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Matriculate to MBNE for Muni, ESG Pairing.

As advisors and investors demand more environmental, social and governance (ESG) fixed income strategies, some issuers of exchange traded funds are meeting that demand with municipal bonds proving to be fertile territory for ESG bond ETF innovation.

An example of that trend is the SPDR Nuveen Municipal Bond ESG ETF (MBNE), which debuted in April. The rookie ETF is actively managed and sub-advised by Nuveen – a firm with deep roots in actively managed municipal bond strategies. Nuveen's DNA makes it an ideal partner in the still emerging ESG/municipal bond space.

That's an important consideration because municipal bonds – ESG and otherwise – are offering an attractive credit quality today.

"The fundamentals of the muni market are very strong. Strong economic growth over the past couple of years has produced solid revenue growth. While inflation is undesirable, inflation has translated into even higher nominal growth in tax revenues. Many states and local municipalities have successfully managed expenditure growth and have increased their rainy day funds and reserves," said David Blaire, portfolio manager for Nuveen's municipal fixed income team, in a Q&A with Anqi Dong of State Street Global Advisors (SSGA).

Over 86% of MBNE's 96 holdings are rated AAA, AA, or A. That's a testament to the value of active management when it comes to municipal bonds. Adding to the allure of MBNE in the current environment is the point that municipal debt upgrades are far outpacing downgrades this year.

"Active managers can add value in several ways. The first would be staying ahead of the credit cycle and anticipating difficulties that some credits may experience, resulting in downgrades and a cheapening of their bonds. We believe that credit research is essential as part of the municipal investment process. Nuveen has a large, seasoned credit research and investment team, and we're constantly reviewing what we own to ensure that those credits are positioned well going forward," added Blaire.

Another point in MBNE's favor as an actively managed ETF is a growing concern among asset allocators that bonds – municipal and otherwise – with credible ESG traits are hard to locate on an individual basis. That hurdle highlights the benefits of MBNE's active basket approach.

"Most municipal issuers are public purpose entities that support critical infrastructure and services to promote the health, safety, and general well-being of their communities — and that provides a good opportunity set for ESG focused investing," concluded Nuveen's Blaire.

ETF TRENDS

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