Sustainable Bonds: In Search of a Multi-Sector Approach

As demand for ESG-related (environment, social & governance) investments surges, bond investors may face the challenge of finding opportunities across the full range of fixed-income asset classes.

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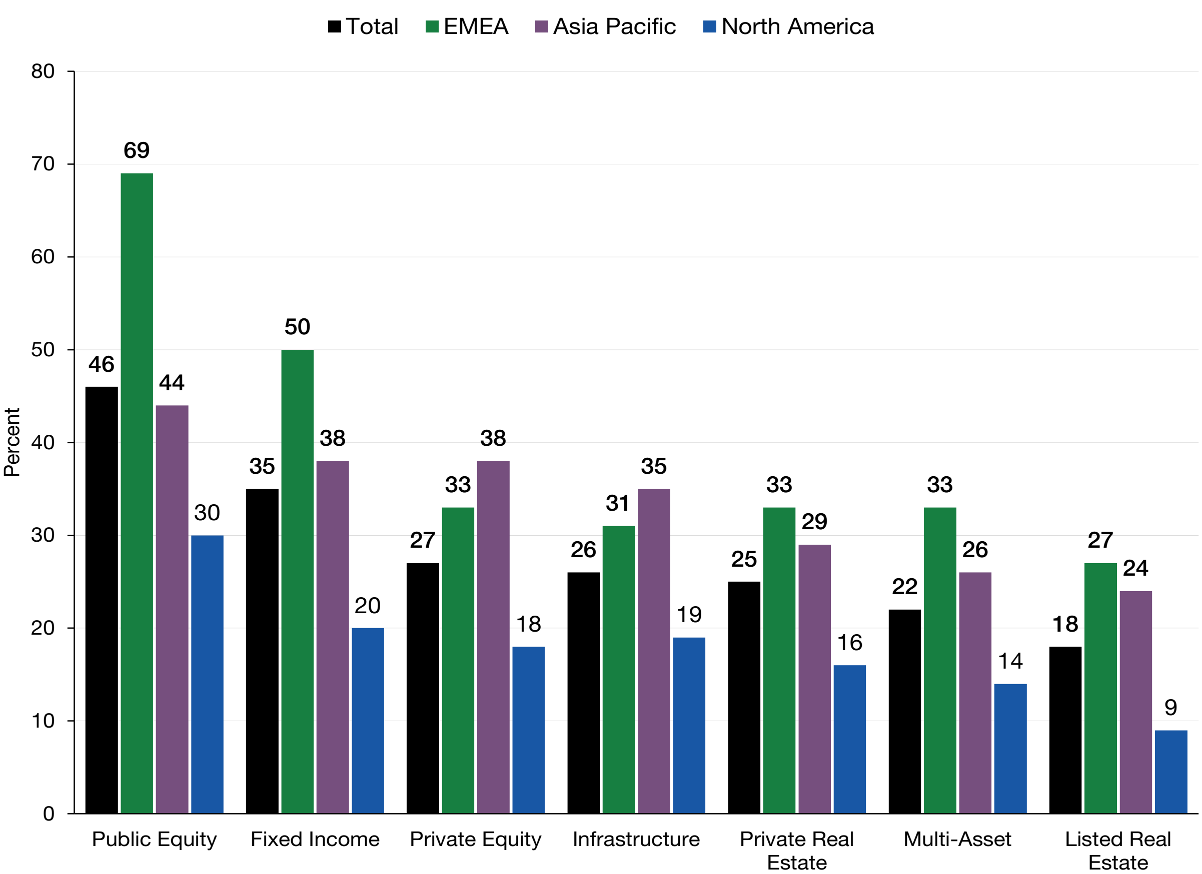
Figure 1. Managers are Using Sustainable Investment Considerations More Often in Stock Portfolios

Survey data for the period February 1, 2021–April 30, 2021



Source: FTSE Russell, "2021 Global Survey Findings from Asset Owners." Most recent 2021 survey data as of April 2021. The historical data shown in the chart above are for illustrative purposes only and do not represent any specific portfolio managed by Lord Abbett or any particular investment.

Surging demand for sustainable investments, a component of ESG investment considerations, has prompted many asset managers to implement sustainable investment mandates, but to varying degrees across asset classes. Here, we provide a potential solution for bond investors looking for a diversified, sustainable investment approach.

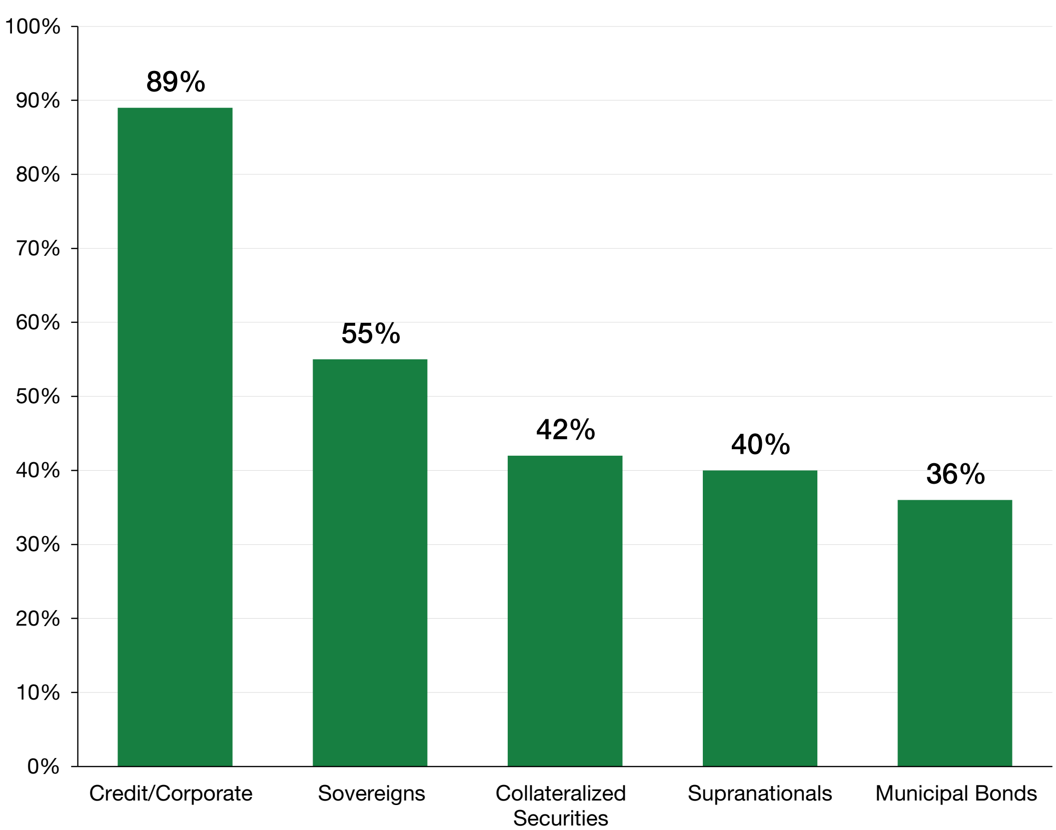
In 2020, net flows into ESG-related, open-ended and exchange-traded investment funds available to U.S. investors were about $51 billion, according to Morningstar. This year, through the third quarter, flows have already surpassed the total for last year, recording over $54 billion in net inflows for U.S.-registered funds, which are generally not available to non-U.S. investors. As demand for these products increases, managers have taken steps over the last few years to align products to the needs of the market. A recent survey of 187 global asset managers found that 84% are either implementing or evaluating sustainability in their portfolios, compared to 53% in the 2018 survey.[1] However, there is divergence of implementation across asset classes, and the extent to which managers are using sustainability considerations within the investment process is higher or lower, depending on the asset class, as shown in Figure 1.

Finding Sustainability in Fixed Income

Asset managers face a variety of challenges when incorporating sustainability and other ESG-related criteria into their investment strategies. And despite the fact that fixed income is a much larger segment of the global financial markets, it remains behind equity when it comes to the availability and quality of ESG data needed for the specific requirements of bonds, such as sustainability metrics for long-duration securities. Further, within fixed-income sectors, managers have been more successful incorporating sustainability criteria across corporate bonds compared to other sectors. According to the same survey cited above, 89% of respondents currently using a sustainable fixed-income allocation are doing so within credit or corporate portfolios (see Figure 2), while other sectors, such as securitized fixed income and municipal bonds are less represented.

Figure 2. Credit/Corporate Portfolios Lead Sustainability Considerations in Fixed-Income Portfolios

Survey data for the period February 1, 2021–April 30, 2021



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A Broader Opportunity Set

At Lord Abbett, we have developed proprietary ESG scoring models to address gaps in the information available from external ESG research. The Lord Abbett Climate Focused Bond Fund is managed according to a rigorous investment process covering multiple sectors of the global fixed-income market, including municipal bonds and securitized fixed-income issues. This multi-sector, fixed-income approach uses positive, negative, and thematic screening to invest in securities of issuers we believe have, or will have, a positive impact on the climate. The strategy focuses on five major themes including clean energy, energy efficiency, low carbon transportation, water, and other important factors such as waste management and recycling.

The Fund also invests in both labeled green bonds, which earmark proceeds for climate and environmental projects, and unlabeled green bonds, whose activities are closely aligned with pivotal climatic themes. For example, we consider investment in companies whose revenues are generated primarily through activities targeting a clean energy solution, but whose debt securities aren't specifically labeled as green bonds. We believe these bonds provide a demonstrable contribution to improving the climate and importantly may enhance the risk and reward profile of the Climate Focused Bond Fund.

We believe one of the most profound ways we can create positive social impact as a global corporate citizen is by evaluating and engaging with companies based on their actions with respect to ESG issues. While ESG factors are considered in the management of all Lord Abbett investment strategies, for investors looking for sustainable, mandated fixed-income funds, the Lord Abbett Climate Focused Bond Fund may be a potential solution.

[1]FTSE Russell, "2021 Global Survey Findings from Asset Owners"

Unless otherwise noted, all discussions are based on U.S. markets and U.S. monetary and fiscal policies.

Asset allocation or diversification does not guarantee a profit or protect against loss in declining markets.

No investing strategy can overcome all market volatility or guarantee future results.

The value of investments and any income from them is not guaranteed and may fall as well as rise, and an investor may not get back the amount originally invested. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.

Market forecasts and projections are based on current market conditions and are subject to change without notice.

Projections should not be considered a guarantee.

IMPORTANT CLIMATE FOCUSED BOND FUND INFORMATION

New Fund Risk: The Climate Focused Bond Fund is recently organized. There can be no assurance that the Fund will reach or maintain a sufficient asset size to effectively implement its investment strategy.

A Note about Risk: The Climate-Focused Bond Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest-rate risk. The value of your investment will change as interest rates fluctuate and in response to market movements. When interest rates fall, the prices of debt securities tend to rise, and when interest rates rise, the prices of debt securities are likely to decline. The Fund is subject to the risk that its climate-focused investment strategy may select or exclude securities of certain issuers for reasons other than investment performance considerations which may negatively affect its performance relative to unconstrained peers. Certain climate-focused investments may be dependent on government policies and subsidies, which are subject to change or elimination. The Fund may invest in high yield, lower-rated debt securities, sometimes called junk bonds and may involve greater risks than higher rated debt securities. These securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. The Fund may invest in non-U.S. or emerging market securities, which may be adversely affected by economic, political, or regulatory factors and subject to currency volatility and greater liquidity risk. The Fund may invest in derivatives, which are subject to greater liquidity, leverage, and counterparty risk. The fund performance history at this time is very limited; therefore, performance achieved during its initial period of investment operation may not be replicated over longer periods and may not be indicative of how the Fund will perform in the future. These factors can affect Fund performance.

The Fund's portfolio is actively managed and is subject to change.

The Climate Focused Bond Fund is available to U.S. investors as an SEC-registered investment company and to non-U.S. investors as an Ireland-domiciled Undertaking for Collective Investments in Transferable Securities ("UCITS"). Please see below for additional information.

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Additional Important Information

The credit quality of fixed-income securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment-grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

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Please consult your investment professional for additional information concerning your specific situation.

Glossary & Index Definitions

Environmental, social, and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments.

Green bonds: Labeled green bonds are bonds that earmark proceeds for climate and environmental projects. Labeled green bonds are often verified by a third party, which certifies that the bond will fund projects that include environmental benefits. Unlabeled green bonds (or climate-aligned bonds) are securities whose proceeds are supposed to be used for climate-aligned projects and initiatives but are issued without formal certifications.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates.

Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett funds. This and other important information is contained in each fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional or Lord Abbett Distributor LLC at 888-522-2388, or visit us at lordabbett.com. Read the prospectus carefully before you invest.