



SUSTAINABLE FINANCE UPDATE

An Australasian perspective on Sustainable Finance markets

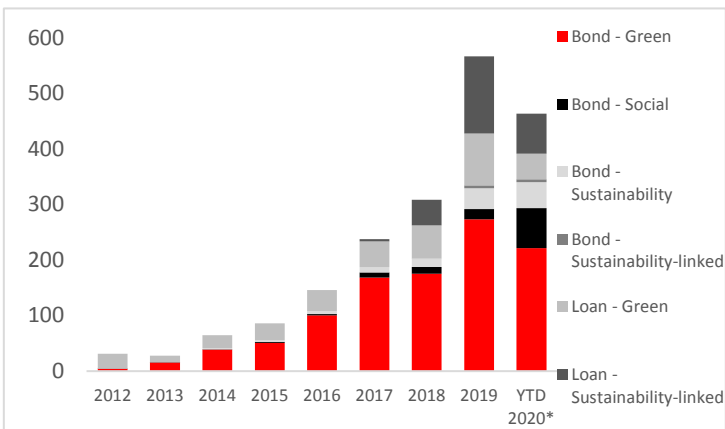
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MARKET OVERVIEW

Green, social, sustainability and sustainability-linked bond market nearly doubles in Q3 2020

- According to [Environmental Finance](#), total issuance of green, social, sustainability and sustainability-linked (GSSS) bonds almost doubled in Q3 2020 to US\$148.7bn, up from US\$79.7bn issued during Q3 2019.
- For the first nine months of 2020, total GSSS bond issuance stood at US\$360.9bn, higher than the US\$326bn issued throughout the whole of 2019.
- In the first nine months of 2020, 30 GSSS bonds valued at over US\$2bn were issued, compared to 15 in the whole of 2019.

Sustainable Debt Annual Issuance (US\$bn)



Source: BloombergNEF Sustainable Debt Tool

- [Green bonds](#) were subdued through the first half of the year, recovering through Q3 with more than a [quarter of the year’s green bonds](#) launched in September.
- Social bond issuance in the third quarter surged to US\$24.8bn compared to just US\$2.2bn the year before.
- Sustainability Linked Bonds (SLBs) continue to build momentum, with six completed to date.¹

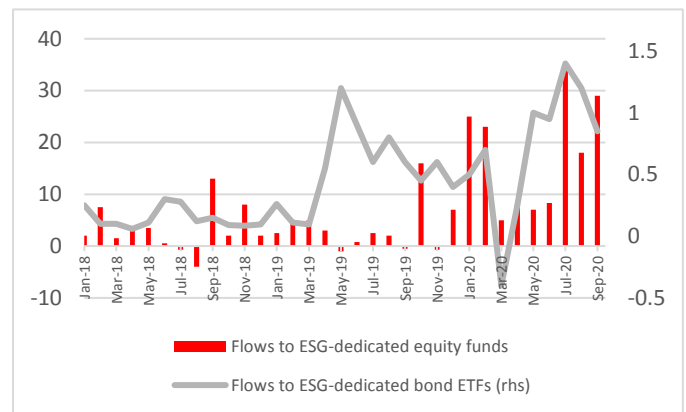
Sustainability-Linked and Green loans

- According to Bloomberg New Energy Finance (BNEF) data, both Green and Sustainability-linked loans fell in volume in Q3 compared to the same period in 2019. Green loans fell to US\$10.4bn compared to US\$24.9bn, sustainability-linked loans fell to US\$16.4bn compared to US\$23.21bn.

Strong ESG ETF Inflows

- According to the Institute of International Finance’s [Sustainable Finance Monitor](#) October 2020, in the first nine months of 2020, net inflows to ESG dedicated ETFs were almost US\$163bn, compared to US\$22bn for the same period in 2019.
- September saw US\$29bn pour into ESG-dedicated bond and equity ETFs, second only to the \$35bn record set in July.

ESG ETF Inflows (US\$bn)



Source: Bloomberg, IIF

SELECTED RECENT DEALS

Lendlease inaugural green bond

- Lendlease Group via its financing subsidiary [Lendlease Finance Ltd](#), priced its inaugural green bond on 20 October (NAB as JLM). The proceeds from the seven-year, \$500m issuance will be earmarked against green buildings across its global portfolio of 22 urbanisation projects.

NSW TCorp Green Bond

- [NSW Treasury Corporation](#) priced a A\$1.3bn Green Bond on 20 October (NAB as JLM). It is the third time the issuer has come to the GSSS market, following inaugural green and sustainability bond issuances in November 2018 and November 2019, respectively.

Flexigroup green ABS

- On 22 October, [FlexiGroup Limited](#) priced its 6th asset-backed securities transaction to include Climate Bond Certified green notes (NAB as JLM), and has now issued over A\$470m of green notes across all ratings levels from AAA to BB since 2016.

*YTD 2020 represents issuance from Jan 2020 to Sept 2020.

Brighte debut green bond issue

- [Brighte](#) priced an Australian first, 100% green asset backed securities issue on 22 October (NAB as sole Arranger). The Climate Bond certified A\$190 million transaction is Brighte's debut green bond issuance and the 43rd green, social or sustainability themed bond NAB has brought to market since 2014.

Shinhan Bank COVID-19 social bond

- Shinhan Bank priced a A\$400m [COVID-19 Alleviation Social Bond](#) (NAB as JLM) on 22 September, split between A\$250m floating-rate and A\$150m fixed-rate tranches.
- This deal is Australia's first COVID-19 labelled social bond with proceeds allocated to employment generation and access to essential services.

Auckland Council 30-year green bond

- [Auckland Council](#) issued a NZ\$500m 30-year green bond (BNZ as JLM) on 16 September, its third green bond issuance and New Zealand's longest ever green bond.

Mercury Energy debut green bond

- Mercury Energy's debut [NZ\\$200m green bond](#) closed on 4 September (BNZ as JLM) with proceeds primarily earmarked to finance construction of the Turitea wind farm.

New sustainability linked bond issuers

- [Suzano's](#) US\$750m, 10 year, sustainability linked bond was the first issued under the [ICMA](#) sustainability linked bond principles. It has a single carbon intensity target.
- [Novartis](#) issued a €1.85bn, 8-year sustainability linked bond incorporating two social targets.
- French luxury label [Chanel](#) raised a €600m (5 year - €300m, 10 year - €300m) sustainability linked bond. The deal is linked to environmental targets including cutting emissions within the firm and in its supply chain.
- Real estate developer [Hulic](#) has issued Japan's first sustainability-linked bond, pricing a ¥10bn (US\$95m) 10-year note on 9 October. The note is linked to two sustainability performance targets: achieving RE100 by 2025 and completing the construction of Japan's first 12-storey fire-resistant wooden commercial facility by 2025.

New Sovereign GSSS bond issuers

- Germany closed its inaugural €6.5bn, 10-year green bond on 3 September, attracting demand of over €33bn and [pricing 1bp tighter than the existing conventional bond](#) according to Bloomberg. It was offered alongside a €24.5bn vanilla bond with a feature allowing investors to swap the green bonds for the vanilla bond.
- Other recent inaugural sovereign GSSS bond issuances came from Luxembourg, Sweden, Hungary, Ireland, Mexico and Egypt.

European Commission Social and Green Bonds

- The EC has issued €17bn of social bonds under its [SURE program](#). Demand for the two-part social benchmark exceeded €233bn, the biggest order book ever seen.
- The EC has also [announced](#) that it will sell €225bn of green bonds to fund its Next Generation EU recovery plan.

INVESTOR & MARKET NEWS

Western Australian Renewables Hub approved

- The WA Government has approved the first stage of the proposed [Asian Renewable Energy](#) bubble, a large-scale renewable energy project near Port Hedland.
- Stage one will be 10GW of wind and 5GW of solar generation, with the total project expected to be 26GW.

Bank of England encourages company disclosures on climates risks

- The Bank of England is [encouraging climate disclosures](#) to help markets price in risks from climate change. This is the latest push to harmonise standards globally, so investors can track and compare how companies are transitioning to a lower-carbon economy.

New climate league for Australia

- Sixteen institutional investors have founded a new [Climate League](#), aiming to cut 2030 emissions to 45% below 2005 levels. Investors involved include IFM, CBUS, Aware Super and QIC.

NZ SuperFund targets net-zero emissions by 2050

- NZ SuperFund (NZSF) has produced a [Climate Change Report](#) noting the NZSF met its 2020 emission reduction targets a year early and has set the following more ambitious targets for 2025: to reduce the fund's carbon emissions intensity by 40% & to reduce the fund's fossil fuel holdings by 80%.

International investors commit to reducing emissions

- The UN-convened Net-Zero Asset Owner Alliance, a group of 30 investors with over US\$5 trillion in assets under management, has [committed](#) to reducing carbon emissions in their portfolio to net-zero by 2050.

European Central Bank to include Sustainability-Linked Bonds as eligible collateral

- The [ECB will accept sustainability-linked bonds](#) with step-up coupons as eligible collateral from 2021 as part of its asset-purchase programme, removing one of the biggest hurdles stifling the product that could even lead to sustainability linked bonds rivalling green bonds when it comes to issuance volume.

Investors urge corporates to set science-based targets

- [137 investors managing US\\$20 trillion in assets](#) are urging 1,800 high emitting companies to set science-based targets in a push to reach net zero by 2050.

Investor Group on Climate Change (IGCC) 2020 survey

- A [Net Zero Investment survey](#) conducted by the IGCC found that Australian and New Zealand investors were increasingly applying dedicated strategies and targets to portfolio-wide and specific asset classes over and above responsible investment offerings.
- The survey involved 38 participants from superannuation funds, asset managers and sovereign wealth funds.

Contacts

Jacqueline Fox

Executive, Capital Markets & Advisory
Corporate & Institutional Banking
T: +61 411 510 220
E: Jacqueline.fox@nab.com.au

David Jenkins

Global Head of Sustainable Finance
Corporate & Institutional Banking
T: +61 415 130 227
E: David.B.Jenkins@nab.com.au

James Waddell

Director, Sustainable Finance
T: +61 410 451 563
E: James.Waddell@nab.com.au

Allison Chan

Director, Sustainable Finance
T: +61 436 931 676
E: Allison.Chan@nab.com.au

Jordyn Laina

Senior Associate, Sustainable Finance
T: +61 436 935 232
E: Jordyn.Laina@nab.com.au

Mark Bower

Global Head of Corporate Origination
T: +61 409 224636
E: Mark.Bower@nab.com.au

Louise Tong

GM Sustainable Finance – CIB, BNZ
T: +64 21 199 5306
E: louise_tong@bnz.co.nz

Victoria Thieberger

Communications Manager – External
Corporate & Institutional Banking
T: +61 436 654828
E: Victoria.Thieberger@nab.com.au

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