A Conversation with Hoa N. Quach, and Stephen M. Liberatore

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Hoa N. Quach, CFA
Managing Director, Catholic Responsible Investments

TAL/Nuveen

Stephen M. Liberatore, CFA
Senior Managing Director and Head of ESG/Impact for Global Fixed Income

Ms. Quach: While investing in impact fixed income is relatively new and still growing, how are you defining impact bonds at this stage of their development?

Mr. Liberatore: In my view, an impact bond is something that has a direct and measurable social and/or environmental outcome associated with it. The final definition of the space is going to be iterative over time.

Ms. Quach: What are the primary differences between impact bonds and traditional fixed income securities?

Mr. Liberatore: Most fixed income issues, whether corporate or municipal, are offered for general corporate purposes. Within the impact space, issuers can control how proceeds are utilized. This important distinction allows asset managers to represent the views of investors in the deployment of their capital.

Ms. Quach: Why has TAL/Nuveen chosen to be involved in the issuance of impact bonds?

Mr. Liberatore: By being actively involved, we are positioned to influence the market in a way that aligns with what its investors are looking for. We're able to be a very strong advocate for our clients around how these deals come about.

> **"What we're doing is holistically acknowledging that the environment impacts society, and that impacts the economy."**

"Just because it says it's a green bond doesn't mean it is, and vice versa."

Read CBIS' Impact Report to learn more about impact bonds and their generated results.

Ms. Quach: Do you have a sense of the size of the impact bond universe?

Mr. Liberatore: I can say with some confidence tracking indicates the issuance of another trillion dollars in bonds this year, which would push the labeled market above four trillion dollars in size. The market is reflecting investor demand.

Ms. Quach: The "labeled market"?

Mr. Liberatore: Generally, the parameters in the market utilize the International Capital Market Association's Green Bond principles, which also apply to social bonds, sustainability bonds, sustainability linked and transition bonds. These bonds are labeled as such when they're issued.

Ms. Quach: How do the credit rating agencies look at impact bonds?

Mr. Liberatore: The rating agencies are starting to provide more information and analysis of impact securities. It's important information, but it is critical managers have a process to make sure that a security fits their framework. Just because it says it's a green bond doesn't mean it is, and vice versa.

Ms. Quach: Do impact bonds fall into identifiable categories of issuance?

Mr. Liberatore: We've evolved to a place where the market widely recognizes that impact can occur in any sector of the investment universe, as long it meets that definition that we use of direct and measurable. Currently we're able to obtain impact exposure in every sector of the public fixed income market except for U.S. Treasuries.

Ms. Quach: From a performance perspective, is the impact component a drag on relative returns?

Mr. Liberatore: We try to make sure that we don't sacrifice any level of spread because there's impact associated with it.

Ms. Quach: How do impact bonds relate to ESG?

Mr. Liberatore: At TAL/Nuveen, we use ESG characteristics to identify the best operated and managed issuers. Impact investing is slightly different. Here, we're also trying to specifically draw or drive investment in particular outcomes, in particular the deployment of capital in certain assets or pools of assets. I'd suggest the goal is the same.

Ms. Quach: Bottom line, why should investors include impact bonds in their portfolios?

Mr. Liberatore: What we're doing is holistically acknowledging that the environment impacts society, and that impacts the economy. All of this can be a virtuous cycle if you're doing it correctly.

Contact Us

We want to hear from you!

If you have any questions, please reach out to your CBIS representative:

info@cbisonline.com or **(877) 550-2247**