COLUMBIA THREADNEEDLE INVESTMENTS

Columbia Threadneedle Investments social bond roundtable

Chair: Paul Whelan, partner, co-head of global fixed income investment manager research, wealth solutions, Aon

Paul serves as a partner and is co-head of global fixed income investment manager research at Aon and is based in London. He is responsible for sourcing, evaluating, conducting due diligence, and monitoring fixed income funds on a global basis and assisting clients globally in effective implementation investment portfolios. Prior to Aon, Paul was a fund manager at UBS, Henderson Global Investors and Aviva Investors.

Chair: What is the actual impact problem we are facing across our economies today?

Broderick: Estimates on what it requires to fund the SDGs vary. They seem to centre around $4trn per annum which sounds an awful lot of money. But to put it into context, global financial assets are $450trn, managed assets are $150trn and government spend is about $40trn per annum. Globally, we spent $18trn on COVID relief. The money needed to fund the SDGs is not money we are raising, it is money we are reallocating. The starting point for the entire discussion on sustainability is driven by net-zero. Climate has created an urgency and an awareness that capital can have an impact on climate. Two interesting points have arisen from this discussion also. Firstly, we've started to realise that there is no investment intervention on climate that does not also have a social implication. No matter where you build your windfarms and no matter how you construct your electric vehicles, there is going to be a social implication somewhere in there. Secondly, there is a growing awareness that there is a parallel long-term global crisis around poverty and wealth inequality. You cannot talk about the environment without talking about the social side as well.

Chair: How much do you think the left versus the right and the political swing globally is influencing and holding back asset owners making investments that might have societal or impact aims?

Broderick: I think it's naïve to think that capitalism will solve these problems. I think its more to do with the collaboration between private market assets and government assets. The most effective thing that governments can be doing now is to provide assistance in the form of blended finance. Which is to say consider how government can put its capital into structures that allow market capital to come in. Not all impact investing needs to be carried out in this format, but a lot of it does require this blending. In the US, the entire Inflation Reduction Act of $369bn is largely about blending the finance with market capital in the form of grants and tax credits. So, I do think there is a technology for allowing governments to intervene, but they must do so in a smart manner and try not to solve the problem with a full vertical capital stack but rather think of ways in which they can collaborate with private capital.

Chair: Chris, looking at Hiscox's policies which focus more on the 'E' side, do you think there will be more policies coming in on the 'S'?

Bray: At a board level, we have targets around areas like customer satisfaction and treating customers fairly with their financial journey on the insurance side. We also have policies around not investing in controversial weapons, which is somewhat socially linked. In some ways it is quite difficult to have socially embedded policies. What do you focus on? Do you cover jobs, do you cover financial access for underserved people, do you look at air quality or access to healthcare for example. The 'E' is relatively easy to cover and whilst the 'S' is important, it is really hard to measure.

Chair: Emmanuel, do you want to talk through how your insurance clients are addressing and making impact?

Archampong: There is a natural fundamental alignment between the insurance agenda and the social agenda. Be it general insurers rebuilding properties after a fire or floods or life insurers stepping into that gap with income protection and various other insurance products, there is the alignment here of the insurance function to step in and support often the underserved. One of the areas that often does not get talked about is pension poverty where the adviser community does not always support much smaller pots of pension assets, we are seeing this as a natural place where insurers have been operating in for years through unit linked products, with profits products and increasingly solutions that address the liquidity challenges of decumulation. So, there is a real alignment of what insurers do through the liability side of their balance sheet before even bringing in the asset discussion. I agree with Chris though when he says that the focus for insurers historically has been on 'E', and I feel that is partly because of course the 'E' is a globally significant issue and an easily understood problem in terms of how you quantify the challenge. I feel insurers are engaging with us more on the 'S', discussions. And the questions we are being asked to solve really is how we, as asset managers, can demonstrate in an effective and consistent framework the intensity or the impact asset owners can make on society through their investments. Societal challenges vary widely across geographical regions and so using the SDGs and mapping our investment strategies to that consistent global framework is helpful.

Chair: Tammie, some of those frameworks do exist already don't they, which prove it is possible to measure the 'S', and when considered from a lens of social-outcomes focused investing?

Tang: Yes, we've learnt that investment which also delivers positive social outcomes, is possible, and if you approach it from the lens of 'who are you helping, where are you helping and what outcomes are you helping. We need to target and put capital to areas where it is more needed than not, which is not just geographical, but population focused, and this could include the displaced, the unemployed, the lower income, the disabled. There are many different

Tammie Tang, senior portfolio manager, Columbia Threadneedle Investments

Tammie Tang is a senior portfolio manager in the fixed Income team with a focus on investment grade credit, having joined the company in 2012. She is lead portfolio manager for Columbia Threadneedle's UK, European and global social bond strategies, as well as various institutional UK credit strategies and the Threadneedle Pensions Corporate Bond Fund. Tammie's responsibilities and focus are geared towards generating active returns and alignment with clients' sustainability objectives.

categorisations to consider. We have seen issuers in the bond market consider and specifically target such population cohorts. When they are defining how to allocate their bond capital, some have gone to postcode level to identify and target the lower-income or where there is the lower GDP per capita. The framework should also consider social outcomes supported by the bond capital. This could include basic needs such as housing and healthcare, and extend to more secondary and tertiary needs like education and employment, and access to community services and infrastructure. In addition, the ability to have an impact does not start with a bond label (such as ICMA aligned). An active asset manager, should conduct good bottom-up research of the social outcomes supported and the regions and populations supported, which forms a basis of social impact evidence. Strength in research allows one to construct diversified portfolios that can deliver the return commensurate with a market index and without sacrificing return.

Ramroop: What we have found in the bonds that we have issued is that the sustainalytics framework that we are meant to adhere to is too narrow. So, we publish our own framework, and we measure ourselves against that publicly.

Chair: Corrado, does Foresters have a different approach to impact investing solutions?

Pistarino: We are open-minded with respect to impact investing. If there was evidence that this is a viable investment approach we would be looking at it. It is important to reiterate that our core mandate is to maximise investment performance given our solvency budget. Delivering on this mandate is already a difficult endeavour; adding the dimension of impact to it increases the complexity of the investment process. When it comes to social bonds, I am not convinced that the evidence about their real impact makes it a compelling proposition. So, do we want to be there ahead of most of our peers? Probably not. If then we enlarge our cone of vision and consider the whole of responsible investing, the academic evidence is pretty damning. It is an area that requires further thinking on the part of the investment industry. Let me just raise a point that I consider to be pivotal. Around this table, everyone is convinced that asset allocators have real power

> There is a growing subset who care about supporting a climate transition

to steer the direction of the economy. I strongly object to that view. The economy functions bottom-up, shaped by consumer preferences. Under this perspective, the power of asset allocators is heavily bound. I cannot stop children having a preference for ice creams and, unless we assume that the investor space is homogenous, I cannot presume that there won't be an investor happy to invest in ice cream producers. That is, in my view, the central issue: the fact that the investor landscape is not homogenous and that investors in different jurisdictions have different views on the balance between portfolio returns and societal good, and that that tension cannot be reconciled in the absence of a global statutory framework. I can decide unilaterally to stop funding ice cream producers, but it is doubtful I would be making a tangible impact.

Broderick: I would make the distinction between ESG and impact here. Impact is where your investment activity, not the companies, is putting capital into places where it is making a difference.

Pistarino: As investors in the real economy, we always make a difference. By providing funding or risk capital to viable businesses that employ thousands of people, we fund jobs and improve livelihoods. This is by far the biggest impact that I can think of.

Broderick: I wanted to touch on your scepticism around impact investing. We don't view impact as an asset class. We think there are impact versions of all the existing asset classes. What we are observing is that often the impact version of say infrastructure or real estate for example, has a different set of characteristics that is added to the portfolio construction. On a standalone basis you may say that I have a social housing investment, or another residential investment, but social housing in the UK has different revenue sources and different exposures than other forms of residential real estate. People are not taking advantage of those differentiated risk return diversification characteristics of the impact investments.

Emmanuel Archampong, head of insurance, EMEA, Columbia Threadneedle Investments

Emmanuel Archampong is head of insurance, EMEA, and joined Columbia Threadneedle Investments in 2022. He is responsible for overseeing the company's strategic insurance relationships across EMEA and leads business development for this client segment. Before joining the company, Emmanuel led the development of the insurance business at Wells Fargo Asset management across international markets.

Pistarino: What is the conceptual basis to believe that what people need is coincidentally something that pays the correct level of returns to an investor?

Tang: That for me goes back to the 'Why?' element. Why am I doing what I am doing, why am I investing for better social outcomes and talking to a spectrum of issuers out there. The 'Why' is about supporting our future, financially and physically, and many people will value our future security. There is a growing subset who care about supporting a climate transition and who do wish to avoid the scenario where physical assets become uninsurable, or the scenarios of rising deaths or displacement. When bad scenarios or disasters hit, its usually the most vulnerable in society who are worse off. This further exacerbates the inequality gap – which I also don't believe to be a good thing for financial markets nor asset wealth? Low social cohesion more easily leads to political extremism, which can encourage dramatic changes to financial markets or ways-of-living.

Ramroop: When capital was being allocated into fossil fuels back in the day people did not take these broader aspects we are talking about into

account, resulting in the situation we are now in. If we don't allocate capital more responsibly then you could have a re-run of the climate issue on a more social level with increasing population growth and dwindling natural resources. The question then becomes what return we forego to allocate capital more responsibly. But we do make these decisions anyway, because putting impact aside they are asset classes that we like despite having a lower return.

Broderick: There are investments out there that deliver a market risk return, but they are not understood. Trade finance is a great example. It is a market investment but the education around it is lacking. The work that we have done around social housing at the Impact Investing Institute is similar. People don't realise that there is a value to social housing investment particularly on the equity side. I remember speaking in front of the Social Housing Conference in 2019 saying that housing associations should issue their debt as social bonds. They looked at me perplexed. Today, most housing associations now issue their debt in social bonds. When they issue, they are signing up to a set of standards, use of proceeds reporting and third-party verification that wasn't there before. It is still housing association debt and you still get the same return, but now someone has influenced the housing associations to hold themselves accountable for using their capital in a particular way. That is one of the ways in which impact investors are shaping the way in which these companies operate.

Pistarino: Agreed. Lack of familiarity, experienced by both issuers and investors, creates market frictions. However, in an ideal world where these frictions are overcome, a broader investor base emerges, drawn by the increased attractiveness or desirability of an investment. This dynamic inherently lowers expected returns. Social housing bonds, being highly desirable due to their positive social impact, would likely experience increased demand, resulting in tighter yields. Ultimately, investors bear the cost of generating positive externalities. This intrinsic challenge is unavoidable.

Broderick: The premium on green bonds has almost disappeared, and there is no premium on social bonds. You are right in theory, but in practice what is happening is that people are not necessarily lowering their funding costs by issuing green or social bonds. They are

David Ramroop, chief investment officer, Just Group

David Ramroop is chief investment officer of Just Group, a UK life assurer, whose purpose is to ensure that people have a better later life. Just has c.£25bn in policyholder assets and is active in the defined benefit and retail annuity markets. David started his career in M&A, moved thereafter into asset management and has been at Just since 2013.

connecting with a different type of investor however. One of the things that the housing associations have discovered, is that when they issued social bonds, they were attracting a broader set of investors. That would improve their funding base.

Bray: There is also the idea that equally if the bonds are desirable, maybe the liquidity is better, and the spreads are tighter. If you want to get out of them at some point you can more easily. There are other economic aspects to it beyond yields.

Chair: Angel – where do you stand on this trade off debate? Is there some sort of philanthropic investment from the social impact side here, or do you think you can give that diversification and risk adjusted return without foregoing financial returns whilst achieving societal impact?

Kansagra: Firstly, asset owners are not charities. We look at what is the return first and foremost and then we say does this justify the risk that you are taking. Returns are important for us because we all have our fiduciary duties as we are managing assets that are there to pay off liabilities to the end consumers. From an investment point of view, it should make sense, but that doesn't mean that you look at these things on a standalone basis. As an asset allocator, when I am looking at something I always look at it in the context of my existing portfolio. If it gives me a lower return, then you look at your risk exposure, does it give you diversification of income from other sources. Insurers also look at the capital treatment. At Lloyds, on the private impact side we have looked at private equity first. We are not actually giving up on returns. The mandate that we have given to the portfolio manager is a target to be generated within a certain volatility and to go and find these investments. On the US private credit side, the fund I am talking about is a US mid-market direct lending fund. You can create impact here because they are smaller companies, quite diversified and investing in products that are helping communities etc.

Broderick: That's a really important point. It is not just about the risk and return of the individual investment it is about the risk and return in its function within the portfolio.

Archampong: That is exactly the point. The Social investment grade philosophy is consistent with the traditional or core credit objective to deliver attractive risk-adjusted returns and to withstand short term volatility driven by solid fundamental research. The same approach is applied here, whereby we are seeking in addition to traditional sectors diversification from a broad universe including government agencies, regional and local government bodies, mutuals and charities. Issuers include social policy leaders that use public bond markets to finance large scale social solutions and, in the process, creating appropriate and sustainable funding sources for social infrastructure, delivering housing, healthcare and for the community. So, you are right in expecting a social impact strategy to still deliver an attractive risk adjusted return or at least be benchmarked against traditional benchmarks. There is also another observation from the

> “It is also positive to see some insurers emphasising the concept of 'responsible premiums'

Angel Kansagra, head of ALM and investment solutions, Lloyd's

Angel heads the asset liability management and investment solutions team at Lloyd's. He is responsible for investment strategy, asset allocation and investment risk. He also leads the design and implementation of public asset investment solutions on the Lloyd's Investment Platform to provide customised solutions to insurers and capital providers in the Lloyd's market. Angel is a qualified actuary.

Corrado Pistarino, chief investment officer, Foresters Friendly Society

Corrado has over 25 years' experience in investment banking, asset management and insurance. He is CIO and chair of the Climate Risk Forum at Foresters Friendly Society. Corrado holds a degree in Physics from Turin University and a Master in Finance from London Business School.

insurance client perspective which is that we see particularly within the life space where there is the distinction between shareholder assets and policyholder funds. One of the ways insurers are motivated to differentiate themselves is by ensuring a proportion of premiums are committed to ESG objectives. In such instances, the policyholders themselves have a voice and can vote with their feet. Even though investment objectives are important the voice of the policyholder is getting louder. In the non-life space we are also seeing initiatives such as "responsible premiums" as some insurers are demonstrating their commitment to invest a prescribed proportion of all premiums in a responsible way.

Chair: David, the more society cares about the obesity problem for example, or phasing out smoking, how much do you have that alignment from your investment perspective to what could be shaping your liabilities and mortality assumptions?

Ramroop: From a social perspective our business and the purpose of our business at Just is to help people achieve a better later life. The only thing that is holding us back from having more impact, is that a lot of the trends that you mentioned Tammie aren't very investment grade favourable. Our parameters mean we don't invest in equity, we hardly invest in sub investment grade, and the bar for an investment grade investment within this impact context is high otherwise we would do more.

Chair: Tammie, Columbia Threadneedle Investments has a decade plus experience in the social bond space, do you want to talk us through the evolution of that market and how deep and liquid it is?

Chris Bray, investment analyst, Hiscox

Chris has been an analyst in Hiscox Group's investment team since 2019, having previously worked in financial consulting and equity fund management. He focuses on quantitative analytics relating to the group's investments, including asset-liability matching, strategic asset allocation and risk modelling. On the responsible investment side he develops and maintains the group's internal ESG investment dashboard, researches new fund investments and monitors ongoing policy/regulatory developments.

Tang: It is quite possible to build a portfolio of 150 separate issuers touching on all the particular social outcome areas that I have already talked about. If anything, when we look at some of the larger pension names in the UK market and what they are investing in, within the private debt space we are also doing the same things but in the wider, more liquid, publicly listedbond market. In addition, as impact investors we care about facilitating that capital in the primary market. Through a lot of work behind the scenes, we will continue to influence and help to reallocate capital in the areas in which we need. We are seeing the delivery of high-grade credit funds with for example, 3-year duration, 6% yield, single A rated, and whilst maximising social impact.

Pistarino: What is your assessment of the success of your engagement activity as a bond fund manager?

Tang: The biggest success is when they do what we ask. Together with Jamie and the Impact Investing Institute, we played a role in advocating the UK Government to do a green gilt. It was over 18 months of work, to engage with the Government, the debt management office, and Treasury, to inform and educate. We'll continue this engagement with the whole spectrum of bond issuers, including government related entities, non-profits and corporates.

Pistarino: How do you define a metric that is homogenous and works consistently across the impact spectrum, ensuring that when you present the numbers, readers can clearly understand and interpret them?

Tang: A deep research element helps and is occurring at every bond level. The research is addressing what are the social outcomes funded and to who and to where.. That deep research element can also map the bond proceeds into alignment with wider industry standards, including the UN SDGs, and also to the Impact Management Norms. These many and multiple

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dimensions of research can thus be aggregated up and assessed in terms of a ranking of social impact or social investment intention. That strength of social intention is then a key input from a portfolio construction lens, whereby all else equal (including price), we favour investments with more social impact than not.

Kansagra: If someone is an investor in this space, they also look at the cost of accessing these assets. With impact investing, there is so much engagement that the asset manager needs to have, do you think the cost of accessing these products is higher than normal bond funds that you would invest in?

Tang: I believe fees of an impact bond fund is broadly consistent with a traditional or normal high grade credit bond fund. The value proposition should be more compelling given the twin objectives of financial return and positive social impact, supported in both respects by deep research, good process and active engagement.

Broderick: The aspect that is interesting to me about your fixed income strategy at Columbia Threadneedle Investments, is that you start with the financials, and you offer a high quality aggregate portfolio that is meant to compete with any other high quality aggregate portfolio. But then in addition, you are investing in priority areas in the hierarchy of need. Why would this not be attractive to somebody, when you can get market exposure, better quality risk and all the other financial characteristics, but behind it you are conducting this additional effort. That is exactly what impact investing should look like.

Chair: David, Just has issued green and social bonds. Can you talk us through the rationale of issuing the social bond. Was it to offload the same risk but for a 15 basis point 'socialeum' or was it for use of proceeds and to attract end buyers to buy that security with that alignment of interest in both the financial return and social side?

Jamie Broderick, deputy chair, Impact Investing Institute

Jamie Broderick is deputy chair of the Impact Investing Institute, a UK non-profit that aims to accelerate the growth of the impact investing market. He was head of UBS Wealth Management in the UK from 2013-2017. He joined UBS after nineteen years at J.P. Morgan Asset Management, latterly as chief executive of its European business. He joined J.P. Morgan in New York in 1993 and moved to London in 1996.

Ramroop: We issued the bonds in a low rated environment but at a a higher spread than what we would issue at now. It was a bit cheaper, and we were the first UK life insurer to issue a green bond and the first insurer to issue a sustainability bond also. We wanted to make this statement and we made some financial benefit from it but that wasn't necessarily the motivation behind it.

Chair: Jamie, any concluding remarks and what is your outlook for the social bond market?

Broderick: We must look at what our peers are already doing in the market, and what they are able to achieve. If the entire industry could just bring their investments up to what their peers are doing, that would be a substantial move of capital.

Archampong: I am very encouraged by the discussion today. What is clear from our conversations around the table is that insurers have a set of investment outcomes that they seek to achieve. The priority remains to deliver high quality cash flows that outperform their liabilities. We know a substantial part of this is done using fixed income assets. Effectively the largest single asset class for insures is fixed income and within that of course investment grade credit. The intensity of credit research, bottom up, in constructing and managing credit is a fundamental part of building out an insurance portfolio. We believe this should always remain the primary objective for insurers. However, that consistent research driven process, that prioritises the selection of robust, high quality cash flows, naturally lends itself well to identifying opportunities in social investing also. Therefore, by aligning financial goals with social objectives, we pave the way for a more sustainable and inclusive future. Thinking about this logically there is a minimum hurdle of quality of cashflows that insures expect. The opportunity for us is really to continue to deliver relative outperformance versus traditional benchmarks. If we can achieve that while targeting specific positive social outcomes, we can in a tangible way enable insurers use their capital for good. Let us continue to drive meaningful change through this approach.