POLL

ANZ FinanceAsia FINDING THE NEXT OPPORTUNITY

SUSTAINABLE FINANCING POLL 2021

# Greening Asia Pacific's debt markets

Appetite to issue and buy green, social and sustainability (GSS) instruments continues to grow, with ever-more sophisticated borrowers and investors taking a pragmatic view on the need for more uniformity and market standards, finds the 4th annual poll by ANZ and *FinanceAsia*.

The momentum behind sustainable investing in the Asia Pacific debt capital markets is spurring issuance to record highs while an ever-diverse investor base clamours for GSS loans and bonds.

There is mounting evidence of this maturing landscape. As of early June, for example, ESG-linked bond issuance in Asia Pacific had more than doubled to $69 billion so far in 2021, according to data from Refinitiv.

Covid-19 has simply accelerated a trend in GSS engagement by borrowers and investors alike that has been quickly gathering pace in recent years – increasing sustainability-linked product knowledge and enhancing research capabilities, leading to sustainability becoming more mainstream.

This is clear from the 4th annual poll conducted by ANZ and *FinanceAsia* during April and May 2021, with 110 completed responses from a mix of issuers and investors across Asia Pacific providing insights into their capabilities, strategies, preferences, requirements and plans in this area.

"The survey findings reinforce what we are hearing day-to-day and how our roles in capital markets continue to evolve, with a growing focus from both issuers and investors on ESG, which was particularly evident throughout Asia this year," said Andrew Brown, director, sustainable finance, capital markets at ANZ.

## ISSUING TO ORDER

The survey highlighted the fact that more borrowers now realise – and value – the need for a clear ESG strategy to keep up with what investors and other stakeholders are increasingly calling for. Rather than be left behind, they are looking to tap this demand at the same time as they accelerate their internal ESG strategies.

For example, the half of those companies who said in the poll that they haven't ever accessed the market via this route, now want to do so.

### KEY TAKEAWAYS FROM THE SURVEY

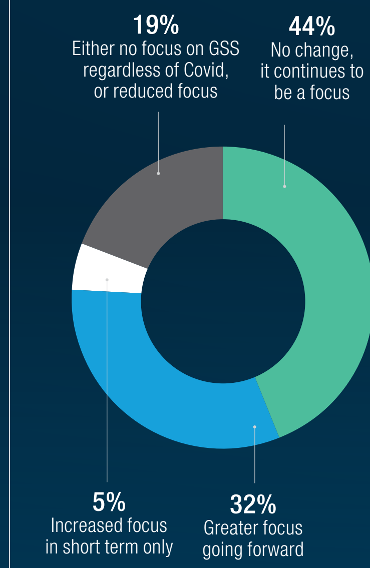
- 87% of all respondents said they consider GSS issues within their organisations and integrate them into their strategy – a steady rise on findings from the same poll in previous years
- An increasing focus on "use of proceeds" bonds, both among issuers and investors
- Issuers are mostly driven by the desire to align with corporate sustainability objectives
- Investor appetite is skewed towards the energy transition theme, including renewables and energy efficiency
- More investors now say the performance of GSS instruments was greater than expected during market volatility – leading to them placing a higher perceived value on GSS debt
- A growing number of investors have dedicated in-house ESG or SRI research capabilities
- The majority of issuers and investors expect to see region-specific taxonomies, regulations and market standards in the coming years – and view this as positive for the development of sustainable financing

The upshot of this finding is that 95% of issuer respondents have either already issued a GSS instrument or are considering it – a notable increase from 2020 and 2019.

"There is clear growth in awareness of sustainable finance products, including sustainability-linked bonds as the most recent market development," added Tessa Dann, director, sustainable finance at ANZ. "This increasing sophistication also means there is strong investor engagement on these deals, spurring increased interest in this format from issuers."

To be better prepared to tap investor demand, however, issuers said they still require more access to a variety of information on sustainable finance and GSS instruments. In particular, there is a need for insights on market trends, on what investors are looking for and on regulation, in terms of the specific impact in local jurisdictions.

### How has COVID-19 impacted your focus on sustainable finance and GSS instruments going forward?



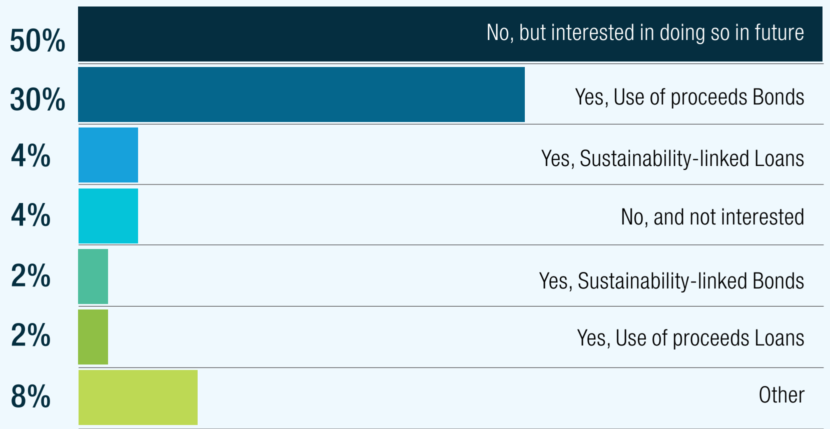

Potential borrowers must also overcome various barriers, the most prominent of which now – based on the poll responses this year – is identifying eligible expenditure or available targets.

When revealing the drivers for them to issue GSS instruments, meanwhile, the most popular reason given was alignment to their own sustainable goals. Yet investor diversification remains a key factor for many borrowers, as it has been in the equivalent survey in previous years.

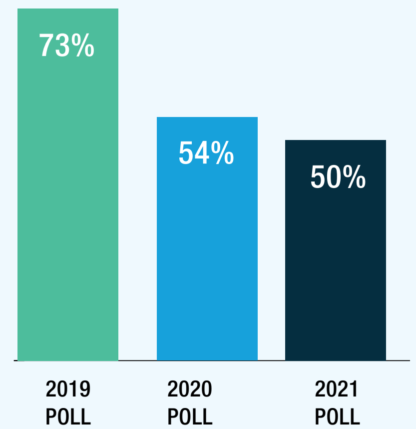
According to Dean Spicer, head of sustainable finance for ANZ in New Zealand, stakeholder engagement is often the most significant benefit to issuers completing GSS transactions. "The ability of issuers to align their corporate purpose and sustainability strategy with their financing is a

## ISSUERS

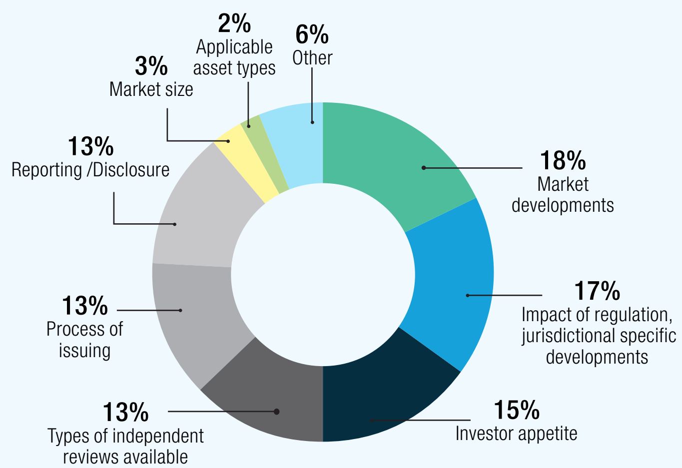
### Have you ever issued green, social and sustainable (GSS) instruments?




### No issuance history of GSS instruments – but interested in doing so in future




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




### Drivers to issue GSS instruments


### Barriers to issue GSS instruments






primary motivation. Stakeholders expect to see evidence that the issuer is delivering an impact return (environmental and social) as well as a financial return to capital providers."

Among existing issuers of GSS instruments, around a third (32%) chose "use of proceeds" bonds and loans as their preferred route, slightly higher than in the 2020 poll.

#### MORE DISCERNING INVESTORS

At the same time as Asia Pacific entities fast-track internal ESG policies and ready themselves to access the abundance of liquidity eyeing GSS bonds and loans, investors are also increasingly aware of what they are looking for to fill their sustainability allocations.

Just over three-quarters (77%) of investors who responded to the survey said they have integrated ESG and SRI considerations into their investment strategy, a gradual rise from last year.

Many of these investors said they are already seeking investment opportunities in companies that fit with the firm's ESG policy, and that they assess them either via their own ESG scoring system, or by using third-party ESG ratings to inform the strategy.

The momentum in the New Zealand sustainable finance market, for example, is accelerating, with investor pull and regulatory push being dual catalysts. "For a small market there are some growing pains as corporates seek to deliver ESG evidence to an increasing range of stakeholders and third party data providers, while investors seek to build in-house capability to incorporate ESG into their investment processes," explained Spicer. "The recently announced mandatory TCFD reporting for large and listed companies adds to transparency requirements and providence needs of many market participants."

Reflecting the importance of sustainability in shaping portfolio decisions, half (51%) now have their own in-house ESG research capability – more than ever before.

This is fuelled by the fact that investor appetite for more detailed information on a company's ESG strategy has grown considerably over the last year. "To me, that highlights increasing in-house capability and growing sophistication among investors to supplement third-party ESG ratings," said Brown. "This is requiring increased transparency from issuers, not only when they issue GSS instruments, which must be a positive for the market."

In line with this, and in conjunction with the pandemic since early 2020, investors have become increasingly focused on performance of GSS instruments during periods of market volatility. Compared with non-GSS options, for instance, only 2% of respondents said performance was below expectations.

Compared with the findings in last year's poll, there is a slight improvement in the perceived performance of GSS instruments amid volatility, with higher results also this year for "above expectations".

At the same time, closer scrutiny of sustainable investments and growing product knowledge in this space seems to be making investors more willing to pay for GSS product – certainly more so than according to the 2020 results, where only 5% said they will pay (extra) for a GSS offering.

"While there is some evidence of investors willing to pay slightly extra for a GSS bond, it is not widespread. Certainly, the continued strong demand that we see on these deals can drive tighter pricing outcomes," added Dann.

From a thematic perspective, investors are also increasingly attracted to the broad energy transition theme, given the preference for opportunities in renewables and energy efficiency, along with green buildings.

When making any choice in terms of a GSS instrument, meanwhile, independent reviews and assurances continue to be front-of-mind for many investors. Only 19% of respondents said this is not important, with the rest

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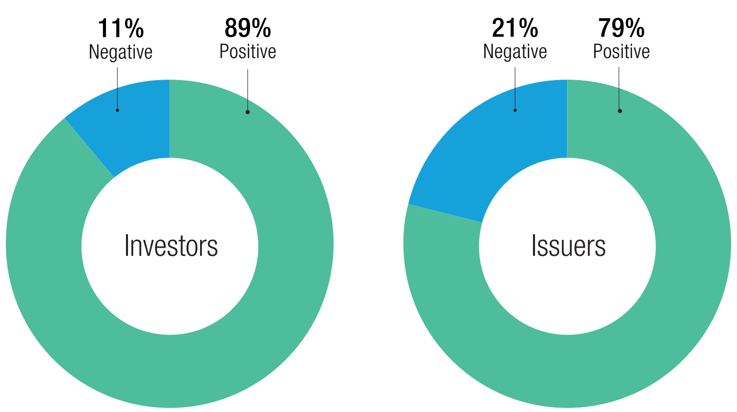
### What will be the impact of potential further regulation of sustainability and sustainable finance?



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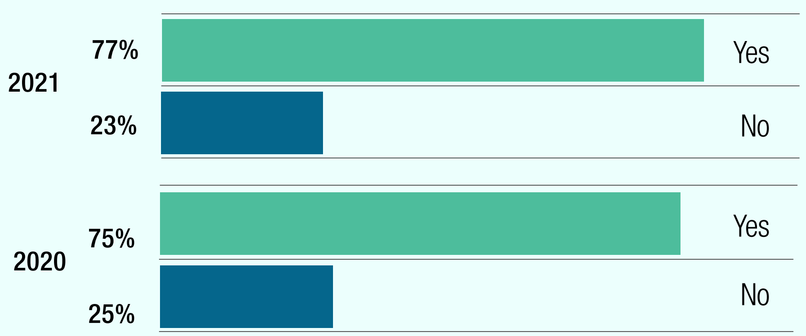
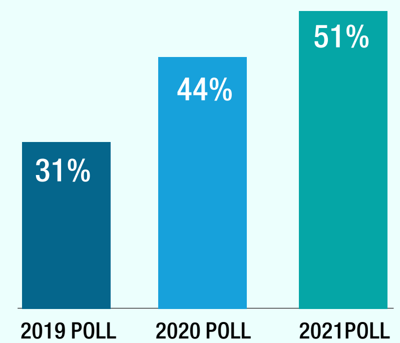
## INVESTORS

### Are ESG/SRI considerations integrated into your investment strategy?




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




### What best describes your ESG/SRI strategy at present?

1 Already seek investment opportunities and include companies that fit with our ESG policy

2 We have developed our own ESG scoring system

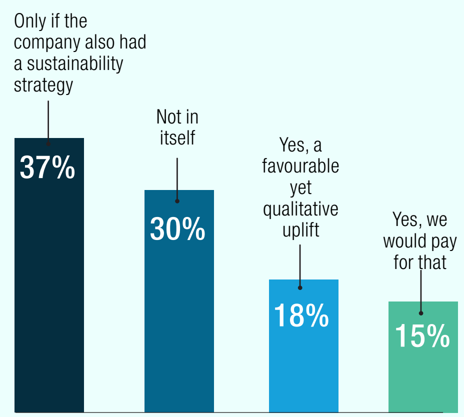
3 We use third party ESG ratings to inform our investment strategy

4 We do not have a clearly stated ESG/SRI strategy

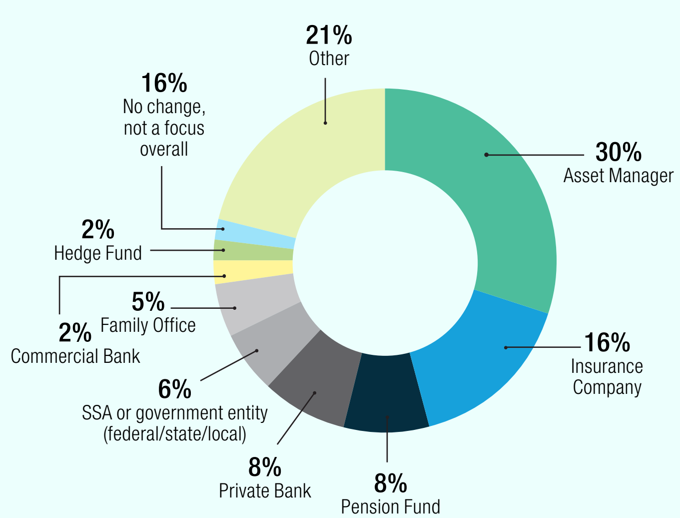
5 Currently developing an ESG investment policy/strategy

6 Exclusions policy only

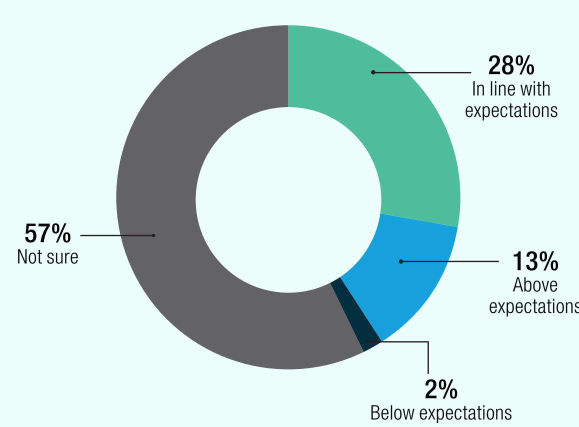
### All else equal, would a GSS instrument offering change your view on an issuer?




### Profile of respondents – by type of firm




### Compared with non-GSS instruments, how have GSS instruments performed during periods of market volatility?




### The importance of independent reviews/opinions/certifications of green loans or bonds

| 2021 | Won't invest without it | Very important | Somewhat important | Not important |
|---|---|---|---|---|
| Reviews | 11.5% | 37.7% | 39.3% | 11.5% |
| Opinions | 6.6% | 34.4% | 49.2% | 9.8% |
| Certifications | 14.8% | 34.4% | 37.7% | 13.1% |
| Reporting | 14.8% | 47.5% | 27.9% | 9.8% |

| 2020 | Won't invest without it | Very important | Somewhat important | Not important |
|---|---|---|---|---|
| Reviews | 7.1% | 42.9% | 41.1% | 8.9% |
| Opinions | 7.3% | 30.9% | 45.5% | 16.4% |
| Certifications | 16.1% | 33.9% | 37.5% | 12.5% |
| Reporting | 21.4% | 46.4% | 23.2% | 8.9% |

| 2019 | Won't invest without it | Very important | Somewhat important | Not important |
|---|---|---|---|---|
| Reviews | 5.3% | 42.7% | 37.3% | 14.7% |
| Opinions | 4.1% | 37.8% | 45.9% | 12.2% |
| Certifications | 13.3% | 37.3% | 28.0% | 21.3% |
| Reporting | 12.2% | 43.2% | 31.1% | 13.5% |

### Preferred investment themes


acknowledging that they either always want such reviews (28%), or that they are desirable (53%).

**IN NEED OF GREATER CLARITY**

As the sustainable finance segment continues to evolve, an emerging need that the survey also spotlighted is the availability – and understanding – of clear and consistent standards.

Based on the survey responses of issuers as well as investors, there is a lack of familiarity with the EU Taxonomy and EU Green Bond Standard, and also in terms of implications for EU and non-EU investors and borrowers.

At the same time, around three-quarters of all respondents said they expect further region-specific sustainable taxonomies, regulations or market standards to be developed in the coming five years.

Perhaps most notably, the overall belief is that such regulation will have a largely positive impact on sustainability and sustainable finance in general.

"Given the expectations for further regulation and standards, this reinforces the need to support market players with insights and education in what is already a very fast-moving part of the market," added Brown.


**CONTACT**

**Andrew Brown**
*Director, Sustainable Finance, Capital Markets*
T: +61 466 029 172
E: andrew.brown4@anz.com

**Tessa Dann**
*Director, Sustainable Finance*
T: +61 468 543 378
E: tessa.dann@anz.com

**Dean Spicer**
*Head of Sustainable Finance, New Zealand*
T: +64 21 633 295
E: dean.spicer@anz.com