BlueBay
Asset Management

Bringing sustainable thematic investing to fixed income

For professional investors only

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There is a lot more bond markets can do to support sustainable investing than purely targeting ESG labelled bonds. Thematic allocations can help investors capture global sustainability megatrends through investing in conventional bonds.

Sustainable thematic investments are rare in mainstream bond investing. However, the recent surge in demand for environmental, social and governance (ESG) labelled bonds, such as green and sustainability bonds, illustrates that positive impact investing is alive and well in this space.

However, these markets are still in the early stages of their development, with demand outstripping supply. This means yields are low and pricing is not optimal compared to other bond sectors. Furthermore, diversification can be challenging with issuance limited to certain sectors. Ultimately, whilst the ESG labelled issuance market should continue to grow materially, the reality is that the scale and urgency of the global sustainability challenge means we need to expand our focus. Specificially, we believe investors should not limit themselves to bond 'labels' - they can also invest in conventional bonds to expand their universe and support companies making a positive contribution to sustainability themes.

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Investing with positive intent

In private markets, 'impact investing' strategies focus on sustainability themes based on the concept of 'additionality' – the idea that an investment must increase the quantity or quality of an outcome beyond what would have been produced otherwise.

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Because liquid corporate debt investment is primarily conducted in the secondary market, investors' ability to directly influence the allocation of capital is limited.

However, this does not mean bond investors cannot support companies aiming to have a positive impact on the world. We believe there is a legitimate case to be made for evolving the definition of what qualifies as impact investing, and that public markets can deliver impact and a financial return within fixed income beyond primary or private markets.

We have launched the BlueBay Impact-Aligned Bond Fund to help clients invest in companies supporting positive sustainability themes, such as social inclusion and sustainable consumption. Strategies such as this can harness the financial upside from global megatrends, such as renewable energy, the "circular economy" and societal inclusivity.

Portfolio managers Tom Moulds, My-Linh Ngo and Harrison Hill, supported by our highly experienced team of fixed income analysts, identify companies and assets aligned to these themes with the aim of achieving a financial return in tandem with positive non-financial outcomes.

Proactively investing with intentionality like this involves not only identifying the winners from the global environmental and social megatrends, but also avoiding the losers. This means robust and thorough analysis of the first-, second- and third-order effects of these trends to highlight the companies that are likely to face increasing costs of capital over the long term and a lower credit rating.

Responsibible stewardship and reporting on positive contribution

Measuring the positive contribution we are looking to make is a crucial aspect of assessing the success of an impact-aligned strategy. The BlueBay Impact-Aligned Bond Fund will report regularly on how the portfolio and its investments are performing on a range of relevant ESG metrics.

Engagement is also a part of our team's ongoing investment monitoring process. Efforts will range from better understanding the positive impact companies make through their impact reporting, to gaining insights into how they are positioning their businesses to seize market opportunities, as well as ensuring they are taking a responsible approach to management practices. Speaking directly to the companies to which we are lending helps them understand our ESG expectations and allows us to report effectively back to our investors.

The BlueBay Impact-Aligned Bond Strategy is the latest innovation in ESG investing for bond markets. ESG no longer has to be a 'nice to have' exposure as part of a satellite investment – it can make up part of your core portfolio.

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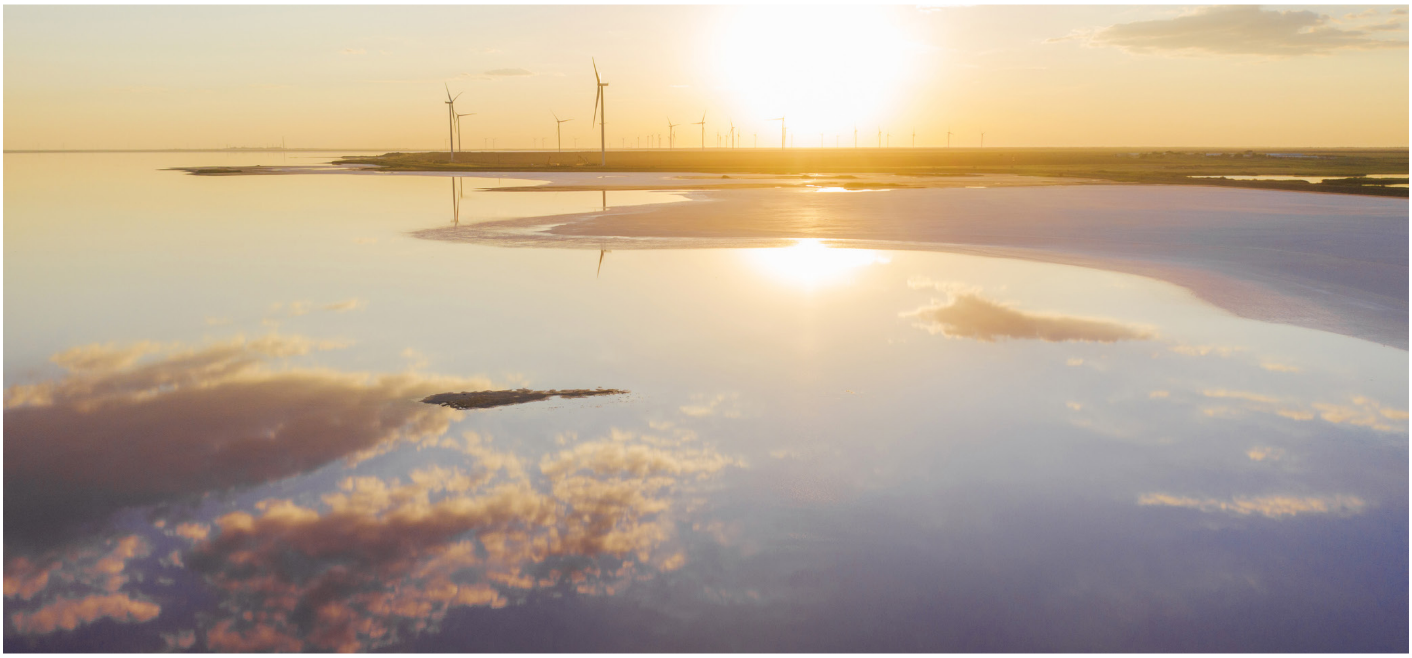

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