



## **Impact Investing and Green Bonds**

Impact investments are those which try to influence social and environmental issues by attracting funds targeted for socially responsible investing. Done correctly you need not compromise your financial return. One advantage of purchasing individual bonds is that you can select bonds that are issued for purposes with which you agree and want to support rather than purchasing a mutual fund or ETF.

Green bonds are ordinary Bonds from a credit perspective, but they are earmarked for a socially responsible purpose. The first Green Bonds were issued by the World Bank in 2008.<sup>i</sup> Massachusetts was the first state to issue Green Bonds in the United States to finance open space and environmental cleanup in May 2013. Municipalities have been issuing bonds that might be categorized as green bonds, though that rubric had not been previously used.

Massachusetts outlined four categories for their Green Bonds<sup>ii</sup>:

- Clean water and drinking water projects;
- Energy efficiency and conservation projects in state buildings;
- Land acquisition, open space protection and environmental remediation projects; and
- River revitalization and habitat restoration projects.

Endorsed by issuers, financial organization and environmental groups, Green Bonds receive attention from cross over buyers who do not ordinarily purchase municipal bonds, but will purchase them if they have a particularly attractive yield or purpose. For example, pension funds and endowments might purchase tax-exempt or taxable municipal bonds because they are required to dedicate a portion of their holdings to green initiatives.

Financial institutions around the world have recently endorsed the Green Bond Principles, a set of voluntary guidelines written by four banks in 2014. The principles are voluntary guidelines which ask that issuers report annually on quantitative and qualitative performance metrics in order to improve the pool of capital available for such work. The first municipal issue under the

banner of Green Bond Principles was issued by the New York State Environmental Facilities Corp (NYS EFC) in June, 2014.

However, municipalities have been issuing bonds that would qualify as ‘green’ for many years. Depending upon your interest, municipalities frequently target and state the use of funds raised from bond issues. You can vote with your dollars and have the satisfaction of knowing that you are supporting endeavors you value, and still get regular market interest payments and the return of your principal.

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<sup>i</sup> Hillary Flynn. “Issuers Attract Crossover Buyers With Green Bonds,” **The Bond Buyer**, June 23, 2014.

<sup>ii</sup> Jon Carlisle and Alex Zaroulis. [“Massachusetts to Offer “Green Bonds” To Investors: First State in the Nation to Offer Direct Investment in Environmentally Beneficial Projects,”](#) May 29.2013.