THE BOND BUYER

Municipal firms seek equity, inclusion disclosures from bond issuers

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Calls for greater equity and inclusion have prompted some of the largest investment firms on Wall Street to prioritize ESG concerns when working on municipal bond deals with state and local governments.

Goldman Sachs Asset Management, BlackRock, Lord Abbett, Morgan Stanley Investment Management and Vanguard have partnered with minority-owned municipal underwriters Loop Capital and Siebert Williams Shank & Co. to disseminate a survey to issuers on racial equity and inclusion.

Arising from the Black Lives Matter demonstrations, the survey was created in conjunction with nonprofit JUST Capital and is a pivot from the traditional shareholder-driven, profit-first model to one that focuses on the growing importance of social issues.

Suzanne Shank, CEO of Siebert Williams Shank, says she thinks investors want to get more information on what municipalities are doing in the ESG space.

Even before the pandemic and political unrest of 2020, momentum had been growing for investors to incorporate environmental, social and governance factors systematically into their analysis and valuations.

Investors are increasingly interested in integrating sustainability into their investment choices, while financial regulators, including the Municipal Securities Rulemaking Board, are pushing for greater ESG disclosure globally

The Biden administration has pledged initiatives on climate change and social inequality, following action at the state and local level.

“There’s been growing investor pressure on companies to pay closer attention to their ESG goals, and I think the investors have decided that they similarly want to get more information on what municipalities are doing,” said Suzanne Shank, chief executive officer of underwriter Siebert Williams Shank.

Though municipal issuers’ participation in the survey is voluntary — meaning the information provided on issuers’ efforts to address racial inequality could be limited, incomplete or nonexistent — investment firm executives still believe it’s important for investors to have access to this data.

“The information gleaned from the overall questionnaire will help make investment decisions and allow us to relay the information to our clients, who, in turn, can make impact-related and better investments,” said Alexa Gordon, head of municipal ESG at Goldman Sachs Asset Management.

And while firms don’t have to use the information in their investment decisions, the survey signals to the market that ESG does matter to municipal issuers.

“It was certainly fueled by the social justice movement, but I think we saw everyone jump on board to better understand the inequities that we face and try to be proactive about trying to follow some of those inequities,” Shank said.

The survey, in turn, reflects those desires.

“A lot of what you'll see in the questionnaire, these banks are already searching for the data, and clients are already asking," said Lorraine Wilson, managing director of investments at JUST Capital. "They are deeply committed and are already looking into these topics."

“This was just a uniform way to signal to the market that we're in this together, we're all looking for this data, and here's the format," Wilson said. "At the end of the day, it's hopefully going to save the issuers time coming out in a streamlined way because these questions are coming in, and investors are asking and yes, managers are stepping up too, to share that.”

Warren (Bo) Daniels Jr., head of the public finance division at Loop Capital agreed. “We believe a framework that provides interaction between issuers and investors is a positive development in achieving greater transparency,” he said.

Executives hope the survey and the conversations it sparks around ESG issues will continue beyond simply filling out the questionnaire.

“It's a starting point, and we hope it'll be widespread” said Daniel Solender, head of municipal bonds at Lord Abbett. "We hope as people hear about [the survey], they’ll want to engage. “At first it can't be everybody, but over time hopefully more and more will become involved.”

In the past several years, local issuers have focused in on equality and helping minority and women-owned business enterprises.

In New York City, the DeBlasio administration re-invigorated the Mayor's Office of MWBEs, while the comptroller created MWBE University to help level the playing filed when small businesses compete for contacts with the city.

In Chicago last month, the city said broker-dealers that want to be in future underwriting teams needed to submit their qualifications to include their team’s diversity. Firms picked to be in the underwriting pool have to provide information on the number of Chicago-based employees, minority, women and disabled veteran ownership and diversity of staff who cover the city account.

While green and climate bonds have dominated the ESG space, social issues have become a growing focus of interest within the municipal bond market.

Last year, the Ford Foundation sold $1 billion of taxable social bonds, which provided funding for direct grants to non-profits pressured by economic fallout caused by the COVID-19 pandemic.

The Bond Buyer chose the offering as its Deal of the Year winner in the Environmental, Social and Governance/Green financing category.

“The transaction represented the first-ever social bond offering by a United States non-profit foundation in the taxable corporate bond market and led the way for numerous other non-profit foundations to follow suit,” The Bond Buyer said in its award announcement in December.

“The fact that these bond proceeds will be used to fund organizations that are working on building more inclusive capitalism, advancing operational justice, advancing reconciliation, improving police and community relations, I think that it is a very timely offering that converges with the social needs of this country in a very powerful and profound way,” Darren Walker, president of the Ford Foundation, told The Bond Buyer last year.

In April, municipal bond participants testified before Congress about how the market could address racial disparities.

Most credit rating agencies now factor ESG into their methodologies.

In May 2019, Fitch Ratings rolled out ESG relevance scores for municipal and infrastructure credits. S&P Global Ratings has been working on two tracks, looking at ESG impacts on credit quality and on specific credit ratings. And Moody’s Investors Service uses its affiliate Vigeo Eiris to designate sustainable/ESG investments.

At last April's Congressional hearing, Jim Nadler, CEO of Kroll Bond Rating Agency, talked about social impact on municipal bonds.

“Municipal bonds by their very nature have material attributes of positive social impact that deserve amplification,” he said. “Those that do not will suffer by not having that type of analysis to show on their behalf.”

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