



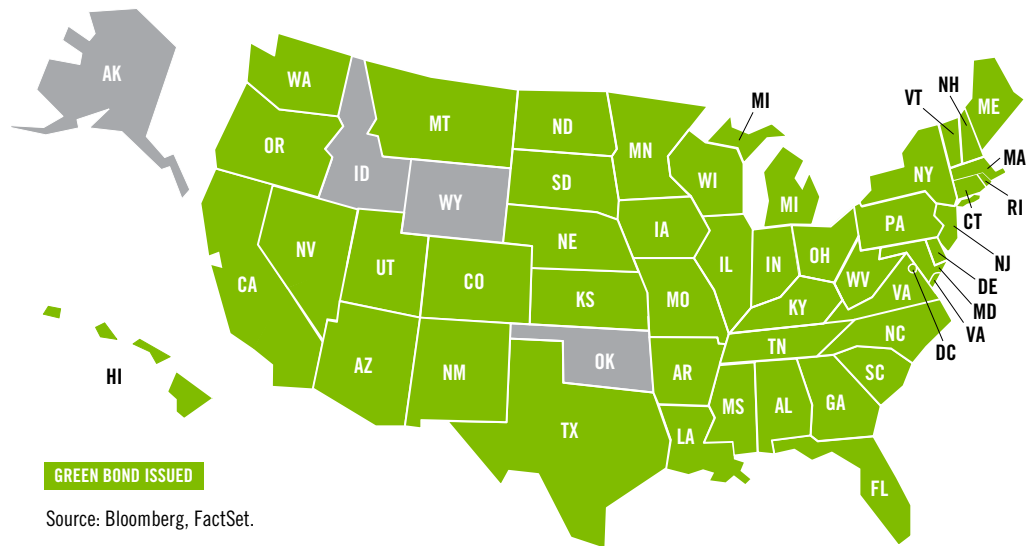
# GREEN BONDS: MUNIS FOR ENVIRONMENTALLY- CONSCIOUS INVESTORS

## What Is a Municipal Green Bond?

Environmental issues have consistently been in the headlines and more and more people are adopting behaviors to become more “green.” In response to this shift, a green bond label was created to apply to qualifying municipal bonds. Municipal green bonds are standard municipal bonds that enjoy the same tax benefits. However, they must also have intended and quantifiable environmental benefits, which include funding programs that benefit the environment or promote sustainability. These muni bonds could be appealing to investors who want to earn tax-free income, while also supporting their personal mission of environmental sustainability and stewardship.

### 48 STATES HAVE ISSUED AT LEAST ONE GREEN BOND, 2012–2020

While the geographic reach of municipal green bonds continues to expand, currently New York and California represent approximately 55% of the total market. But in total, 48 states have had at least one green bond issuer since 2012.<sup>1</sup>

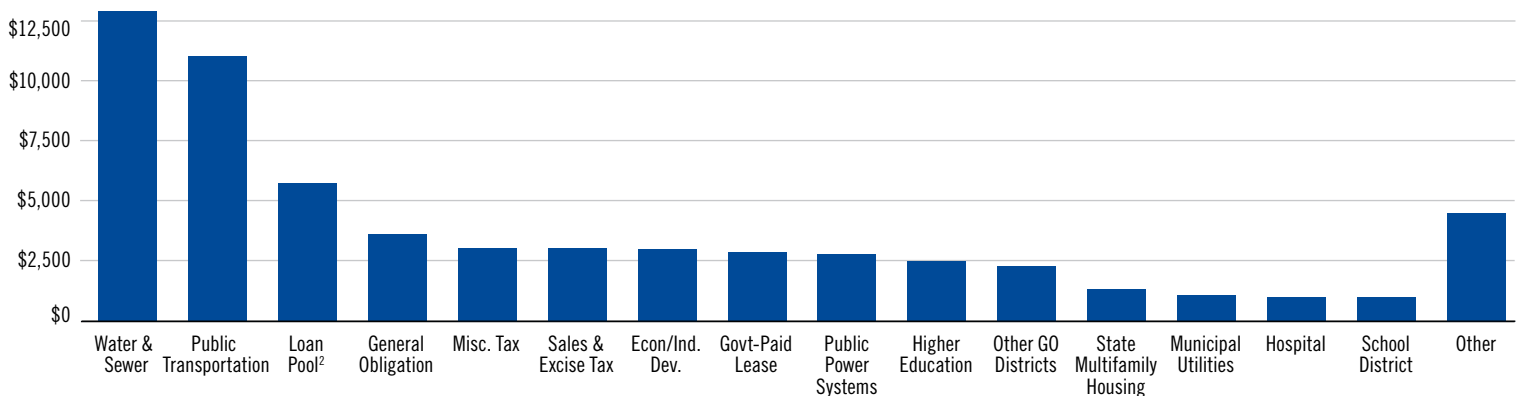


## WATER/SEWER AND TRANSPORTATION SECTORS LEAD GREEN BOND ISSUANCE

### Municipal green bond debt outstanding by sector

As of December 31, 2020

Par Outstanding (\$millions)



Source: Bloomberg, FactSet.

## Green Bond Principles

Green bonds are not a regulated class and there is no governing regulatory body, so any green bond designation is voluntary. The Green Bond Principles (GBP), from the International Capital Market Association, have become the most widely-used framework for municipal green bond issuance and disclosure.

1. Source: Bloomberg, FactSet.

2. Loan pools are state level revolving funds that provide financing to small municipalities throughout their state or jurisdiction.

## The Four Pillars of the International Capital Market Association's Green Bond Principles (GBP)<sup>3</sup>

### USE OF PROCEEDS



How the issuer uses the proceeds of the transactions—environmental benefits should be documented.

### PROCESS FOR PROJECT EVALUATION AND SELECTION



The issuer must communicate the environmental sustainability objectives, and the process and criteria for determining eligible projects.

### MANAGEMENT OF PROCEEDS



Transactions must be tracked so that use of proceeds can be verified.

### REPORTING



The issuer must keep up-to-date information on the use of proceeds.

## Franklin's Approach to Evaluating Green Bonds

Our Franklin municipal bond team has developed their own internal green bond evaluation methodology, using the GBP as a framework. The team reviews all green bonds, sustainability bonds and climate bonds to identify authentic green bonds and remove bonds that do not have disclosure meeting their standards for transparency.

They also review selected bonds without the voluntary "green bond" label, as there are many qualifying bonds available that may not have the designation. Bonds may not have the voluntary designation because there are no direct incentives for state and local governments to issue bonds labeled "green bonds." In fact, currently doing so may result in higher fees for the issuer.

Our internal municipal green bond evaluation process gauges the credibility of a municipal green bond to ensure it is aligned with the mission of investing in projects dedicated to promoting environmental sustainability. Fundamentally, projects should be aligned with at least one of the GBP pillars listed above. But our primary focus is on the use of proceeds, so we can assure the authenticity and intentionality of the green bond designation, as opposed to being reliant on a voluntary green bond designation. It is this internal research process that sets us apart.

**Investing in green bonds can potentially be a win-win—helping the environment while earning tax-free income. To learn more about Franklin's municipal green bond capabilities, please contact your Franklin Templeton Senior Advisor Consultant or our Franklin Templeton Separately Managed Account Sales Team at (800) DIAL BEN/342-5236.**

### IMPORTANT LEGAL INFORMATION

All investments are subject to certain risks. Generally, investments offering the potential for higher returns are accompanied by a higher degree of risk. Bond prices are affected by interest rate changes. High-yield, lower-rated (junk) bonds generally have greater price swings and higher default risks. Before investing in municipal bonds, you should understand the risks involved, including interest rate risk, credit risk and market risk. Please contact your tax professional regarding the suitability of tax-exempt investments in your portfolio, the applicability of local taxes and the Alternative Minimum Tax to municipal bond income, and any gains or losses on sales prior to maturity. Investors should review their investment objectives, risk tolerance and liquidity needs before choosing a manager. Securities markets can fluctuate significantly in response to industry, financial or economic developments, and unexpected events, such as the spread of deadly disease or disasters, can cause investor fear and panic, which can adversely affect companies, sectors and the market in general. There is no guarantee that investment strategies will work under all market conditions and investors should evaluate their ability to invest for the long term, especially during periods of market downturns.

Franklin Separately Managed Accounts is a division of Franklin Templeton Portfolio Advisors, Inc., a subsidiary of Franklin Resources, Inc., a global investment management organization operating as Franklin Templeton.

3. As outlined in the Green Bond Principles published by the International Capital Market Association.



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### Green Bonds Exist Outside of the Label

For example, one of our general obligation bonds, the State of Ohio—Conservation Projects, is not labeled "green bond" by the issuer or any other third party. However, through our research process, we learned the proceeds are being used for a clean conservation program, qualifying it for purchase.