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Investors Demand More Transparent Green Munis.

Investors are demanding more transparency around green municipal bonds as the bonds grow in popularity, according to Amy Hauter, partner, portfolio manager and head of sustainable fixed income at Brown Advisory, a global investment firm based in Baltimore.

Investors want additional information about whether sustainable municipal bonds are successful in fulfilling their pro-environment missions, Hauter said in a recent interview. Brown Advisory's sustainable fixed-income strategies include its Sustainable Core, Tax-Exempt Sustainable and Sustainable Short Duration composites.

"Municipal bonds are sometimes overlooked by investors when they are considering sustainability, but these bonds can fund sustainable projects" that help the community, she said. In particular, the pandemic has highlighted the need for sustainable projects, particularly for underserved populations. "The pandemic has highlighted the need for such things as affordable housing and mental health facilities and services."

Brown Advisory adheres to the International Capital Market Association's guidelines for sustainable investing, which means the proceeds of the bonds are to be used exclusively for green and social projects, according to the website for ICMA, a not-for-profit membership association with offices in Zurich, London, Paris and Hong Kong that includes private and public sector bond issuers.

Since the pandemic hit, the sale of green bonds has grown, as has the transparency, Hauter said, but the amount of transparency can vary from one project to the next.

"Increasing transparency is where investor engagement comes in," Hauter said. Issuers need to be more engaged with the buyers" to provide information on what guidelines the project developers are adhering to. Definitions for what is considered a green or sustainable bond vary and more clarity is needed, she said.

In addition to the growth in sustainable bonds, the pandemic brought to light the need for projects that serve underserved populations, Hauter added. "The types of projects are changing. For instance, colleges and universities are issuing bonds to include students who may not have the internet access or the technology they need," she said.

To further sustainable causes, Brown Advisory favors bonds in the university and college sector, for hospitals that are addressing health-care disparities, public transit and water and power utilities. Public transportation ridership is rebounding from a low during the first and second quarters, she said.

"You would think people would have pulled back from sustainable investing, including investing in green munis, this year as they focus on other more immediate things," Hauter said. "But that did not happen."

Because there is more interest in green municipal bonds, regulatory pressure probably is going to

increase around what it means to issue green and sustainable bonds, she predicted.

FINANCIAL ADVISOR

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