

Executive summary

Opportunities in ESG-oriented solutions

Sustainable fixed income research



MACKENZIE
Investments

**Fixed Income
Team**

Executive summary

The United Nations has declared climate change the greatest threat that modern humanity has ever faced [UN – 9]. Inequality continues to plague the world, ranging from the ongoing COVID-19 pandemic that has disproportionately ravaged underserved communities around the world, to longstanding concerns about racial injustice and inequitable treatment within the legal system. Effective solutions to these complex and multifaceted crises faced by the global community will consider the intersectionality of society's systemic barriers while requiring support from both public and private sectors. Konstantin Boehmer, lead portfolio manager for Mackenzie Investments' Sustainable Fixed Income products, outlines the opportunities presented through ESG integration and investment in labelled debt.

Marked by demographic transitions, an unprecedented wealth transfer, and a ticking clock in the fight to limit the damages of climate change, financial markets are rapidly evolving to meet the needs of a new generation of impact-oriented investors. Sustainable investing strategies have provided markets with a generational catalyst, with fixed income markets witnessing the birth of sustainability labelled debt including green, social, and sustainability linked credits.

Green, Social, and Sustainability bonds provide funding towards advancing corporate sustainability through themes including clean energy and equality via a credit's use of proceeds. These credits finance environment-related projects and support the transition to positive social outcomes through investing in progressive initiatives to benefit a global network of stakeholders. Sustainable debt markets show no signs of slowing down, with new issuance of sustainable labelled debt outpacing US High Yield markets in 2021; the wave of opportunities presented in this transformative asset class is beginning to crest; providing investors with the unique ability to better the planet through their portfolios.

The Mackenzie Fixed Income team recognizes that each sector of the economy will face unique challenges towards adapting to a sustainable future, not limited to significant technical innovation and dramatic infrastructure advancement. What is certain is that the transition to a net-zero economy will require ground-breaking innovation and significant investment. With access to uniquely labelled debt instruments and recognizing the present value of future innovation, governments and corporations have gained access to a financing tool that provides increasingly affordable funding for desperately needed change.



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Sustainable debt 101

Sustainability-linked bonds

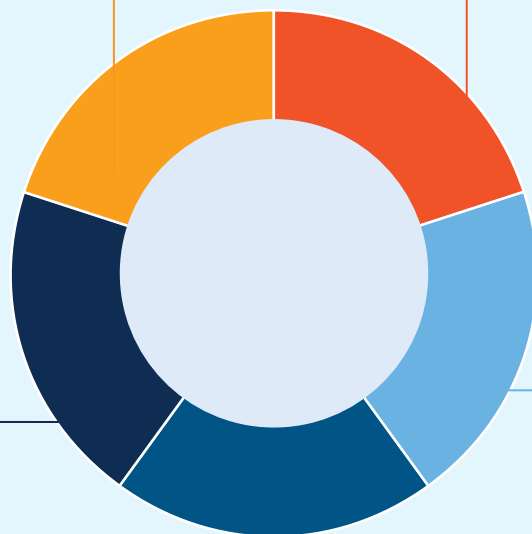
Debt with sustainability targets that the issuer needs to achieve before maturity, otherwise a financial penalty is applied as a premium paid to the bondholder.

- Reduce GHG emissions by 50% by 2030
- Gender-balanced board by 2025

Sustainable bonds

Bonds with use of proceeds that combine environmental and social issues, allowing companies and governments to have a wider-ranging influence.

- Sustainable food production for underserved communities



Best-in-class ESG bonds

Debt issued to issuers in positive environmental standing. These bonds are directed towards the advancement of environmental sustainability, without applying for certification. Formerly referred to as “light-green” bonds.

- Energy efficiency
- Clean transportation

Green bonds

Debt issued to companies or governments, with the use of proceeds directed towards financing environmentally related projects: certified by third-party verifiers

- Renewable energy
- Pollution prevention
- Water infrastructure

Social bonds

Debt issued with the intention of addressing social issues or supporting the transition to positive social outcomes.

- Affordable housing
- Diversity and inclusion programming
- Funding for Indigenous-owned businesses and initiatives

1 [Climate Change ‘Biggest Threat Modern Humans Have Ever Faced’, World-Renowned Naturalist Tells Security Council, Calls for Greater Global Cooperation | Meetings Coverage and Press Releases](#)

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