

Tilt and Run again – BoE is selling corporate bonds.

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The Bank of England has started the process of Quantitative Tightening (QT), by selling £750mm of short-dated gilts.^{1,2} Comparing this to their total size of gilt purchases of c£840bn³ certainly makes it look small, but it is an important first step.

The corporate bond portfolio has size £13.6bn and is being sold between Q4 2022 and early 2024.⁴ The BoE has made a commitment to green their corporate bond holdings, with a target initially to reduce the weighted average carbon intensity (WACI) by 25% by 2025, but ultimately to achieve net zero emissions within the portfolio by 2050.⁵ The mechanism of differentiation will initially be to tilt holdings towards better performers in each sector, by adjusting the price the BoE is willing to pay for debt of a given company.⁶

Given the BoE has made a clear near-term target for reducing carbon intensity, and has now begun to sell bonds, the portfolio tilt will be accelerated. We present the highest emitting issuers per sector within the holdings of the CBPS, and their recent performance which shows the impact of QT flows to date.

Figure 1. High emitting issuers in BoE CBPS portfolio. Source: Bloomberg, Bank of England, AFII.

Issuer	Ticker	Group	Sector	Emissions Intensity	Median Emissions Intensity for Sector (CBPS)	Number of bonds held	Amt Outstanding of bonds held (GBP mm)
SANCTUARY HOUSING ASSOCIATION	SANCTU	A	Real Estate	21,676	115	3	1,270
UK POWER NETWORKS HOLDINGS LIMITED	UKPONE	A	Utilities	1,370	544	10	2,752
ANGLIAN WATER SERVICES LTD	AWLN	A	Utilities	1,187	544	4	1,046
INTERCONTINENTAL HOTELS GROUP PLC	IHGLN	B	Consumer Discretionary	906	71	2	473
A.P. MOLLER - MAERSK A/S	MAERSK	B	Industrials	708	111	1	300
DEUTSCHE BAHN AG	DBHNGR	B	Industrials	288	111	2	725
LIVEST WEST HOMES LIMITED	LIVEWE	C	Real Estate	8,078	115	1	250
VEOLIA ENVIRONNEMENT S.A.	VIEFP	C	Utilities	1,070	544	1	250
MIDLAND HEART LIMITED	MIDHEA	C	Real Estate	810	115	1	150
ANHEUSER-BUSCH INBEV SA/NV	ABIBB	D	Consumer Staples	96	53	4	2,650
DEUTSCHE TELEKOM AG	DT	D	Communications	45	37	6	1,800
VODAFONE GROUP PLC	VOD	D	Communications	50	37	4	2,500

¹ “[BOE sells £750 Million Bonds in Move to Pull Back Stimulus](#)”, Bloomberg, 1 Nov 2022.

² “[Asset Purchase Facility: Gilt Sales – Market Notice 20 October 2022](#)”, BoE, 20 Oct 2022.

³ “[Results and usage data](#)”, BoE, accessed 2 Nov 2022.

⁴ Sales began on 27 Sep 2022 but were paused for the gilt market turmoil in early Oct. “[Asset Purchase Facility: corporate bond sales programme](#)”, BoE, 18 Aug 2022. “[APF corporate bond sales to begin in w/c 26 September 2022](#)”, BoE, 9 Sep 2022. “[Bank of England to Resume Corporate Bond Sales Next Week](#)”, Bloomberg, 17 Oct 2022.

⁵ “[Greening our Corporate Bond Purchase Scheme \(CBPS\)](#)”, BoE, 5 Nov 2021.

⁶ The ECB also consider climate in their corporate bond portfolio, see “[Tilt and Run: ECB climate policy update](#)”, AFII, 5 Jul 2022

Figure 1 identifies the highest emitting issuers in the CBPS portfolio, highlighting issuers whose emissions intensity is higher than the average by sector within the portfolio, as this was identified as a criteria by the BoE. The portfolio is classified into groups, and the bond sale programme focused on one group per session. Figure 1 has identified the most carbon-intensive performers in each group, which may not necessarily be the worst performers overall. The real estate issuers have noticeably high figures, driven by the fact we have used an emissions intensity consistent with BoE’s criteria, and the sector has low revenue numbers. The real estate sector represents a meaningful part of the portfolio, having the second most issuers in the portfolio.⁷ Even though absolute emission numbers for the are low, the highlighted names have the highest intensity figures, and so should be considered high-emitters on a relative basis.

Figure 2. Bond performance of CBPS holdings since 1 Sep 2022. Source: Bloomberg accessed 3 Nov 2022.

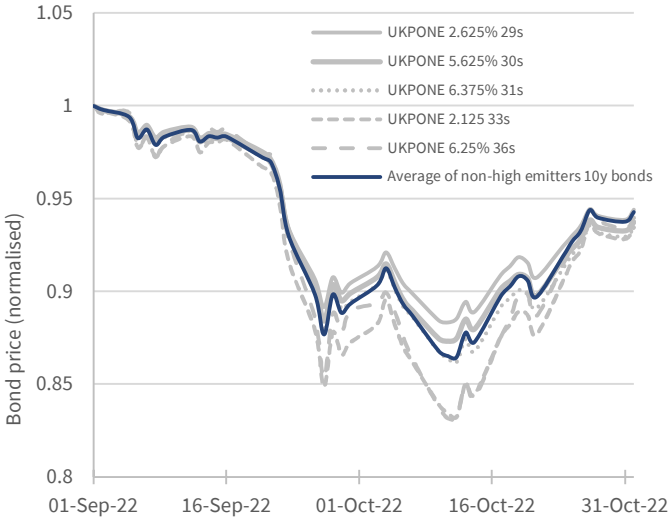
	AfII high emitter	others
5y	-1.6%	-2.2%
10y	-5.0%	-5.5%
20y	-7.2%	-6.9%
30y	-8.1%	-6.3%
long	-6.7%	-4.4%

The corporate bond sales began in the week of 26th September, and that date was announced on 9th September. We have considered bond performance since 1st September to identify any differentiation in performance which could be attributed to these bond sales.

Figure 2 shows average performance for issuers in the AfII high-emitting list compared with the rest of the portfolio. Note that bonds with maturity before 6 Apr 2024 are excluded from the programme, and so shorter dated bonds will be unaffected. There is a differentiated performance, particularly in the longer maturity buckets, over this period.

UK Power Networks has the most bonds in the portfolio, and Figure 3 shows their performance since 1 September compared to the average of other 10y bonds in the portfolio. There has been volatility, especially during the October gilt market turmoil, but this has trended towards small underperformance in all the securities.

Figure 3. Bond performance of UKPONE bonds since 1 Sep 2022. Source: Bloomberg accessed 3 Nov 2022.



⁷ 25 for utilities and 22 for real estate.

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