



Green bonds are issued by companies, governments, and supranational institutions to finance projects with environmental benefits. While the term “green bond” is not legally defined in the U.S., many issuers abide by voluntary third-party standards that define what projects that are eligible for green bond financing, as well as best practices for measuring and reporting their environmental impacts. Green bond issuance has increased dramatically in recent years, and the market’s continued growth will be an integral part of achieving and accelerating the global transition to a low-carbon economy.

## TRILLIUM LEADERSHIP

Trillium has been a leader in fostering the development of green bonds, with Portfolio Manager Cheryl Smith a very early user of the first issued green bonds and serving as a sounding board for many of the initial issuers of these bonds. Smith was an early advisor on the creation of the Green Bond Principles and A Statement of Investor Expectations for the Green Bond Markets. She is a frequent speaker on the topic of green bonds at specialist conferences.

Trillium’s Fixed Income Strategy, which was launched in 2007, combines a macro-view with individual fixed income security selection and incorporates both negative and positive Environmental, Social, and Governance (ESG) criteria. For over 10 years this strategy has worked to include green bonds as a critical element of an overall fixed income portfolio. Many Trillium accounts now feature greater than 50% exposure to green and social impact bonds as part of the fixed income allocation.

## APPROACH

Trillium’s fixed income accounts are diversified, actively managed U.S. core taxable and tax-exempt bond portfolios managed for all market environments, and are constructed using a combination of macroeconomic analysis and individual security selection. Trillium uses a thorough and proprietary analysis of issuer and issue-specific Environmental, Social, and Governance (ESG) criteria intended to enhance both the risk-adjusted return of our holdings and our exposure to positive social and environmental impacts. Green bonds are also evaluated based on geography, use of proceeds, and currency exposure (if applicable), with impact measurements reviewed on an annual basis (dependent on the publication schedule of the issuer).

While we are proud to be active participants in the growing green bond market, it is important to note that we do not find

the green label sufficient for inclusion in our portfolios. Many bonds labeled as green have failed to meet our financial and ESG standards, either through the inclusion of projects that contrast Trillium’s understanding of sustainability, or because of the unfavorable ESG characteristics of the issuer. Likewise, we have identified a large number of bonds financing social and environmental impacts outside of the labeled green bond market. With regards to federal agency and municipal bonds, for example, use of proceeds are analyzed in part based on the operations of the issuer, with emphasis placed on sectors including public education, clean water, affordable housing, and public transportation. By integrating Trillium’s legacy of sustainable and responsible investing into our fixed income strategy, we seek to manage a broader set of social, environmental, and financial risks and opportunities than can be achieved through green bonds alone.

Taxable Benchmark	Taxable Effective Duration target	Tax-Exempt Benchmark	Tax-Exempt Effective Duration target	Max position size	Maturity structure
Bloomberg Barclays U.S. Government/Credit Intermediate Index	3 – 6 years	Bloomberg Barclays Municipal 1-10 Year Blend	3 – 7 years	15%	<ul style="list-style-type: none"> <li>• High credit quality</li> <li>• Intermediate duration</li> <li>• Typically hold bonds until maturity or call, ~25% turnover</li> <li>• May use structured notes at attractive OAS to pick up yield and protect against rising rates</li> </ul>

### GREEN BOND EXAMPLES

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#### **World Bank Green Bond**

Since 2008, The World Bank has regularly issued green bonds focused on financing climate change mitigation and adaptation. They have issued \$13 billion equivalent in Green Bonds through 150 transactions in 20 currencies. These bonds have AAA credit ratings.

*Use of Proceeds:* designed to reduce poverty and improve local economies by specifically focusing on climate change issues that directly impact developing countries, including issues such as renewable energy, efficiency, transport, water, waste management, sustainable land use, and climate resilient infrastructure.

#### **European Investment Bank**

In 2007, the European Investment Bank (EIB) issued the world's first Green Bond, labeled a Climate Awareness Bond

(CAB). Today, they are the largest green bond issuer (€23.5 bn total). These bonds are AAA Credit Quality.

*Use of Proceeds:* earmarked to match disbursements to EIB lending projects contributing to climate action in the fields of renewable energy and energy efficiency (wind, hydro, solar, geothermal energy, district heating projects, building insulation, energy efficiency improvements, etc.)

#### **Starbucks Social Impact Bond**

Starbucks issued the first US corporate sustainability bond in 2016 with a \$500 million issuance. The bond has A- credit quality, and is priced in line with traditional corporate bonds.

*Use of Proceeds:* enhance sustainability programs around coffee supply chain management through eligible sustainability projects (ex. ethical sourcing program, development and operation of farmer support centers, loans made through Starbucks Global Farmer Fund).

### IMPORTANT DISCLOSURE

*The views expressed are those of the authors and Trillium Asset Management, LLC as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be a forecast of future events or a guarantee of future results. These views may not be relied upon as investment advice. The information provided in this material should not be considered a recommendation to buy or sell any of the securities mentioned.*

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