Sustainability Now Podcast
“Sustainable Finance Summit, Part 3: Matthew Lawton and Rik Logtenberg”
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Mike Disabato
Hello everyone, and welcome to Sustainability now, where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato, and this is part three of our four part series of recordings from the Sustainability Finance Summit in Montreal that was put on, of course, by Finance Montreal. And we've featured some great guests so far in our last two episodes. Doctor Sarah Kapnick, who's the ex-chief scientist of NOAA and now global head of climate advisory at J.P. Morgan. You have John Morton, who's the head of nature finance and investment at the World Wildlife Fund. We have Eric Usher, who's head of the UN Environment Programme Finance Initiative, and Brian Kernahan, the chief sustainability officer at Manulife. I am. And this week, our guests are no less impressive and affable and knowledgeable. And first we're going to hear from Matthew Lawton, who is T Rowe Price's head of impact fixed income and a portfolio manager in T Rose fixed income division. So Matthew focuses on the blue economy, specifically the blue economy bonds. And these are bonds that were created in order to channel capital into projects that address threats from spanning water pollution or overfishing, and the effects of climate change on oceans and rivers and everything in between that deals with those things. So to put it bluntly, it's a regular bond plus blue economy promises. And now what that means is Matthew has to do the work of assessing a bond in a traditional way, any way that a fixed income investor would, but with the added complexity of ensuring the proceeds of that bond will be used to spur the blue economy. So our discussion digs into that process. It highlights both the analysis and, critically, the credibility of those proceeds that are supposed to be tied to some sort of blueness. Then I talked to Rik Logtenberg, who is the director of Canada Adapt Can Adapt, which is Canada's climate network, and he's also a city council member for Councilmember for the City of Nelson. And because of those two things, we discussed what it was like for communities that have to repeatedly rebuild their lives after climate disasters. And there's an acceptance, he thinks, that municipal staff and politicians have to understand that you can't build back the same. But disaster stricken residents demand and crave stability and normalcy and rebuilding by those people in the best way possible. But the issue is, he thinks, is that new construction requires a workforce. It requires materials, suppliers, good policy and funding all coming together at once. And while municipalities carry the responsibility of building back better, as it were, they don't have the authority to carry out the necessary planning and funding. And it's a tricky thing, but one that Rick explained well, and one that I think is gonna be really interesting, especially right now when there are so many ongoing climate disasters that we're dealing with due to heat and drought and fires and all that. Okay. So that's what we have on the docket for

today. Let's start this off with Matthew Lawton, head of Impact fixed income at T Rowe Price. So we're back at the Sustainable Finance Summit put on by Finance Montreal. And I'm here with Matthew Lawton from T Rowe Price to talk about the blue economy. And thanks so much for joining me, Matthew. Uh, so for the first question, I thought I was going to kind of go through just, uh, what it pertains to be a credible and impactful blue bond, blue economy bond, maybe in, in describing that, you could give some examples of something that you've seen as was possibly look incredible, but turned out not to be credible. And another one that was credible and kind of fits all the, the boxes that you want when discussing blue economy, social impact bonds around the blue economy, everything, Everything down that line.

Matthew Lawton
Sure. So there's essentially four dimensions that we look to underwrite against when we're looking at a blue bond or a green bond or a social bond, any sort of impact bond. There's essentially four things we look at. First is the issuer itself and its alignment to the project, its financing. The second is the governance structure that underpins the Blue finance or sustainable finance framework. The third is the ex post impact reporting. And fourthly is and I'd say this is most critically is the credibility of the proceeds. So how ambitious and material are the projects that are being financed and, um, and measuring the outcomes that result from that. So if you think about an example where a prospective transaction maybe looks good initially on paper, and then when we started to dig into the details, we ended up having to pass on and I won't, I don't like to name shames, I won't name names, but I'll describe the structure in context, which is it was a sustainable fishery operation that came to us and was looking to, to finance a blue bond. And while the project itself was, was fine. Um, it was through our diligence process that unearthed that the issuer itself, there was a number of labor controversies and supply chain practice concerns. And so we ultimately ended up passing on that opportunity because there wasn't a tight alignment between the issuer and the project that was being financed. Let me take the inverse, an example of one that that was structured really well with high integrity. Uh, first, Abu Dhabi Bank was the first bank out of the GCC to issue a blue bond. They came to market with a couple small transactions financing desalination. Desalination is a project type that tends to present with a high degree of risk and complexity. They're often very carbon intensive. If the brine isn't managed in a particular way, it can introduce a lot of salinity into the water. That can be harmful for marine life. And we were very proud of the way that first Abu Dhabi, its bank and then us as the investor, work with them to structure a very high integrity transaction that we've since seen adopted by other issuers financing similar projects. In terms of the constraint that the feedback that we get from issuers and underwriters is that, well, we'd like to do a blue bond, but we don't have enough eligible assets to place it into a benchmark size bond transaction. So we can only do fifteen, twenty, twenty five million. And we're happy to pursue those we have and will anchor finance deals among that size, because we want to provide that proof of concept to the market, that these transactions can be credible, they can deliver a good return. And then when the issuer comes back to refinance those bonds, they're doing it hopefully with a much larger size. And that builds a crowding in effect. So bringing other investors onto those subsequent transactions that mobilizes more capital into the blue economy.

Mike Disabato
The the integrity piece, the labor aspect was off. The governance aspect was off. You're saying so so with integrity, it's not so much whether or not the marine, the marine life is going to be impacted. The blue economy, maybe the structure around fishing are going to be benefited. It also has to do with really strict labor policies. Sure.

Matthew Lawton
So we have seen a number of transactions across the labeled bond space, where maybe the issuer itself has good ESG practices, target standards, but its structures a very poorly low ambition, blue bond and vice versa. So it's important when you're underwriting these transactions, you're underwriting not just the project, the on the ground project itself, but also the issuer, because we don't want to lend money to a company that is falling afoul of these basic ESG issues. That to us, signals a lack of intentionality in what they're actually trying to achieve.

Mike Disabato
Okay. All right. So with with that, when you're mentioning coastal projects, I'm assuming that there has to be a pretty strong public sector private sector partnership. And is that often what happens around these blue bonds? There's kind of a government, uh, backer that comes in and says, okay, we're okay with you sort of impacting this coastal, um, structure in the way that you want to, the way that this bond wants to.

Matthew Lawton
A vast majority of the blue bond transactions come from one of three entity types. The first is corporates, and I'm being inclusive here of financial institutions or banks. The second is sovereigns or subsovereign. So something that's coming out of a public finance entity. Or thirdly a multilateral development bank. I am a simple minded individual. I'm a simple minded investor. I tend to prefer transactions without necessarily structural complexity. We have seen a small handful of example transactions that describe that exemplify what you described, which is that public private partnership angle. There was one. It was earlier this year was a blue bond issued out of a Brazilian water utility, Sabesp. They had come to the market and done a plain vanilla blue bond. Last year. They came back to market with IDB invest is a multilateral making an investment commitment into the company. And they did more of a structured blue bond transaction. Second is in adjacent labels. We've seen a handful of debt for nature swap transactions, where there's typically a multilateral that comes in, either provides some form of credit guarantee on some sort of de-risking mechanism to lower the cost of borrowing for the issuer that hopefully, in some cases will help investors get more comfortable. Again, in my opinion, complexity that's more of a headwind to mainstream adoption. So the types of transactions that we intentionally seek out are the ones that can be replicated by other issuers and other underwriters to drive that scaling effect.

Mike Disabato
It must also have if you have to get political backing, there must be the fear of also political backlash if the funds are not actually used in the way that the bond says they would, does that, does that sort of where that complexity also gets brought in?

Matthew Lawton

So so there's that. And then also to the point of political headwinds blowing in different directions. You don't want to be in a situation where you're reliant on a multilateral to de-risk a project, because that multilaterals objectives and priorities may shift over time. Right? And so it goes to the point earlier of looking for corporates and companies and sovereigns that can issue it without the complexity, with a straight look through to the use of proceeds that investors can simplistically underwrite and report impact on.

Mike Disabato
Is that so? That that kind of goes to the last question. Then we can we can explore and go off piece as necessary there. But when asset owners come in to invest in some of these bonds, what are they looking for? Are they looking for mostly a social return or is it also is it the combination of two I'm assuming. Is it is it a are they looking for diversification? Is it the yield. Is it the blend of all that. What are they kind of trying to get with the bonds?

Matthew Lawton
When we speak with asset owners about impact investment programs, we try to approach those conversations with a partnership mindset. And what I mean by that is the specific objectives that an asset owner might have that relates to impact or financial. They can vary substantially and be very, very specific to the enterprise. So our objective is to meet our clients where they are and then mobilize our own resources in the pursuit of our own clients, environmental or social, and then financial objectives. Um, they may desire a very specific type of impact. Like blue for instance. Um, we were selected as a partner of choice by the International Finance Corporation or IFC to launch a strategy and build a portfolio of emerging market corporate blue bonds, which is very specific, very targeted in both the type of impact that it's endeavoring to achieve and also the regions in which it's hoping to achieve that impact. From there, my experience is asset owners, they want a market rate or better return. And the measurable impact, again, I'm going to be very simplistic here. But if we as investors, if we get the bottoms up fundamental underwriting correct, if we apply sound risk management principles, then hopefully the market rate return should follow. Not always, but hopefully that's the case. So on the measurable impact piece we spend, as you might imagine, a lot of time collecting individual KPIs across companies, across projects, so that we can then aggregate those KPIs and then report on that to our, our end client so that our clients know where their capital went. How much impact it generated, and quantifiable, easy to understand ways like GHG emissions avoided or liters of water saved. Um, the last thing I'll mention here is something we started doing last year, which I think has been well received, is calibrating how much impact is being generated in our strategies on a one million dollars investment basis so that our, our clients, they know how much they invest with us, and then they can then attribute how much impact their capital is achieving based on, based on the investment in the strategy. And maybe just to give you a quick example of this, we have one client that has enterprise level objectives around providing wash access, water, sanitation and hygiene. So as stewards of their capital, it's incumbent upon us to go out and find issuers and projects that are aligned with those Wash goals. We can collect the data on how many individuals were reached from those projects, and then our client can then use that data to demonstrate progress on their own enterprise level objectives.

Mike Disabato
Does that mean that a lot of these bonds are based in emerging market projects, frontier market projects, or are they kind of these smaller? I mean, that that wash makes me think of a smaller projects, um, like providing better cooking utensils for areas that are using coal instead of, you know, solar and things like that. Is that where a lot of these projects kind of fall out?

Matthew Lawton
It's really interesting. This is a rare instance where the global South is leading the global north. In terms of blue finance. We've seen a lot more transactions and interest coming from the emerging markets relative to the developed markets. Hopefully that's not a permanent state. Um and the transaction sizes they range, we've worked on deals as small as fifteen million to as large as seven hundred and fifty million. So it really does, it depends on how much, how many eligible assets the issuer has that they can place into the bond, how comfortable, how much debt they want to raise. All of those go into the considerations for the transaction sizing. But we do see that that really wide range in in sizing.

Mike Disabato
Are the big project growth's really. Do you think desalination is going to be where a lot of that comes from, because water stress and needing to deal with that, coastal regions, not having fresh water resources.

Matthew Lawton
Desalination for sure, and water stressed regions. I would also say sustainable shipping, the amount of capital that needs to go in to decarbonize the shipping industry.

Mike Disabato
Is that toward fuel where that goes, or actual electrified boats or something?

Matthew Lawton
Both so electrifying electrified ships that they can only run short travel for short distances, but also retrofitting existing ships to run on less carbon intensive fuel sources. There's thankfully, guidelines in place. EU taxonomy, IFC guidelines on bluefin that stipulate exactly how much efficiency gains that issuers that need to deliver in order to call it sustainable. So that's the second category. And the third I would call out is, um, just clean drinking water that is, um, needed to be provided to harder to reach rural populations within parts like Brazil. We've seen a lot of CapEx investment taking place in those regions to provide the clean drinking water supply to individuals.

Mike Disabato
And is it so this is kind of the last thing to sum here, I think it's been interesting to hear about maybe new projects being built, which I guess would be the mitigation aspect. How much would you say if you you know, I know this is kind of on the spot, but in terms of mitigation versus adaptation, with these bonds mitigation being something that's new and providing maybe drinking water sources, adaptation being something that can deal with a contamination of water sources due to climate change or a port that's kind of falling apart because of changing water levels.

Where do you think kind of the projects come down? It might not be possible to to note that, but in the mitigation versus adaptation realm.

Matthew Lawton
We we would support all of the above.
We've seen port transactions issued by port companies that are going towards marine pollution prevention to clean up the areas around the ports, working with, uh, companies like Coral Vita that provide artificial coral reef restoration that can help improve marine life in waters that might otherwise be damaged with pollutants. Uh, coastal resilience projects, uh, mangrove recovery. So we really do see the gamut. Uh, those more esoteric projects do tend to come in smaller size, but we are very intentional about seeking them out and supporting them when and where we can.

Mike Disabato
Yeah. The size aspect is interesting. I mean, it would be fascinating to, if we had time to go more into where you have smaller sized, really impactful, um, projects and how you can actually build a vehicle around that. But I think, I think we've hit the, unless you want to go into that, I think we hit the ceiling and thank you so much for joining. And, um, I hope you have a good rest of the conference.

Matthew Lawton
Great. Thanks for having me, Mike.

Mike Disabato
So welcome back to the Sustainable Finance Summit, which is put on by Finance Montreal. I'm Mike Disabato with sustainability. Now. I have with me now, uh, Rick Leuchtenberg who's the director of can adapt and part of the city of Nelson. City council. Yeah. Um and so Rick. So what what I really wanted to immediately discuss is something that you kind of discussed on your panel. And it's around communities that have disaster recovery after having a disaster and another disaster. Another disaster. Um, you really do see that human side up close working for city government. And I'm curious what that cycle does to a place over time, to affordability, to whether people want to stay, um, just general trust in the system. Is there a point where rebuilding the same way, uh, sort of gets everyone to say, well, we did this before and a disaster happened. Are we really going to do the same thing again? We're quite worried.

Rik Logtenberg
Yeah, absolutely. I think increasingly the general public, but certainly the political class and staff at municipalities understand that you cannot build back the same, Climate change is such a, uh, omnipresent, uh, factor in, in the decisions we make, whether it be in, uh, in, in planning a new neighborhood or, or, or taking on infrastructure projects in the municipality that you have to consider climate change. And because we're dealing with the reality of climate change on a daily basis, we, we do think ahead to what it means to, to build back after this disaster. It's, it's kind of in many ways becoming wired into our DNA. However, um, residents and taxpayers often are not on the same page. They, when they go through a disaster, as we've seen in case after case around the country, um, it's so overwhelming that as a homeowner, for example, what you're looking for is stability. Again, you want to, you want to just get things back to normal. And so the, the Inertia is towards just

building back to what was there before. And in many cases, it's seen as the most cost effective approach because again, you know what you're doing already. You're just recreating what already existed, which is less expensive than trying to create something totally new. And yet, um, I think that's becoming more and more untenable as we see case examples around the country of, of cities or municipalities that are trying to do that and failing. I look to Lytton, B.C., which was devastated by a wildfire, um, five years ago. And they're still, you know, only thirty percent of the way there to, to rebuilding the city and, and are really struggling. And I think in part, this is my opinion that there's an underlying sense of why are we doing this? Right? Um, and, and because of that uncertainty, things are slow, are much slower.

Mike Disabato
If, if, let's say all those things coordinate together. Yeah. And then there's capital available. Yeah. Is it just a simple act of deploying it or are there enough people is there, you know, are there enough people to take that capital in and do something with it?

Rik Logtenberg
No, that's the coordinate part of the coordination problem that I'm talking about. So an example of that is we have this vision of doing a, you know, massive retrofit program of our building stock around the province of B.C. but this is true around the country. But once you step into that and really try to, to, to undertake that project, you realize quickly you don't have the, the, the workforce to do it. The materials, suddenly you're going to have a serious shortage of materials. So I'm not going to pre-purchase a bunch of, I don't know, heat pumps, for example, if there's no one to install those heat pumps or I'm not going to get trained in doing that Hvac. If I don't think that there's going to be a market for my services on the other side, so many factors have to come together at the same time. And I, so I it's not just a capital problem, it's a coordination problem.

Mike Disabato
Is it the city's job then to do that? I mean, is it does it require regulation to come in and say, here's what we're going to do to signal the long term commitment?

Rik Logtenberg
It can't be the city, the the municipalities don't have the legislative authority.

Mike Disabato
Educate me on the Canadian.

Rik Logtenberg
It's going to be it's it's going to be a combination of, for example, building codes that would require which is provincial and federal jurisdictions. It's going to be incentive structures, which again, are provincial, federal. A lot of them are utility driven. So regulation would force or encourage or force utility to invest in energy conservation programs. Um, so it's, it's a, it's a, quite a few factors that are outside the municipal scope. However, over and over again, municipalities, because they are on the front line, they experience the effects. And so we are put in a position where we are, um, taking on the responsibility given to us by our voters, by our constituents. They are saying you should do this even though legally it's not our responsibility. It becomes our responsibility. And so and we want to do something. I

think if you ask most councilors and mayors, they recognize the reality and they want to be part of the solution. Of course, they've got other responsibilities that take precedence. And yet they're looking at this as a system. And if we can, for example, you know, invest in our infrastructure resilience over the long term at the same time that we decarbonize that same infrastructure, that's something we're going to choose to do. The cost of doing that extra step is something that the other, the utilities or the federal or the provincial government could step in, ideally, that the private sector could step in. And so we are in a role to coordinate.

Mike Disabato
Do you know if when you have to do all these things in the community, there's a fear of repricing their real estate? I remember I read something about a community was trying to not have a mudslide map incorporated. It wasn't because they were anti-science or anything. They were just like, if this happens, the price of our homes will go down by a precipitous amount.

Rik Logtenberg
Yeah, your.

Mike Disabato
Insurance.

Rik Logtenberg
Will go way up. Yeah. We flood mapping is a real risky. It's important and risky business. So oftentimes you'll do this comprehensive flood mapping program, but then not release the results to the public. But there's a liability issue because if you knew about the risk but didn't communicate it to the public, then, um, then you're responsible on that end. And yet nobody really wants to know if the results are negative. Like they'd rather because like you said, their property values will collapse or their insurance premiums will go up. It's a real it's a genuine problem. We have the same thing on the fire side of, of the equation. Like, do we do fire risk mapping? And we are conscious of that. When you do that work, you are then responsible for responding to it, which can be incredibly expensive. So unless you're willing to take on the response, um, then it almost doesn't feel worth it to do the mapping in the first place.

Mike Disabato
It does it then mean that what you're pushing now is a lot of adaptation in one way or the other?

Rik Logtenberg
Well, the framework.

Mike Disabato
Adaptation one way or the.

Rik Logtenberg
Other. Yeah. It's politically it's really difficult. Um, um, because where the dominant issues right now are affordability, um, and then things related to affordability, like health care or homelessness, that kind of thing are really where, um, people's concerns are. And so we have to reframe even adaptation as an affordability issue,

which is difficult because it's long term affordability. So short term costs for long term value. Um, and you know, it's difficult, that's a hard political conversation to have because you're. The moment you step into that, you're easily exposed as as wasteful or naive by by potential political opponents. And so the incentive structure is to try to not talk about it, maybe do it, but do it quietly, which is a real shame because oftentimes it's communicating is what's necessary. Because again, a lot of the responsibility is going to be on homeowners to, to do the do the work. My other hat, though, I should say so I'm a city councilor and that's one hat I wear the other hat, as the director of Can Adapt is developing solutions for this coordination problem. So recognizing that if we're going to do anything, we have to take a systems approach, because you do one thing, then the system will react to it to reestablish its status quo. So like again, if you wanted to invest in an energy efficiency program, you got to recognize that the system, whether it be the contractors or the suppliers are going to push back, um, to, to rebalance back to back to status quo. What we're working on is figuring out ways to, and, and recognizing that technology is going to be a key part of this, doing five or six things at the same time and then approaching it from a, from that systems approach. So both do say workforce development, um, start connecting and communicating with suppliers, get the funding in place, do the public education all in parallel, all in a coordinated way, which again, it's very difficult and municipalities don't have a lot of experience because they may only have one or two of the responsibilities, but you need all of them to happen. If any of them are going to work.

Mike Disabato
Is the you know, I've talked at this conference about a couple taxonomies is that can adapt and attempt at that to show. Here's the structure of bringing those five things in together.

Rik Logtenberg
Well, at the Climate Risk Institute, which is the parent of can adapt. We have a couple conceptual frameworks that we use in. And although the language of taxonomy isn't something native to the practitioners, it's more of a financial, um, uh, language. It's definitely a key part of it. Our, um, contribution is more on the technology side. So we're building the, essentially combining a social network plus a project management system, plus a CRM system to build this coordination layer for practitioners, policymakers, researchers, and eventually the capital and even eventually the, um, the, the social entrepreneurs who drive a lot of the change. So all of those people together need to connect somehow. And it seems like the best tool we have is in our pockets, in our, in the form of our phones. So we might as well leverage what we've got.

Mike Disabato
Yeah. Fair. Uh, so to end it up here, I've read this was, I don't know, five years ago, and it's not to make a glass half full situation. But is there also opportunities that Canada is going to get from climate change? Of course, the fires are going to maybe prevent that. But I remember reading the growing seasons are going to extend by three weeks. It is there. Is that actually a thing? This is more of a curiosity. Maybe it's not something that is going to directly impact can adapt the city of Nelson, but I'm curious if that ever comes up, if there's different growing patterns that can take advantage of in this, it.

Rik Logtenberg
It it's possible. But with climate change, it's the rate of change that's really challenging. And ecosystems are probably far more adaptive than we, we ever we knew I mean, only by seeing it happen will we know for sure. However, with the change coming so quickly, like a massive drought or a heat wave, the ecosystem, the way it often responds is to kind of retreat and, and it loses its its carrying capacity for for biodiversity in that ecosystem. Having said that, there's also some positive signs that maybe it's not as dire as we thought, but I mean, that's pretty pollyannaish, I think. The truth is.

Mike Disabato
It's.

Rik Logtenberg
Pretty challenging. Yeah, it's a it's pretty challenging.

Mike Disabato
I think that's a good point, though, that there is even with the possibility of maybe a longer growing season that will be netted out, possibly by a disturbance of soil health or something like that. And that has to be prepared for.

Rik Logtenberg
Exactly.

Mike Disabato
Even if there might be one good thing, the net negative could be could be present. It's a fair point. It was just a curious I really was wondering.

Rik Logtenberg
Is that I mean, I think I think we're looking for any signs of hope. And I think there are many signs of hope. I think that's maybe not really one of them, but but there's, there's, I think one of the things that I keep coming back to is that we become more resilient as communities, as individuals through challenge. And we can't forget that that we are incredibly adaptive species and we can support our ecosystems, which are the basis for life. We can support their adaptive capacity. Um, we know how to do it. We just have to not lose hope and to just lean in, get the work done.

Mike Disabato
A positive message to end on. All right. Nice. Thank you so much, Rick. I really appreciate it. Thanks for talking to me today.

Rik Logtenberg
Yeah.
You're welcome.

Mike Disabato
And that's it for the week. I want to thank Matthew and Rick for talking to me about the news with the sustainability twist. I want to thank you so much for listening. If you like what you heard, don't forget to rate and review us and subscribe wherever you get your podcasts to hear us whenever there's a new episode of sustainability now. Thanks again and part four will be coming up next week.

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