
Social bond market responds to the coronavirus crisis

Fixed Income | April 2020



Simon Bond
Director of Responsible Investment
Portfolio Management

The coronavirus outbreak is a social issue that threatens the well-being of the world's population. With the ICMA Social Bond Principles published in 2017, the past few years have seen the bond market develop products that address social issues, with \$59 billion issued to date¹. It therefore stands ready to support the financing of projects aimed at addressing the Covid-19 threat.

We have already started to see a trend from the supranational community, with more than \$7 billion of debt² issued in the past three weeks in the guise of the IFC Social Bond, IADB Sustainability Bond, African Development Bank Social Bond and the Nordic Investment Bank Response Bond. In aggregate, these will support products and services contributing to health conditions and maintaining living standards for communities impacted by Covid-19, and we are particularly pleased to have supported them in the Threadneedle (Lux) European Social Bond Fund:

- **IFC Social Bond** The World Bank Group, of which IFC is a constituent, will help developing countries strengthen health systems, including better access to health services to safeguard people from the epidemic, strengthen disease surveillance, bolster public health interventions, and work with the private sector to reduce the impact on economies.
- **IADB Sustainability Bond** The IADB is offering up to \$2 billion in resources that can be programmed to countries requesting support for disease monitoring, testing and public health services, as part of its coordinated efforts to fight the Covid-19 outbreak.
- **African Development Bank** The proceeds of these bonds will be allocated in line with the ADB's social bond program to provide support and financing to countries and businesses fighting against Covid-19.

¹ Data from Bloomberg, March 2020

² Data from Bloomberg, March 2020

- **Nordic Investment Bank** Loans financed by NIB Response Bonds will support the provision of products and services contributing to health conditions and maintaining living standard for groups challenged by the Covid-19. More specifically, loans will target the financing of small and medium-sized enterprises which have been impacted by the virus, and large companies in the medical equipment and healthcare sector facing an increasing demand for equipment or services related to the pandemic.

The issues these specific-use-of-proceeds bonds will tackle fall within the ICMA Green and Social Bond Principles and target healthcare, access to finance for small businesses, employment and longer-term green infrastructure projects among others.

The current crisis also provides an impetus to widen the scope from green to social and sustainability bonds. For example, IFC has been issuing social bonds since 2017, raising \$1.46 billion across 28 bonds as at 31 December 2019³. Their latest social bond this month is a \$1 billion issue⁴, thus almost doubling its social bond book overnight.

The global coronavirus pandemic continues to make these unique times in which to operate, but we are doing so as normally as possible. Beta has been falling, but with spreads much wider we are minded to add to it. Asset allocation favours credit at these levels. Our main focus, however, has been on liquidity management and cash is now up over 5.5%.

Yield on the European Social Bond Fund is less than the benchmark⁵, we are overweight utilities, agencies and supnationals, and we are slightly overweight duration – but have a curve position that would benefit from a flattening of yield curves value.

Turning to the market, it is illiquid and difficult but we have managed to add to positions and found the following firms attractive:

- **Carrefour** This French supermarket has established market-leading coronavirus measures such as priority checkouts, special timeslots for healthcare workers and vulnerable groups, a new telephone ordering service with free home delivery, and an online express delivery service.
- **DLR Green Bond** This is the first data centre real estate investment trust (REIT) to issue a green bond. We like it because it is enabling essential communication and economic activity (especially relevant during a lockdown) in a more environmentally friendly way.
- **TenneT Green Bond** TenneT provide transmission and distribution infrastructure which is an essential component of moving to a low carbon economy

Our focus at this stage is on new issues as they tend to come at wider levels than secondary issues. Not only does this present an opportunity, but buying secondary runs the risk of a new issue coming and marking secondary markets wider.

³ IFC, Social Bond fact sheet, November 2019

⁴ Global Capital, IFC brushes off vol with impressive social bond, 11 March 2020

⁵ ICE BofA Euro Non-Sovereign ICE / BofA Euro Corporate Euroland Issuers



Important information: For internal use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients). Past performance is not a guide to future performance. Your capital is at risk. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Threadneedle (Lux) is an investment company with variable capital (Société d'investissement à capital variable, or "SICAV") formed under the laws of the Grand Duchy of Luxembourg. The SICAV issues, redeems and exchanges shares of different classes. The management company of the SICAV is Threadneedle Management Luxembourg S.A, which is advised by Threadneedle Asset Management Ltd. and/or selected sub advisors. Certain sub-funds of the SICAV are registered in Austria, Belgium, France, Finland, Germany, Ireland, Hong Kong, Italy, Luxembourg, Macau, the Netherlands, Portugal, Singapore, Spain, Sweden, Switzerland and the UK; however, this is subject to applicable jurisdictions and some sub-funds and/or share classes may not be available in all jurisdictions. Shares in the Funds may not be offered to the public in any other country and this document must not be issued, circulated or distributed other than in circumstances which do not constitute an offer to the public and are in accordance with applicable local legislation. Het compartiment is op grond van artikel 1:107 van de Wet op het financieel toezicht opgenomen in het register dat wordt gehouden door de Autoriteit Financiële Markten. / Pursuant to article 1:107 of the Act of Financial Supervision, the subfund is included in the register that is kept by the AFM. This material is for information only and does not constitute an offer or solicitation of an order to buy or sell any securities or other financial instruments, or to provide investment advice or services. Please read the Prospectus before investing. Subscriptions to a Fund may only be made on the basis of the current Prospectus and the Key Investor Information Document, as well as the latest annual or interim reports and the applicable terms & conditions. Please refer to the 'Risk Factors' section of the Prospectus for all risks applicable to investing in any fund and specifically this Fund. Documents other than KIIDs are available in English, French, German, Portuguese, Italian, Spanish and Dutch (no Dutch Prospectus). KIIDs are available in local languages. Documents can be obtained free of charge on request by writing to the management company at 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg, from International Financial Data Services (Luxembourg) S.A. at 47, avenue John F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg, from www.columbiathreadneedle.com and/or from (*) - in Austria from Erste Bank, Graben 21 A-1010 Vienna; - in Belgium: CACEIS Belgium S.A., avenue du Port 86 C b 320, 1000 Brussels - in France from CACEIS Bank, 1/3 Place Valhubert, 75013 Paris; in Germany from JP Morgan AG, Junghofstr. 14, 60311 Frankfurt; - in Sweden from Skandinaviska Enskilda Banken AB (publ), Kungsträdgårdsgatan, SE-10640 Stockholm, Sweden. The mention of any specific shares or bonds should not be taken as a recommendation to deal. The analysis included in this document has been produced by Columbia Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice and should not be seen as investment advice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it. Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Sociétés (Luxembourg), Registered No. B 110242 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.