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Impact Insight

THEMATIC BONDS: OUTLOOK 2017

Team MainStreet Partners

In 2017, impact investing grew at considerable pace. Following a very positive 2016, the growth trend of the sector is undoubtedly driven by the evolution of the global economy towards a greater focus on environmental and social issues, which is reflected in the investment universe and in the approach of investors worldwide. Investors - both institutional and retail - have shown an increasing attitude towards transparent investment solutions with clearly measurable extra-financial performance and a high degree of sophistication in the reporting stage. As a result, they have adopted sustainable and impact investment strategies whose financial returns can perform in line with traditional investments if not greater on a risk-adjusted basis.

Thematic bonds: a $700 billion market

Thematic bonds, of which Green, Social and Sustainability Bonds under International Capital Market Association ("**ICMA**") guidelines are the most popular and widespread, have been the main protagonists of 2017, with the size of the thematic bond market reaching $700 billion at the end of the year. Investor demand is increasing for this asset class, which combines the traditional characteristics of a corporate or sovereign bond but whose proceeds are ringfenced to finance projects in different sectors such as climate change, health, food, education, access to financial services and social housing, combining both financial returns and positive impacts on the society and on the environment.

Thematic bonds: not only green, but also social and sustainability bonds

The growth of the Green Bond market has been exponential in 2017. According to Climate Bond Initiative figures, global Green Bond issuances increased from $43.2 billion in 2015 to $81.6 billion in 2016, reaching $155,5 billion. By 2018, emissions are expected to reach between $250 and $300 billion. While the most active countries in terms of Green Bond issuances were France, China and Unites States, the main issuers of Green Bonds were mostly corporates (Iberdrola, HSBC, Barclays and Engie, among others), international development banks (such as the European Investment Bank, the World Bank, the European

Bank for Reconstruction and Development, the International Finance Corporation and the African and the Asian Development Banks) and local public authorities.

Poland, France and Fiji entered the market by issuing their first sovereign Green Bonds while United States issued several Green Bonds through local authorities to help cities and local communities to strengthen the fight against climate change and promote the transition towards renewable energy. Among the countries which could issue Green Bonds in the future, it is worth mentioning Belgium, Sweden, Austria and Nigeria. Italian authorities have also begun to evaluate the possibility of issuing a green government bond (BTP): in September 2017, CONSOB (the Italian Commission for Companies and the Stock Exchange) proposed to the Treasury Department the possibility of issuing a green BTP.

In June 2017, however, there has been an important development in relation to Social Bonds: these bonds, issued to carry out social development projects, were regulated by ICMA, which published the 'Social Bond Principles'. Up to now, $5 billion Social Bonds have been issued to finance social development projects which involve mainly basic infrastructure, access to essential services, affordable housing, creation of jobs through financing and micro-financing SMEs, safety, food health and, finally, socio-economic progress and reinforcement.

Among the main players, it is worth mentioning IFFIM (International Finance Facility for Immunization) whose bonds finance the vaccination of children in third world countries, Dutch BNG whose Social Bond financed social housing projects in the Netherlands, and Nacional Financiera whose Social Bond provides financial inclusion to young entrepreneurs and women. Investors' appetite has grown at a constant pace also for Sustainability Bonds which finance both green and social projects. In particular, City of Paris and the Development Bank of Japan were among some of the first issuers of Sustainability Bonds.

In 2017, Social and Sustainability Bond issuances reached $15 billion and there is a strong positive consensus on the growth prospects for both instruments. In particular, international organisations and development banks could use Social and Sustainability Bonds to finance projects in line with the United Nations' Sustainable Development Goals, driving the growth of the whole market and encouraging the issuances of such bonds by corporates. For example, the World Bank recently declared that, from now on, all bonds issued by the bank could be considered 'sustainable' thanks to their strong impact on the environment and on local communities.

The Italian case studies

In 2017, Italy took its first steps in the impact investing market, too. Many relevant players issued Green Bonds which were met with great success and aroused interest, including: Intesa SanPaolo, Enel, Hera, Alperia and Ferrovie dello Stato. Moreover, Italy has been a protagonist in the Social Bond market with the first Social Bond issued by an Italian company, Cassa Depositi e Prestiti, which - through its liquidity platform - finances members of the Italian Banking Association which in turn will finance SMEs operating in depressed and/or earthquake-hit areas. According to these criteria, Italian regions involved because of their GDP per capita are Lazio and some areas of the South of Italy, while the earthquake-stricken regions are Emilia-Romagna, Umbria and Marche.

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