

# **Bond Case Briefs**

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## **Muni Funds Can Take the Spotlight by Buying Green.**

Municipal bond fund managers are finding they can stand out from the competition and lure new investors by taking advantage of this year's flood of green bonds.

While overall municipal bond issuance is 12% below last year's level, issuance of green bonds, which are devoted to funding sustainable and environmentally beneficial projects, has surged in 2014. Green bond sales in the first half alone, including municipal and other green bonds, has surged to \$20 billion, matching the total for the past 7 years, according to Bank of America.

Muni managers are turning to green bonds to meet rising demand from investors that's resulted in net inflows to municipal bond funds for most of the year, including 11 of the last 12 weeks according to Lipper FMI. Just last week municipal bond funds reported inflows of \$470.3 million, even though the broader municipal market experienced a sell-off. Interest in green funds has grown even as some of them have underperformed benchmarks, as they attract investors who are motivated by a desire to promote conservation or help offset global warming, not just the prospect of earning a return.

Going green "is a differentiating feature, no doubt about it," Brian Kinney, head of the global beta fixed income team at State Street Advisors, referring to SSA's High Quality Green Bond Fund. "In the field of high quality bond funds, having a green specific portfolio is an interesting feature."

To date, no green bond fund has been devoted exclusively to munis. The ones in existence also include corporate and asset-backed bonds. Fund managers say going green has differentiated their funds from the non-green ones that contain bonds of similar maturities or ratings.

"Instead of working against 500 other mutual funds, we are working against a few," Benji Baily, fixed income investment manager at Everence, said in an interview when discussing Everence Financial's Praxis Intermediate Income Fund, which Everence calls a green fund.

This summer's muni green bonds included such deals as the New York Environmental Facilities Corp.'s \$213 million green bond issuance and the DC Water and Sewer Authority's \$300 million green century bond, both issued in June.

Morgan Stanley is expected to price a \$350 million Massachusetts green bond on Thursday. The retail order period started on Monday and is scheduled to last three days.

Revenues from the bonds will fund projects ranging from clean water and drinking water, conservation and habitat restoration.

### **New Investors Buy In**

Municipal issuers of green bonds this year have been able to attract buyers with the green product who had not purchased bonds from the issuing municipality, or municipal bonds at all, previously, The Bond Buyer reported in June.

Green bond fund managers said they have also been able to increase and diversify the type of

investors in their funds by going green.

Kinney said that when State Street launched its fund in the spring of 2012, the initial demand did not come from the usual participants in the fixed income sector. He said investors interested in the fund were focusing mainly on the fact the fund was green, and that many of them had initially been invested in equity.

"It appears the kinds of people who have an interest in green [bonds] in general are people who are somewhat concerned about climate change, who have concerns about quality of life and who have concerns about having value in their portfolio, other than those just looking out for the best return," Delmar King, fixed income manager at Everence, said in an interview.

Kinney also said the market's interest in green products is growing.

"We are increasingly seeing questions from investors that may not have been trying to invest in green products in previous issues," he said.

### **Big Banks Push Clients Towards Green Funds**

Part of the reason green bond funds have been able to attract a broad and diverse group of buyers is because some of the larger banks that do not have green bond funds in place have recommended to their clients to buy into investment groups' green bond funds.

"We have not seen competing funds at Bank of America, JP Morgan, and ones like that," King said. "Some of these large asset managers have been coming to funds like us and saying 'we would like to have you on our green platform, we would like your fund to be an option.'"

Kinney said his group has also had conversations with banks and other intermediaries to aggregate smaller orders to invest in funds like State Street's green bond fund.

"We are not speaking directly to smaller players or retail players, because our fund is designed to be invested in by institutional buyers," he said.

Mauricio Agudelo portfolio manager of taxable fixed income at Calvert Investment Management said that it was less of a transition for Calvert to start luring green bond investors to its Calvert Green Bond Fund. Calvert has dealt in socially responsible investing for over 30 years, and it has recognition in the industry for that type of investing, he said.

### **Green Bond Funds Do Not Outperform**

These green bond funds have managed to stand out from their competition and attract new clientele without outperforming benchmark municipal or corporate bond funds with similar maturities.

The Calvert Green Bond Fund's year-to-date return is 3.07% as of September 12, according to the group's website Calvert.com. Everence's Praxis Intermediate Income Fund returned 3.95% for the same period, a spokeswoman for Everence wrote in an email.

Both of these funds that contain green bonds with intermediate maturities YTD returns are not as large as the S&P Dow Jones Intermediate Municipal Index which has returned 7.80% as of Sept. 12, or the Barclays Intermediate Term Corporate Bond ETF, which returned 4.22% YTD as of Aug. 30.

S&P Dow Jones Indices Green Bond Fund has only returned 2.06% YTD as of September 12.

A spokeswoman for State Street wrote in an email that information about State Street's green bond fund couldn't be provided.

THE BOND BUYER  
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