Sustainability and Fixed Income

For its fixed income investments, BLI has decided to implement a multidimensional sustainability approach. Hence, the objective is to cover not only the integration of ESG factors in the bond picking strategy but also to implement impact investing strategies in BLI’s portfolios.

1. Integration of ESG factors in the bond picking decisions

The integration of ESG factors in the bond picking strategy of BLI aims to be progressive and currently covers the sovereign bond segment\(^1\). To do such analysis, the investment team relies on the ESG rating provided by JPMorgan. The so-called JESG scores are based on information gathered from key specialised and recognised providers of ESG research, namely Sustainalytics and RepRisk.

In addition, in the framework of the sovereign risk analysis, the Investment team takes also into account some specific governance indicators that relate to the proper functioning of state institutions.

In order to have a portfolio presenting a satisfactory ESG profile while not losing some interesting sources of yield/return in an already stretched market environment for bond investors, the objective is not to apply a basic “a priori” exclusion policy that considers every single issue independently but rather to take a global approach by constructing a final portfolio that, as a whole, present a higher score than its relevant market index.

2. Impact investing

BLI is convinced that impact investing is a very powerful tool to implement a socially responsible investment strategy that brings concrete results.

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made

\(^1\) Corporate bonds will be covered in a second step through a strategy that currently needs to be enhanced.
at a global scale, i.e. in both emerging and developed markets. Expected financial returns for this kind of investments range from below market to market rate, depending on investors’ strategic goals.

BLI distinguishes two ways of implementing impact investments:
- **Liquid Impact**: Green bonds, Social bonds, etc.
- **Alternative Impact**: e.g. Microfinance, Project Finance, Housing, etc.

**Liquid impact: Green bonds**
Green bond is a bond specifically earmarked to be used for climate and environmental projects. These bonds are typically asset-linked and backed by the issuer's balance sheet, and are also referred to as climate bonds. They are mainly issued by supranational institutions (EIB, EBRD, Asian Development Bank, …) but can also be issued by corporates.

Due to the limited issuance in this market segment, the market is such that the choice of available project categories is not abundant. As a consequence, allocating among project categories is not yet possible. Hence, if, in its selection process, the Investment team analyses the underlying project and its context (country, actors involved…) and assess its substance, the main selection factors remain technical (issue size, liquidity, currency…). The final allocation among green bonds is an outcome of individual investment choices.

**Alternative impact**
Microfinance services are provided to unemployed or low-income individuals because most of those trapped in poverty, or who have limited financial resources, do not have enough income to do business with traditional financial institutions. However, alternative impact is not only about microfinance: housing, leasing, renewable energy, education can also be targeted by less liquid financial instruments.

To select appropriate microfinance, the Investment team relies on the input of two key service providers – Symbiotics² and SIMA³. They monitor the availability of microfinance issues that meet BLI’s quality requirements (investment credit, solidity of MFIs, …), engage with the issuers to structure the issues, and liaise between the issuers and the investors.

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² [https://symbioticsgroup.com/](https://symbioticsgroup.com/)
Example of a green bond\(^4\): Nederlandse Waterschapsbank 1% 03-09-25

Dutch water bonds used to lend to the Dutch water authorities in order to enable projects related to: Energy recovery from waste water, flood protection, water treatment etc.

**SDGs impacted**

**Goal 6:** Ensure availability and sustainable management of water and sanitation for all

**Goal 7:** Ensure access to affordable, reliable, sustainable and modern energy for all

**Goal 11:** Make cities and human settlements inclusive, safe, resilient, and sustainable

**Goal 13:** Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy

\(^4\) as of 28/02/2019 in the BL Global Bond Opportunities portfolio