SEIX INVESTMENT ADVISORS LLC®

Our Perspective
GREEN BONDS - JULY 2016

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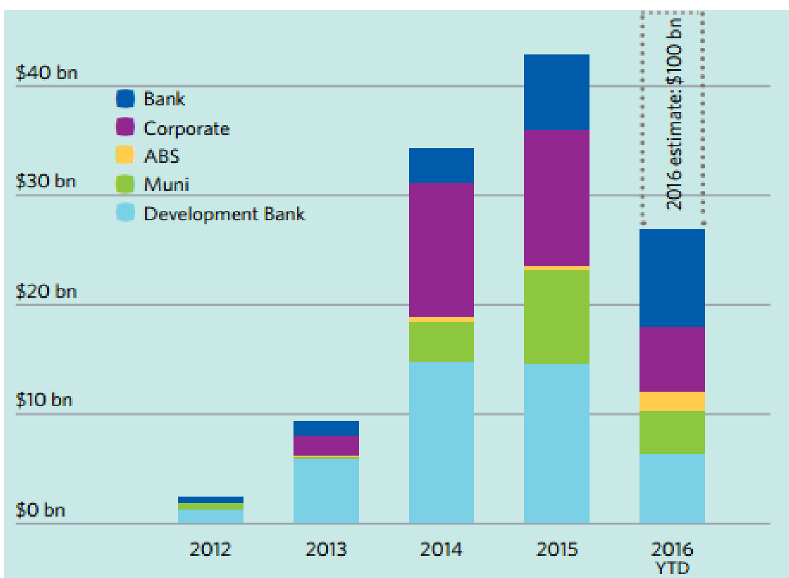
Municipal green bond issuance has increased significantly over the past three years since Massachusetts became the first state to offer tax exempt bonds designated as 'green' in 2013. While only a small part of the municipal market, at over $10.8bn in outstanding bonds, there is growing domestic and global demand for sustainable, responsible, and impact (SRI) investing. Green bond issuance increased 16% in 2015 to over $42bn (see chart below). U.S. municipal bonds since their inception have been used for capital projects and infrastructure that have delivered benefits that today could be construed as green and socially responsible. While we have not seen much pricing differential between an issuer's regular bonds and their green bonds, we do believe that investor demand is going to grow for SRI assets, and green muni bonds could outperform as a result.

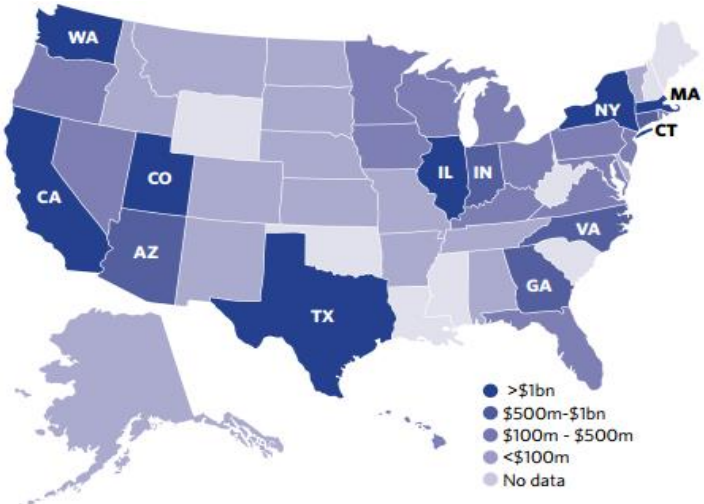
Bonds whose proceeds are specifically used for environmental, climate, or other sustainable purposes can be designated as green. Green bonds are self-labeled by the issuer with a voluntary set of rules from the Green Bond Principles (GBP). Under GBP, issuers can use green bonds for renewable energy, energy efficiency, sustainable waste management, sustainable land use, biodiversity conservation, clean transportation, clean water, and/or drinking water. The European Investment Bank sold the first 'green' bond in 2007 and issuance has increased dramatically over the past few years and is projected to top $100bn in 2016 (see chart below).

Corporate and Muni Bonds Make Up a Growing Proportion of Issuance



Source: www.Climatebonds.net - Bonds and Climate Change, July 2016

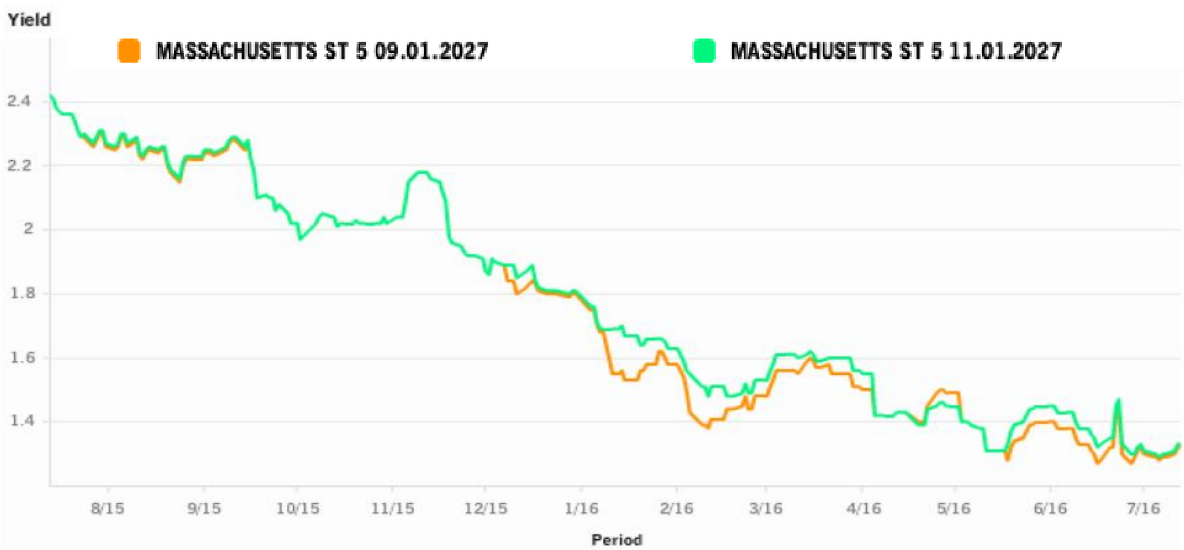
New York, California and Massachusetts Are the Top 3 Climate-Aligned Bonds Issuers



Source: www.Climatebonds.net - Bonds and Climate Change, July 2016

The states with the largest issuance of tax exempt green bonds are New York, California, and Massachusetts. The bonds have primarily financed transportation, water, and renewable energy projects.

Internally, we evaluate a green bond based solely on the credit fundamentals of the issuer since the only effective difference is the use of the proceeds. Therefore, if the security for an issuer's green bond is the same as their other bonds; performance is linked to their underlying credit. However, if demand grows for SRI designated assets, it is likely a green bond could outperform pari passu obligations for purely technical reasons due to the green labeling. As you can see in the yield chart below, there has been very limited yield differential between Massachusetts general obligation bonds and their green general obligation bonds.



	Average	First	Last	Max	MaxDate	Min	MinDate	Periods	StdDev	ZScore
MASSACHUSETTS ST 5 09.01.2027	1.75	2.420	1.320	2.420	13 Jul 2015	1.270	16 Jun 2016	252	0.35	-1.23
MASSACHUSETTS ST 5 11.01.2027	1.78	2.420	1.330	2.420	13 Jul 2015	1.290	06 Jul 2016	252	0.34	-1.31

Source: Morgan Stanley

SRI tax exempt investing is still somewhat in its infancy and we have not seen any significant pricing differential between green and regular bonds. As we have previously stated, most muni bonds are used for capital projects and infrastructure that have historically delivered benefits that today could be construed as green and socially responsible. As such, many traditional investors view the new 'green' designation as more of a marketing ploy, particularly since the current standards and accountability are voluntary, which could be one of the reasons for the lack of a pricing differential. Municipal bonds also often lag taxable fixed income investing trends because of the large component of individual investors, but retail appetite for environmentally friendly investing is likely to grow going forward. The green designation may also expand the network for potential investors, including cross-over investors that are not typically active in the tax exempt market. Currently, the green designation is a free option, and if we like the underlying credit and sector, we will continue to overweight green bonds in anticipation of growing impact investing demand that could lead to technical outperformance.