Climate Bonds INITIATIVE

Media Release

Greenium Persists in H1 2021- plus Latest Research Reflects Ongoing Green Bond Pricing Benefits for Investors

Climate Bonds analysis points to secondary market flexibility as additional factor

London: 15/09/2021: 12:00 GMT+1: Green bond pricing benefits have again been identified in Climate Bonds latest study of market performance compared to vanilla equivalents. *Green Bond Pricing in the Primary Market H1 2021* is the 12th iteration in the series and analyses 56 EUR and 19 USD denominated benchmark sized green bonds with a total value of USD75.9bn issued between January and June 2021. The findings follow the H2 2020 report and longer-term Climate Bonds analysis, reflecting pricing differentials increasingly featuring in the market.

The report further confirms that on average, both EUR and USD green bonds achieved higher book cover and greater spread compression than vanilla equivalents. Investors describing themselves as green were allocated two thirds of the deals, and those that incorporated the EU taxonomy criteria into their frameworks noted that this helped to attract dark green buyers.

The report reveals that green bonds can offer investors more flexibility in the secondary market which may help to justify the greenium, where present. In the immediate secondary market, green bonds performed well, on average tightening more than indices after seven days, and both indices and comparable baskets after 28 days, emphasising that green bonds can offer value to both issuers and investors.

Yield curves were available for 36 bonds in our sample including sovereigns, and 29 of those achieved a greenium or priced on their own yield curves.

H1 2021 Pricing Report arrives on the back of news that this year is set to be a record for green bond market size. Climate Bonds recently reported that USD227.8bn had been issued in H1 2021, more than double the volume of COVID-19 impacted H1 2020 (USD91.6bn). Climate Bonds now forecasts the market to reach its half a trillion in green in a single year by end December 2021.

Highlights from Q1-Q2 2021

- Report includes 75 green bonds with a combined face value of USD75.9bn
- Continuing evidence supporting green as 29 out of 36 bonds price on curves or with a greenium
- Green bonds in both EUR and USD performed well on all metrics in the primary market, on average
- Allocations to green investors increased by a massive 18% reaching 66%
- The Sovereign Green Bond Club: four issuers added six new bonds
- Spotlight: Green bond liquidity in the secondary market

Detailed Findings:

- This research is based on bonds representing 34% of green bonds added to the Climate Bonds Green Bond Database in H1 2021. 43 qualifying issuers revisited the green bond market with 54 bonds, while 15 debut issuers each brought one green bond.
- Qualifying EUR and USD green bonds performed well during book building and green bonds achieved, on average, higher levels of oversubscription and spread compression compared to vanilla equivalents.
- Yield curves were built for 33 qualifying non-sovereign bonds. 11 of those priced inside their yield curves exhibiting a **greenium**, 15 priced on the yield curve, five priced with normal new issue premia and two could not be determined.

- Within the sample of 33 bonds, eight were USD denominated: five of those priced with a greenium and three priced on the yield curve, continuing the strong USD green bond pricing dynamics observed in H2 2020.
- 66% of the bonds in our sample were allocated to investors describing themselves as green, an increase of 18% on H2 2020. Several issuers mentioned that the inclusion of EU Taxonomy criteria in their frameworks had resulted in more interest from accounts classified as 'dark green'.
- Seven days after pricing green bonds had, on average, tightened more than matched indices. After 28 days, green bonds had, on average, tightened more than matched indices and baskets.
- Green bond ETFs reported another period of growth and by the end of H1 2021, total fund assets stood at USD1.2bn (EUR1bn).
- In H1 2021, the EUR or USD denominated green bonds of five sovereign issuers were added to the Climate Bonds Green Bond Database. France, Germany, Chile, Indonesia, and Hong Kong consolidated their position in the Sovereign Green Bond Club with repeat issuance and/or re-openings. Where yield curves were available, the new bonds exhibited greenium.
- For the first time, Climate Bonds explored the trading behaviour of green bonds in the secondary market to determine how liquidity compared to that of vanilla equivalents. The findings demonstrate that, on average, during 2020 green bonds in the sample traded more frequently, and offered narrower bid/offer spreads, in other words green bonds maintained higher liquidity, in the secondary market compared to similar bonds without the green label. This observation held true during March 2020 which presented some particularly difficult market conditions as the scale of the COVID pandemic became clear. These conclusions could help to justify the primary market greenium, where present.

Simon Maisey, Managing Director, Global Head of Corporate Development, Tradeweb:
"Increasing appetite for more ESG-focused investments is reflected in higher green bond trading activity in the secondary market, whose accelerated pace now even outstrips green bond issuance. As demand for more transparent green bond trading data and more granular labels grows, it's imperative that we provide investors with confidence in their portfolios' green credentials and with re-assurance that the observed and expanding green bond premiums are truly justified."

Anup Jagwani, Manager, Climate Finance & Policy, IFC:

"Price and liquidity are key for the required scaling of the green bond market, and we have observed how the price dynamics have changed as the market has evolved."

"The green bond market is key to support a breakthrough to a low-carbon economy. IFC has been a prolific issuer of green bonds, being one of the first movers in the market and as of 30th June 2021, IFC had issued 178 green bonds in 20 currencies amounting to USD10.5bn"

Francois Millet, Head of Strategy and ESG, Lyxor ETF:
"What has changed over the last 12 months is that more investors have stated their own net zero targets, and all are now committed to stronger reporting regulations. Green bonds support these objectives. For example, a growing majority of issuers report impact indicators like emissions avoided, which enhances the utility of green bonds in an allocation. Together with improved secondary market liquidity and increased issuer diversification, including the sovereign issuance boom, this has fuelled strong demand and supported a greenium in many cases."

Sean Kidney, CEO, Climate Bonds Initiative:
"Institutional investors are looking for quality green and climate friendly debt product and this structural trend in demand will only intensify. 2030 targets and net zero commitments will drive corporate transition and new investment opportunities. Policy makers face continued pressure to green the financial system in addressing the climate emergency. These factors will continue to combine and drive the continuation of a greenium in debt capital markets."

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Notes for Journalists:

About the Climate Bonds Initiative: The Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. More information on our website here.

About Tradeweb: Climate Bonds partnership with Tradeweb has facilitated new analysis based on recorded transactions of green and non-green utility bonds issued in 2019.

Pricing series: Climate Bonds pricing reports commenced in 2016 and have regularly been produced since. The All previous reports can be found here.

Methodology: This paper includes labelled green bonds issued during H1 2021. Labelled green bonds meeting the following specifications are included:

- Pricing date between 01/01/2021 and 30/06/2021
- Currency: EUR or USD
- Benchmark size i.e., >= USD500m
- Investment grade rated
- Minimum term to maturity of three years at issue
- Consistent with the Climate Bonds Taxonomy and included in the Climate Bonds Green Bond Database

Amortising, perpetual, floating-rate, and other non-vanilla structures were excluded. These parameters are designed to capture the most liquid portion of the market while not limiting the diversity of data. All historical data is based on asset swap spreads for EUR denominated bonds. USD bonds are compared to a US treasury curve. All historical data is from Refinitiv EIKON.

Comparable baskets include bonds issued in the same quarter as the subject green bond. Comparable bonds must fit the parameters described above except that they are not labelled, and the use of proceeds is not explicitly green. Baskets comprise the closest possible matches based on the following considerations in order of priority: a) currency, b) market type (EM/DM/Sukuk), c) no other thematic label d) seniority e) maturity, f) credit rating and g) sector, among bonds issued in the same quarter.

If corresponding bonds cannot be found, best efforts are made to find suitable alternatives from the available sample. The resulting baskets area proxy for how the money could have been invested in the same quarter in which the green bond was issued. The number of bonds in each basket ranges from one to five bonds. We acknowledge that bonds behave differently depending on when they are issued and that geo-political events can affect bond prices from one day to the next. This proxy was designed to circumvent the fact that vanilla bonds and green bonds with similar characteristics are rarely issued on the same day.

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Qualifying green bonds in EUR and USD again performed well compared to vanilla peers during bookbuilding. This research highlights multiple examples of bonds with decent primary dynamics translating into the greenium and tightening further in the immediate secondary market. H2 provided the strongest evidence to date that green bonds can offer value to both issuer and investor.