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MBNE Helping Investors Wade Through ESG/Muni Combination.

More environmental, social, and governance (ESG) fixed income strategies are coming to market, and in the world of exchange traded funds, that movement is reaching into the realm of municipal bonds.

For example, there is the newly minted SPDR Nuveen Municipal Bond ESG ETF (MBNE). Actively managed and sub-advised by muni bond giant Nuveen, MBNE came to market in April. MBNE has something many rookie ETFs need: relevance in the marketplace upon debut.

“Municipal bond investors increasingly want to apply environmental, social, and governance considerations to their portfolios,” noted AllianceBernstein. “Muni impact investing can target many important ESG-related goals, ranging from improving water supplies and mass transit to energy efficiency and economic development.”

Already home to \$32.19 million in assets under management, MBNE is proving that advisors and investors are enthusiastic about the marriage of ESG principles and municipal debt. MBNE attempts to beat the Bloomberg 3-15 Year Blend (2-17) Municipal Bond Index.

The fund’s solid start is impressive because it comes against the backdrop of accelerating interest rate hikes by the Federal Reserve and turmoil in the bond market. MBNE’s fast start confirms that long-term investors see appeal in the ESG/muni bond combination.

Another advantage offered by the fund is the aforementioned active management — a pertinent trait because municipal bond investing at large is conducive to active management. Add in the ESG layer, and that’s even more true.

“To root out potential laggards, managers must ask tough questions. Is that city’s drinking water safe (E)? What’s the town’s high school graduation rate (S)? How intense is the local government’s political gridlock (G)? We favor a scoring model, applied consistently across issuers, that rates attribute on a scale of 1 to 10. These metrics boil down to a final ESG score, which helps us discern between undervalued bond issues and potential investments whose outsized ESG risks warrant more yield,” added AllianceBernstein.

As an active fund, MBNE can identify the most relevant ESG opportunities among muni bonds while avoiding greenwashing. That active management can also help investors mitigate interest rate risk and potential credit risk. For now, credit quality is high in MBNE, as about 85% of its 91 holdings are rated AAA, AA, or A.

“As ESG becomes a bigger part of muni investing, it’s important to discern among the many approaches before jumping in. The muni market is vast, and muni bonds – as well as issuers – offer varying ESG-investment risks and rewards. Muni investors considering how ESG adds value to their portfolios should study all their options across the spectrum to know which strategy best aligns with what they hope to achieve,” concluded AllianceBernstein.

ETF TRENDS

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