



SUSTAINABLE FINANCE UPDATE

An Australasian perspective on Sustainable Finance markets

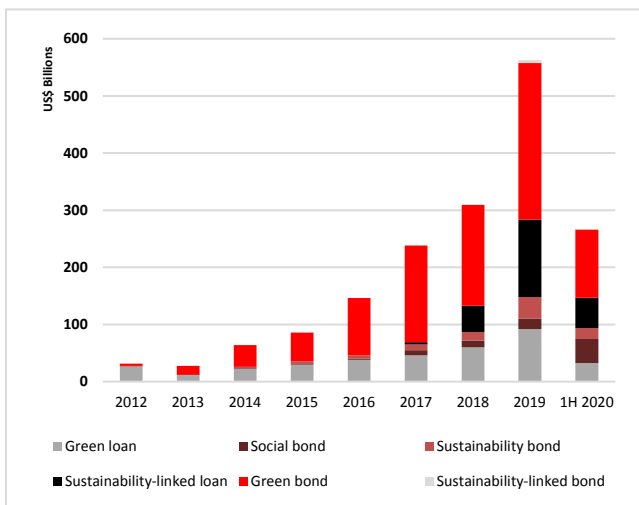
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MARKET OVERVIEW

H1 Sustainable Finance market outlook

- H120 Global Sustainable Finance issuance grew to US\$267.3bn, up 13% on H119, according to Bloomberg NEF¹.
- Green bond and sustainability bond issuance suffered through the Covid-19 pandemic, with green bond issuance falling 8% to US\$119.6bn, sustainability bond issuance remaining flat at US\$19.8bn while social bond issuance more than doubled, growing 376% to US\$41.9bn.
- Sustainability-linked loan volumes grew by 11% from a year earlier, while green loan issuance volumes dropped to US\$32.8bn for the same period.

Sustainable Debt Annual Issuance



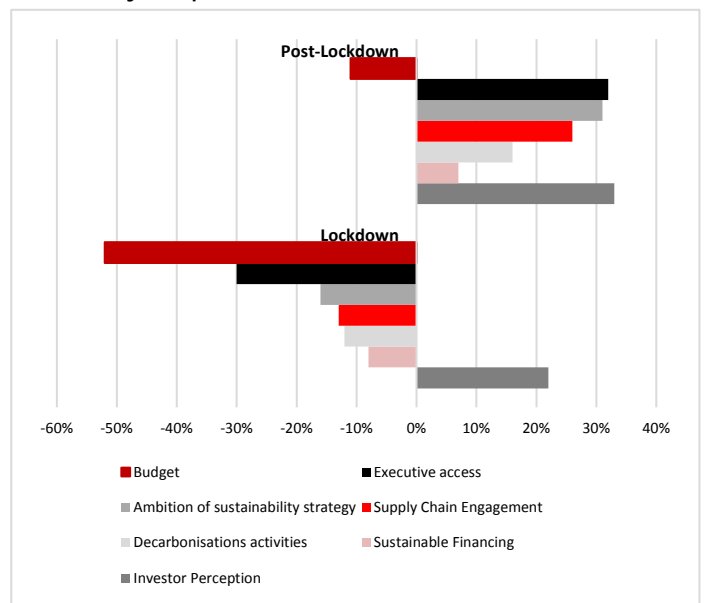
Source: Bloomberg BNEF

Sustainability Outlook: Covid-19 Scenarios report

- Sustainability looks to be one area benefitting long term from the Covid-19 pandemic, with decarbonisation activities, sustainable debt issuance and ESG fund performance all increasing according to a recent Bloomberg NEF report².
- Covid-19 impacts are driving companies to use sustainability as a proactive rather than reactive strategy with investor perception now seen as the most important driver of sustainability.

- The pandemic is driving sustainability to become a requirement for investment.

Survey: How is sustainability practice in your business affected by the pandemic?



Source: Bloomberg NEF

SELECTED RECENT DEALS

Record issuance size and yields for corporate issuance

- Alphabet, Google's parent company, issued [US\\$5.75bn in Sustainability Bonds](#) on August 3rd as part of a US\$10bn debt offering, the largest sustainability bond ever, while Visa issued their debut green bond, a [7-year US\\$500m green note](#). Both Alphabet and Visa's issuances achieved record low yields with coupons of 0.8% and 0.75% respectively.

Australian and New Zealand issuance returns

- ANZ returned to the Australian market with their first [A\\$ denominated SDG Bond](#), an A\$1.25bn Tier 2 issuance.
- Mercury NZ Limited has [announced their inaugural green bond offer](#) (BNZ as JLM) expected to close on 4 September, with proceeds earmarked primarily for construction of the Turitea wind farm.

¹ Bloomberg NEF: 2H 2020 Sustainable Finance Market Outlook - July 29, 2020

² Bloomberg NEF: Sustainability Outlook: Covid19 Scenarios, Build Back Better - August 4, 2020

- Housing New Zealand, a subsidiary of Kainga Ora, announced a potential [15-year Well Being Bond](#) (BNZ as JLM) expected to launch in the week of 31 August.

Australia's first Climate Transition Index-linked bond

- BNP Paribas issued an [A\\$140m equity-linked green bond](#), linked to a new forward looking Australian Climate Transition Index.

Green loans in Western Australia and Victoria

- Salt Lake Potash secured ['green' label certification](#) for financing its Lake Way fertiliser production project. When completed it is expected to generate 60% less CO₂ than comparable plants.
- Victoria's 209MW Murra Warra II wind farm secured [green project finance loan](#) to fund construction.

INVESTOR & MARKET NEWS

NAB recognised for providing best ESG research

- NAB was recognised for providing [Best Research on Sustainability and ESG plus Best Overall Research in Australian Fixed Income](#) in the KangaNews Fixed-Income Research Poll 2020.
- Meanwhile [Bloomberg](#) has launched in-house ESG scores following the lead of Refinitiv, MSCI, Sustainalytics, ISS and Moody's.

NSW to fund big battery projects

- The New South Wales government will support [four new big battery](#) projects totalling 170 MW.
- Big batteries will be installed at the Sapphire wind project, Uralla renewable energy hub in New England and along the South Coast.

PM urged to plan socially just and green recovery

- A group of [48 signatories](#), including finance and corporate heavyweights, have urged the Australian government to invest in health, education, clean energy and urban infrastructure consistent with the UN's Sustainable Development Goals to help the economy recover from the Covid-19 pandemic.

BHP latest to plan exit from thermal coal

- [BHP](#) confirmed plans to exit thermal coal and instead expand in commodities used for low carbon power generation.

Suncorp continues retreat from fossil fuels

- Suncorp announced an immediate [end to insurance of new oil and gas projects](#) and phase out of financing and underwriting for all oil and gas exploration or production by 2025.

ESG assets outperform and now top US\$1 trillion

- Q220 saw inflows of more than US\$71bn to ESG funds and pandemic bonds while [56% of sustainable funds outperformed](#) their peers.
- Meanwhile [FTSE Russell have found](#) that 60% of global asset owners are looking to apply ESG considerations to smart beta strategies.

IGCC highlight priorities for climate related reporting

- The Investor Group on Climate Change report [highlights investor priorities](#) including better communication on actions, more evidence for claims, coherent disclosure and ongoing disclosure improvements.

Industry heavyweights launch Energy Transitions Initiative

- BHP, Woodside, BlueScope Steel, BP Australia, Orica, Wesfarmers CEF, APA Group and Australian Gas Infrastructure Group, together with NAB, Schneider Electric and Australian Super have signed on to the [Australian Industry Energy Transitions Initiative \(ETI\)](#).
- The ETI aims to accelerate action towards achieving net zero emissions in supply chains for hard to abate sectors including steel, aluminium, LNG, metals and chemicals.

KKR invests in GreenCollar

- Private equity firm KKR has [invested in Australian environmental markets platform GreenCollar](#) through its US\$1.3bn Global Impact Fund.

EU coronavirus recovery fund deal to boost green bonds

- The [EU coronavirus recovery fund](#) has agreed to allocate 30% of its €750 billion budget toward 'green' projects with S&P estimating €225 billion could be funded via green bond issuance, boosting global issuance by 89%.

Wealthy investors spur growth of sustainable investments

- [Capgemini's World Wealth Report 2020](#) shows wealthy investors plan to allocate 41% of their portfolio to businesses pursuing ESG policies by end of 2020.

Asia's lacklustre green recovery response to pandemic

- [ING research](#) highlights the lacklustre green response of the APAC region to the Covid-19 pandemic.
- Despite the APAC region contributing around 47% of global carbon emissions, New Zealand stands out as the only Asia Pacific country to have reinforced its environmental commitment through Covid-19 pandemic recovery stimulus measures.

New Zealand Government Fund invests in IoT telco.

- New Zealand Green Investment Finance has invested in [ThinXtra](#), an Internet of Things (IoT) telco, encouraging local firms to deploy IoT to reduce costs and emissions.

World first Framework developed for net zero emissions

- Through the IIGCC, a group of 70 global investors representing US\$16 trillion in assets have developed the first [Net Zero Investment Framework](#). The framework is intended to act as a blueprint for investors on strategies to pursue net-zero emissions portfolios while ensuring sustainable returns.

Lower default risk for sustainable project finance loans.

- A [Moody's report](#) shows project finance bank loans for sustainable projects exhibit a lower default risk than project finance bank loans for non-sustainable projects.

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