



TALKING WITH



Simon Bond

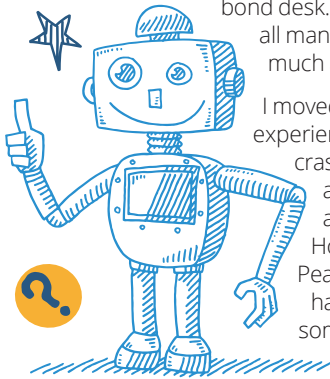
Director of Responsible Investment
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Talking responsible fixed income and rainbow washing with...
Simon Bond, Director of Responsible Investment Portfolio
Management, Columbia Threadneedle Investments and
Richard Romer-Lee, Managing Director at Square Mile.

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HOW DID YOU GET INTO FUND MANAGEMENT?

It was not planned! I started as a trainee accountant in a local office, which led me to investment accounting at Hambros Bank. I worked for Peter Hill-Wood, then Chairman of Arsenal. He organised parties at Highbury, which I enjoyed despite being a Tottenham Hotspur fan. I transitioned towards fund management, initially as a desk assistant for equity fund managers but also doing admin for David Tapper's bond desk. I was young, enthusiastic and asked all manner of stupid questions to learn as much as possible.



I moved to Provident Mutual after my experience at Hambros of Big Bang and the '87 crash to support the bond desk. I became an analyst in 1991 and the first credit I analysed was issued by the Peabody Trust Housing Association – the legacy of George Peabody. That gave me the idea that the hard-nosed financial world could have some benefits for society.

WHAT WAS THE ATTRACTION OF BECOMING A BOND INVESTOR?

Given my name it was that or become a spy! I am curious and back then bonds, unlike equities, were unknown – a dark art – and I wanted to find out more. Fast forward to 2013 when we had our first meeting with The Big Issue. They wanted an investment product to which they could direct people that shared their values and provided for long-term societal needs. The idea was developed with their eight areas of social outcome in mind and the Threadneedle Social Bond Fund was born.



WHAT MAKES A GOOD FUND MANAGER?

I look for the same things in people I employ or the management of companies in which I invest. Is their heart in the right place? I like to see the whites of their eyes, which are a window into their culture. I look for enthusiasm, curiosity, passion and doing things for the right reasons.



HOW DO YOU DEFINE HOW YOU INVEST?

ESG investing is “doing the thing right”. Impact investing is “doing the right thing”. It's about the effect of the business on, community, society and economy. I ask questions people are not expecting – about their employment practices, such as how they look after their more vulnerable employees, or the terms of their outsource contracts if that's how they work. It can be about the smaller details. For example Manchester Airport filters water that drains off the runway and builds tunnels underneath the tarmac to protect the wildlife.



HOW DO YOU MAKE SURE YOUR INVESTMENTS HAVE IMPACT?

With the way we invest, predominantly targeting the primary bond market, we can follow the money through to the point of impact, which occurs where and when the money is spent. Bond investors typically don't have the same level of access to company management as equity investors. However, when companies want to borrow money through the primary market, when they are issuing bonds, this provides us with the best access and enables us to have the conversation about achieving impact and alignment of interest. We can benefit from covenants which control where the money can be spent (Green Social and Sustainability Bonds, for example).





DO YOU HAVE TO GIVE UP PERFORMANCE TO ACHIEVE IMPACT?

Impact investing used to imply sacrificing financial returns to achieve it, but I absolutely refute that now. It is simply not the case and I have spent the last six and a half years proving it. We don't use a specialist benchmark, we use a conventional one, Non-gilts (which includes local authority, supranational and agency bonds). With around half the constituents of the non-gilt market, we can deliver a corporate bond return for corporate bond risk. At the same time we can stretch the target to compensate for the cost of active management, which we define as the difference between active and passive fees. In doing so we have beaten the index, and if you want to get technical and look at the Sharpe Ratio – which washes through the complexities of the index for duration etc – we are delivering on a risk-adjusted basis. It is down to central government to deal with naysayers who say that people should pursue purely financial returns or philanthropy. Authorities are behind the curve and if they ever do catch up, I know which side I would rather be on.



WHAT DO YOU INVEST IN?

Entities that don't have equity, for example local authorities, universities, housing associations, charities and some that do including utilities. Much of what we are supporting are long-term infrastructure projects – hospitals, schools, university buildings, which need sustainable and appropriate funding for physical assets. There are secondary benefits too in achieving impact. For example these organisations provide employment and universities conduct research into cancer and other health issues.

We also finance good employers, such as John Lewis and Morrisons, who go about it ethically providing training or partnership. And those who provide the essentials of life – for example Glas Cymru, which owns, finances and manages Welsh Water. It is owned by its customers and operates solely to provide benefits to them. It's the way, where and how they do it which provides the impact.



WHO ARE YOUR CUSTOMERS?

They tend to be retail investors. Plus there is one local authority in the UK fund – it's good to see they have a social conscience. Retail and institutional prices are the same – 30 basis points, a significant percentage of goes to The Big Issue.



WHAT ARE THE GROWTH PROSPECTS FOR IMPACT INVESTING?

One of our mantras is to bring social investing into the mainstream using a conventional asset class. It's not scary. It's just a corporate bond – a tradeable loan. There should be no real preclusion from issuing normal bonds to impact bonds. I can see no reason why it shouldn't grow to the size of the corporate bond market.

HOW WILL THE COVID-19 PANDEMIC EFFECT IMPACT INVESTING?

It is truly a terrible thing to befall society. Yet it has shifted attention away from just the environment to a much wider set of issues, such as education, Social Housing, employment and health. These should be supplementary to the environmental focus rather than supplant it, and that would be a good thing.

WHAT EXCITES YOU AT THE MOMENT?

We have launched a campaign for a green gilt. A sustainable, social gilt could help pay for furloughing. If we get one, we will still campaign for more issuance as it won't be enough on its own. We encourage issuers and banks, who are really important in this, as we need to influence them as aggregators to follow the money through to SMEs to see the impact. The idea is to facilitate borrowing big and lending small. We have helped the charities sector in this regard, which enabled small and medium-sized charities to access finance as they are not big enough to issue their own bonds.



WHAT WORRIES YOU?

Rainbow washing – it's the new greenwashing. Companies just claiming to be aligned with Sustainable Development Goals when it should be at the heart of what they do.

WHO HAS INSPIRED YOU?

I should mention George Peabody, the Victorian Philanthropist but in truth I was influenced by my parents, school and the people I grew up with. My father, the son of a train driver, left school at 14 but went to evening classes, achieved his school certificates, then the CII and became a Fellow. He understood the importance of education and aspiration. He was my real hero.

HOW DO YOU RELAX?

I love the old technology of sailing – with pulleys and ropes – and am currently learning to navigate using a sextant by the stars. I am halfway through an MA in Naval History at Portsmouth University. My Uncle served under Johnny Walker – hunter of U-boats in sloops, in which both my uncle and my father served, coincidentally both operating a gun turret. I am a passionate supporter of Tottenham Hotspur Football Club. Given my day job I am also passionate about the new stadium, the impact it has and will have on the most deprived ward of Haringey. There are jobs and training offered through the foundation to help people interview for jobs at Sainsbury's, for example.



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