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Love of Creation: Green Investing

United Church Funds (UCF) has received numerous inquiries from clients and prospects about green bonds as part of our Fixed Income Fund. As people around the world celebrate Earth Day on Sunday, April 22, we thought this is an opportune time to share our thoughts and explain how UCF's investment in green bonds provides a competitive return and helps to develop a sustainable economy.

Below are excerpts from a discussion with Andrew Russell, Director of Fixed-Income Investments of The Pension Boards – United Church of Christ and Kathryn O'Neill McCloskey, Director of Social Responsibility, United Church Funds, as they share their insight on how investors can help protect the earth and achieve a competitive return from green investments.

Investing in green bonds not only provides income and a competitive return but also offers investors an opportunity to support efforts to mitigate climate change.

What are Green Bonds?

Green bonds are fixed income securities that are sold to investors to raise capital to fund projects with positive environmental benefits, such as renewable energy and energy efficiency, sustainable water management, clean transportation and green buildings.

Why should investors care about investing in green bonds?

Andrew Russell (AR): Investing in green bonds not only provides income and a competitive return but also offers investors the opportunity to finance projects that help reduce greenhouse gas emissions and mitigate climate change. Green bonds allow investors to align their investments with sustainability objectives like the 2015 Paris Climate Accord (a global response by 195 countries to keep a rise in global temperature this century to well below 2-degrees Celsius).

Kathryn O'Neill McCloskey (KOM): Green bonds and other environmental investing vehicles encourage companies to embrace their role in being a part of climate solutions. It is also a way for investors to signal how important environmental solutions are to their overall investment strategies.

What role do green bonds play in reducing negative impacts to the environment?

AR: Green investments make funds available to promote and support the transformation to a low-carbon environment and complement divestment from fossil fuels. Solutions that correspond to the long-term vision of a low-carbon and climate-resilient future include affordable, clean and renewable energy, clean water and sanitation, hybrid vehicles and habitat restoration.

KOM: Green investing includes solar, wind, building HVAC improvements and power cell, fuel and emissions-reduction technologies. Responsible investors generally agree that the scale of clean-solution investing needs to reach $1 trillion per year to keep global temperature rise to well-below 2-degrees Celsius.

Why is investing in green bonds an essential strategy for UCF?

Investing in green bonds is an essential continuation of the work that UCF has done; it reflects our sensitivity and commitment to one of the UCC's Three Great Loves – Love of Creation

AR: Investing in green bonds is one of several investment approaches we utilize to align our investments with our values. Our investment in green bonds supports the effort to transition to a low-carbon economy, which is the underlying theme of the United Church of Christ's (UCC) approach to climate change and global warming.

KOM: Investing in green bonds is an essential continuation of the work that UCF has done; it reflects our sensitivity and commitment to one of the UCC's Three Great Loves – Love of Creation, which is so important to faith-based investors. UCF practices screening and the inclusion of investments that support our values, such as green bonds, complements our exclusion of investments that we find are not philosophically acceptable.

What percentage of the Fixed Income Fund is invested in green bonds and will that percentage grow?

AR: Currently, nearly 16% of the Fixed Income Fund is invested in green bonds, and we continue to review opportunities that would increase our holdings. There is no limit to the amount UCF will invest in green bonds as long as each bond offers value and fits well with the fund's investment strategy, guidelines and risk management. The green bond market has been growing steadily, but there remains insufficient issuance to meet rising demand. In 2017, $111 billion of green bonds were issued.

Are metrics available to investors to measure the impact of their investment in green bonds?

AR: The Climate Bonds Standard and the Green Bond Principles guide investors to ensure that green bonds are in fact impactful. (Issuers are encouraged to report back to investors frequently on the promises made at issuance). Sustainalytics, MSCI and other global leaders in environmental, social and governance (ESG) and corporate governance research rate the sustainability of listed companies based on ESG performance. Impact reporting for green bonds, however, is not yet standardized and is still in the early stages of development.

Is there a significant difference between conventional and green bonds?

AR: Green bonds, like conventional bonds, i.e., treasuries and corporates, are backed by the creditworthiness of the issuer. The key difference between the two is that the proceeds from the issuance of green bonds are earmarked for green projects.

Demand for green bonds is strong and growing. Supply, however, has not kept pace with demand. As a result, new issue green bonds are often purchased directly from underwriters by large institutional investors (such as UCF). Lack of active trading in the secondary market results in strong demand for most green bonds but also means fewer green bonds are readily available for purchase.

Is it true that investing in green bonds means low yields and high expenses?

AR: Historically, much of the green bond supply came from multilateral development banks and government agencies that supported the financing of green projects. These included the African Development Bank, European Investment Bank and The World Bank (International Bank for Reconstruction and Development). Since the credit risk of these and similar organizations is relatively low, their green bonds are highly rated by bond rating services such as Moody's and Standard & Poor's. Due to the low credit risk of these particular green bond issuers, their bond yields are not too much higher than those of U.S. Treasury securities

Recently, a broader range of issuers, such as investment banks, utilities, corporations, municipalities and structured products, have become active in the green bonds market. This broader range of issuers has created a wider variety of issuance structures (conventional debentures as well as mortgage and asset-backed securities) and credit risks, credit ratings, maturities and yields. Thus far the difference in yields between green and non-green bonds of the same issuer has been modest.

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