



What to look for when investing in Green, Social and Sustainability Bonds

By the Nikko AM Green Bond Team
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The emergence of Sustainable Bonds as an asset class has been relatively rapid, and the spectrum of different classifications of investments can naturally be confusing for investors. Here we outline some of the key criteria for investors to look for when investing in Green, Social and Sustainability Bonds (GSS).

The value of GSS Bonds expertise

Fundamental to any investment decision is an understanding of the asset class itself. When investing in GSS Bonds, it's vital to ensure the bond issuer or the fund manager has a deep knowledge of bond markets, structures and dynamics. They should have a track record of managing bonds and understanding the nuances of yield, duration, credit quality, and other bond-specific factors. GSS Bonds also involve added layers of analysis and certification, so bond expertise is non-negotiable.

Geographical footprint

The US fixed income market is the largest in the world. Therefore, it goes without saying that a deep understanding of US markets is crucial. That said, Europe has been a true pioneer in the sustainable investment space, and many European standards—such as the EU Taxonomy—are considered best-in-class globally. This makes the European approach an important benchmark for global investors. But it is increasingly essential to also understand the nuances of Asian investment markets. Asia, with its diverse economies, regulatory environments, and cultural contexts, presents both challenges and opportunities for sustainable investors. Therefore, a deep understanding of both European standards and Asian market dynamics helps ensure investors can identify the best GSS Bond opportunities globally and understand the associated risks.

The process: blending fundamental and quantitative analysis

For a comprehensive assessment, investors should look for an approach that blends both qualitative (fundamental) and quantitative analysis. While fundamental analysis dives deep into a company's or project's management, competitive positioning, and financial health, quantitative analysis applies mathematical and statistical methods to evaluate investments. The investment approach should ideally be characterised by the harmony between fundamental and quantitative analysis, which is crucial to successfully identifying and capitalising on market opportunities. By balancing these two lenses of analysis, a more comprehensive and sophisticated approach to investing in GSS Bonds is possible.

Alignment with UN SDGs

The 17 UN SDGs provide a global framework for sustainability, from reducing poverty to building sustainable cities. A comprehensive GSS Bonds strategy should seek to align itself with one or more of these goals, offering a clear pathway for impact. Investors should prioritise GSS Bonds or GSS Bond fund managers that not only assert their SDG alignment but can also provide transparent reporting on how underlying investments contribute to these global goals.

The tools: leveraging AI to gather and analyse data

Artificial Intelligence (AI) has become a game-changer in terms of efficiently gathering and analysing available data. Advanced algorithms can sift through vast reams of data to identify patterns, risks, and opportunities that would elude human analysts. For GSS Bonds, AI can be particularly valuable in providing a deeper and broader analysis of environmental impact data, social metrics, and more.

Moreover, as the demand for sustainable investments grows, alongside the demand for meaningful data, so does the risk of 'greenwashing', where issuers exaggerate or make misleading or false claims on sustainable metrics and practices. In our experience, AI is able to provide an additional layer of scrutiny, helping to validate claims and ensure that investors are backing truly sustainable projects.

The due diligence: engagement and active stewardship

Active engagement means not just passively investing but working collaboratively with companies or projects to improve their sustainability performance, thereby creating a more significant impact. Regular engagement with management teams, either through one-on-one meetings where engagement takes place directly with management and investor relationship teams or through group meetings where other investors participate, it is important for investors to become closer to management teams and therefore gain a better understanding of efforts to improve sustainable ratings. Engagement can also be used to fill knowledge gaps by actively asking companies for enhanced information disclosure.

To learn more about sustainable fixed income investing, read Nikko AM's investment guide [here](#).

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