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.
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

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Response rate suggests differing commitment by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Participated</th>
<th>Declined / No answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benelux</td>
<td>9</td>
<td>3</td>
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<tr>
<td>Nordics</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>UK &amp; Ireland</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Central European</td>
<td>18</td>
<td>18</td>
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<td>Southern European</td>
<td>3</td>
<td>7</td>
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</table>
Smaller investors have higher green bond holdings

Respondents in the lowest AuM tercile tend to have a larger proportion of green bond holdings

- **Fixed income AuM (EUR bn)**
- **% green bonds**

<table>
<thead>
<tr>
<th>Fixed income AuM (EUR bn)</th>
<th>% green bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR150m - EUR21bn</td>
<td>Small investor</td>
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<tr>
<td>EUR22bn - EUR64bn</td>
<td>Medium investor</td>
</tr>
<tr>
<td>EUR68bn - EUR731bn</td>
<td>Large investor</td>
</tr>
</tbody>
</table>

- 0% - 10% - 20% - 30% - 40% - 50% - 60%

- 0 - 100 - 200 - 300 - 400 - 500 - 600 - 700 - 800
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

- No impact: 2%
- Plans to incorporate: 8%
- Prefer where available: 64%
- Mandates and/or targets: 34%
- Specific fund(s): 48%
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.

<table>
<thead>
<tr>
<th>Sectors (ranking comparison)</th>
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<tbody>
<tr>
<td>GHG emissions</td>
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<tr>
<td>Energy / Utilities</td>
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<tr>
<td>Industrials</td>
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<td>Consumer Discretionary</td>
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<td>Consumer Staples</td>
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<td>Real Estate</td>
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<td>Materials</td>
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<td>ICT</td>
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Positive correlation between level of interest in industry sectors with GHG emissions

Interest (frequency, i.e. unweighted) vs. Interest (weighted by AuM)

Bubble size represents contribution to global GHG emissions
Large imbalance between emissions and current GB issuance; sovereigns can play key role, both via issuance and wider policy

Green bonds could be leveraged to address relative sector funding gaps across the world

- Industry (17%)
- Land use / Agriculture (13%)
- Waste (3%)
- Transport (15%)
- Buildings (6%)
- Energy / Utilities (45%)
Key finding 4: Green credentials and transparency highly valued

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

<table>
<thead>
<tr>
<th>Score</th>
<th>GCal</th>
<th>P</th>
<th>GCpI</th>
<th>Min size</th>
<th>CR</th>
<th>C</th>
<th>I/S</th>
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Unclear green UoP strongly affects investment decision-making

- Would still buy: 13%
- Less likely to buy: 9%
- Would not buy: 79%

Poor post-issuance reporting can lead to bond sale

- Hold: 55%
- More likely to sell: 30%
- Sell: 15%

Abbreviations:
- GCal = 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
Key finding 5: Policy is key to scaling up green investment

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

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

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

More respondents prefer stricter definitions

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

### Credit Enhancements

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

### Most EM green bonds are not issued in G10 currencies

- G10: 51%
- CNY: 29%
- Other: 7%
- USD: 42%
- EUR: 13%
- JPY: 0.2%

### Scores

- **Score 5**
  - Average: Credit enhancements
  - Median: Public infrastructure spend

### Additional Notes

- Most EM green bonds are not issued in G10 currencies.
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