

## Social bonds – an innovative fixed income solution offering liquidity, diversification and social impact

Isabelle Vic-Philippe, Head of Euro Aggregate and lead PM Amundi Social Bonds

*“Everyone can contribute to address increasing social inequalities”*

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The pandemic has undoubtedly exacerbated existing social inequalities and highlighted the importance of integrating social risks into investment decisions.

A first possible strategy to integrate the social ‘pillar’ in financial strategies is to invest in social bonds. A social bond is a ‘use-of-proceeds’ fixed income instrument aimed at mitigating a specific social issue or at generating a positive social outcome. Social bonds can be an optimal fit for investors’ fixed income portfolios to add diversification, serve as a solid platform for engagement with issuers on social themes and as a guarantee of measurable impact reporting to avoid ‘social impact washing’.

The social bond market provides opportunities for investors to align their strategies with key global challenges. This market, largely driven by Sovereigns, Supranational and Agencies (SSAs) in its early years but now diversifying to also include issuers such as corporates and financial institutions, is expected to become an established aggregate fixed income market. New issuance of social bonds in 2020 totalled \$160bn, accounting for 35% of total ESG bond issuances.

Social bonds also give an optimal opportunity to investors to put forward an effective engagement strategy. Issuers are strongly encouraged to annually provide a sufficient level of reporting on the use of proceeds. This enables investors to report with clarity on the measurable social impact of their investment.

In conclusion, long-term investors should consider social bonds to support the development of this innovative instrument at an early stage and reap the benefits of the expected market expansion.

Amundi has been a pioneer in the consideration of ESG issues and is committed to support the development of this new segment, having supported the expansion of green bonds in emerging markets and beyond pure investment grade instruments. With this objective in mind, Amundi actively supports the ICMA’s effort to advance green and social bonds markets by contributing to different work streams.