



Green Bond Workshop II: Market Aspects
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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



Source: Unpri.org

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

(2) ESG=Environmental, Social & Governance

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

Market aspects of Green Bonds

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

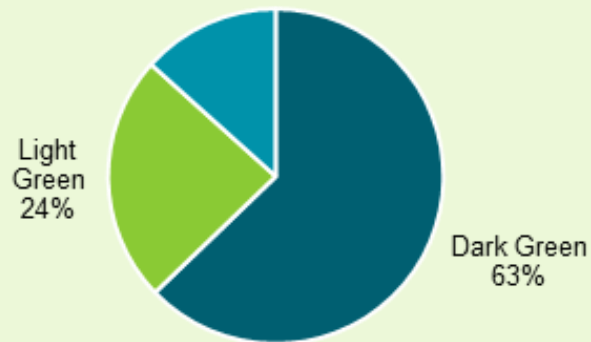
4. Allocation

Extract from Deal Review:

5. Marketing

Investors happy to be seen in public advertisements

Investor Allocations – Green



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For further information seb.se/greenbonds
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