



# ESG Integration in Action— State of California 10-Year Bond Issue

August 2021

Significant improvement in ESG disclosure underpins our analysis.

## Issuer Profile

California is the most populous state in the U.S. with a large and diverse economy. Major sectors include high-end technology, entertainment, manufacturing, tourism, construction, and services. In the years since the 2008 global financial crisis, California has benefited from prudent budgeting and strong economic growth.

## Investment Analysis

- In the fall of 2020, the state's 10-year bond issue appeared to be undervalued versus historical levels and also relative to peer bond issues.
- While the impact of the coronavirus pandemic was severe in California, we believed the state's fiscal position was supported by strong credit fundamentals and liquidity.
- On the environmental, social, and governance front, California has been actively managing its elevated climate risks, and the state's social dynamics have been attractive.



**Davis Collins**  
U.S. Municipal Bond Analyst



## ESG IN DEPTH

- Environmentally, California is vulnerable to the impact of climate change, but its property value at risk is low. The state has had a climate adaptation strategy in place for over a decade, focusing on seven key areas: public health, biodiversity and habitat, oceans and coastal resources, water, agriculture, forestry, and transportation and energy.
- On the social front, a lack of housing affordability in the state is problematic. However, a high concentration of employment in technology means flexible working is increasing, allowing employees to move to more affordable areas.
- California has been hit hard by the coronavirus pandemic, with 44% of the population employed in immediately impacted industries. While this negatively impacts tax receipts, this is partly offset by the fact that these workers make up a disproportionately low portion of income tax receipts as California's revenues are more reliant on capital gains and personal income taxes of high earners.

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