

May 2019

# Index Solutions newsletter: Green bonds



**Portfolio Manager Index Solutions**  
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From a “fig leaf” to an investment segment that has to be taken seriously: the number of green bonds issued has increased by more than 30% within a year and the number of issuers has risen too. Read more about how green bonds help fund climate and environmental projects and how you can combine attractive returns and sustainability with an index fund.



## Focus on global green bonds

The “Fridays For Future” resp. the school strike for the climate represent a widely acclaimed initiative, with the Swedish schoolgirl Greta Thunberg becoming known all over the world almost overnight. More and more people are concerned about climate protection, and more and more bond investors are including it and other ESG aspects<sup>1</sup> in their investment decisions. At the same time, they are also increasingly ensuring that issuers don’t do greenwashing<sup>2</sup>.

The Bloomberg Barclays MSCI Global Green Bond Index only contains bonds that fund projects with a clearly outlined environmental benefit. The internal team of analysts has carefully analyzed the bonds in question to determine whether they satisfy the prescribed selection criteria known as Green Bond Principles.

## Clear purpose for use of proceeds

Green Bond Principles are voluntary guidelines introduced in 2014 by the International Capital Market Association (ICMA), which reviews them annually. The central aspects in this process are the purpose of the funds and their monitoring.

- Use of Proceeds: the issuer must use the capital to finance or refinance an environmentally friendly project.
- Process for Project Evaluation and Selection: the issuer must describe in detail the process for project evaluation and selection. It must also define the aim of the project.
- Management of Proceeds: an independent auditor must confirm that the issue proceeds are managed separately.
- Reporting: the issuer must offer a minimum level of transparency. This involves reporting on the project’s progress and on the use of capital on a regular basis, at least once a year.

<sup>1</sup> ESG = environment, social, governance.

<sup>2</sup> Greenwashing is a critical name to describe issuers that give their bonds an environmentally friendly image without an adequate basis to back up their claims.

## The funds go to climate and environmental projects

Funds raised through green bonds must go to projects in one of the following ten categories: renewable energy, energy efficiency, sustainable waste management, sustainable agriculture, conservation of biodiversity, clean transportation, sustainable water management, adaptation to climate change, recycling management products, and sustainable buildings.

For example, the electricity company Evergy issued a USD 350 million green bond in mid-2016 to build a wind farm in Kansas that supplies sustainably produced electricity. The capacity of the Western Plains Wind Farm is 280 MW, equivalent to the consumption of around 170,000 households.

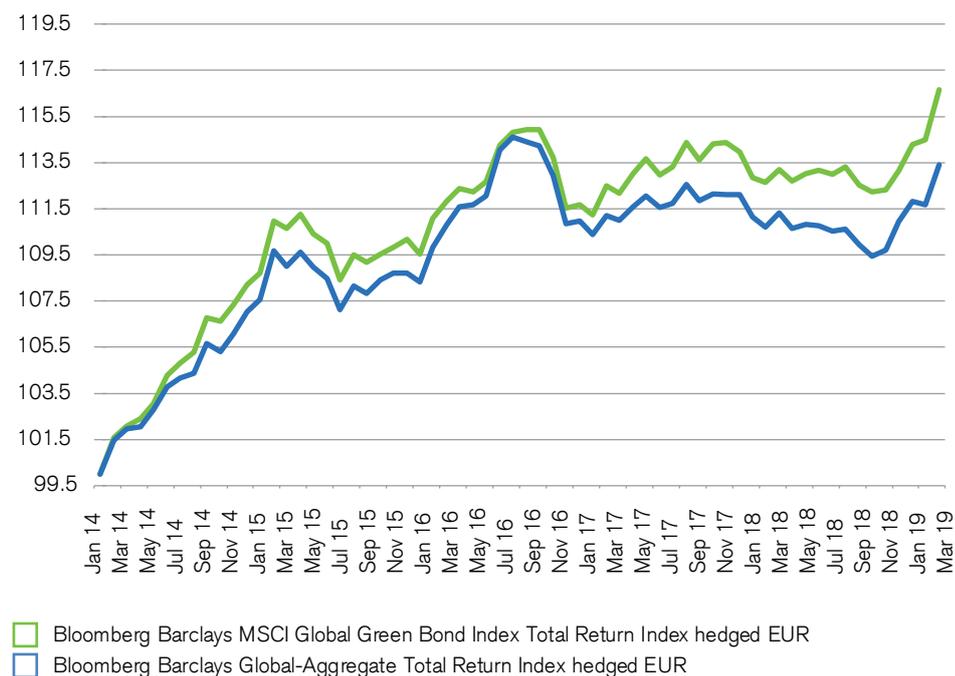
## Common features with standard bonds

Apart from the purpose for which the funds are to be used, green bonds have the same characteristics as standard bonds:

- The issuer is liable for green bonds in exactly the same way as for other bonds. Green bonds have no special default-risk status.
- The credit ratings of green bonds are generally at the same level as the issuer rating. The risks are therefore congruent with those of a standard bond.
- Interest rate and currency risks are at the same level as those of standard bonds.

As a result, the return for the same currency and maturity is roughly at the same level as for standard bonds. In fact, the Bloomberg Barclays MSCI Global Green Bond Index which was launched in 2013 has even performed better than the very broad Bloomberg Barclays Global Aggregate Index (see following chart).

## Performance of green bonds compared to standard bonds



Source: Bloomberg, data as at 10.05.2019

Historical performance indications and financial market scenarios are not reliable indicators of future performance.

One important reason for the superior performance of sustainable bonds is their slightly longer duration. The allocation and selection of green bonds in the index also contributes to their performance.

## Strong growth of green bonds

The proportion of green bonds in the global bond market is still well below 0.5%, which is surprising given the performance and increasing significance of ESG criteria. However, the number of issued green bonds has risen significantly since 2013. This is highlighted by the following figures:

- Within a year, the number of issued securities in the index rose from 240 to 333. The issue volume reached around USD 140 billion in total.
- Issuers now come from 32 different countries, including Switzerland, Ireland, South Africa, and Indonesia for the first time. Around 40 of the approx. 170 issuers issued a green bond for the first time last year. The other issuers have already issued one or several green bonds, accounting for some 60% of issued volume.

	Market volume (%)	
	Green Bond Index Bloomberg Barclays MSCI Global Green Bond Index Unhedged (GBGLTRUU)	Standard Index Bloomberg Barclays Global Aggregate Index Unhedged (LEGATRUU)
Total	100.00	100.00
US dollar	25.42	45.44
Euro	63.33	24.49
Japanese yen	–	16.14
British pound	2.35	4.79
Australian dollar	2.91	1.31
New Zealand dollar	–	0.12
Swiss franc	0.27	0.57
Norwegian krone	–	0.11
Swedish krone	1.85	0.46
Hong Kong dollar	0.12	0.02
Canadian dollar	3.62	2.63
Chilean peso	–	0.01
Renminbi	–	0.32
Czech krone	–	0.09
Danish krone	–	0.23
Hungarian forint	–	0.08
Indonesian rupiah	–	0.30
Israeli shekel	–	0.12
South Korean won	–	1.26
Mexican peso	–	0.29
Malaysian ringgit	–	0.30
Polish zloty	–	0.23
Russian ruble	–	0.15
Singapore dollar	0.14	0.20
Thai baht	–	0.32

Source: Bloomberg Barclays, data as of April 2019

The currency variance in the Green Bond Index is lower than in the very broad comparative index. Almost 90% of sustainable bonds are issued in euros and US dollars, while the figure is only around 70% for the Global Aggregate Index.

## Invest in green bonds with an index-based approach

The CSIF (Lux) Bond Green Bond Global Blue replicates the Bloomberg Barclays MSCI Global Green Bond Index and follows a physical replication method. It adopts an optimized sampling approach to improve profitability. In this way the index can replicate on a more cost-effective basis, as not all securities have to be traded, and transaction costs are therefore noticeably lower compared to full replication. Adding the word “blue” makes it very clear that securities lending is excluded for this fund.

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## Profile of CSIF (Lux) Bond Green Bond Global Blue

Reference index	Bloomberg Ticker Index	Spread in %		Currency	Share class	ISIN
		Issue	Redemp- tion			
Bloomberg Barclays MSCI Global Green Bond Index (TR)	GBGL TRUU	0.30	0.00	USD	FB USD	LU1871079973
Bloomberg Barclays MSCI Global Green Bond (TR) (EUR hedged)	GBGL TREH	0.30	0.00	EUR	FBH EUR	LU1914373144

### Efficient investment in a multi-award winning index

The CSIF (Lux) Bond Green Bond Global Blue gives investors the chance to invest in verified green bonds that have a specific purpose. At the Environmental Finance Bond Awards 2019, the fund's reference index was awarded the Index of the Year award for the third consecutive time.<sup>3</sup> The performance of this emerging investment category is comparable with that of a broad market investment in standard bonds. Invest with Credit Suisse Index Solutions in line with your strategy.

### Excluding manufacturers of controversial weapons

Credit Suisse Index Funds do not make any direct investments in firms involved in the development or manufacturing of nuclear, biological or chemical weapons, land mines, or cluster munitions. We base these decisions on the exclusion list of the Swiss Association for Responsible Investments (SVVK – ASIR). The extent to which our index funds are able to replicate benchmarks is barely affected at all by these exclusions.

### Would you like to find out more about Credit Suisse Index Solutions?

The entire CSIF umbrella (CSIF: Credit Suisse Index Funds) covers 90 funds, of which 52 funds relate to share indices, 33 to bond indices, 4 to real estate indices, and 1 that invests in physical gold. Our index funds can be used by institutional and private investors as strategic building blocks for a portfolio and for implementing tactical investment decisions. Our index funds are also used in mandates.

### Further information

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Index funds for qualified investors	<a href="#">EN</a>
Index funds for private investors	<a href="#">EN</a>

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We will be happy to advise you.

<sup>3</sup> Source: Environmental Finance Bond Awards 2019.



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