Media Release

Green bonds demonstrate pricing benefits for both issuers and investors in primary and secondary markets

London: 15/03/2022: 10:00 GMT: The Climate Bonds Initiative (Climate Bonds) today released the Green Bond Pricing in the Primary Market H2 2021. The Report is the 13th iteration of a leading series analysing pricing dynamics of green bonds, examining how these instruments offer pricing advantages for investors and issuers alike. This trend is projected to continue in the future, notwithstanding an anticipated reallocation by investors from bonds to equities due to expected interest rate increases.

Sean Kidney, CEO, Climate Bonds Initiative:
"The demand for green bonds is defiantly withstanding the economic, social and geopolitical turmoil of the last couple of years. The ability to weather storms and survive downturns is absolute gold dust and promises value across primary and secondary markets."

The H2 2021 Report analyses 53 EUR and 20 USD denominated benchmark-sized green bonds with a total volume of USD71.8bn issued between July and December 2021. The findings follow the H1 2021 report and longer-term Climate Bonds analysis which suggests that pricing benefits of green bonds are pervasive. This leading research series has embedded the concept of the greenium in the discourse of sustainable finance. Greenium refers to the new issue premium, the extra yield that a buyer receives, and a seller pays for a new green bond, compared to where seasoned bonds from the same issuer are trading in the secondary market at the time of issuance.

As this paper evidences, pricing benefits have endured as the market saw over half a trillion USD in issuance in 2021 and over USD1.6 trillion since market inception in 2007, based on the Climate Bonds Green Bond Database.

The report observes that, on average, both EUR and USD green bonds in the sample achieved larger book cover and spread compression compared to vanilla equivalents. Half of the bonds with yield curves priced with a greenium or inside their yield curves. Yield curves were available for 34 non-sovereign bonds in our sample and 17 of those were priced on or inside their yield curves. Two-thirds (66%) of green bonds were allocated to investors describing themselves as green.

In addition, the research demonstrates that green bonds experience stronger secondary market performance compared to vanilla equivalents. The research reveals that green bonds achieved a greater magnitude of spread, tightening after both 7 and 28 days when compared to baskets constructed of matched vanilla bonds and indices. The performance of green bonds in the secondary market can help investors to justify the greenium.

Central banks have started, or will begin, to wind down post-pandemic support and rates are expected to increase in 2022. Going into year-end, investors were naturally cautious of investments that could be hurt by rising rates, which included all types of bonds. Green bonds would be naturally more vulnerable to this trend due to the slightly longer duration of green bond indices. However, noting the rise in demand for sustainable investments across the board, the green label may offer some protection, though not complete immunity, against reallocations.

Highlights from Q3-Q4 2021

- Report includes 73 green bonds with a combined face value of USD71.8bn
- On average, green bonds in both EUR and USD performed well on all metrics in the primary market
- Half of bonds priced with a greenium or inside their yield curves
- Allocations to green investors remained stable at 66%
- The Sovereign Green Bond Club: four issuers added six new sovereign green bonds
- Green bond ETF assets reached USD1.4bn as ninth fund was launched

Sovereign Green Bond and ETF Highlights
In H2 2021, four sovereigns brought six new green bonds denominated in either EUR or USD which qualified for analysis in our pricing research. Spain and Korea priced their first sovereign green bonds, while Germany and Hong Kong returned to the market with new bonds. Yield curves were available for Spain, Germany and Hong Kong (USD), with Spain and Germany exhibiting greenium.

A ninth green bond ETF, the Lyxor Euro Government Green Bond DR UCITS, was launched in July with an initial size of EUR48m. At the end of 2021, there were nine green bond ETFs with combined fund assets of USD1.4bn - an increase of 18% on the prior period (14% without the new fund). The growth of green bond ETFs adds further demand pressure to green bonds in the secondary market.

David Furey, Head of Fixed Income Strategists EMEA, State Street Global Advisors:
"As evidenced in this report, the green bond market continues to go from strength to strength, for both issuers and investors alike. The energy transition will undoubtedly accelerate from here and green bonds will be front and centre in the funding of that."

Francois Millet, Head of Strategy and ESG, Lyxor ETF, Amundi Group:
"The expansion of green bond indices reflects the booming diversification of the market, where sovereigns add a new growth driver. Granularity of supply now allows green bonds to be part of any fixed-income allocation. ETF flows suggested that so far green bonds were not impacted by tactical reallocations linked to inflation and rate expectations. As investors have been facing higher disclosure standards since 2021, green bonds turn out to offer one the few adequate sources of impact assessment, which will continue to support a strong fundamental demand."

Anup Jagwani, Climate Finance and Policy Manager, IFC:
"Not only has the green bond proven an effective vehicle to channel money to green assets aiding the transition to a more sustainable economy, the unabated growth of the green bond market also demonstrates the market's resilience to the global economic turmoil.

IFC has been at the forefront of this market for more than a decade as an issuer and investor as well as an advisor. Through the Green Bond Technical Assistance Program (GB-TAP) IFC is building market capacity and stimulating green bonds issuances in emerging markets. We continue to see a strengthening pattern of pricing, yield, and liquidity advantages for green bonds and about half of the sampled green bonds now have a green yield curve, pricing on or inside the conventional yield curve in the primary market. This pricing advantage also carries into the secondary market with tighter yield compression vis-a-vis the vanilla equivalents.

In short, the pricing benefits for both issuers and investors point to the strength of the green label."

Report findings will be presented in a Webinar with panellists from the Spanish Treasury, Amundi Group, Smurfit Kappa Group and SSGA
Date: Tuesday, 30th of March 2022
Time: 15:00 Paris / 14:00 London / 09:00 New York / 22:00 Hong Kong, Singapore
Register via Zoom here.

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

Detailed Findings of Pricing Report H2 2021:

- This research is based on bonds representing 30% of green bonds added to the Climate Bonds Green Bond Database in H2 2021. 19 debut green bond issuers printed 23 qualifying bonds, while 42 issuers revisited the market collectively bringing 50 new bonds.
- 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 34 qualifying non-sovereign bonds. Nine of those priced inside their yield curves exhibiting a **greenium**, eight priced on the yield curve, while 17 priced with normal new issue premia.
- 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 the sample were allocated to investors describing themselves as green, static on the prior period. Multiple issuers remarked that the green label had helped to attract new and diverse investors.
- Seven and 28 days after pricing green bonds had, on average, tightened more than matched baskets and indices.
- Lyxor launched its third green bond ETF, the Lyxor Euro Government Green Bond DR UCITS ETF. This brings the number of green bond ETFs to nine, with combined assets of USD1.4bn at the end of 2021.
- In H1 2021, the EUR or USD denominated green bonds of four sovereign issuers were added to the Climate Bonds Green Bond Database. Spain and Korea issued debut sovereign green bonds, while Germany and Hong Kong continued building out their green yield curves. The bonds of Germany and Spain priced with a greenium, and Germany's green bond yield curve sits inside it's on-the-run vanilla curve.

Methodology: This paper includes labelled green bonds issued during H2 2021. Labelled green bonds meeting the following specifications are included:

- Pricing date between 01/07/2021 and 31/12/2021
- 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 11 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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