



Setting the Record Straight: **FIXED INCOME IMPACT INVESTING**

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Global Impact Credit Strategy
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Where does Impact investing sit?



What we believe:



Social
challenges &
inequality
cannot be ignored



Fierce climate
change
cannot be ignored



Financial
investing can
do more than just
create alpha

Truths vs Myths: Setting the Record Straight

Myth 1

“Impact can only be achieved in private markets”



Myth 2

“Only ESG-labelled bonds can create a positive impact”



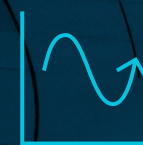
Myth 3

“Achieving impact requires an overhaul in the portfolio construction process”



Myth 4

“Impact investing implies lower returns”



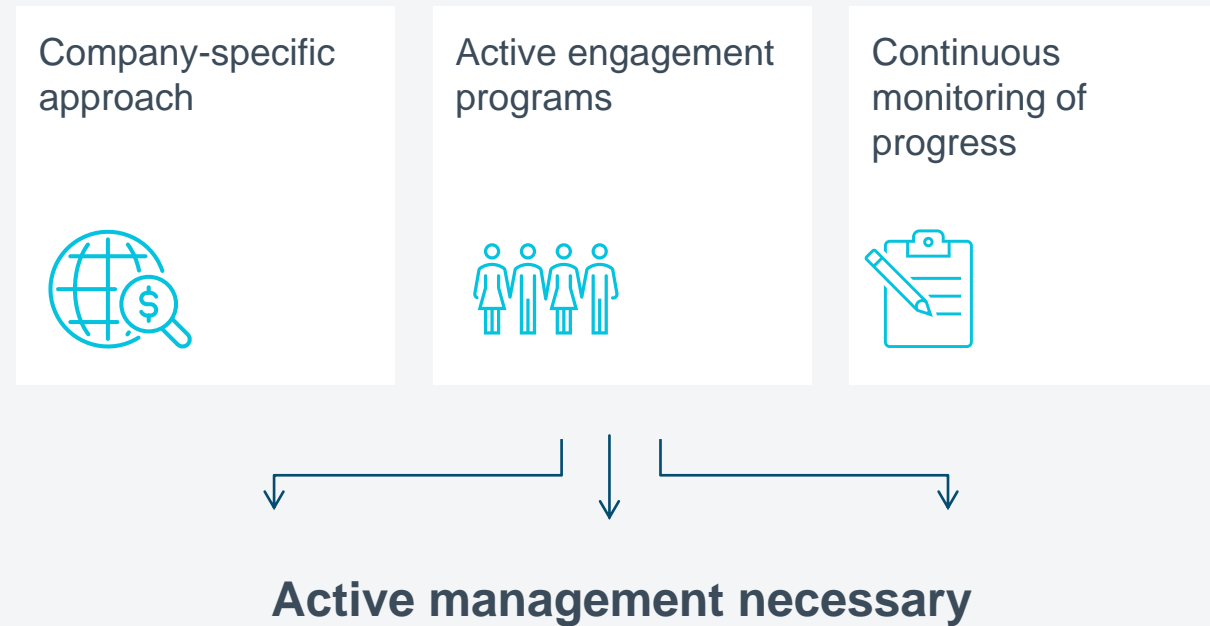
Can you make an impact in the public market?

1
Myth 1

2
Myth 2

3
Myth 3

4
Myth 4



Intentionality

Additionality

Measurement

Resilience

Impact can, and should, go beyond labelled bonds

1

Myth 1

2

Myth 2

3

Myth 3

4

Myth 4



Portfolio Construction

- High corporate sector concentration
- Systemic risk



'Greenwashing'

- ICMA¹ provides guidance but compliance voluntary, self-reported
- Look beyond the label



Relative Value

- Pricing vs general obligation bonds
- Strength of sustainable finance framework

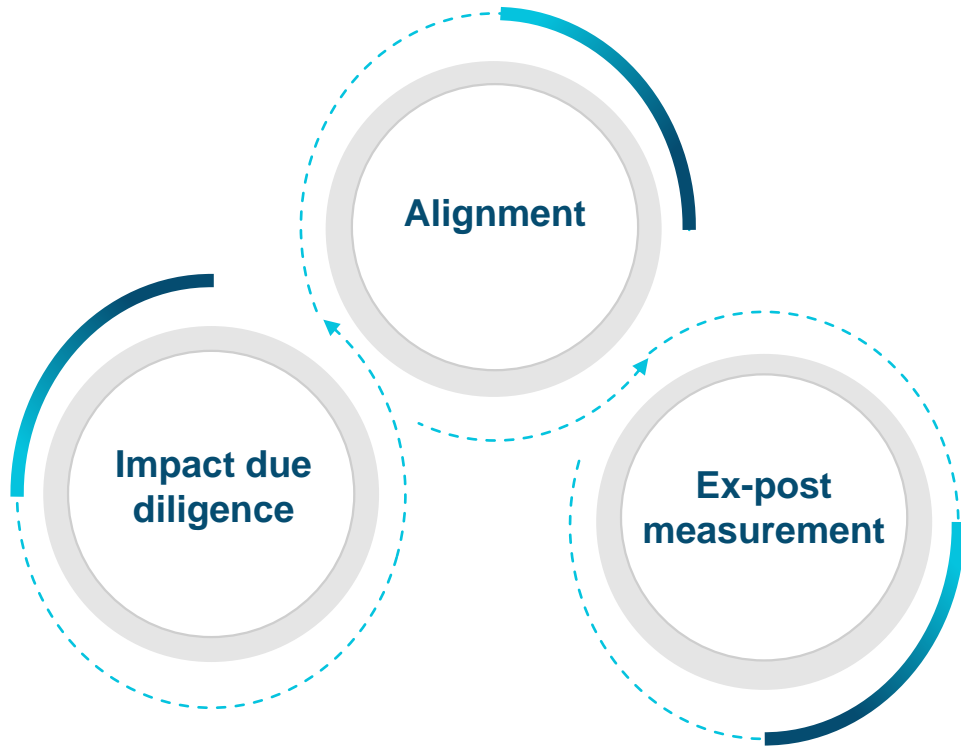


Opportunity Cost

- Large universe of issuers whose activities generate positive impact

¹ International Capital Market Association.

How do you qualify a non-labelled bond as impact?



Alignment

- Aligning all investments to a framework such as the UN's SDGs¹ or proprietary impact pillars, guides prudent impact decision making

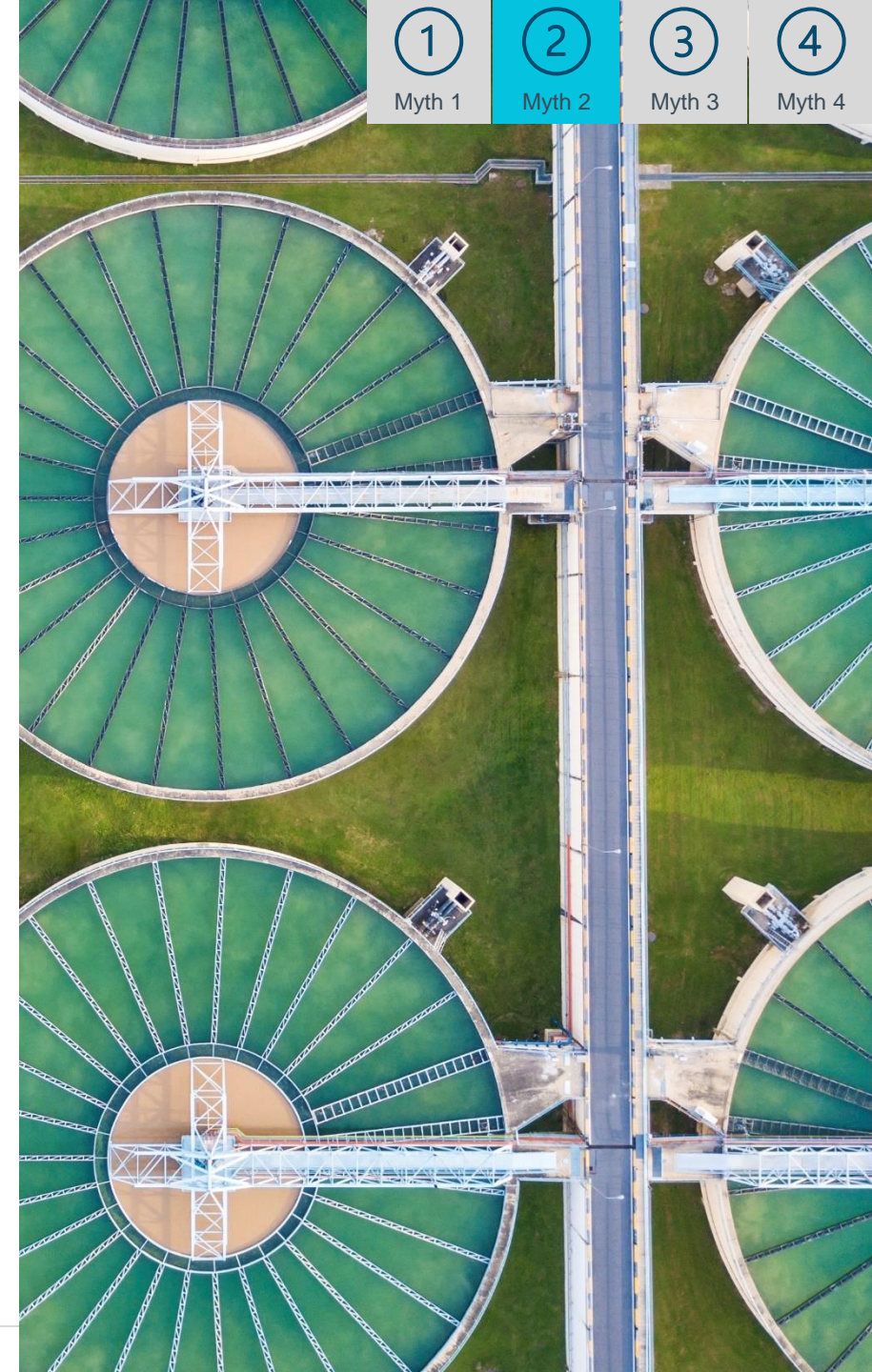
Impact due diligence

- Five dimensions of impact, and fundamental analysis help identify impact opportunities

Importance of ex-post measurement

- Monitoring progression of impact KPIs

¹United Nation's Sustainable Development Goals



1

Myth 1

2

Myth 2



















3

Myth 3

4

Myth 4


Impact Investment Pillars Guide Our Decision-Making

Impact Pillars	Sub-Pillars	Sub-Pillar Activities	UN SDG Alignment
Climate and Resource Impact 1	1. Reducing greenhouse gases (GHGs)	Increasing energy efficiency Decarbonization and carbon capture Reducing methane and other GHGs Financing activities	   
	2. Promoting healthy ecosystems	Protecting air quality, land use, freshwater & oceans Sustainable agriculture Sustainable aquaculture	  
	3. Nurturing circular economies	Reducing waste Recycling Enabling efficient consumption	
Social Equity and Quality of Life 2	4. Enabling social equity	Education & job training, Enabling SMEs, Financial inclusion, Reducing discrimination Digital connections Meeting basic needs / affordable housing Consumption at the bottom-of-the-pyramid	      
	5. Improving health	Providing health care solutions Improving nutrition & food quality Companion & animal health	 
	6. Enhancing quality of life	Promoting mental & physical fitness Protection solutions Personal & worker safety solutions, Safer mobility	  
Sustainable Innovation and Productivity 3	7. Sustainable technology	Innovative software & technology Innovation growth & smart infrastructure	 
	8. Building sustainable industry and infrastructure	Enabling enterprise growth Improving industrial processes	  

Source: T. Rowe Price uses a proprietary custom structure for impact pillar and sub-pillar classification.

Impact Analysis in Practice — NextEra Energy Partners

As of 31 December 2022

Impact Thesis		Fundamentals – Five Dimensions of Impact				
<p>NextEra is one of the largest owners of renewable energy projects in the U.S and the 12th largest generator of wind and solar energy around the world. Its renewable assets will accelerate global decarbonization by supporting the shift in energy production away from fossil fuels and towards low carbon alternatives.</p> <p>KPIs:</p> <p>Total installed capacity (MW) from renewable sources</p> <p>Energy generated (MWh) from renewable sources</p> <p>Carbon emissions avoided (mtCO2e)</p>		<p>What?</p> <p>Reduction of greenhouse gas (GHG) emissions from the generation of renewable energy.</p>	<p>Who?</p> <p>Our planet, municipalities, and people.</p>	<p>How much?¹</p> <p>In 2021, NextEra Energy Partners generated 20.3 MWh of renewable energy and helped avoid over 10.9 million tons of CO² emissions.</p> <p>In 2021, clean energy generation increased by 9% relative to 2020.</p>	<p>Contribution</p> <p>NextEra increased its renewable asset portfolio by 1.2GW in 2022.</p> <p>Increasing investment in renewable energy generation will provide clean energy at a lower cost for individuals across the U.S.</p>	<p>Risks</p> <p>They own and manage interest in natural gas pipeline assets, totaling 4.3 billion cubic feet of capacity and comprising 21% of company revenue.</p> <p>Natural gas pipelines can adversely affect the environment through habitat loss, sedimentation, and air emissions.</p>
Impact Alignment		Theory of Change				
<p>Impact Pillar</p> <p>Climate & Resource</p> <hr/> <p>Impact Sub-Pillar</p> <p>Reducing Greenhouse Gases (GHGs)</p> <hr/> <p>UN SDG</p> <div><p>7 AFFORDABLE AND CLEAN ENERGY</p></div>		<div><div><p>Input</p><p>USD 720 million revenue from renewable energy sales</p></div><div><p>▶</p></div><div><p>Output</p><p>8.1 GW of installed renewable capacity</p></div><div><p>▶</p></div><div><p>Outcomes</p><p>20.3 million MWh clean energy generated</p></div><div><p>▶</p></div><div><p>Impact¹</p><p>10.9 million MT CO₂e avoided</p></div></div>				

¹NextEra Energy Partners company report (February 2022)
The specific securities identified and described are for informational purposes only and do not represent recommendations.

1

Myth 1

2

Myth 2

3

Myth 3

4

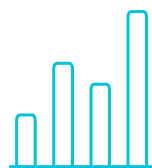
Myth 4

Impact screening just defines the investment universe

**Impact
Analysis**



**Fundamental
Analysis**



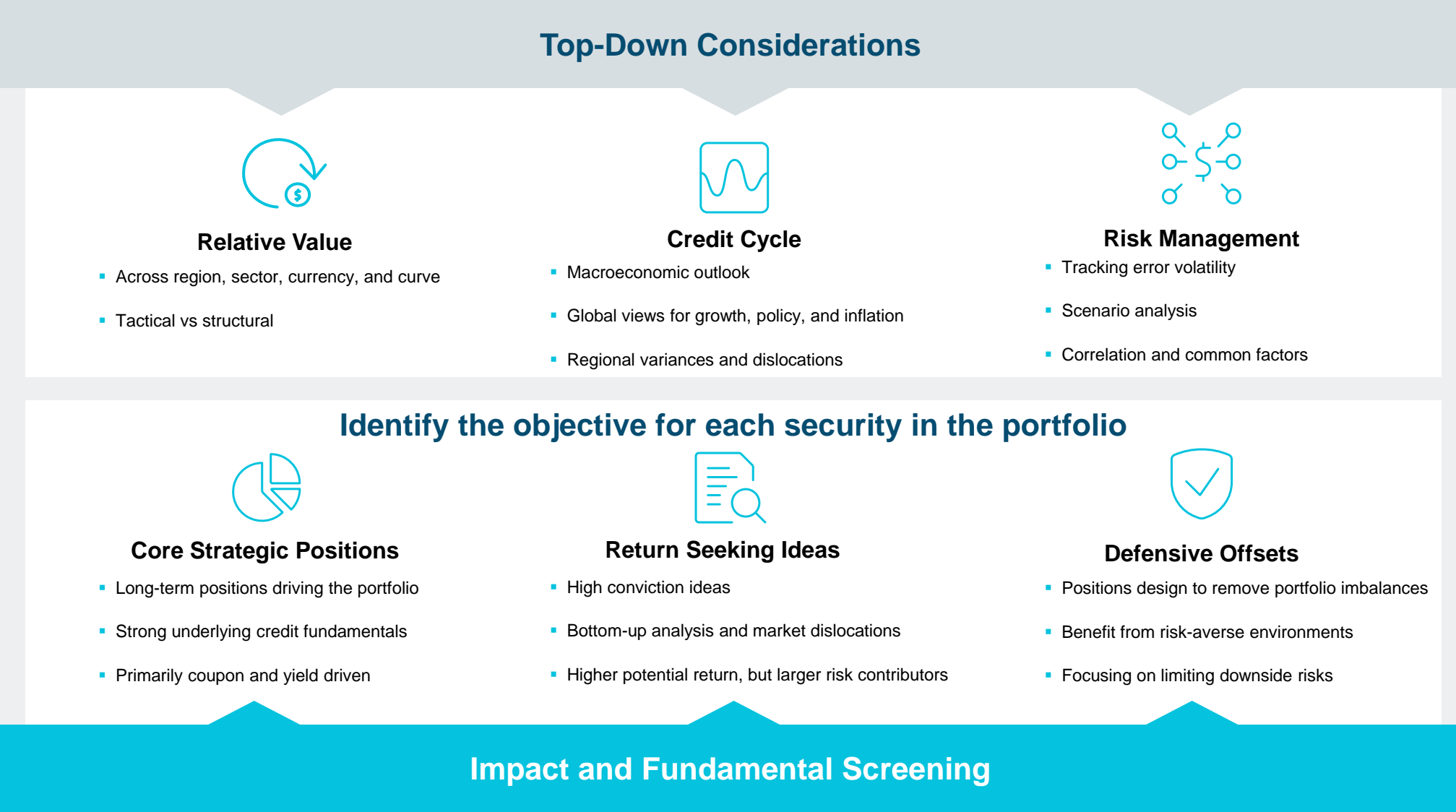
**Portfolio
Construction**



**Measuring &
Reporting**



Risk-managed approach to portfolio construction



Relative return factors are the same for impact & mainstream credit portfolios

1
Myth 1

2
Myth 2

3
Myth 3

4
Myth 4

Inputs

Outputs

Outcomes



Portfolio construction



Investable universe



Macro considerations

Portfolio attributes across:

- ✓ Duration
- ✓ Diversification
- ✓ Curve
- ✓ Sector
- ✓ Credit quality



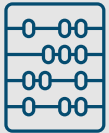
Targeted risk/return characteristics



Relative returns versus benchmark

The Truths

Impact investing can be applied to **both** public & private markets



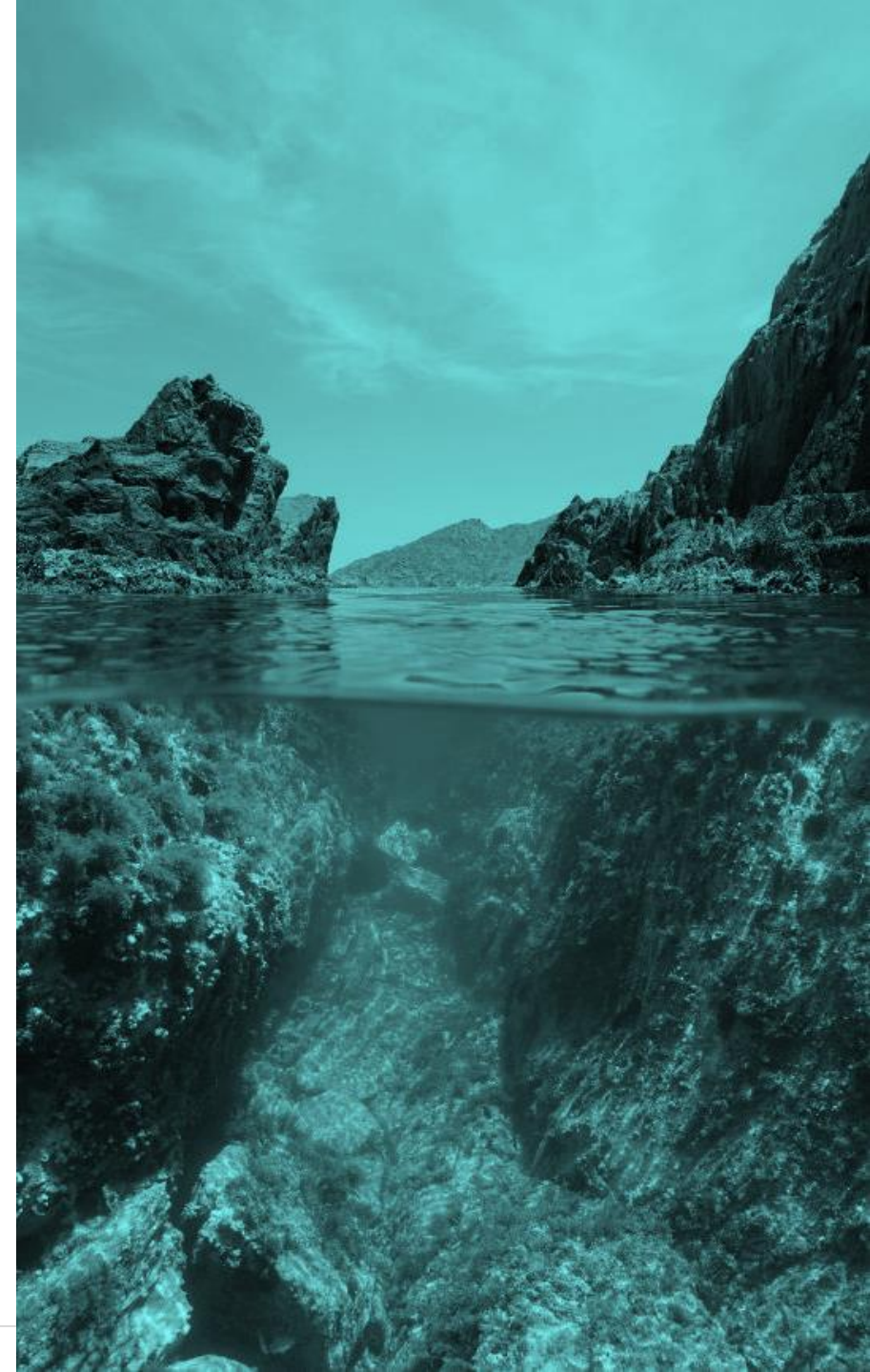
Impact can, and **should**, go beyond ESG-labelled bonds



Bottom-up & top-down analysis informs impact investments



Credit impact portfolios **do not** imply lower returns & should be simply screened as a credit product



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