The New York Times

"All the News That's Fit to Print" SUNDAY, JANUARY 14, 2018 Reprinted With Permission

Mutual Funds & E.T.F.s

Cutting Emissions While Earning Cash

Managers who invest in green bonds chase returns and a smaller carbon footprint.

By TIM GRAY

PETER PRATO FOR THE NEW YORK TIMES

Samantha D. Palm is portfolio manager of the Parnassus Fixed Income Fund, which owns bonds that finance environmental projects.

Bonds may seem an unlikely instrument for saving the world. But managers of mutual funds and exchange-traded funds who invest in so-called green bonds say the securities can help address climate change and other environmental woes.

"The more green bonds that are issued, the more green projects that are being funded," said Christopher J. Wigley, senior fixed-income portfolio manager with the Mirova Global Green Bond Fund. "Green bonds are reducing emissions" of greenhouse gases, he said.

Green bonds finance environmental projects like wind and solar power, mass transit and upgrades in energy efficiency. They can be issued by corporations, governments, international organizations like the World Bank and universities. Apple and Starbucks have gone green with some of their bond issues in the last several years.

"Apple did a great job outlining the projects it's going to be working on — how it'll use the proceeds to directly reduce its energy costs and emissions," said Samantha D. Palm, portfolio manager of the Parnassus Fixed Income Fund. Ms. Palm's fund invests according to environmental, social and governance principles and owns green bonds among its roughly 90 holdings.

While the term green bonds is often used, there is no universally accepted definition of what such a bond is. Ms. Palm said she seeks two features, besides the promise of an environmental investment: "an independent audit to demonstrate that the proceeds were used as expected and a report back on the financial and environmental returns." She said she wants quantitative data about gains like greenhouse gas emissions offset or energy usage avoided.

In 2017, about $150 billion in green bonds were issued, about double the volume of 2016, according the Climate Bonds Initiative, a London nonprofit group. Still, the market remains minuscule, compared with, say, the roughly $1.5 trillion in United States corporate debt issued annually.

Bonds labeled "green" have existed for about a decade, said William D. Sokol, director of E.T.F. product management for VanEck. Fixed-income securities financed environmental projects before then but weren't often called green bonds (or, as they're also known, climate or sustainability bonds). That changed in 2014 with the creation of the Green Bond Principles by the International Capital Market Association in Zurich, Mr. Sokol said. The principles are voluntary guidelines. Coupled with increased concern about climate change, they have fostered this niche, he said.

Guided by feel-good principles, but still mindful that making money for clients is always a goal.

Mr. Sokol's company sponsors the VanEck Vectors Green Bond E.T.F., an indexed offering. Built around the S. & P. Green Bond Select Index, it began in March and carries a net expense ratio of 0.4 percent. It invests worldwide in about 80 government, international and corporate securities. Mr. Sokol said he viewed the E.T.F. as helping diversify the holdings of United States investors. "It's the same investment case as for global bond investing — diversification with a multisector, multicountry portfolio." The greenness of the securities in the index — and thus the E.T.F. — is evaluated by the Climate Bonds Initiative.

Two actively managed mutual funds also devote themselves to this form of investment: the Mirova Global Green Bond Fund and the Calvert Green Bond Fund. The Mirova offering, managed by Mr. Wigley, started in the United States in February. It replicates a fund that Mirova, which is based in Paris, has offered in Europe since 2015. The United States version of the fund, sponsored by Natixis Investment Managers in Boston, invests in a variety of countries

and types of issuers. It has a net expense ratio of 0.7 percent.

Among its recent top holdings were bonds of both the French government and Southern Power, a wholesale electricity generator that is a subsidiary of the Southern Company in Atlanta.

Southern Power generates much of its electricity using natural gas, and its parent company operates nuclear power plants. Its bonds are barred from some funds that apply environmental screens to their holdings, including Ms. Palm's Parnassus Fixed Income Fund.

"We exclude any company that generates significant revenue from nuclear," she said.

Mr. Wigley said Southern Power is shifting toward renewable energy and wind power in particular with its green bonds helping that transition.

"We see the climate transition as a critical phenomenon," he said. "Companies that don't adapt could become default risks. So we see those that issue green bonds as better financial risks and want to support that."

The Calvert fund began in 2013. Its manager, Vishal O. Khanduja, said he buys bonds that are labeled green and unlabeled ones with clear environmental aims. Calvert, which factors environmental, social and governance factors into its investment decisions, has a team of analysts who investigate the green bona fides of bonds, he said. All the Calvert bond funds — there are 10 — must clear environmental thresholds, but the green fund "focuses even more on the environmental pillar," he said.

Investors seeking a cheaper, more seasoned fund than the Mirova or Calvert one might look outside the strict green-bond niche to funds that invest more broadly — but still according to environmental, social and governmental principles — like the one managed by Ms. Palm at Parnassus. Hers, with a net expense ratio of 0.68 percent, began in 1992, and she took over in 2013. Another such offering is the TIAA-CREF Social Choice Bond Fund, which has an expense ratio of 0.67 percent and started in 2012.

There is no universally accepted definition of 'green bonds.'

That fund's manager, Stephen M. Liberatore, a managing director at TIAA Investments, said he aims to identify the best environmental performers and projects, regardless of whether their bonds are labeled green. That approach led him to Topaz Solar Farms. "Topaz wasn't labeled, but it's a commercial-scale solar power project," he said. "It was once the largest in the U.S. — it's producing enough power for about 160,000 homes." Topaz is owned by Berkshire Hathaway Energy, a subsidiary of Warren E. Buffett's investment holding company.

"What my investors want is for us to use our expertise to get as close as possible to an end project with an environmental benefit," Mr. Liberatore said.

A claim often made by proponents of green bonds is that investing in them addresses climate change and other environmental problems more directly than buying green stocks does. Bond proceeds, this argument goes, finance specific projects with the potential for measurable gains. With an equity investment, in contrast, you just own shares in a company with a reputation for environmental stewardship. The company's management still has discretion over its investments.

Jon F. Hale, director of sustainability research for Morningstar, said he regarded that argument as credible. "When you think about impact, dollar for dollar, you probably are having a bigger impact" with a green bond fund than an environmentally minded stock fund, he said.

"There are estimates out there of the trillions of dollars in investments needed in renewables and energy efficiency over the next 30 years, and that's what these kinds of bonds are financing," he said.

Mr. Hale cautioned, however, that investors shouldn't abandon prudence for the sake of environmental purity. They should still stick to such investing tenets as keeping costs low, diversifying and allocating their money based on their goals and tolerance for risk.

"As an investor, you should be allocated across asset classes," he said. "But you can activate your desire for sustainability with your bond investments, too."

(#S054513) Copyright © 2018 by The New York Times Company. Reprinted with permission. For subscriptions to *The New York Times*, please call 1-800-NYTIMES.
Visit us online at www.nytimes.com. For more information about reprints from *The New York Times*, visit PARS International Corp. at www.nytimesreprints.com.