March 2021

SUSTAINABLE FINANCE UPDATE

AN AUSTRALASIAN PERSPECTIVE ON SUSTAINABLE FINANCE MARKETS

This document was prepared by National Australia Bank's Corporate Finance personnel and is not research.

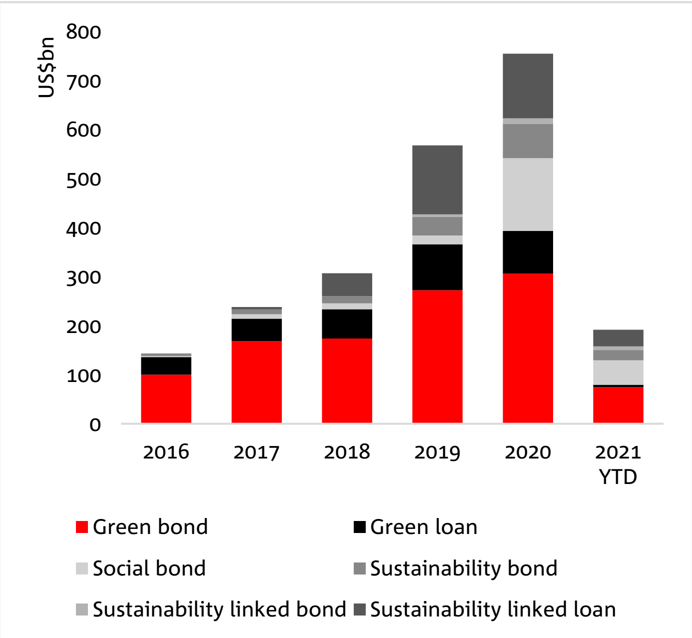
MARKET OVERVIEW

Sustainable Finance market overview - 2021 YTD

- US$191.7bn of sustainable debt was issued in the year to date, more than double the US$83.0bn issued over the same period in 2020, according to Bloomberg New Energy Finance (BNEF).
- Green bonds comprised 39% of the sustainable debt market at US$74.6bn, followed by social bonds at 26% totalling US$50.0bn.
- The largest issuance was a €14 billion social bond placed by the European Commission under the EU SURE programme.

Global Sustainable Debt Annual Issuance

Source: BloombergNEF Sustainable Debt Tool (28 February 2021)



Sustainable Index Funds – growth and outperformance

- The Morningstar Sustainable Fund Landscape Report highlighted mass outperformance of sustainable index funds in 2020. Findings include:
  - 22 of the 23 funds outperforming their conventional index counterparts;
  - 71 sustainable funds were launched while 25 existing funds were repurposed as sustainable funds;
  - Sustainable funds tend to have lower ESG risk and carbon risk in their portfolios than conventional funds.
- Additional research by Morningstar found that:
  - 75% of Morningstar's ESG-screened indices outperformed their broad market equivalents.
  - 88% of ESG indices with a five-year record outperformed for the five years to end of 2020.

ESG assets gain momentum

- Bloomberg Intelligence has forecast rapid continued growth of ESG global assets under management, estimating ESG AUM will exceed US$53tn by 2025, or over a third of the projected US$140.5tn global AUM in 2025.

SELECTED RECENT DEALS

Southern Pastures closes sustainability linked farm loan

- In February 2021, Southern Pastures entered into a 3-year NZ$50m sustainability-linked farm loan, the first in New Zealand to link margin incentives to meeting on-farm water quality and biodiversity targets, along with further carbon emissions reductions.
- **BNZ was Sustainability Arranger and Lead Arranger on the deal.**

Mercury NZ issues second green bond

- On 19 March, Mercury NZ Limited priced its second green bond, a 5.5 year, NZD$200m green bond.
- Proceeds will be used to refinance and finance eligible projects as outlined in their Green Financing Framework.

G8 Education enters sustainability-linked loan facility

- In February, G8 Education closed the first SLL for the early childhood education and care sector.
- The A$350m SLL has two sustainability performance targets linked to G8's quality of education and care, and the safety of G8 team members.

EBRD issues their largest Green Transition Bond

- The European Bank for Reconstruction and Development (EBRD) issued a 10-year, A$280m green transition bond, bought in full by Japan Post Insurance Co.
- Proceeds will finance EBRD's portfolio of green transition projects seeking to enable significant decarbonisation improvements, reductions in environmental footprint and/or improved resource efficiency in key sectors of the economy such as manufacturing and food production.

KfW returns to market with Kangaroo Green Bond tap

- On 16 March, KfW tapped its July 2024 Kangaroo green bond line, raising another A$450m.

Rusal signs sustainability-linked pre-export financing facility

- In February, aluminium producer Rusal closed its second sustainability-linked pre-export finance facility for up to US$200m.

Italy issues largest ever green bond, raising €8.5bn

- In March, Italy issued its first Green Bond, the largest ever single green bond issue, raising €8.5bn across 10-year and 30-year tranches.. The deal was almost 10 times oversubscribed at nearly €80bn.

INVESTOR & MARKET NEWS

AFMA kicks off Sustainable Finance Forum

- The Australian Financial Markets Association (AFMA) held the inaugural meeting of their Sustainable Finance Forum on 12 February to focus on harmonisation of sustainable finance market practices, representing industry needs and feedback on regulations and guidance, plus co-ordination of cross jurisdictional initiatives.

CBI report reveals increasing signs of greenium

- A report by Climate Bonds Initiative (CBI) on Green Bond Pricing in the Primary Market H2 2020 found that green bonds achieved a higher book cover and spread compression than vanilla equivalents, on average. Overall, 56% of green bonds were allocated to investors describing themselves as having green or ESG mandates; 26 out of 33 green bonds studied exhibited a "greenium"; green bonds had, on average, tightened more than vanilla baskets and matched indices.

Total commits to issuing only sustainability-linked bonds

- French oil supermajor Total SE has embedded climate ambition into its financing policy.
- All new bond issues will now be sustainability-linked, making Total the first company to fully link all debt issuance with climate ambitions.

ICMA publishes new SLB guidance documents

- In February, the International Capital Markets Association (ICMA) released a range of new guidance documents to promote continued growth and transparency of the market for sustainability-linked bonds.

LSEG supports shift to net-zero sustainable economy

- London Stock Exchange Group (LSEG) completed the acquisition of Refinitiv, closely followed by announcement of its commitment to SBTi aligned climate targets, becoming the first global exchange group to commit to net-zero.
- LSEG also launched a new Transition Bond Segment within its Sustainable Bond Market.

Vale turns its focus on sustainability

- Brazilian iron-ore miner Vale SA has created an executive-level division focused on sustainability issues.

US formally re-joins Paris Climate Agreement

- The United States formally rejoined the Paris Agreement on 19 February.
- The Biden administration is also pushing to finalise new 2030 emissions reductions pledges ahead of the Earth Day summit on 22 April.

QBE to decline insurance to some oil and gas companies from 2030

- Insurance company QBE has released an updated Environmental & Social Risk Framework.
- From 1 January 2030 QBE will decline to insure companies with 60% or more revenues from oil and gas extraction which QBE assesses not to be on a pathway consistent with the Paris Agreement.

Brazos becomes "Failing Angel" after Texas storms

- Texas based generation and transmission firm Brazos has filed for bankruptcy after collapsing under the impacts of brutal winter storms.

European Banking Authority proposes Green Asset Ratio

- The Green Asset Ratio, identifying financing activities that are environmentally sustainable according to the EU taxonomy, would be a key metric showing if a firm is shifting away from fossil fuels towards renewables.
- European banks with operations in foreign countries would need to make best efforts to say how much of that business aligns with EU standards.

Europe's anti-greenwashing rules take effect

- On 10 March, the first mandatory disclosures under Europe's new Sustainable Finance Disclosure Regulation (SDFR) took effect covering all EU financial market participants and advisers including foreigners that market products to EU investors, not only those with an ESG focus.

Net Zero Investment Framework launched by IIGCC

- Investors managing a collective US$33tn have launched a net-zero investment framework intended to become a global approach to help decarbonise investor portfolios and the broader economy.
- The Institutional Investor Group on Climate Change (IIGCC) has published the framework alongside the Australian Investor Group for Climate Change (IGCC).
- 35 investors managing US$8.5tn, including PIMCO, DWS and Fidelity, are already using the framework.

BIS suggests liquidity backstop to protect against runs on brown assets

- The Bank for International Settlements (BIS) has warned momentum towards greening the economy may bring new transition risks that threaten financial stability, such as potential runs on brown assets as investors exclude high-carbon corporate emitters from their portfolios
- The BIS has called for creation of a liquidity backstop, dependent on the firms' carbon intensity, to help solve the problem.

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