

SUSTAINABLE FINANCE UPDATE

AN AUSTRALASIAN PERSPECTIVE ON SUSTAINABLE FINANCE MARKETS

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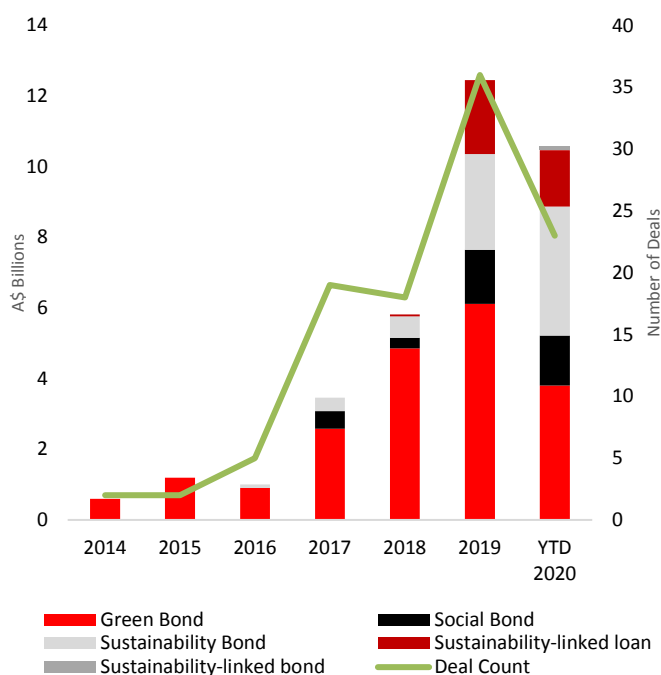
MARKET OVERVIEW

Sustainable Finance Market continues 2020 growth - IFR Refinitiv

- According to [IFR Refinitiv](#), social bonds were a key component of the sustainable finance market in 2020, contributing a total of US\$84.5bn over the period, accounting for almost one quarter of the sustainable finance market.
- Q3 2020 saw increased issuance momentum with a record US\$155bn of sustainable finance debt raised fuelled by the COVID-19 pandemic and global sustainability concerns
- Europe led in terms of sustainable finance issuance, with a 48% market share, followed by the Americas with a 28% share and Asia-Pacific with 18%.
- Sustainable companies raised US\$9.7bn in equity capital markets for the nine months ending September, a 38% increase year-on-year and a threefold increase in the third quarter from the previous quarter, an all-time quarterly record.

Australian Sustainable Debt Annual Issuance (A\$bn)

Source: KangaNews, Refinitiv



Record green, social, sustainability and sustainability-linked issuance in Australia

- A total of 20 Green, Social & Sustainability (GSS) Bonds have been issued in Australia in 2020 YTD, across corporates, semi-governments, banks and securitisation issuers: 7 green bonds (including green securitisations), 8 social bonds and 5 sustainability bonds, according to KangaNews.
- Despite the impact of COVID-19, GSS issuance in Q4 2020 is the largest ever in the Australian market with over A\$3.7bn issued.
- Australian corporates have issued one sustainability linked USPP and two sustainability-linked loans in 2020.
- 2020 YTD issuance volumes include over A\$3.8bn of green bonds, over A\$3.6bn of sustainability bonds, just over A\$1.4bn of social bonds and \$1.7bn of sustainability-linked issuances.

Global Environmental, Social and Governance inflows surge

- According to a [Morningstar report](#), global inflows into ESG funds reached US\$80.5bn in the third quarter, more than double inflows in the third quarter of 2019.
- ESG fund assets reached a record US\$1.2 trillion at the end of September 2020.
- Europe broke new records, pushing past US\$1trn for the first time. Strong investor interest continues to drive product innovation and more conventional funds were rebranded as ESG vehicles.

SELECTED RECENT DEALS

Downer EDI closes A\$1.4bn syndicated SLL

- Downer EDI successfully closed its debut [A\\$1.4bn sustainability-linked loan](#), with first-time lenders making up over half the 29-member syndicate. Australian, Chinese, Japanese and Taiwanese banks accounted for nearly two-thirds of the deal size which was Asia Pacific's most widely syndicated SLL to date.
- Downer identified four sustainability targets – two tied to its greenhouse gas emissions reductions and two related to social sustainability, being cultural awareness, and mental health and wellbeing training of employees.

Queensland Treasury Corporation issues third Green Bond

- QTC returned to the green bond market on 10 November, issuing its third and largest [green bond](#) to date, an A\$1.5bn, 10-year green bond, with **NAB acting as JLM**.

Lafarge Holcim's sustainability-linked bond

- Building materials and solutions provider Lafarge Holcim issued a [EUR 850m sustainability-linked bond](#), the first of its kind in the building materials industry. ISS ESG provided a second party

YTD – December 11, 2020

opinion (SPO) confirming alignment with the [ICMA Sustainability-Linked Bond Principles](#) (SLBPs) which provide best market practice guidance for issuers of SLBs.

- The coupon on the bond will step up by 75bps (tested in Year 10) if the company does not meet its ambition of limiting emissions per ton of cementitious material to 475kg net CO₂ by 2030.

NRG Energy's sustainability-linked note

- US based integrated power company NRG Energy issued a [US\\$3.3bn](#) multi-tranche bond in November, which included a sustainability-linked bond.
- [NRG's sustainability-linked bond](#) has a single sustainability performance target of achieving a [50% reduction in absolute GHG](#) emissions by 2025, against a 2014 baseline. Vigeo Eiris provided an SPO confirming alignment with the SLBPs.

EQT launches sustainability-linked loan

- [EQT launched its second ESG-linked subscription Credit Facility](#) in November with **NAB as an original lender for the facility**. The EUR2.7bn facility has an innovative pricing model which incentivises portfolio companies to improve their performance in the areas of i) gender equality on the board of directors and ii) renewable energy transition, supported by iii) a fundamental sustainability governance platform.

INVESTOR & MARKET NEWS

Australia launches Sustainable Finance Roadmap

- The long awaited Australian Sustainable Financial Initiative's (ASFI) [Australian Sustainable Finance Roadmap](#) was released on 24 November. The plan will align Australia's financial system with a sustainable, resilient and prosperous future for all Australians.
- The roadmap includes [37 recommendations](#) that contemplates a series of actions to scale up the sustainable finance market within the short (2021-2022), medium (2023-2025) and long (2026-2030) term.
- The ASFI roadmap was borne out of NAB and IAG-led discussions at the 2017 United Nations Environment Programme Finance Initiative (UNEP FI) Regional Roundtable, followed by a conference in Sydney in 2018. NAB is a member of the ASFI Steering Committee and contributed through the co-ordinating and four technical working groups.

EU Commission (EU) works on a social taxonomy

- The EU has formed a [Social Taxonomy working group](#) as part of their platform on sustainable finance, working to develop a taxonomy to complement the existing green taxonomy.

ICMA publishes Climate Transition Finance Handbook

- The International Capital Markets Association (ICMA) has published [guidance for issuers](#) on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purposes.

- The guidance applies to dedicated use of proceeds instruments and sustainability linked general corporate purpose instruments. NAB is a member of the ICMA Climate Transition Finance working group, which shaped the handbook.

Rest Super net-zero commitment

- Australian superannuation fund [Rest Super has settled](#) a 2018 case brought against it by a fund member for failing to provide information on how it was managing the risks of climate change.
- Rest has agreed to manage its investments so they would be responsible for net-zero greenhouse gas emissions by 2050.
- It also agreed to immediately begin testing its investment strategies against various climate change scenarios, publicly disclose all its holdings and advocate for companies it invests in to comply with the goals of the Paris Agreement.

NSW Government sets Electricity Infrastructure Roadmap

- The [NSW Government launched a 20-year plan](#) to deliver Renewable Energy Zones, energy storage such as pumped hydro, and on demand supply like gas and batteries, needed to reduce emissions and provide cheap, reliable electricity across the state.

UK announces green gilt and climate disclosure plan

- The UK Government has announced plans to issue green gilts and to make climate-risk disclosures aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) [mandatory for major companies by 2025](#).
- The Financial Conduct Authority (FCA) has also announced that major listed companies will face tightened TCFD-aligned climate-risk disclosures from the start of 2021, although they will not be mandatory.

BlackRock supports the International Financial Reporting Standards (IFRS)

- Investment Manager BlackRock is advocating for the creation of an [IFRS sustainability standards board](#).
- The standard would combine the different private sector sustainability reporting frameworks and standards to establish a globally integrated approach to sustainability reporting.

Fed recognises climate change as a risk to financial stability

- The US Federal Reserve has for the first time called out climate change as a risk to financial stability in its latest [biannual financial stability report](#).
- The report released in November 2020 has recognised that [climate change](#) can produce storms, floods, droughts or wildfires that have the potential to alter future economic conditions and impact the value of real or financial assets.

Canadian Pension Funds seek standardised ESG reporting

- Eight of Canada's largest pension funds who oversee a combined C\$1.6 trillion in assets funds [have joined forces](#) to push for a standardised approach to ESG reporting.

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