Green Bonds – supply, demand and the market

Investor **demand** on the rise – UNPRI signatories have AUM of USD 62 trillion and aim to integrate ESG in their investment decisions

**Supply** of Green Bonds represented 0.5% of global bond issuance in record year 2016

### Increasing number of investors signing off on the 6 Principles for Responsible Investments (PRI) (1)

1. Incorporate ESG\(^{(2)}\) into investment analysis and decision making process
2. Incorporate ESG into ownership policies and practices
3. Seek appropriate disclosure on ESG by entities in which we invest
4. Promote acceptance and implementation of the Principles within the industry
5. Work together to enhance our effectiveness in implementing the Principles
6. Report our activities and progress towards implementing the Principles

---

(1) PRI is an investor driven initiative in partnership with UNEP Finance Initiative and the UN Global Compact

(2) ESG=Environmental, Social & Governance

---

Source: Unpri.org
Market aspects of Green Bonds

Starting point:
- The market has grown organically - no single authority
- Not a game changer:
- Investors driven by mandates, strategies, policies and regulation
- 1500 investors with assets under management equal to USD 62 trillion have signed the UNPRI. Trend pointing upwards.
  - ”Incorporate ESG into investment analysis and decision making process”

Market aspects:
1. Market access
2. Liquidity
3. Pricing
4. Allocation
5. Marketing
Market aspects of Green Bonds

1. Market access:
   a) Investor diversification
      ➢ Number
      ➢ Geographical reach
   b) Maturity
   c) Currency
   d) Volume
   e) Format

2. Liquidity:
   a) Poor
   b) Asymmetric
   c) Frustration and loyalty
   d) Side effects
3. Pricing:

- a) Created for mainstream investors on the basis of equal pricing
- b) Law of supply and demand
- c) Two perspectives
- d) Anecdotal evidence in a world of unique transactions
- e) Bloomberg report “Investors are willing to pay a “green” premium”, from 8 Feb 2017 concludes:
  - i. Selectively lower yield in secondary market: 25pbs lower yield for green bonds issued by supranationals in EUR
  - ii. Apart from that, no consistent premium for green securities
  - iii. Three reasons price premiums aren’t more common:
    - Use-of-proceeds green bonds are still tied to corporate risk
    - Green bond governance as a whole is too weak
    - It is nearly impossible to confidently attribute differentials to the green credentials (too small sample to analyse and separate effects)
  - iv. Potential effect from increasing climate risk awareness:
    “…, as investors increasingly price environmental risks into pricing models, non-green bonds would ultimately require a higher risk-adjusted return.”
Market aspects of Green Bonds

4. Allocation

Extract from Deal Review:

5. Marketing

Investors happy to be seen in public advertisements
Disclaimer

This presentation has been prepared solely for informational purposes and is not to be construed as an offer to buy or sell, or a solicitation of an offer to buy or sell, any securities or related financial instruments, or to engage in a particular trading or investment strategy. The company should not construe the contents of this presentation as legal, tax, accounting or investment advice or a recommendation in respect of asset allocation or a particular investment. This presentation does not purport to be all-inclusive or to contain all of the material information that the company may require when making an investment decision. The instruments presented herein may not be appropriate for all investors. Prior to making any investment decision, the company should conduct an independent investigation of the instruments described herein and should consult its own counsel, tax and financial advisors as to legal and related matters concerning any potential investment decision. No investment, divestment or other financial decisions or actions should be based solely on the information in this presentation.

This statement affects your rights

This research report has been compiled by SEB Merchant Banking, a division within Skandinaviska Enskilda Banken AB (publ) (“SEB”) to provide background information only. It is confidential to the recipient, any dissemination, distribution, copying, or other use of this communication is strictly prohibited. Good faith & limitations Opinions, projections and estimates contained in this report represent the author’s present opinion and are subject to change without notice. Although information contained in this report has been compiled in good faith from sources believed to be reliable, no representation or warranty, expressed or implied, is made with respect to its correctness, completeness or accuracy of the contents, and the information is not to be relied upon as authoritative. To the extent permitted by law, SEB accepts no liability whatsoever for any direct or consequential loss arising from use of this document or its contents.

Disclosures

The analysis and valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties; different assumptions could result in materially different results. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of the SEB Group or any person or entity within the SEB Group that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realized. Past performance is not a reliable indicator of future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. Anyone considering taking actions based upon the information in this report is urged to base investment decisions upon such investigations as they deem necessary. This document does not constitute an offer or an invitation to make an offer, or solicitation of, any offer to subscribe for any securities or other financial instruments.

Conflicts of Interest

SEB has in place a Conflicts of Interest Policy designed, amongst other things, to promote the independence and objectivity of reports produced by SEB Merchant Banking’s Research department, which is separated from the rest of SEB business areas by information barriers; as such, research reports are independent and based solely on publicly available information. Your attention is drawn to the fact that a member of, or an entity associated with, SEB or its affiliates, officers, directors, employees or shareholders of such members (a) may be represented on the board of directors or similar supervisory entity of the companies mentioned herein (b) may, to the extent permitted by law, have a position in the securities of (or options, warrants or rights with respect to, or interest in the securities of the companies mentioned herein or may make a market or act as principal in any transactions in such securities (c) may, acting as principal or as agent, deal in investments in or with companies mentioned herein, and (d) may from time to time provide investment banking, underwriting or other services to, or solicit investment banking, underwriting or other business from the companies mentioned herein.

Recipients

In the UK, this report is directed at and is for distribution only to (I) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (The “Order”) or (II) high net worth entities falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”. This report must not be acted on or relied upon by persons in the UK who are not relevant persons. In the US, this report is distributed solely to persons who qualify as “major U.S. institutional investors” as defined in Rule 15a-6 under the Securities Exchange Act. U.S. persons wishing to effect transactions in any security discussed herein should do so by contacting SEBEI. The distribution of this document may be restricted in certain jurisdictions by law, and persons into whose possession this documents comes should inform themselves about, and observe, any such restrictions.

The SEB Group: members, memberships and regulators

Skandinaviska Enskilda Banken AB (publ) is incorporated in Sweden, as a Limited Liability Company. It is regulated by Finansinspektionen, and by the local financial regulators in each of the jurisdictions in which it has branches or subsidiaries, including in the UK, by the Financial Services Authority; Denmark by Finanstilsynet; Finland by Finansinsluvatonta; and Germany by Bundesanstalt fur Finanzdienstleistungsaufsicht. In Norway, SEB Enskilda AS (‘ESO’) is regulated by Finanstilsynet. In the US, SEB Enskilda Inc. (‘SEBEI’) is a U.S. broker-dealer, registered with the Financial Industry Regulatory Authority (FINRA). SEBEI and ESO are direct subsidiaries of SEB. SEB is active on major Nordic and other European Regulated Markets and Multilateral Trading Facilities, in as well as other non-European equivalent markets, for trading in financial instruments. For a list of execution venues of which SEB is a member or participant, visit http://www.seb.se.
Thank you!