



Narrowing the **Focus in ESG** While Broadening the Opportunity Set

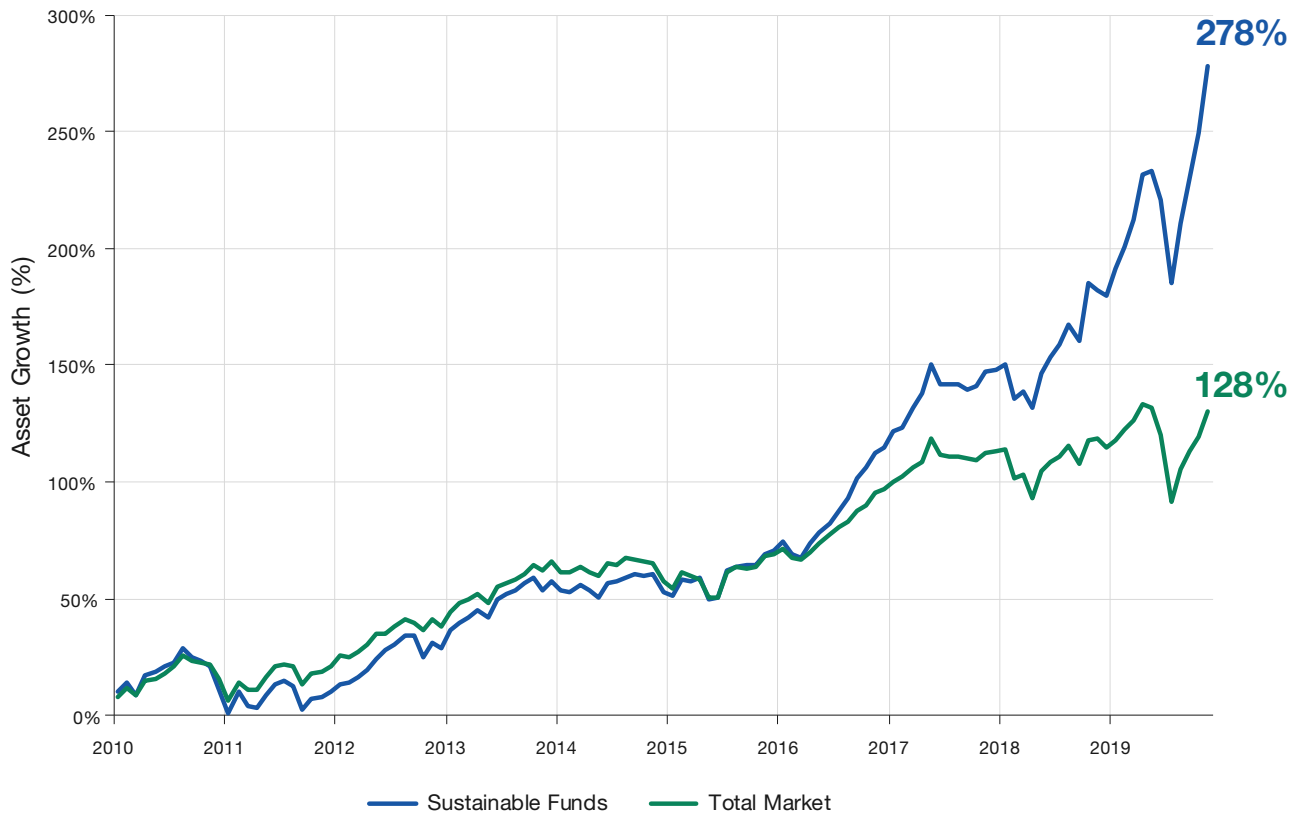


by Annika M. Lombardi, Portfolio Manager, Climate Focused Bond Fund

There's no disputing the dramatic growth of the Environmental, Social and Governance (ESG) investment marketplace. Research from the Global Sustainable Investment Alliance found that sustainable investing assets rose nearly threefold over a 10-year period, easily outpacing broader market growth, the result of increased issuance and investor demand. But, as we'll explore in this paper, Lord Abbett's Climate Focused Bond strategy goes beyond a broader ESG approach to explore a specific outcome, applying five decades of multi-sector investing experience to our strategy.

Figure 1. Sustainable Investing Has Accelerated in Recent Years

Sustainable Fund Cumulative Asset Growth - Trailing 10-Yr.



Source: Morningstar, as of 7/31/20. All global open-end fund types, including UCITS, non-UCITS, and U.S.-domiciled funds, excluding Money Market. "Sustainable Funds" series shown defined with Morningstar's "Sustainable Investment" datapoint. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.



Why Target a Focused Outcome?

Many ESG strategies follow pre-set rules for what qualifies as environmentally friendly or otherwise limit the opportunity set to specific types of issues. While “green” labels are generally well intentioned, the definitions for these kinds of issues can often be gamed and, in our opinion, a strict focus on such a set falls short of an authentically integrated, principles-based approach.

Seizing on an opportunity to authentically define a specific environmental initiative, we launched our Climate Focused strategy in Summer 2020. The strategy evaluates companies and issues that we believe are having a positive impact on the environment, as well as those that may benefit from structural shifts as a result of increasing emphasis on the global climate. Lord Abbett believes the long-term economic consequences and structural changes are opportunities for active management. The strategy’s principles-based approach relies on our understanding of competitive dynamics and interrelation of value chains as well as applying a relative-value approach.

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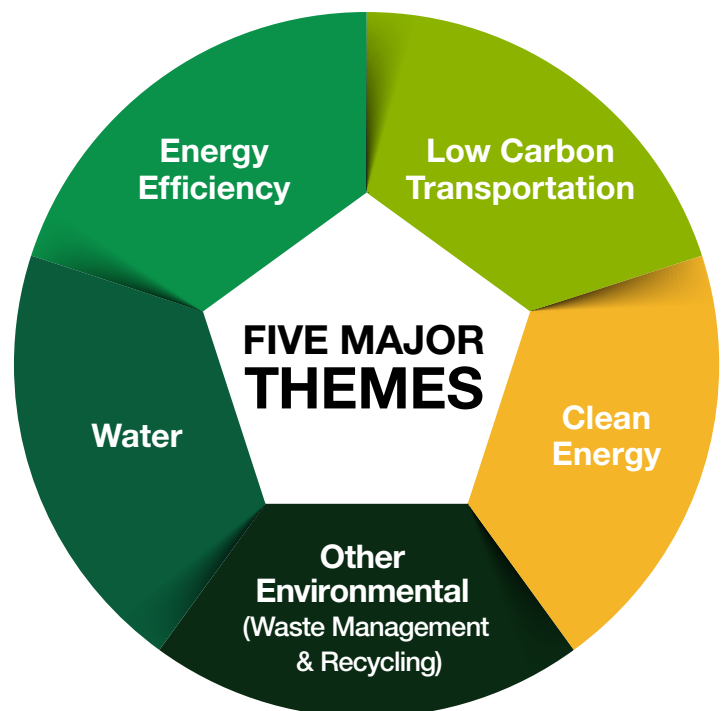
A Long-term Thematic Approach

Our climate and sustainability focus differentiates the strategy from many in the ESG space. Rather than being restrictive, we believe this focus, combined with our broad sector expertise, offers fixed income investors abundant opportunities.

The Climate Focused strategy taps into five major themes. These range from clean energy and energy efficiency to water-related issues, low carbon transportation, and other categories that include such areas as waste management and recycling. We believe these themes represent structural changes in the economy driven by the global climate. The Climate Focused Bond Fund seeks to capitalize on the companies that we believe are positioned to benefit from these changes.

Our Clean Energy investments are typically concentrated in the renewable power industry, which includes wind, solar and hydro power. As the cost of renewable power continues to fall, it becomes more and more attractive versus traditional fuel sources. This, combined with increasing government and regulatory support for renewables globally, has generated interest in this industry. The fund considers a wide range of renewable energy companies globally, including utilities, power generation, and companies that develop technology for the renewable sector.

Figure 2: The Climate Bond Strategy Invests in Five Major Themes



Source: Lord Abbett. For illustrative purposes only.



In the transition to a lower-emission economy, improving Energy Efficiency is an important objective. Issuers in this space include energy metering companies and semiconductor companies that make chips to reduce the energy use of appliances and vehicles.

Our investments in the Water category are largely focused on infrastructure management and filtration solutions. Agriculture trends and climate change are interrelated and we believe water management solutions will be crucial to address climate and environmental issues in the coming years. In Low Carbon Transportation we focus on electric and hydrogen-powered vehicles and low carbon mass transportation. In the Other Environmental segment, the fund invests in recycling and waste management as well as Green Bonds, which are issued specifically to fund projects such as electric vehicle charging stations, pollution reduction programs, and renewable energy.

The availability of these themes varies, depending on the fixed income sector. In the U.S. taxable municipal bond sector, for example, issuance has grown dramatically as low interest rates have made this financing option increasingly attractive. New issuance is often used to finance the management of local water resources and improve water quality. Issues used to fund the development of renewable energy or more energy-efficient mass transit have also come to market.

The securitized products sector has also seen an increase in

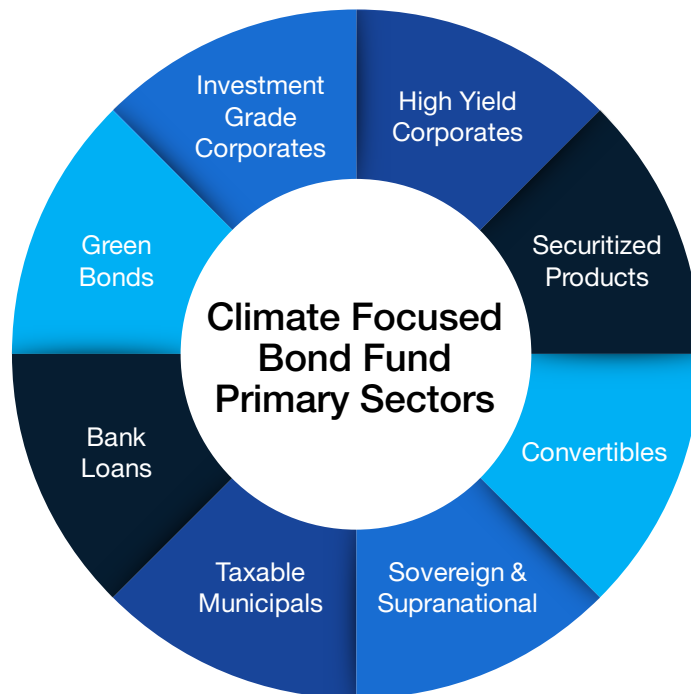
environmentally friendly issues in recent years. For example, opportunities in asset-backed securities (ABS) deals are available that package leases on electric vehicles. In addition, commercial mortgage-backed securities are available on LEED® Gold and LEED® Platinum-certified buildings, an area in which we expect opportunities to continue to grow.¹

The fund can also invest in convertibles, and our equities analysts collaborate with our fixed income analysts to alert us to attractive opportunities in this sector. Convertibles also offer investors access to new technologies and business models that are not typically available in the traditional investment grade sector.

A Multi-Sector Approach Offers a Broader Range of Opportunities

While strategies often aggregate ESG mandates, they just as often focus on a narrow segment of the fixed income markets, perhaps limiting investments to investment grade corporate bonds and sovereign issuers. While we are steadfast in our belief that the climate will affect the competitive and investment landscape, the particular nature of issuance is constantly changing. We utilize a multi-sector approach that can respond to variable issuance among sectors and employ relative value comparisons to drive security selection.

Figure 3: : With a Multi-Sector Approach, Investment Options Are Abundant



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The strategy currently finds climate focused opportunities in eight sectors in which Lord Abbett has deep expertise, ranging from investment grade corporate bonds to U.S. municipals and convertible bonds to securitized products and green bonds. We also include high yield, creating a much wider opportunity set, greater diversification, and opportunities for higher returns. This broad mandate seeks to ensure that investors have access to the most attractive opportunities today while allowing for a scalable investment approach that can adapt over the coming decades.

While the fund includes allocations to high yield corporates and convertibles, on balance the overall credit exposure is to investment grade issuers. In addition, the underlying investments currently represent over 20 different countries and several currencies, though we hedge currency exposure back to the US dollar.

Lord Abbett's Multi-Sector Research Process Applied to ESG Themes

As is the case with all of our multi-sector strategies, the process begins with a top-down assessment of the macro environment to determine an overall level of portfolio risk we want to target. Then, using the insights from our credit analysts and sector specialists, the portfolio managers decide where to allocate that risk across sectors, themes and issuers.

Because there is little agreement in the industry on what constitutes sustainable investing, we have developed our own security selection methodology. We don't rely on mechanical screening methods, which can result in investments that are not truly climate friendly.

Generally, we focus on issuers that generate 75% or more of their revenue from one of the five themes mentioned above. Some environmentally-focused funds will include issuers that produce only a small portion of their revenues from sustainable activities. The Climate Focused Bond Fund will not invest in those companies.

In addition, we also consider an issuer's overall ESG rating. We make use of data from Sustainalytics as a cross reference on ESG issues. While the Climate Focused Fund targets sustainable investing, we believe the three ESG factors go hand in hand. We don't think that making a positive environmental impact compensates for poor ratings in the areas of social responsibility or governance. This fund will not invest in issuers with low overall ESG ratings.

Finally, we also consider an issuer's emissions data. We evaluate Scope 1 and 2 emissions information provided by Sustainalytics, and this fund will not invest in issuers with unacceptable emissions levels.²

Why Lord Abbett?

The Climate Focused Bond Fund represents a unique opportunity for fixed income investors. The fund's focus on the global climate distinguishes it from the vast majority of fixed income ESG products on the market. By targeting five themes reflecting structural changes in the economy, the strategy seeks to fund a set of companies that we believe are in a position to benefit from these trends. Unlike most products in the ESG space, this fund employs a time-tested, multi-sector approach, an arena in which Lord Abbett has been a leader for nearly 50 years. In addition, our multi-sector strategy enables investors to take full advantage of the research and expertise of Lord Abbett's entire investment team. Finally, our process differs from the typical ESG fund, which often relies on mechanical screening methodologies. The Climate Focused Bond Fund represents an opportunity for investors who want exposure to the full range of technologies and business models that are addressing the global climate.



¹LEED (Leadership in Energy and Environmental Design) certification indicates a building's level of energy efficiency or use of renewable products. The certification was developed by the U.S. Green Building Council.

²Scope 1 emissions come directly from the activities of an organization or are otherwise under its control. Scope 2 emissions are indirect, coming from electricity purchased by the organization.

New Fund Risk: The 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 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 foreign 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.

Important Information for Investors

The information provided is not directed at any investor or category of investors and is provided solely as general information about Lord Abbett's products and services and to otherwise provide general investment education. None of the information provided should be regarded as a suggestion to engage in or refrain from any investment-related course of action as neither Lord Abbett nor its affiliates are undertaking to provide impartial investment advice, act as an impartial adviser, or give advice in a fiduciary capacity. If you are an individual retirement investor, contact your financial advisor or other fiduciary about whether any given investment idea, strategy, product or service may be appropriate for your circumstances.

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

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

Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

This material may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize, or that actual returns or results will not be materially different from those described here.

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Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

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