

## RAYMOND JAMES

### ESG Bonds



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What does ESG mean? ESG stands for Environmental, Social, Corporate Governance. The initial endorsement addressed what is commonly referred to as “green” bonds, bonds where funding was supporting some environmental requisite.

pollution control or reducing climate risk all fall under the environmental efforts exhibiting by the issuing corporation or municipality.

Social aspects involve the considerations of human capital and customer relations. Social awareness to demographic and societal trends, employees’ health and safety and the general responsibility of corporate and municipal production.

Corporate Governance is the commitment to financial strategy and risk management. Responsible organizational structure, compliance, reporting, board structure and policies all are included in corporate governance.

What is an ESG bond? Building on the green bond initiative, ESG has developed into a much wider-ranging focus where bonds are not only impacting environmental issues but those related to the sustainability of an organization and how it does business, invests and how their activities impact society. The social awareness campaigns of 2020 have facilitated the growing awareness that bond investors can potentially support the ESG underlying efforts and awareness by issuing corporations and municipalities.

What is the outlook for ESG bonds? This is a youthful bond sector. New issuance has grown significantly in each of the last nine years. ESG new issuance was around \$800 billion in 2020 and is expected to reach \$1 trillion in new issuance this year as companies and municipalities clutch-on to the growing trend.

How does a bond become an ESG bond? This is a relatively new and rapidly growing market segment where the declaration, monitoring and recognition are all evolving. There are numerous worldwide ESG organizations and verifiers who have guidelines and rules that issuers follow to meet minimum standards for a bond to be considered ESG; however, there is no one universally accepted governing body as of yet. The following sections highlight general standards followed by most organizations and verifiers.

What does ESG mean to investors? This is really up to each investor. There seems to be little financial benefit or drawback when comparing ESG bonds to vanilla bonds (those that do not have ESG characteristics) when comparing high quality large issues. Therefore investors can evaluate and judge based on their own personal attitudes and conclusions.

Environmental bond capital efficiently uses natural resources. It may be tied to recycling efforts or endeavors to reduce greenhouse gas emissions. Water management, waste and

Want to know more about ESG? A more thorough comprehensive report from Fixed Income Solutions on ESG is about to be released. Please let your advisor know of your interest so they may share it with you.

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