Green Bond European Investor Survey

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Prepared by the Climate Bonds Initiative, with analysis support from Henley Business School.
Sponsored by Luxembourg Stock Exchange, Credit Suisse, Danske Bank and Lyxor Asset Management.

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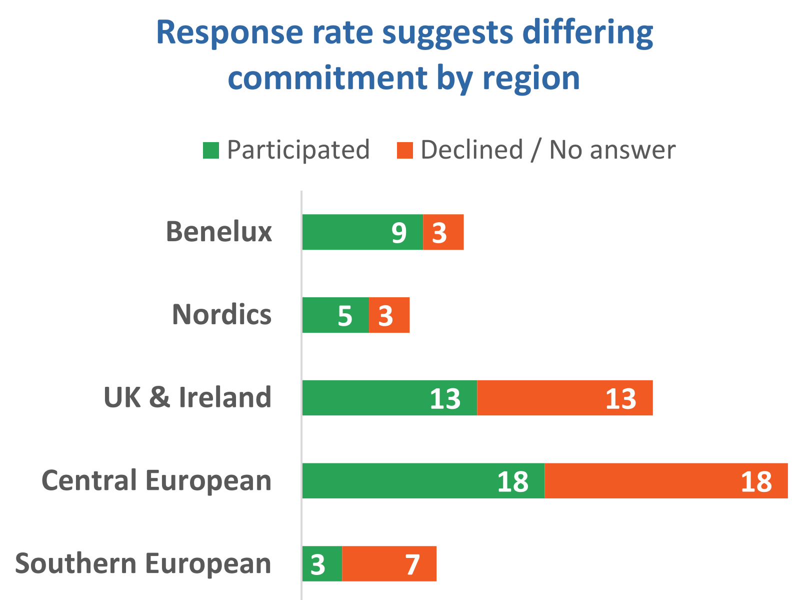
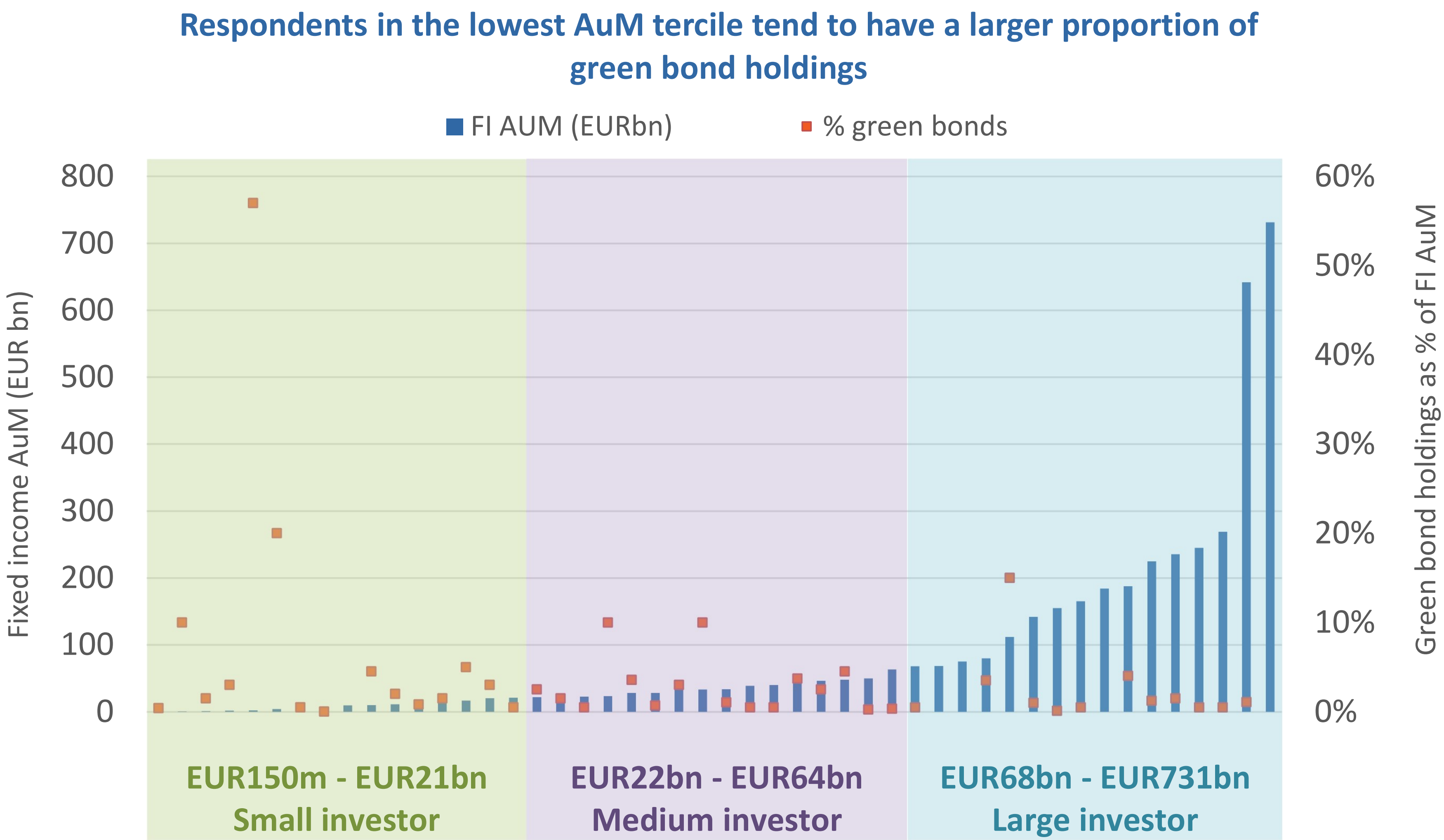
About the survey

- Climate Bonds Initiative's **first** green bond investor survey. Main goal was to **identify ways to scale and accelerate green bond issuance**
- Targeted **Europe-based investors** as Europe appears to have the most established pool of dedicated green bond and ESG asset managers
- Surveyed 48 of the **largest Europe-based fixed income asset managers** – combined AuM of EUR13.7tn, of which EUR4.3tn is fixed income
- **Global green bond treasurer survey** is underway



Smaller investors have higher green bond holdings



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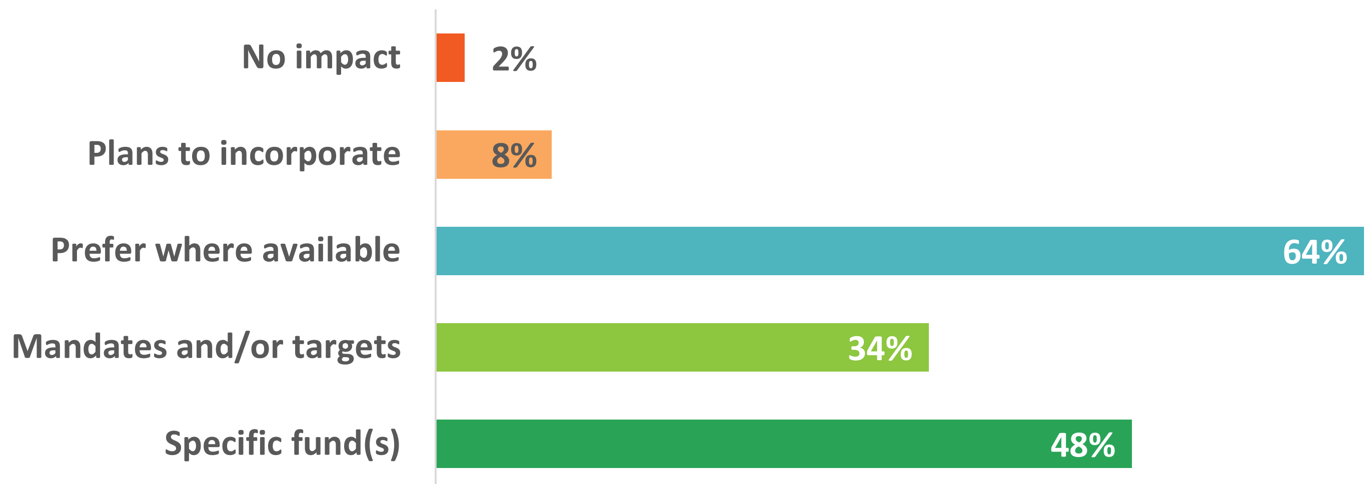
Key finding 1: Lack of adequate green bond supply

- **Strong investor appetite for green bonds:** Respondents consistently expressed demand for **more bonds from more issuers in more sectors**

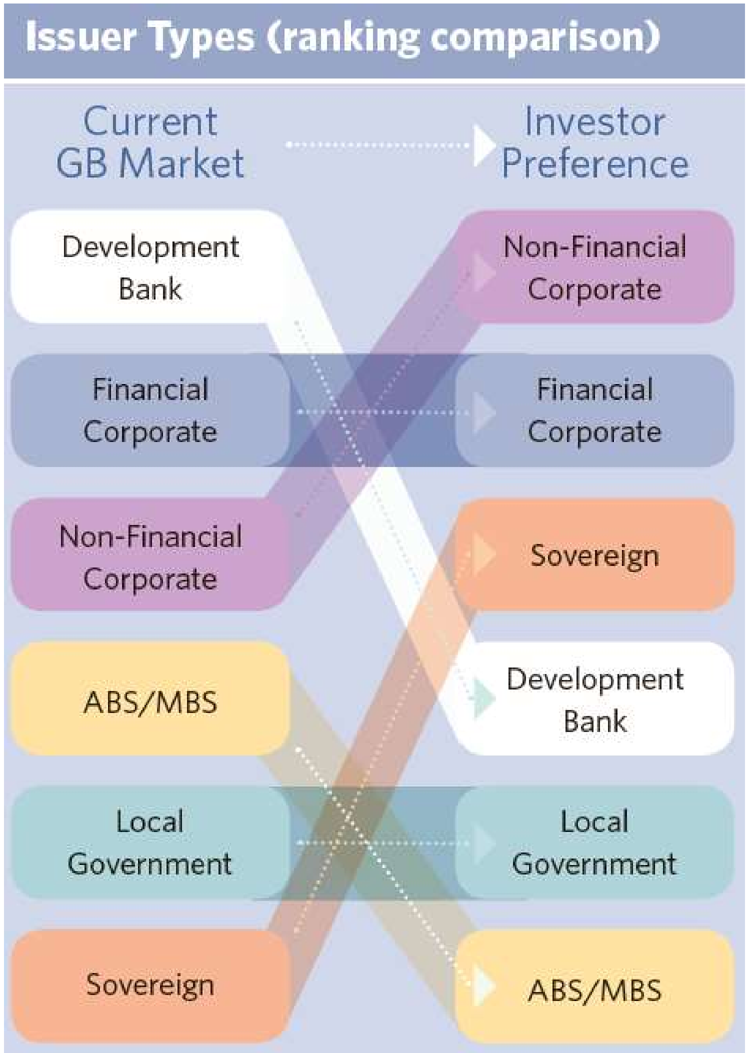
- **64% said they prefer green bonds where available and competitively priced** (over vanilla equivalents), and **almost half have specific fund(s)**

Two thirds prefer green bonds where available and competitively priced



Key finding 2: Corporates and sovereigns are most demanded

- **Mismatch between investor preference** for different issuer types and their **share of the green bond market**
- **Non-financial corporates** and **sovereigns** rank far above their position in the current green bond market…
- …while **development banks** and **green securitized bonds** were much less demanded



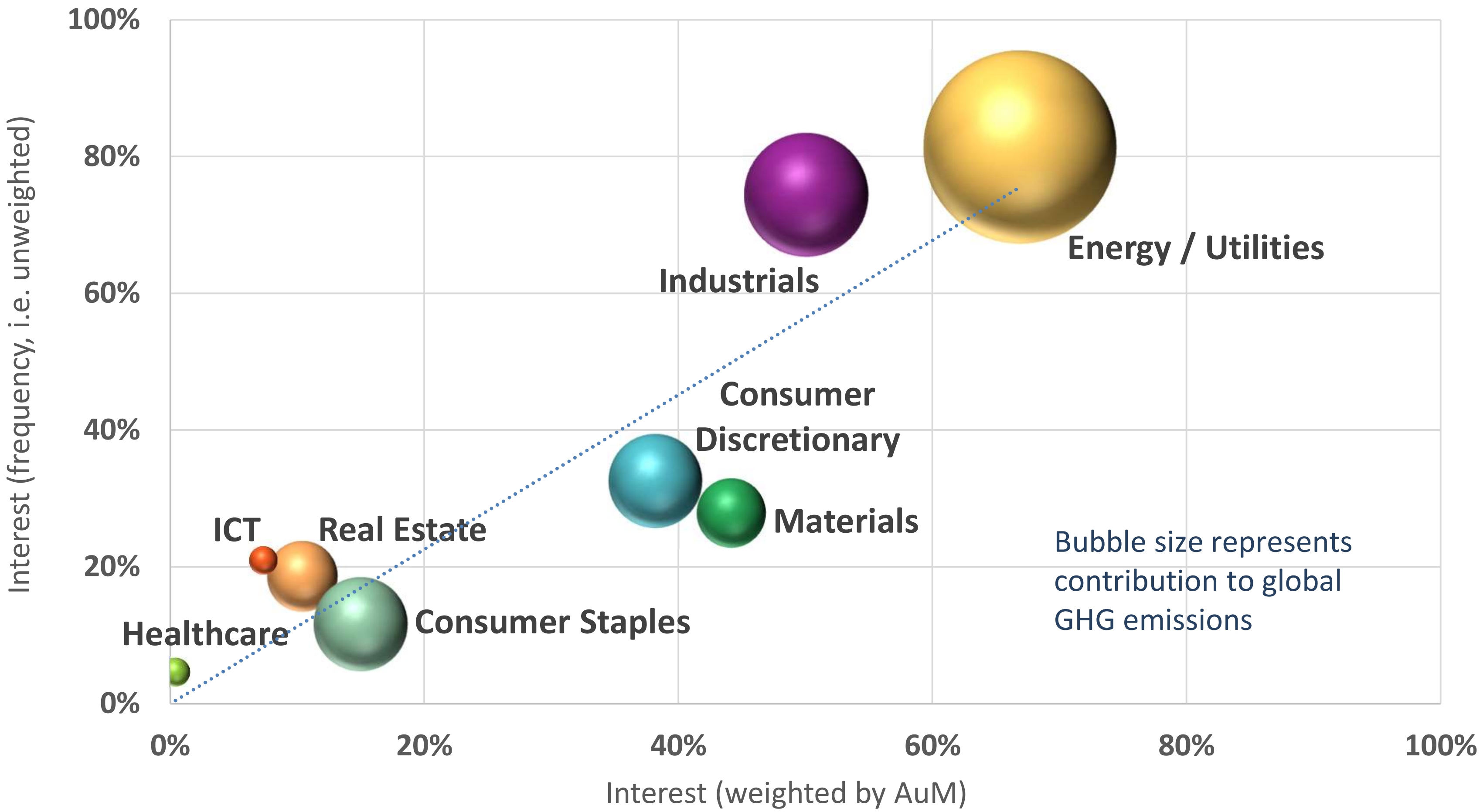
Key finding 3: More deals from high-emission sectors

- **Greater sector diversity** is needed
- **Industrials**, **Energy** and **Utilities**, **Consumer Discretionary**, and **Materials** top sectors of interest
- Among the **top five** bond issuers in the Energy and Materials sector, none have issued green bonds to date
- The top five Utilities have issued green bonds.

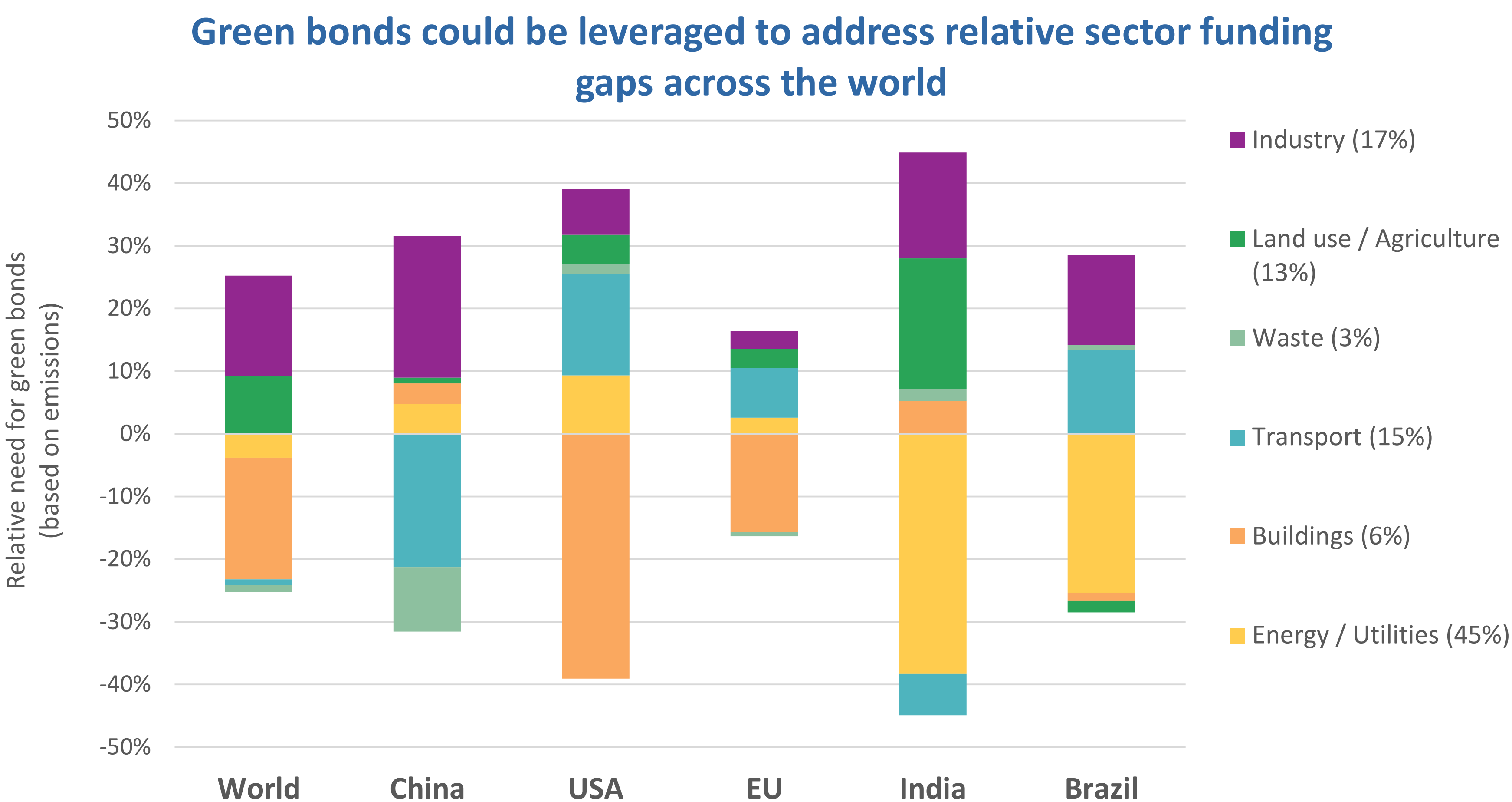
Sectors (ranking comparison)

GHG emissions	Investor Preference*	Current GB Market
Energy / Utilities	Energy / Utilities	Energy / Utilities
Industrials	Industrials	Buildings
Consumer Discretionary	Consumer Discretionary	Transport
Consumer Staples	Materials	Waste
Real Estate	Real Estate	Land Use / Agriculture
Materials	ICT	Industry
ICT	Consumer Staples	

Positive correlation between level of interest in industry sectors with GHG emissions



Large imbalance between emissions and current GB issuance; sovereigns can play key role, both via issuance and wider policy



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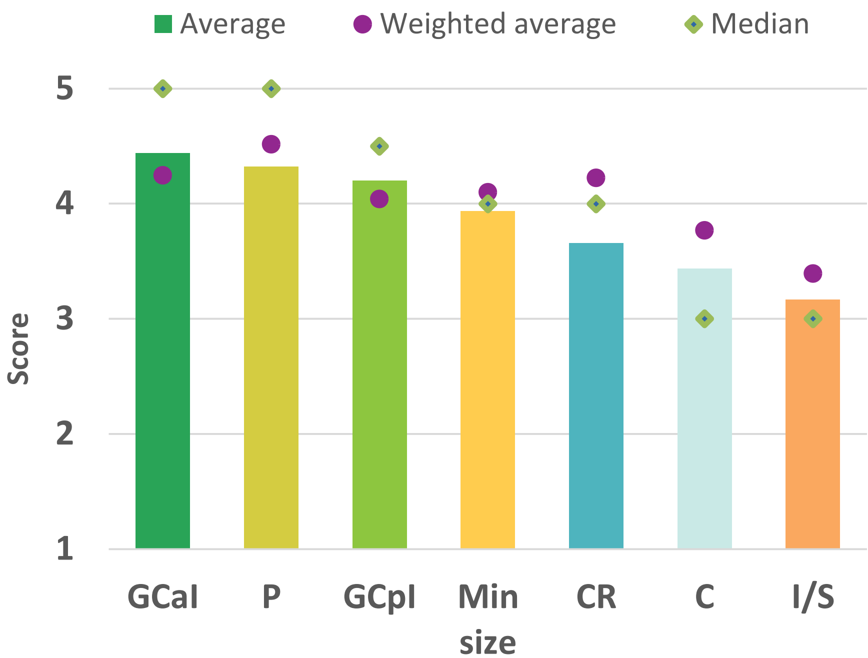
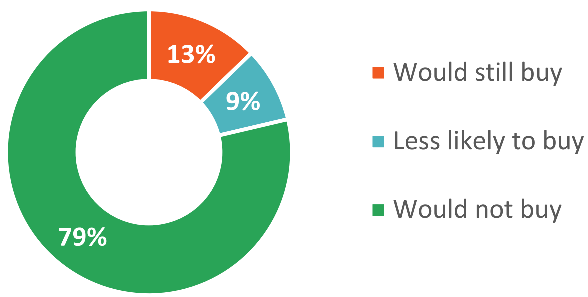
Key finding 4: Green credentials and transparency highly valued

Green credentials and pricing are the most important to decision-making

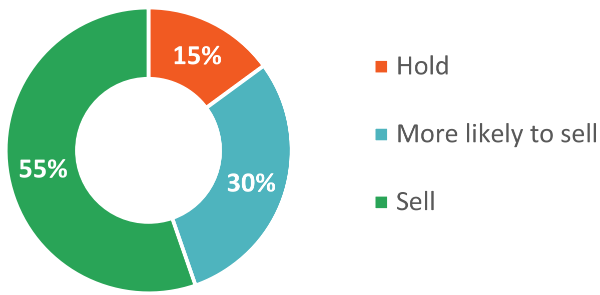


Abbreviations:
GCaI *= green credentials at issuance,* ***P*** *= pricing,* ***GCpI*** *= green credentials post-issuance,* ***Min size*** *= minimum size of issue/liquidity,* ***CR*** *= credit rating constraints,* ***C*** *= currency preferences,* ***I/S*** *= issuer/sector constraints*

Unclear green UoP strongly affects investment decision-making



Poor post-issuance reporting can lead to bond sale



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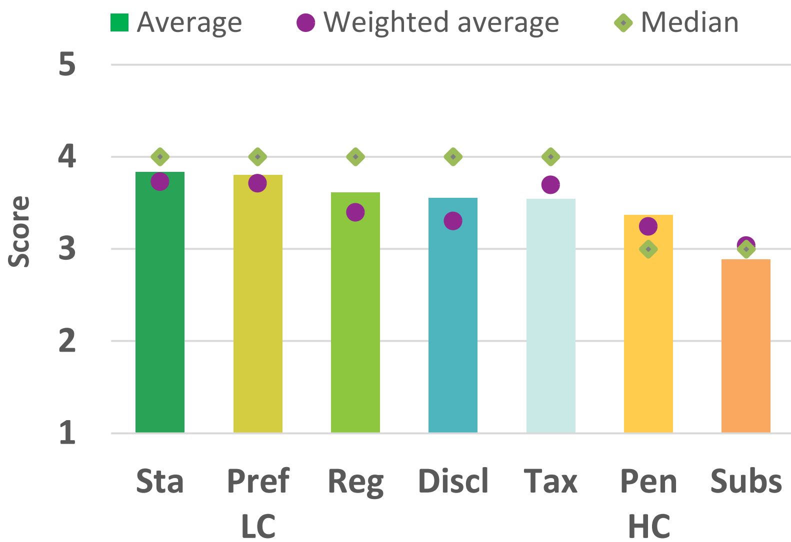
Key finding 5: Policy is key to scaling up green investment

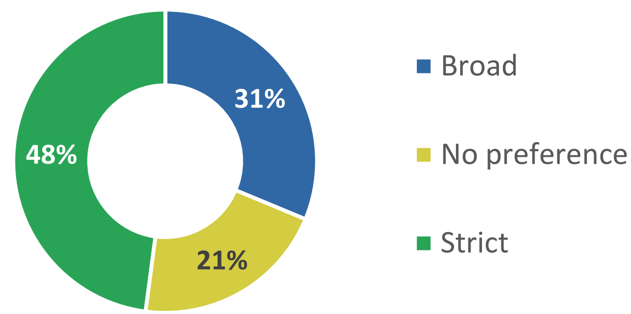
Several policy mechanisms score relatively high, but none stand out particularly



Abbreviations:
Sta *= standardisation,* ***Pref LC*** *= preferential treatment of low-carbon assets,* ***Reg*** *= regulatory trends,* ***Discl*** *= mandatory disclosure,* ***Tax*** *= tax incentives,* ***Pen HC*** *= penalise high-carbon assets,* ***Subs*** *= subsidies*

- **Standardisation of definitions** is a priority – preference varies but tilted towards stricter (over broader) definitions

More respondents prefer stricter definitions



- **Drivers and barriers to market development: *see pp. 13-14***

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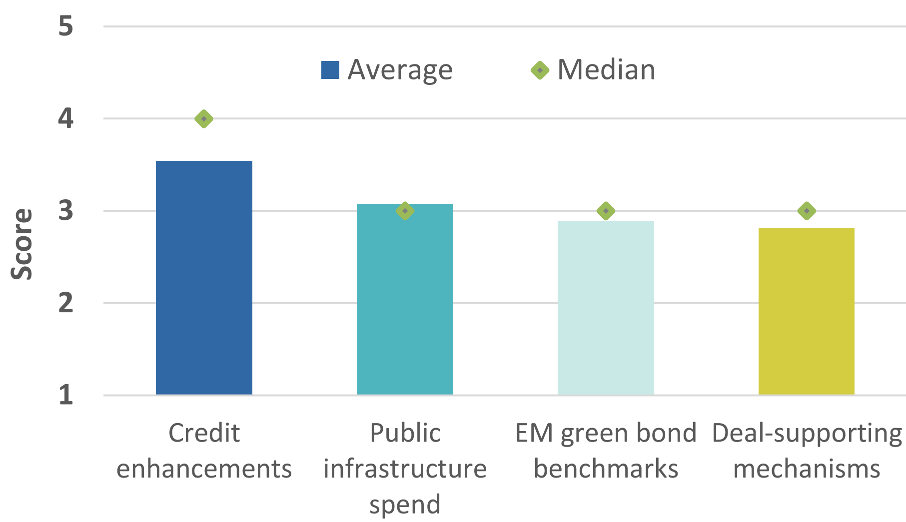
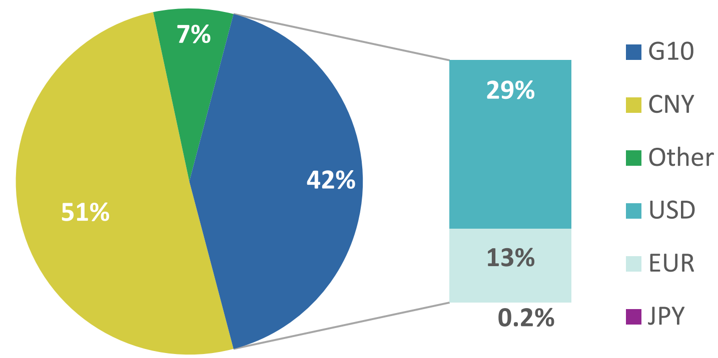
Emerging Markets carry additional constraints and challenges

- **More green investment needed in EM**
- **Currency risk** is a key constraint, along with **credit rating** and **deal size**



Most EM green bonds are not issued in G10 currencies



- **Credit enhancements** stand out as the most effective perceived tool to drive EM investment

Conclusion: Key drivers could unlock GB market potential

- Despite several existing barriers, **respondents appear supportive**
- **Adequate policy at scale** is necessary, and must consider:
  - **Most polluting sectors**, where there is also substantial investor demand
  - **Suitability of different issuer types** given the types of project and investor preferences
- All stakeholders – issuers, investors and policymakers – must play a role in driving **greater transparency and better visibility** to support the market
  - **A platform providing aggregated information**, e.g. with standardised reporting by issuers and possibly even in open access format, could be especially powerful
- **While it is a complex problem, the solutions exist!**
  - Success will require a concerted effort by all market participants, a holistic understanding of the system, and an appropriate policy/institutional framework

Climate Bonds Initiative: not-for-profit mobilising climate finance

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