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Two Options for ESG and Muni Exposure.

2 Bond ETF Options as ESG Growth Proliferates in Munis

Environmental, social, and governance (ESG) continues to grow, and this year, the space is seeing expansion into municipal bonds. Real estate prices have climbed in the last few years, creating the need for affordable housing, which is feeding into ESG and muni growth.

“ESG is poised for another record-breaking year of new issuance in the $4 trillion municipal-bond market as state and local agencies look to Wall Street for help addressing the affordable housing crisis,” a Bloomberg Law article noted.

“Sales of municipal bonds that are branded with a green, social or sustainability label are up 2.6% this year — bucking the roughly 12% decline in the overall market, according to data compiled by Bloomberg. Total ESG muni issuance could surpass last year’s record to reach over $60 billion by the end of 2022, per S&P Global Ratings projections released in February.

One option for ESG muni exposure is the Vanguard ESG U.S. Corporate Bond ETF (VCEB). Additionally, the fund doesn’t command a high premium with its low expense ratio of 0.12%.

VCEB seeks to track the performance of the Bloomberg MSCI US Corporate SRI Select Index, which excludes bonds with maturities of one year or less and with less than $750 million outstanding, and it is screened for certain ESG criteria by the index provider, which is independent of Vanguard.

VCEB highlights:

- Provides debt issues screened for certain ESG criteria.
- Specifically excludes bonds of companies that the index sponsor determines are involved in and/or derive threshold amounts of revenue from certain activities or business segments related to adult entertainment, alcohol, gambling, tobacco, nuclear weapons, controversial weapons, conventional weapons, civilian firearms, nuclear power, genetically modified organisms, or thermal coal, oil, or gas.
- Excludes bonds of companies that, as determined by the index sponsor, do not meet certain standards defined by the index sponsor’s ESG controversies assessment framework, as well as firms that fail to have at least one woman on their boards.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

ETF TRENDS

by BEN HERNANDEZ

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