



FinanceAsia
FINDING THE NEXT OPPORTUNITY

THE GREEN AND SUSTAINABLE FINANCING POLL 2020

Taking root in Asia Pacific

Environmental, social and governance (ESG) factors are ever-more important to investment strategy and analysis, as well as to funding plans, finds the 3rd annual ANZ/*FinanceAsia* poll.

Appetite for green, social and sustainability (GSS) loan and bond issues is growing strongly across Asia Pacific.

Amid this trend, the demands of investors in terms of reporting plus the information requested by borrowers, highlight the greater influence – a mainstreaming, even – of ESG considerations within debt capital markets.

This is according to the 3rd annual green and sustainable finance poll conducted by ANZ and *FinanceAsia* during May. Around 140 issuers and investors responded on their capabilities, strategy, preferences, requirements and plans in relation to this growing theme. The notable findings include:

- Wider engagement of GSS issues compared with last year's results, in terms of them being considered and integrated into the strategy
 - More internal ESG scoring systems than ever before among investors, coupled with a larger number of firms developing their own in-house research capability
 - A marked increase in the last 12 months in the focus on reporting of green loans and bonds – both of proceeds and impact
 - Growth in issuance of GSS instruments since 2019, with a further rise in interest in issuing them going forward
 - Time as a factor becoming a much greater hindrance for borrowers than in the past, while set-up costs are notably less concerning than previously
- “Overall, the results of the poll show continued momentum for green bonds and loans,” says Katharine Tapley, head of sustainable finance at ANZ. “COVID-19 has accelerated interest in ESG factors, with the longer term and bigger picture focus of investors and issuers on environmental and social issues.”

This is apparent from the thirst for

information, agrees Andrew Brown, director, debt capital markets at ANZ – both from investors who want transparency with the GSS loans and bonds they buy, and from issuers in seeking to understand what appeals to investors.

FOCUSED INVESTORS

This latest poll results provide little doubt about how seriously investors now take ESG. In particular, 42% of those who took part say their strategy is to actively seek investment opportunities and include companies that fit with their ESG policy; in 2019, this figure was 33%. Further, only 19% no longer have a clearly stated ESG or sustainability strategy, down from 34% a year ago.

Market trends support these figures. Anecdotal evidence from general bond market performance, combined with ANZ's own recent trading experience in Australia, for instance, show that instruments with a GSS element are highly sought after. “Whenever investors have sold these types of bonds, we have been able to find a buyer relatively easily,” explains Brown.

While Australia and New Zealand are frontrunners in sustainable financing within Asia Pacific, meanwhile, activity in China and across South-east Asia is picking up, too.

“We are starting to see more internationalisation as markets in Asia increasingly align with global standards,” explains Stella Saris Chow, ANZ's head of sustainable finance for its international business. “It is important for investors to have more standardisation.”

Investors across various types of institutions are also showing growing interest in and awareness of SLBs. The poll shows that 53% of investors who responded are either directly familiar (30%) with these products or have some knowledge of them but need to learn more (23%).

However, how investors view

them depends on the current state of their mandates, based on how much flexibility they have to invest in different types of sustainability-linked loans and bonds (SLBs), not just use-of-proceeds bonds. “We expect mandates to become more flexible going forward as broader ESG mandates emerge,” says Tapley.

MORE CAPABLE BUYERS

The region-wide spotlight on GSS issues is reflected in the resources being allocated to ESG.

For example, 30% of investors who responded to the poll say they have developed their own ESG scoring system (this was a new question to reflect the increasing focus on ESG). Further, nearly half (44%) now have their own in-house capability, up from 31% in the 2019 findings.

Building on this commitment, more investors than ever before have a specific ESG or sustainability fund. And of those investors who don't have a dedicated GSS instrument mandate, 69% say they are considering one in future – higher than the 53% result in 2019.

Greater demand has also brought with it more emphasis on reporting of proceeds and impact. These are now ‘necessary’ for a far higher number of investors than a year ago.

This is increasingly important to many asset managers that are looking to attract new investors based on the impact of their funds, explains Tessa Dann, director, sustainable finance at ANZ. “They have strong public sustainability statements about their engagement with issuers and how they interact with companies.”

RESPONSIVE ISSUERS

Reporting is one of several important areas for issuers to pay closer attention to, in relation to investors' requirements. Yet it is a double-edged sword for an issuer, since the need to provide more detail at the underlying asset level is



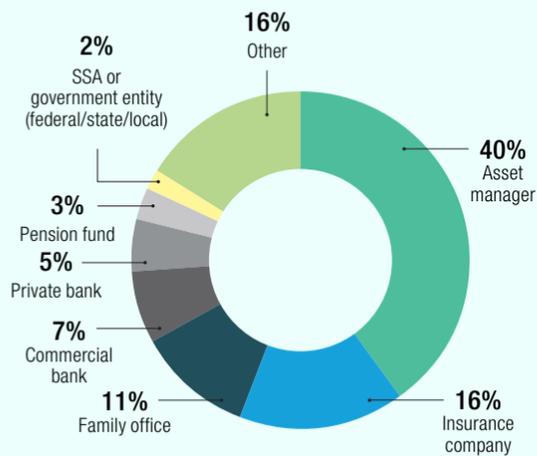
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INVESTORS

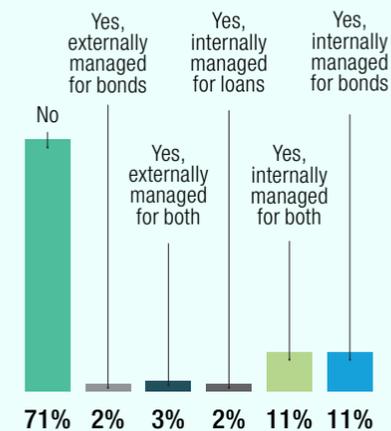
Profile of respondents – by type of firm.



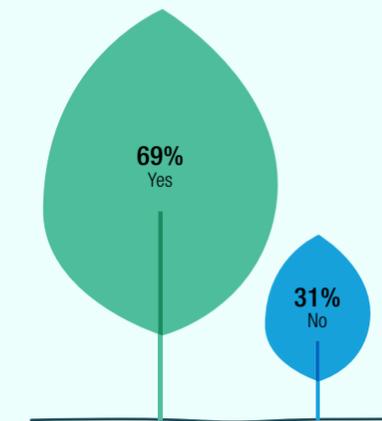
Your general approach to ESG/SRI investing at present.

- We actively seek opportunities and include companies that fit with our ESG policy
- We have developed our own ESG scoring system
- We expect to develop an ESG/SRI policy soon
- We exclude companies from our portfolio that don't fit with our ESG policy
- We do not have a clearly stated ESG/SRI strategy

Do you have a dedicated green, social, sustainability instrument mandate or requirement?



If you do not have a dedicated mandate, are you considering one in the future?



Key investment themes and preferences.

- Renewable energy
- Green buildings
- Health and aged care
- Energy efficiency
- Education
- Affordable housing
- Access to essential services
- Financial literacy

Would you invest in sustainability-linked bonds or loans?



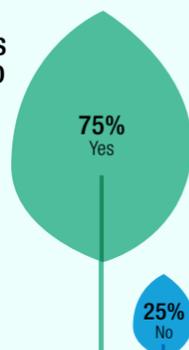
Ranking the importance of independent reviews/opinions/certifications of green loans or bonds.

	Won't invest without it	Very important	Somewhat important	Not important
Reviews	7%	43%	41%	9%
Opinions	7%	31%	46%	16%
Certifications	16%	34%	37%	13%
Reporting	21%	47%	23%	9%

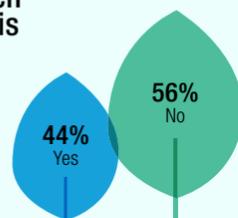
Reporting type required.

	Necessary	Nice to have	Not necessary
Proceeds	67%	26%	7%
Impact	62%	29%	9%

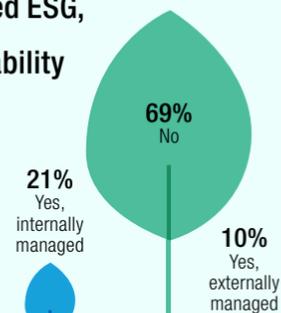
Are ESG/SRI considerations integrated into your investment strategy?



Do you have your own in-house ESG/SRI research and analysis capability?



Do you have a dedicated ESG, SRI or sustainability fund?



time-consuming work, explains Tapley.

'Time' in general represents one of the key hindrances for borrowers when it comes to GSS issuance, according to respondents to the survey. In turn, this reinforces the need for more resources to be directed to the GSS space. For instance, when resolving this for reporting purposes, Tapley proposes detailed conversations and efforts to harmonise data points. "Issuers need to identify the metrics that are actually meaningful for investors."

Investors would also appreciate this, adds Brown, explaining that buyers of GSS debt often don't know exactly what information they want until they get it. "So, this is an opportunity for issuers to lead disclosure rather than waiting to be told what to provide."

Better awareness of the process of issuing and market developments would further help this cause – two of the top three types of information on sustainable finance and GSS instruments cited as being in demand in this year's poll findings.

In general, the foundations for issuing GSS instruments are increasingly solid. For example, there is clear growth in issuance when comparing 2020 poll results with those from last year – while 73% of borrowers hadn't yet issued GSS instruments in the 2019 findings, this year 42% have either issued use-of-proceeds bonds, sustainability-linked bonds or sustainability-linked loans.

More broadly, borrowers cannot underestimate the value of a comprehensive sustainability strategy for investors – with 38% of them highlighting this as an important consideration.

Brown suggests a more collaborative approach to tackling hurdles or negativity around the perception of GSS issuance. This involves helping treasurers to develop a good working understanding of the loans and bonds available to suit their funding strategy. As a result, they can be more proactive rather than reactive.



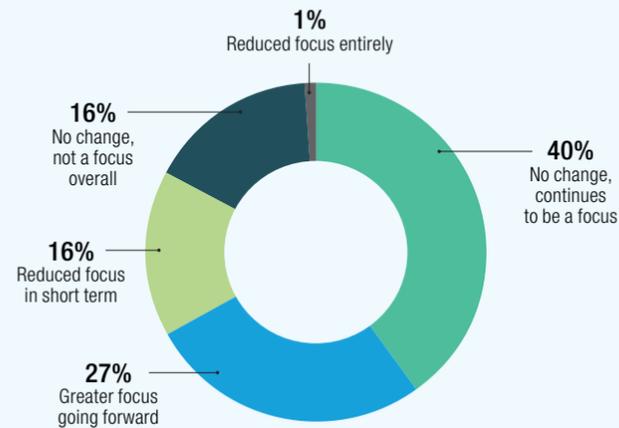
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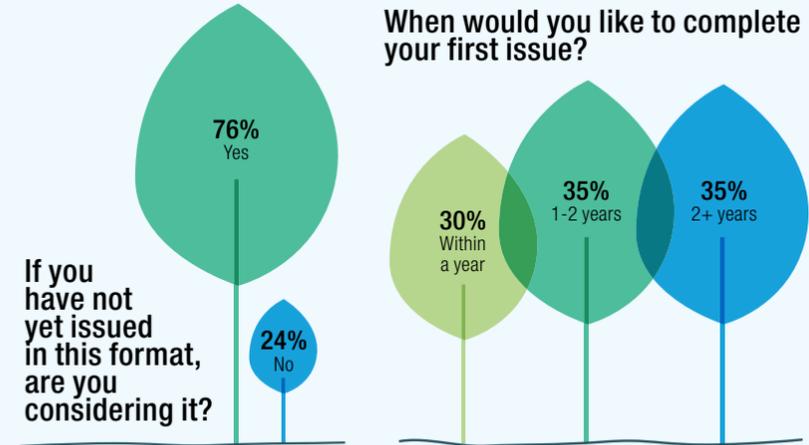
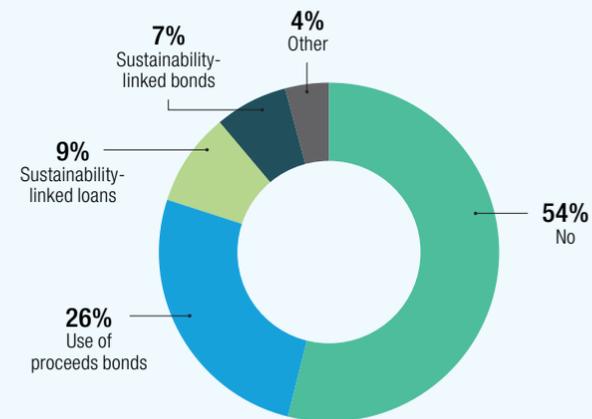
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ISSUERS

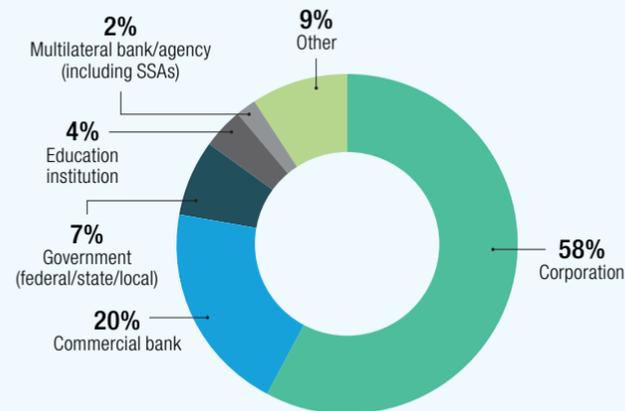
How does COVID-19 impact your focus on green, social, sustainability (GSS) bonds or loans?



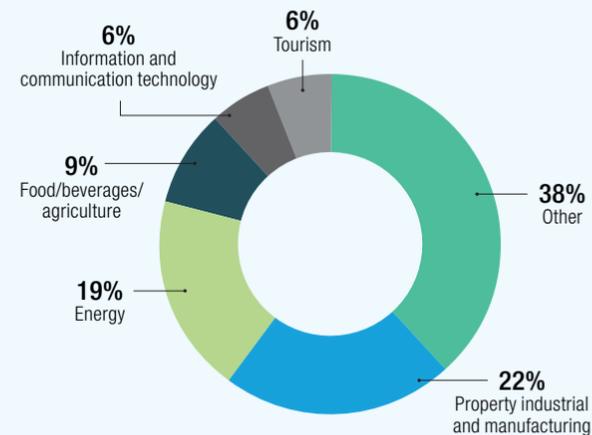
Issuance history of green, social and sustainable (GSS) instruments.



Profile of respondents – by type of firm.



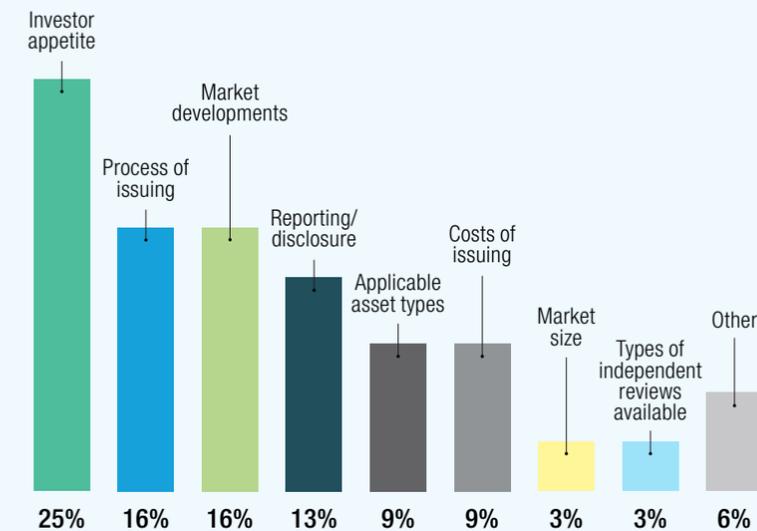
Profile of respondents – by sector.



Hindrances to issuing GSS.



Required information about sustainable finance/debt markets and GSS instruments.



Drivers of GSS issuance.



The key is to spread the message as widely as possible. Borrowers that have issued GSS instruments already are keen to come to market again, says Brown, highlighting the example of Sydney Airport.

This is also the case across Asia, adds Chow. "Repeat issuers that have a framework typically view GSS issues as an important part of the funding mix."

RIDING THE WAVE

In short, findings from this latest poll compound broader trends driving the upward trajectory in GSS instruments and mandates.

Further fuelling the appetite of investors as well as the issuance plans of existing and potential borrowers are the sustainability conversations happening more and more in boardrooms across the region. "Very few of the better-known listed companies don't have a detailed approach to sustainability," adds Tapley.

The impact of COVID-19 – in conjunction with the focus on climate change – might also help to address the supply conundrum for GSS-related debt, she explains. "We are witnessing a broader acceptance of sustainability, with an uptick in issuance to help finance initiatives to respond to the big picture challenges."

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