arguments of why these things aren’t necessarily about promoting sustainability, just about promoting good businesses that are going to be longer and stronger credits over the long term,” Richardson says.

“Our theory of change is around supporting the relationship between cost of capital and sustainability. If better sustainability gets you a better cost of capital, then people will be more sustainable.

“We are not necessarily directly trying to make people be more sustainable,” she adds. “We are trying to support sustainability being correlated with cost of capital, and then that will make people be more sustainable.”

### Trillion-dollar market

It is not just those investing in conventional forms of debt who need to be aware of the environmental risks’ issuers carry.

## The materiality of what credit investors care about is different to what equity investors care about.

Josephine Richardson,  
Anthropocene Fixed Income Institute





## If better sustainability gets you a better cost of capital, then people will be more sustainable.

Josephine Richardson,  
Anthropocene Fixed Income Institute

Investing in a bond that has a sustainable label – those named green, blue, social or sustainable – does not necessarily mean you are not exposed to ESG risks.

And it seems that investors will have plenty to consider from companies wanting to improve their environmental and social performance given that the market for sustainably labelled bonds could breach \$1trn (£770bn) this year for only the second time, S&P Global Ratings believes. This comes after it came within touching distance of the landmark last year at \$980bn (£754bn).

If this prediction of the market this year proves to be accurate, it could mean that bonds designed to make the world greener or to reduce inequality would be 14% of the global debt market.

In another positive development, S&P reports that sustainable debt's growth trajectory will now mirror that of conventional debt after outpacing it for some years.

This is a sign that the sustainable debt market is maturing, believes David Oelker, a director and head of ESG investment in EMEA within global fixed income at BlackRock. "Even now we are hearing in the US that their treasury borrowing committee has discussed potentially issuing green treasury bonds," he says. "That shows you how far into the mainstream this asset class has gone," he says.

### Closing the gap

If the \$1trn worth of sustainable bonds hits the market this year as expected and is used to fund additional green investments, then "that has to be moving things in the right direction", Richardson says. "Unfortunately, it is well researched and reported that the funding gap, especially in emerging markets, is still huge. So it's great, but more is needed," she adds.

Indeed, to achieve net zero, \$7.3trn (£5.6trn) of investment is needed annually by 2050, according to research from law firm A&O Shearman. "The extent of the capital needed is still significant," Richardson says.

Most sustainable-labelled debt focuses on use-of-proceeds, so if you lend them money they could use it to buy a wind farm. "Unfortunately, there is still a challenge around the overall pricing of this debt," Richardson says. "Some people say it has a 'greenium', but does it? I'm not sure.

"And it is hard to justify that those bonds should have a tighter spread, because they are, from a credit point of view, the same. Why would you, if you are an investor, and you believe in the transition of a company which is building a wind farm, accept debt that notionally is used to fund the wind farm, rather than the total debt when you have no superior claim over that asset? So it is quite hard from a pricing point of view," she adds.

But what impact will this year's expected level of sustainable debt issuance have on the transition to a low-carbon economy? Oelker finds it difficult to put a figure on this until the market achieves greater scale. "This is an asset class that is growing through regulatory support and through focused investment from funds," Oelker says.

"We need to have a broadening out of that, to get to a stage where you can put numbers against the impact that you are funding," he adds. "We are still building the infrastructure for that.

"Until you get to that point, it is difficult to put a number on it." This asset class is diverse, which could help it reach the scale needed. It is not only about use-of-proceeds bonds. There are also sustainability-linked bonds, which don't function at project level, but where the issuer sets certain KPIs within these bond frameworks. So, for example, chemical or cement companies will work to reduce their emissions to an agreed level in a bid to secure the capital.

"There are parts of the green bond market that are financing greater renewable energy capacity or grid improvements, and that is fantastic. We want to finance that, though increasingly we are seeing genuine transitioning projects from hard to abate sectors that we are excited about" Oelker says.

"That is important provided that these projects put the issuer onto the right path," he adds. "So the issuer doesn't have to be green, but the projects have to be genuine. They can't have a negative environmental impact."

Looking for the substance behind the label is important to make sure that the risk is suitably priced. "We do not consider every bond self-labelled green to be a green bond," Oelker says. "And we have processes to assess a bond's shade of green."

It is clear that pricing in the debt markets, be it for traditional forms or specialised areas, is not considering all the risks and so investors should expect re-ratings.

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