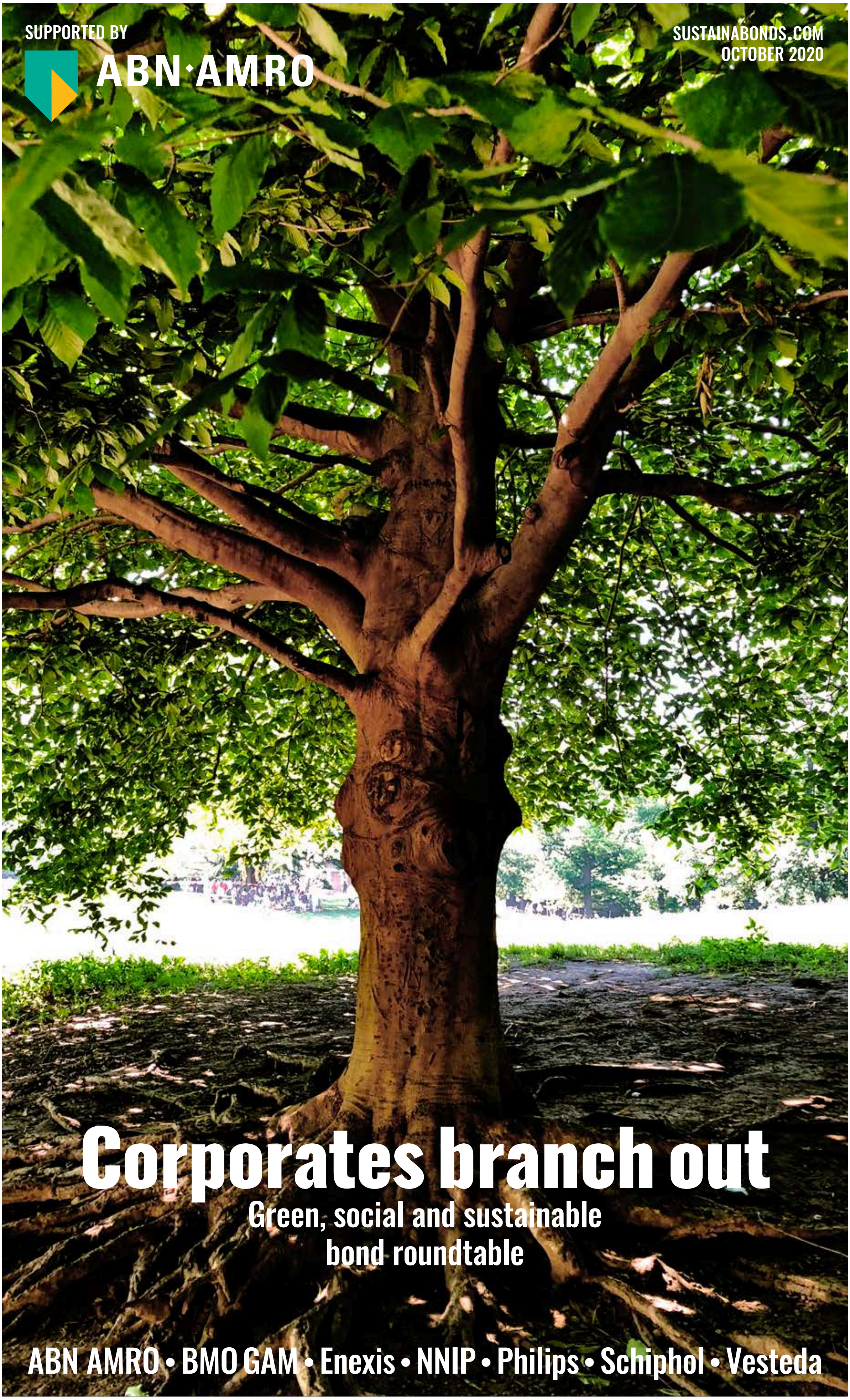
SUSTAINABONDS

SUPPORTED BY
ABN·AMRO

SUSTAINABONDS.COM
OCTOBER 2020



Corporates branch out

Green, social and sustainable bond roundtable

ABN AMRO • BMO GAM • Enexis • NNIP • Philips • Schiphol • Vesteda

Branching out from ESG roots

Green and social bond markets have withstood and even grown on the back of the Covid-19 pandemic. Rooted in their businesses and CSR strategies, an increasingly diverse range of corporates are approaching the market — at times branching out into new instruments. In this Sustainabonds roundtable sponsored by ABN AMRO, corporate finance and responsible investment professionals share their insights and opinions around the latest developments.

Neil Day, Sustainabonds: The pandemic has clearly dominated developments in financial markets this year, and that includes green, social and sustainability bonds — although not necessarily each of those in the same way. How would you say the prospects for green, social and sustainability bonds been affected by the crisis?

Dick Ligthart, ABN AMRO: 2020 has been a very challenging year so far. But on the other hand, it's also been a very exciting year for the green, social and sustainability bond market.

In March the whole market came to a sort of a standstill, with the emergency brake being applied as the pandemic struck. But quite soon thereafter, we saw issuers transitioning more towards social and sustainability bonds, including Covid-19 alleviation topics. Public sector issuers, but also financial institutions, often with SME-related finance, and corporate issuers all focused on this topic.

And from around May onwards, the green bond sector recovered, with the sentiment of "building back better" playing into that. Indeed, there is a strong conviction to build back better after the crisis across the public and private sectors. This can be seen in various initiatives, but perhaps most notably in the big recovery package of the European Union, which is looking to issue a substantial amount of green bonds, with some €250bn coming up. In the European context, we have also seen Germany and Sweden as new sovereign entrants in the market, which will also be a driver for more issuance from these jurisdictions.

So the format has shown that it is resilient and that it can address new challenges in the economy. 2020 is even expected to become a new record year in terms of issuance, which is a strong signal that the market is ever more important.

Thomas Hassl, BMO GAM: As Dick says, it has been an interesting year to follow. And as well as the trends he alluded to, we have now seen for the second or third year a variety of labelled bonds — not just social, sustainability and green bonds, but also SDG-linked bonds and transition bonds. I'm pretty sure there will be further developments on that front, and we encourage that.

As an investor operating in this field, one of the key things we have done in the past 12 months, that perhaps highlights developments, relates to a new fund we launched at the turn of the year. We had been planning to launch this as a green fund, but at the last minute we put the brakes on because looking at the trends we were seeing, there had already in 2019 — so before the crisis — been an uptick in social and sustainability bonds. This led us to go out and speak to issuers, investors, asset owners, our clients to find out where they saw the market going. Interestingly, the overwhelming feedback we got was that, in such a product, we shouldn't limit ourselves to the green side, but keep it open and have a product that also includes social and sustainability bonds — the message was more mixed on the transition bond side. This led us to reconsider the shape of the fund and we decided to widen its scope and launch it as one that includes all these areas. That was before we then hit this period where we have seen a clear increase in social and sustainability bond issuance.

I'll be interested to hear how others see the market evolving. Will we perhaps not see green bonds anymore in a couple of years'

Roundtable participants *(left to right, top row first)*:

Frans Baas, treasurer, Vesteda

Bram Bos, lead portfolio manager, green bonds, NNIP

Thomas Hassl, vice president, responsible investment, BMO GAM

Dick Ligthart, director – DCM, green, social and sustainability bonds, ABN AMRO

Annick Moerland-Voorderhaak, deputy treasurer, Enexis

Paul Rekmans, head of corporate finance, Philips

Roshnie van der Zwan-Ramautarsing, integrated reporting officer, Schiphol

Neil Day, managing editor, Sustainabonds

time because of a move towards sustainability bonds? Or will there continue to be scope to have different categories?

Day, Sustainabonds: Bram, I believe green has very much been your focus, so what are your thoughts on this?

Bram Bos, NNIP: We have a slightly different view. We have not been putting a brake on any green bond strategy developments — we just launched our third green bond fund this year, which is growing very quickly, and we are going to launch our fourth green bond fund later in the year. We have had €1bn of inflows into our green bond strategy. So, Thomas, there's no reason to put the brakes on.

Actually, when I look at demand pre-March and after March, I think it has accelerated afterwards. We see more inquiries coming in — sometimes we have five different green bond RFPs in a week, which is really stunning. Within NNIP, it is one of the fastest growing strategies and one of the few to which we are allocating extra resources at the moment. So all signs still point to a green light for the green bond market.

The European Union's involvement and sovereigns issuing green bonds is helping the green bond market a lot. Today I heard that China is going to target having zero emissions by 2060. So the theme absolutely has not changed.

Yes, we do have more flavours in the market in terms of labels. But some of them are probably a bit flavour of the day labels. And some of them are actually green bonds but just labelled differently for whatever reason. That's all fine. It's very healthy to see more labels developing — some are more credible than others. It's just a sign of how the whole sustainable fixed income market is growing very quickly. And that trend really is irreversible — that's pretty clear to me.

Day, Sustainabonds: Whether green and social are likely to be increasingly combined in a more overall sustainable approach is something I will try to bring out across the rest of the discussion as I speak to the issuers about their approach and as we discuss new instruments being developed.

Paul Rekmans, Philips: 'We have spent around €230m per annum in terms of green innovation'

Roshnie, Schiphol had issued green bonds before, but then approached the market in April, just after the turmoil had really hit the capital markets. How did you find that, particularly given that your business is one subject to the impact of the pandemic?

Roshnie van der Zwan-Ramautarsing, Schiphol: Before Covid hit, we had already been preparing for another green bond issue behind the scenes. It was quite challenging when Covid emerged all of a sudden, and quite suspenseful, frankly, to see how things would develop if we proceeded to go to market. But it turned out well. In spite of the challenging market, we still had a lot of demand from different investors — green investors, but also more traditional investors. So we felt that our issue was very well received by the market. It also allowed us to specifically emphasise that sustainability is an important focus area for Schiphol, even in these challenging times — I really feel that the issue in April, and also the issue we launched in September, contributed to highlighting our commitment to sustainability, externally but also internally.

It's always good to have full flexibility

Day, Sustainabonds: As the market has developed, have you noticed any difference in the way investors are looking at your issuance or the wider green bond market?

Van der Zwan-Ramautarsing, Schiphol: Generally these days we get more questions about sustainability and about our green finance framework, so there's a greater interest in these aspects. Also during investor meetings and roadshows we get more detailed queries. Investors bring specific ESG-focused specialists to conversations and dig a little bit deeper than a few years ago, I would say. Investors are becoming more critical and educated on the topic. When comparing the green shades of our issues, we have generally seen an increase in the green shade of the issues over the years.

Day, Sustainabonds: Annick, Enexis entered the market with its first green bond in June. I expect circumstances were quite different to what you had anticipated when you were preparing the framework. How was your experience? Do you think the fact you were issuing a green bond helped you in such a market?

Annick Moerland-Voorderhaak, Enexis: It was quite challenging, because a lot of things cropped up that simply weren't there before. Previously, approaching the market was a really smooth process, but this time it was different. I have to say that this made us aware of the importance of being flexible in timing. If you look at where prices were at the peak of the crisis, we were lucky that we didn't have to go to the market at that point in time. And crises can arise at any time — this year it's Covid-19, maybe next year it's something else — so it's always good to have full flexibility and not be too focused on just one moment in time.

When we did approach the market, we were well aware that there would be some price sensitivity, but also that the market was open for our credit, and we were confident that we could get it done.

Did the green shading of the bond help us? I would say that we would have done a good transaction with a grey bond as well. But what we did see was a lot of new investors, among those who participated in our bond, a lot of dark green investors, so we tapped a new market. And I would say that in challenging times as we are facing right now, that's always a good thing.

I should note that an important part of the reason I'm confident we could also have done a good grey bond is that the impact of Covid-19 is very limited in our sector. We don't have an issue around our credit profile and the feedback we had from investors confirmed this.

Day, Sustainabonds: My understanding is that when you approached the market previously, you presented yourself as something of a green issuer even if it wasn't with a green bond. What was the thinking behind that, and why did you ultimately decide that green bonds were right for you?

Moerland-Voorderhaak, Enexis: First of all, it's very easy to be green in the sector we're in. We're at the centre of the energy transition, doing a lot of investments to facilitate this transition. It's very easy to say that we are a green company, then let's do a green bond. But it's very important to mention that it's also in your DNA and that we are not doing green bonds because it's an easy thing to do. We wanted to get across the message that it's in our DNA and we have policies in place and those are very important for us. Issuing green bonds is something that follows very logically from this process.

So what we did first, over the last couple of years, was to focus on our ESG rating, getting the processes better and better. And that's a continuous process. We see the world around us embracing these topics and internally we put a lot of time and effort into improving. Meanwhile, what started as an immature green bond market has evolved into a mature green bond market.

If you put these elements together, putting a green finance framework in place is a very logical thing for us to do, and that's why we decided to go ahead and issue our first green bond this year.

Day, Sustainabonds: Paul, Philips issued what you dubbed a green innovation bond and the way you looked at use of proceeds was indeed a bit different to what had been done before, including an R&D focus. How did you come up with that idea and why? And how was it received?

Paul Rekmans, Philips: Innovation has always been part of the DNA of Philips. Sustainability has also been very important for us. Our brand promise is, at Philips, we strive to make the world healthier and more sustainable through innovation. That already points towards combining that sustainability angle with innovation. And throughout the whole discussion that we had in preparation of the framework, we came to the conclusion that we could combine the two elements in coming up with the concept of the green innovation bond.

We also wanted to be innovative in how we approached the green bond market, rather than just issuing a plain green bond focusing on, say, only sustainable operations. In 2017 we opened the market for sustainable revolving credit facilities and we wanted to again come up with an innovative feature in our financing. So we looked at where we actually have green expenditures and found that over the past years we have spent around €230m per annum in terms of green innovation. We concluded that this was an excellent starting point for use of proceeds allocation for our first green bond.

It's also important to mention there that we have a long history of reporting on our sustainability performance. We have issued our sustainability reporting for many years alongside our annual report. As such, the use of proceeds reporting was already very deeply embedded in our systems. From the start of an innovation project, whether or not it's green is already tagged. That continues throughout the whole product development process so that once it translates into real products, it's still being recognised. That made the use of proceeds reporting relatively easy in our role as issuer.

Roshnie van der Zwan-Ramautarsing, Schiphol:
'Sustainability is an important focus area for Schiphol, even in these challenging times'

That also helps to build the business case internally that this is a good thing to do. It highlights the green innovation part of what we are doing, and basically comes at little additional effort for the finance team.

Day, Sustainabonds: What did investors think about the shift away from the original use of proceeds kind of concept?

Bos, NNIP: To be honest, I can't remember all the details of Philips' green bond — we are monitoring 600 green bonds at the moment — but I believe we had difficulty fitting the innovation part into the existing green taxonomies. We could not find a clear category where it fitted in. So we looked into it but in the end decided, because we were a little bit unsure about it, that we could not place it in our green bond strategies at the time.

We are very open to new developments

But I always want to emphasise that we will look at every new issuance again — that's something we make clear to all issuers. We are very open to new developments and it doesn't mean that the next green innovation bond from Philips will not be eligible.

Rekmans, Philips: I'm almost proud, Bram, that it didn't fit into the into the original, existing taxonomies that you had, because it means that we're really doing something new.

Bos, NNIP: On the other hand, that means less demand.

Rekmans, Philips: Demand for our green innovation bond was very strong. Additional demand was not one of the considerations for issuing the bond; we wanted to highlight the green feature of our product innovations.

Bram Bos NNIP: 'Transparency is the ultimate proof of what you're doing'

Day, Sustainabonds: Your latest issue was away from green and more towards those that some issuers were dubbing Covid-19-related issues. Is that something that you considered or could consider?

Rekmans, Philips: What we did indeed do in the heat of the Covid-19 outbreak in Europe, back in March, was to issue €1bn of bonds. We used the framework that we had in place and did a sustainable innovation bond, where we allocate the proceeds to a portfolio of sustainable innovations that contribute to financially sustainable care and expenditures to improve access to care for underserved communities. But that was basically just using the existing framework and involved with little additional effort for us. This was not specifically Covid-19 related, but rather aimed at building a liquidity buffer.

Day, Sustainabonds: Going back to the point Thomas mentioned earlier on, about the possible integration of green, social and sustainability within one overarching market. What's your view on that, given you have a single framework for the two different types of issuance? To what extent does it make sense to break out green or sustainability when sustainability maybe captures the whole thing anyway?

Rekmans, Philips: We did it that way because it fits in with the existing markets to a certain extent. My feeling on where the market is going is that ultimately a company will have an ESG rating from a rating agency, and based on that rating the company will be eligible for certain portfolios. If you're really a sustainable company that embeds ESG in everything you're doing, then you're also being recognised as a leader in all the indices. Then all your bonds should be eligible for those bond portfolios, in my view. That should ultimately take away the need for having an ESG bond framework and specific use of proceeds reporting.

Bos, NNIP: I hear what you're saying, that in the end an ESG rating is the ultimate decider as to whether or not an investor should invest in a company.

But what we are hearing a lot from our end investors is that, first and foremost, they like transparency, they like to know what's happening with their money. And the fact that with use of proceeds bonds it's being used for projects, whether green or social, makes it really tangible for them. That's really important. In the end, having this transparency is the ultimate proof of what you're doing.

A company can achieve a high ESG rating by, say, hiring 10 people to focus on writing policy papers and there are some companies who are doing just that.

Rekmans, Philips: Perhaps that is the case for some companies, but for us the information on the projects is just a kind of recap of what we've already been publishing for many years in the sustainability reporting that we do on an annual basis. We have very clear ESG targets — we updated them last week, by the way, so it would be worth taking a look. And it's not just about the reporting — the relevant metrics are deeply embedded in everything we do.

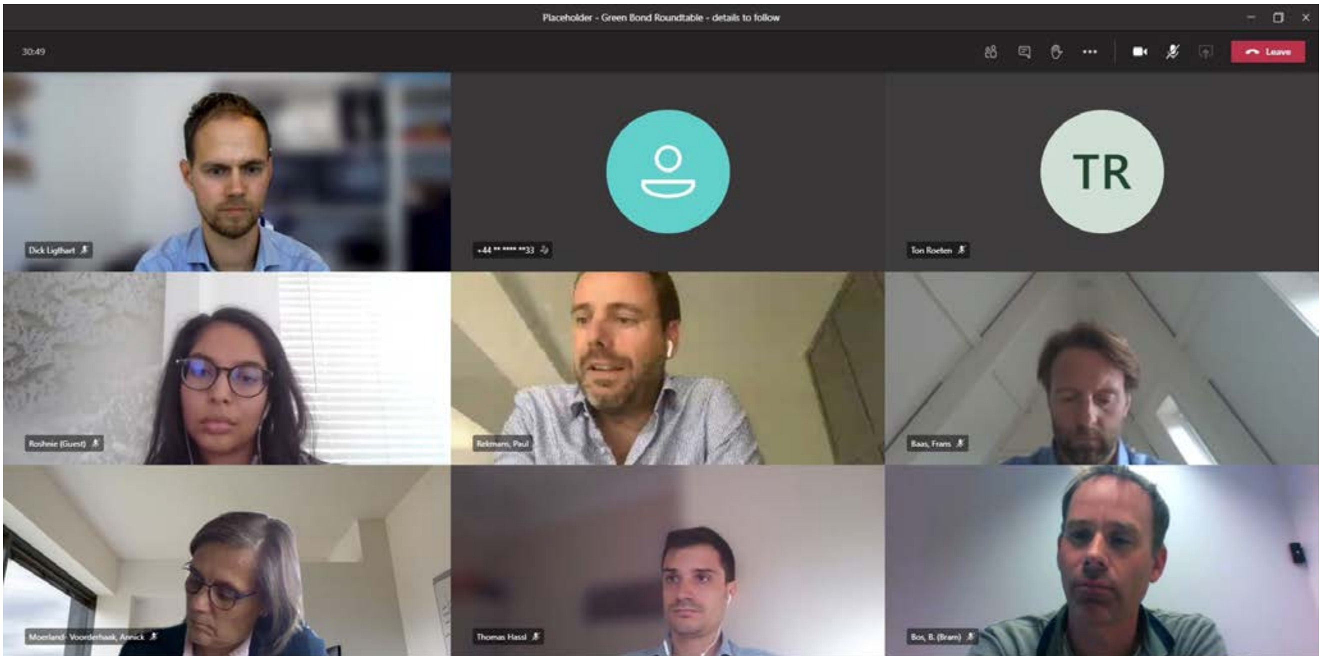
Day, Sustainabonds: Frans, Vesteda entered the green bond market well before these the crisis started and your issuance appears to fit firmly into the green bond use of proceeds model. How does your issuance fit in with your overall sustainability strategy?

Frans Baas, Vesteda: When we decided to enter the green bond market in 2019 it was indeed not much of a difficult choice for us. We could already have issued a green bond when we did our previous benchmark bond in 2018, but that was for an acquisition so we launched it in quite a short timeframe, and hence it would have been challenging to do the necessary preparations for creating a green bond framework in time.

> **Sustainability is very much part of our DNA**

But for the 2019 bond, we had sufficient time to prepare ourselves. It was already clear for us that it should be a green bond because — as Annick mentioned — sustainability is very much part of our DNA. And that is not only evident in our strategy today and for the coming years, but also what we have shown in the past.

Vesteda has a portfolio of houses that is relatively old, which naturally means they are less sustainable, but we've made a tremendous effort to improve their sustainability. We have moved from a portfolio where around 60% of the houses are energy efficient — that is to say, with A, B or C energy labels — to a situa-



The roundtable was conducted via a video conference call on 23 September

tion where almost 90% of them are energy efficient, and we want to reach 99% in 2024. Of course, when you build a new house, it's not so difficult to meet today's sustainability standards. Where the challenge lies — not only for Vesteda, but for every investor in real estate — is in making the existing real estate portfolio sustainable up to the levels that we would like to see.

It was therefore clear to us that we should issue a green bond. And, as Bram was saying, it was important that it should be credible, and I think in our case issuing a green bond was very credible, and it was therefore not a difficult choice for us.

Day, Sustainabonds: To what extent is social something that is part of your underlying strategy? Going back to what Thomas said, does it make sense to think of these bonds under an overall sustainability label rather than just green?

Baas, Vesteda: Yes, indeed, we are also making efforts on social elements. First of all, with the Covid-19 crisis, we have made payment agreements with our tenants who have indicated they are suffering and having difficulties paying the rent. We are helping them out by making flexible payment arrangements or alternatively perhaps arranging housing that is more affordable for them. So that's one social element.

Another key focus for us at the moment is providing houses for key workers, so workers in healthcare, education, or the police, etc, and helping them find a home close to their work. This is what we call the regulated mid-market segment, where a rent cap and maximum annual rent increases are agreed up front.

So the social aspect is also increasing at Vesteda. This could also perhaps then work in respect of sustainable bonds. But as I mentioned in a previous answer, credibility is very important to us, and I'm not sure how it would work if we have only invested a small percentage in social instead of green. Green is quite natural for us; social a little bit less, because of the size of the investments. Sustainable bonds could be an option going forward, but as of now, we would like to stick to green bonds.

Green is quite natural for us, social a little bit less

Day, Sustainabonds: Dick, are there any particular elements in what's been described that would help more corporates come to the green, social and sustainable bond market?

Ligthart, ABN AMRO: The issuers represented here are testimony to the benefits and positive impact of green bond issuance, but also the interplay between the issuance and the company. I very much understand the position of Enexis in focussing on its sustainability profile first, before coming to the market with a green bond, and also to a certain extent Paul's comments there that the sustainability of the issuer is perhaps the key eligibility criteria, and maybe over the long term the market could transition to taking that profile more into account. But if you look at the market now, investors still very much prefer a dedicated impact investment opportunity, meaning the use of proceeds link that green, social and sustainability bonds offer.

Issuing such a bond also enhances deal execution, with the in-

Annick Moerland-Voorderhaak, Enexis: 'We don't hide anything, but are clear about our approach'

vestor diversification that all issuers have experienced. Particularly in today's volatile markets, diversification is a very strong positive for these types of transactions, and that will only encourage other corporates in coming to the market going forward.

Day, Sustainabonds: The next topic we wanted to look at is the EU Taxonomy and the Green Bond Standard. Do you see any particularly positive or negative developments coming out of these?

Hassl, BMO GAM: Clearly these standards come with both benefits and threats.

On the one hand, if you take a step back and really think about why we are issuing green bonds in the first place, it's because we want to attract capital to decarbonise our economy, with the ultimate goal being that of the Paris Agreement, to limit temperature increase to 1.5 degrees. That's why we have this product, that's why it's relevant — otherwise we wouldn't need it. So everything that helps attract more capital for us as a society to move towards Paris is a good thing. Everything that hinders it is a bad thing.

We want to attract capital to decarbonise our economy

We need to see how the EU Taxonomy and Green Bond Standard fare in this respect. I've spoken to issuers who say the standards are very rigid, being a little stricter than the projects they currently have available. They aren't sure how many projects they have that will be eligible and as such there is a risk that green bond issuance might decrease a little because there aren't projects available on the same scale that current green bond frameworks have. So that's one potentially negative consequence.

On the positive side, they are aiming to ensure the greenness of the product, to make it consistent, authentic and credible — in line with Paul's earlier comments with respect to Philips — that's clearly a positive move. If we get some form of green accreditation, it would be positive for the retail space, where less sophisticated investors could see some form of certification about how green a bond is.

Bos, NNIP: Overall, it is a very positive development for the sustainable bond market in general. We have already been studying the document as it is at the moment, but it is not yet finalised. The final version should be published in the fourth quarter, so then we can really look into everything in more detail.

To me it does not look too rigid compared with how green bonds are currently being issued. In some respects it's even a bit looser than what we would expect. There are elements we will probably disagree with, but every asset manager can pick and choose whatever they want to agree or disagree with.

It is a particularly positive development for one of the sectors that has been lagging a little bit, namely industrials. We have mainly been seeing utilities, banks and other financial institutions active in green bonds, whereas industrials is a sector that has been missing. I really hope that with the publication of the EU taxonomy, it becomes a bit clearer to industrials what they can identify as green and what they can't, because that is a little bit more difficult if you are a manufacturer.

So I'm relatively positive and I think this will bring clarification to the market rather than more complexity.

Day, Sustainabonds: What are the implications of the taxonomy for issuers?

Baas, Vesteda: It will imply some changes. Of course, we'll have to see what the final version looks like, but it probably means that we will need to have another look at our green finance framework. It will also imply some more work on the reporting side. Overall, it is a little bit stricter, but Vesteda should still be able to issue green or sustainable bonds without difficulties.

In the end, it will only help. There is a lot of discussion about greenwashing and that is something we want to avoid at Vesteda, so it's important to be credible. Having more standardisation in the form of a taxonomy could help green bonds and therefore also help issuers.

Moerland-Voorderhaak, Enexis: Before we entered the green bond market, we spoke with several investors, asking how they looked at the market and what they consider important, just to get an idea what to focus on. And it made us aware that, as Frans mentioned, greenwashing could be an issue. I think that stems from the lack of standardised documentation. Investors told us that they could tick the boxes a lot easier if our framework was aligned with the Green Bond Principles, so right from the start we thought that's something we thought we should address and that's why we set up the green finance framework as we did. It's robust and transparent. We don't hide anything, but are clear about our approach: how we select assets, where the money goes, and, in our subsequent reporting, what the impact really is.

And in the process of proceeding with green bonds, we learned that it's a topic that really helps people initiate things internally and perhaps do things a differently than before. It's not just a treasury thing — clearly we are involved in the green bonds, but you see that a lot of our colleagues in other parts of the company are hooked on the project and really interested in why we are doing this, which helps a lot. And it also perhaps gets these topics more rapidly onto the agenda of the board if we can show how much investors value them.

Rekmans, Philips: We looked at the taxonomy when we established the framework and already tried to embed it in this as much as possible. It's more or less similar to what Frans already said: we need to evaluate the framework again and see if any changes are required. But given that our reporting is deeply embedded in how we do our business, I also don't expect any issues there.

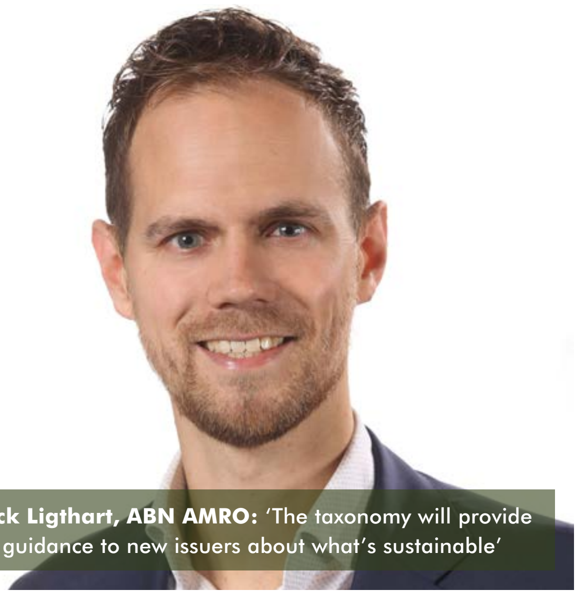
Ligthart, ABN AMRO: The R&D component of the Philips green bond framework that we discussed was new when they initially came to the market, but my understanding is that this is accepted under the EU Green Bond Standard. In my view, it's a positive development to see such a use of proceeds category being embraced by the EU Green Bond Standard. Hopefully that will encourage new issuers to continue to come to the market with new ideas and new formats, which is a key driver of the standard in the first place.

> **I personally feel that it's a missed opportunity**

Rekmans, Philips: To elaborate on that aspect: we did have quite some discussions when we issued the bond on capex versus opex, how you allocate those proceeds. R&D is of course often seen as opex, but to me that is just an accounting treatment. The effects that you can achieve by investing in green R&D are actually a multiple of what you would normally achieve. Ultimately, you're developing green products, which are sold into the market, and then the effect of those products can potentially be much bigger than what you could achieve by investing in, for example, making your operations more green.

Day, Sustainabonds: Roshnie, as I understand it, aviation wasn't something that was dealt with in the taxonomy for now. Is that an issue for you?

Van der Zwan-Ramautarsing, Schiphol: I personally feel that it's a missed opportunity. Especially in sectors like aviation, a lot of impact can be achieved and instruments like the taxonomy can help. It would definitely serve as a stimulus in our sector, if we got more clarity around our activities in this respect. While the aviation sector is a carbon intensive one, there certainly are processes and areas in aviation in which there is a decarbonisation angle. As others have mentioned, the taxonomy provides guidelines and areas to focus on for the sectors included, which means that you can start showing investors your credibility and dedication towards sustainability — on top of all the efforts that we are already undertaking. So it was quite frustrating to learn that the aviation sector was not included in the first phase. However, I have recently learned that the Commission is developing something for the aviation sector, so I'm very keen to learn the outcome.



Dick Ligthart, ABN AMRO: 'The taxonomy will provide guidance to new issuers about what's sustainable'

Ligthart, ABN AMRO: The taxonomy indeed includes a lot yet misses out even more, but it's also because the level of detail is so high, so granular, that unfortunately it will take time to develop the whole taxonomy.

But overall I definitely agree with Bram's opinion that it will provide guidance to new issuers about what's considered sustainable and what can be used as use of proceeds in green bonds.

Day, Sustainabonds: Turning to sustainability-linked bonds, which were mentioned earlier on, they have come back into the spotlight, with some new issuance and the principles issued by ICMA in the summer. Paul, you mentioned Philips' revolving credit facility earlier on — are sustainability-linked bonds something that would be along those lines and potentially of interest to you as an issuer?

Rekmans, Philips: We have looked at it and I see two issues. Firstly, in the revolving credit facility, there's a step-up, but also of

Thomas Hassl, BMO GAM: 'It's very difficult to really know how ambitious something is'

course a discount on the interest rate. As far as I'm aware, so far there hasn't been a bond issued with a discount on the coupon if the KPIs are achieved.

Secondly, I also wonder how challenging the KPIs are that need to be met by the issuer. To a certain extent, there is information asymmetry, which could be less if there is a step-up and a discount embedded in the bond. Of course, there are many practical issues in structuring such a bond, but I would see a real value-added in such a structure both from an issuer perspective, but also from an investor perspective.

Day, Sustainabonds: Roshnie you mentioned that there is a limit on the kind of assets you could use in a traditional green use of proceeds bond. Would sustainability-linked bonds be something that Schiphol could perhaps use to enable you to approach that market with a new instrument that would possibly fit some of your other sustainability initiatives and targets?

Van der Zwan-Ramautarsing, Schiphol: Yes, I do believe so. Currently there's a lot of focus on the green side in the aviation sector because there's a lot of impact to be achieved there. But Schiphol surely is a company that has deep roots in Dutch society, so we also have a lot of social elements related to our local communities, but also our tenants and employees. The topics of safety, for example, is extremely important for us as an airport, and in the wider aviation sector, too. Within a KPI approach, those topics would also have a role in the overall picture.

But I do agree with what Paul was saying, that KPIs should be chosen very carefully in a way that it makes sense, that it's ambitious, but still realistic. On the one hand, it could provide Schiphol with an opportunity to take a holistic view of sustainability and emphasise sustainability even more, with a focus on achieving targets. But on the other hand, the value-added should be very clear, not only to us, but also externally, for example, to investors.

Day, Sustainabonds: Thomas, what do you make of this nascent instrument?

Hassl, BMO GAM: I haven't fully made my mind up about it yet.

There are two aspects to it from an investor's perspective. If I put my general ESG analyst hat on — looking not just at fixed income but also equities — having a company that commits itself or sets itself targets to decarbonise, then this is an extremely strong sign of a company decarbonising, and a strong signal for me from an ESG risk perspective that the company is moving in the right direction. Here, I'm not speaking so much of what ENEL did, but about the potential for a climate neutrality bond, where a company says it is going to be climate neutral by 2050, which is obviously where we need to be according to the science in order to hit 1.5 degrees. It would be very helpful for me because it's not like Amazon, Volkswagen or whoever is going out there and saying, we're going to be carbon neutral; it would mean saying we're going to be carbon neutral and, if we aren't, we're going to face a financial penalty. So, it really strengthens this argument, and in that respect, is really good.

From a green bond perspective, I imagine it's going to make my life a little bit more difficult, because at the end of the day part of my job is going in and checking the integrity and the greenness, if you like, of the particular issuer. As was mentioned, here, ambition is the key point, because to what extent is a new target really ambitious? This goes back to the information asymmetry that we naturally have as investors vis-à-vis the companies, because it's very difficult to really know how ambitious something is if I'm not in a position to fully understand what's going on in the company. This is why I'm unable to really comment on the concept at the moment, because I haven't been able to look at a good sample of frameworks and crunch the numbers and speak to the issuer to understand how ambitious they are. Once I have done, I'm pretty sure I will be able to provide more feedback. For now, I think it's an interesting and exciting development, but we need to see where it goes.

> **I imagine it's going to make my life a little bit more difficult**

Rekmans, Philips: Maybe companies aren't going to set very ambitious targets because they will only get a penalty by not achieving the KPIs. But if they were to get a discount were they to hit them earlier or overshoot them, then from an issuer perspective it could be a lot more interesting to do that. It also provides an incentive to overachieve.

Frans Baas, Vesteda: 'We would rather save KPIs for the revolving credit facility'

Bos, NNIP: I think this new product it's been hyped a lot in the few of weeks, actually, and I very much get the impression it's being pushed by the investment bankers.

It's really difficult to assess how ambitious are the targets being set. It is almost impossible to have an idea how good or bad it is. And there's always some kind of information asymmetry, because the management clearly knows what they're going to achieve in advance and we as an investor quite often have less information on that. It is then really difficult to value the optionality to us as investors. So it might be a good instrument, it probably will grow further, and for some companies it could work, but I also tend to agree with Thomas that the transparency of the use of proceeds concept is a better way of making clear to investors what you're doing than maybe a little bit vaguer defined sustainability-linked bonds.

Ligthart, ABN AMRO: I can understand that view that bankers are perhaps pushing new product developments, and in general, I support innovation. But to be honest, I struggle a bit with this concept, too, and also haven't fully made my mind up about it. Because indeed, you could ask yourself whether an issuer will include a target that is really ambitious if there's only a penalty (step-up) involved? Looking at the loan markets, where this approach is often applied to revolving credit facilities, I like it that these approaches usually involve both an interest step-up as well as an interest step-down, meaning that (over)achievement of targets is also rewarded. But in bond markets, such an approach could also have an effect on the initial pricing, as investors will take a view on the likelihood of the company meeting the target and price in that optionality.

However, for asset-light companies, or companies that have financed all of their green assets with green bonds already, it might be a very interesting approach to at least integrate a sustainability element into a transaction. But then again to me personally, it also feels like sort of a step toward more integrated pricing. Maybe in the long run you would say that a company that has a decarbonisation target and is very well on its path to reaching that target may have a lower risk profile and deserves a lower spread or a lower coupon by default. So I would rather hope that we would evolve our thinking around integrated pricing in the bond markets, than that we should try to cover that with all sorts of additions to bonds.

Sustainability-linked bonds are clearly at the centre of attention

Moerland-Voorderhaak, Enexis: We have a lot of green assets by nature and therefore a big asset pool with eligible assets, and as such have sufficient potential to issue several green bonds in the future. The direct link with the eligible assets is realised by issuing green bonds and therefore there is no need for us to look at other ways to achieve a sustainability link to our financing at this point in time. I also struggle to see exactly how this works vis-à-vis investors, because I assume they are not anticipating getting the coupon step-up because they want the issuer to achieve the targets. So I don't think sustainability-linked bonds are something that we will be adopting at this point in time. Then again, we see a continuing evolution of the green bond market and maybe in a couple of years' time alongside greater standardisation we will see more focus on issuers achieving such sustainability targets, without the focus on the coupon. So even if green bonds will be top of the agenda for us, we will monitor these trends.

Baas, Vesteda: Just as Paul said, we would rather save KPIs for the revolving credit facility, where we can use, for instance, four KPIs and really customise it to our strategy. It also better fits the tenor of the financing — it would be difficult if we were to issue a bond and set a target for perhaps eight years, because we normally set our strategy over a shorter term.

You could also choose to link it to an ESG rating, but that isn't our preference, either. A rating may not reflect the efforts that you do on ESG and the outcome may yield surprises. We would therefore be reluctant to link any financing to such an ESG rating.

Ligthart, ABN AMRO: Sustainability-linked bonds are clearly at the centre of attention now as the ECB just announced that they will accept bonds with structural changes where they are sustainability-linked. It's very interesting to see that they will be accepting these bonds. Hopefully it will lead to transactions coming to market that are credible and ambitious. In that respect, the Sustainability-Linked Bond Principles on paper, at least, do require a certain level of ambition that stretches beyond business as usual. ●

Cover image: Alex Cascone/Flickr


GAINS ON ALL FRONTS
#FINANCETHEFUTURE
In business, 'gaining' means more than just making money.
It also means contributing to a better environment or a better world.
We want to help you do this, for example if you need financing
or want to learn how to make your company more sustainable.
abnamro.com
ABN·AMRO