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GREEN EXCHANGE
by Luxembourg Stock Exchange

Investor Engagement and Roadshows

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Sustainable Bonds Investors Base

SUSTAINABLE BONDS INVESTORS BASE

Do ESG/green investors exist?

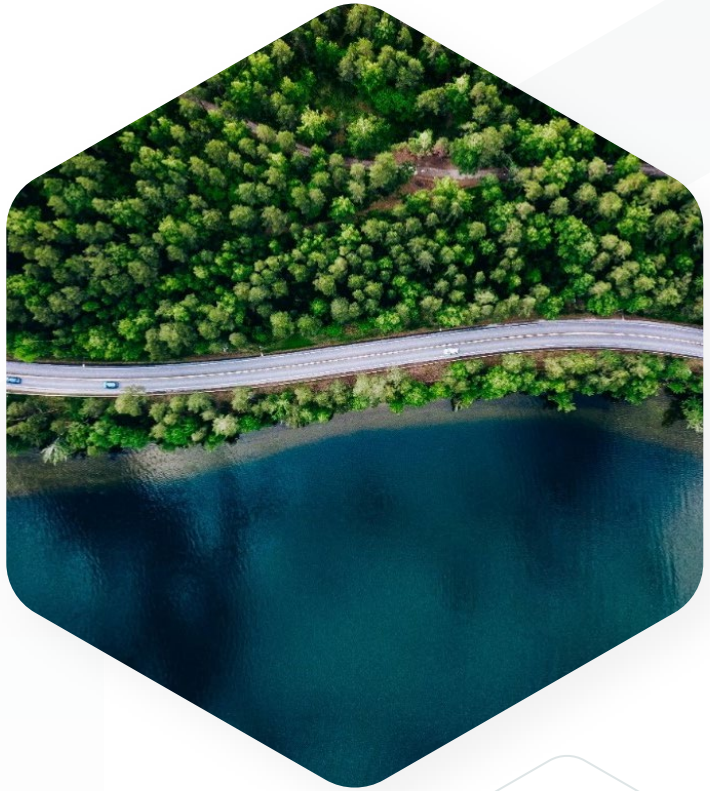
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» In H1 2023, the amount allocated to investors describing themselves as green or socially responsible was around 66% (allocations between 100% to 15%)

» Demand for green bonds is coming from a **range of investors:**

- Mainstream institutional investors such as Amundi, Aviva, AXA, BlackRock, State Street
- Specialist ESG and responsible investors such as Natixis, Mirova
- Corporate treasury such as Barclays, Apple
- Sovereign and municipal governments such as Central Bank of Peru, California State Treasurer. ECB is the largest buyer of EU green bonds
- Explicitly labelled green funds and other funds with softer ESG mandates

» **Retail investors are relatively rare.** However, World Bank issuances for retail investors through Merrill Lynch Wealth Managers and Morgan Stanley Wealth Managers are a good example



Source: CBI green bond pricing in the primary market H1-2023

Case study from Thailand: Who invest in sustainability bonds?



https://www.youtube.com/watch?v=JO57qseB1HA

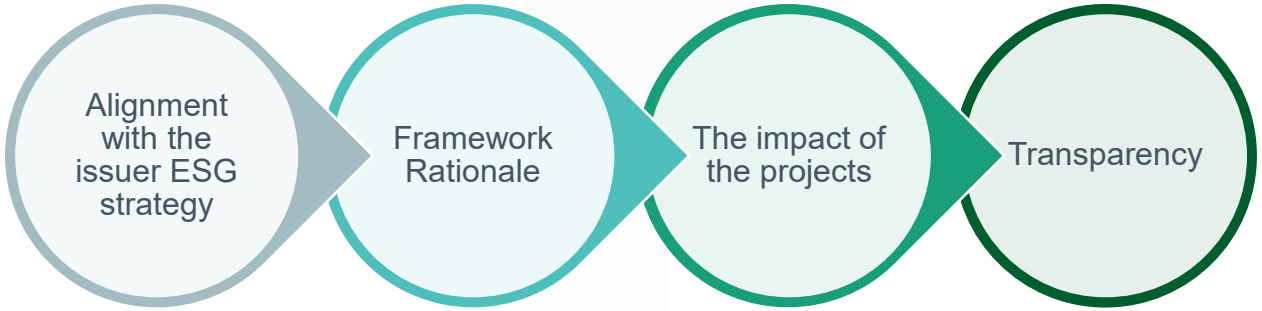
On what basis investors will decide to invest in sustainable bonds?

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Investors will combine analysis of the issuer and the issuance and will perform self-monitoring

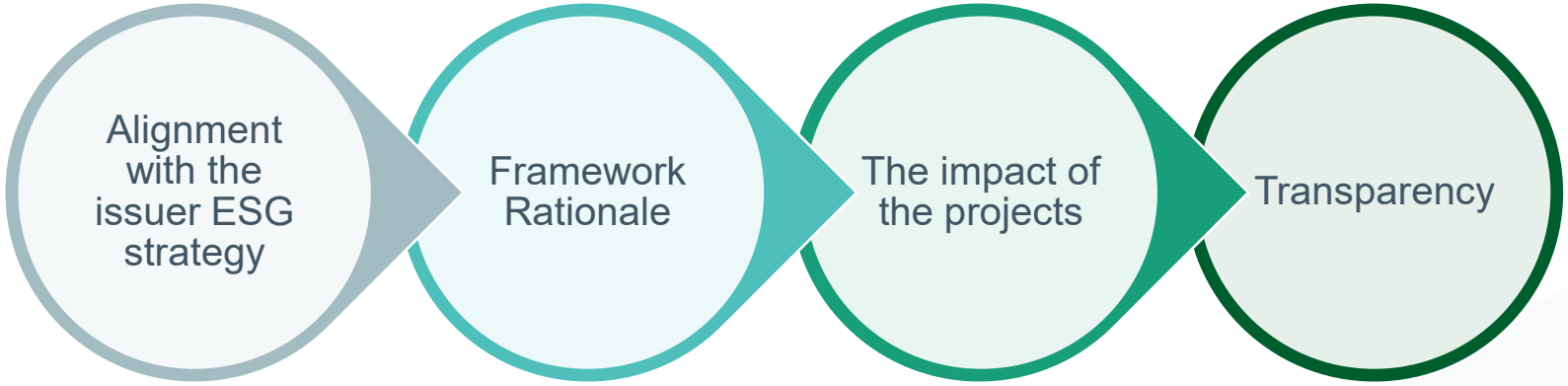
1. First screening to look at the issuer ESG/sustainability strategy
2. Second screening on the issuance level specific sustainable bond analysis:
3. On - going monitoring : Investors look at:

- Issuers report on allocation and impact
- Collect themselves data from different sources



Source: Different ICMA guideliens and principles adapted by LGX

On what basis investors will decide to invest in sustainable bonds?



How is the issuer addressing its own ESG challenges through this particular issuance?

Funding purpose: framework alignment to the target set by the issuer in conjunction with its main ESG challenges

Degree of environmental and social contribution, exclusion list, E&S assessments

Issuers commitment to disclose is a key for investors. It is perceived as a guarantee on the issuers' involvement in its sustainable program.

Source: Different ICMA guideliens and principles adapted by LGX

What about pricing?

Pricing is a very important factor that potential investors look at when they invest in bonds

Sustainable bonds are usually oversubscribed and tend to price better than expected.

Try to anticipate the pricing, however securing a greenium is not guaranteed

After market soundings with local investors, Fiji's two tenors ended up marginally inside the yield curve as of September 30, 2017



Source: guidance for sovereign green bond issuers – IFC adapted by LGX

Defining potential investors

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DOMESTIC VS INTERNATIONAL

- Usual local investors
- Provide opportunity to locals to contribute to the country sustainable objectives
- Minor changes to the already existing sovereign prospectus
- Additional efforts for educating investors

- International issuance is an opportunity to reach new investor classes
- Is likely to be managed by an arranger
- Need to comply with principles and standards especially disclosures, meaning further transaction costs



Fiji's domestic issuance focused on briefing key institutional investors in one-on-one meetings, rather than an extensive roadshow process. The institutional investors all showed considerable interest in supporting, and being seen to support, the government's commitment to the green agenda
Fiji's domestic issuance entailed straightforward limited amendments to the base prospectus. The Reserve Bank of Fiji also organized awareness sessions with potential investors to educate them on green bonds

Source: guidance for sovereign green bond issuers – IFC adapted by LGX

How to present all of this to potential investors?

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INVESTORS PITCH & ROADSHOW

ON THE TOP OF THE TRADITIONAL FINANCIAL PRESENTATION:

- Focus on the sustainability journey/sustainability credentials of the issuance?
- How does the GSS issuance fit with your sustainability strategy and overall funding?
- What are the best practices you followed in designing your framework: SDG alignment, NDC alignment, reporting commitment, external review commitment, impact metrics choice, etc
- Highlight the innovative aspects: for instance, different financing themes: Gender, Blue, Biodiversity, etc
- Make clear the alignment with international /regional standards and principles / taxonomies
- Show what you did more than the peers : listing internationally?
- What is the ESG governance structure you have put in place?



Source: LuxSE/LGX observations

Investor presentations: A critical step in marketing sustainable bonds Example: Uruguay

- Credit highlights of Uruguay
- Economy gaining momentum post-COVID
- Foreign direct investments and tax incentives
- Debt management strategy and sustainable finance
- SLB is tied to Uruguay's climate action outcome
- Performance-based approach embedding environmental targets based on
  - (1) Reduction of greenhouse gas (GHG) emissions
  - (2) Conservation of natural forests, aligned with Uruguay's NDC commitments under the Paris Agreement



Source: [Uruguay investor presentation]

Some frequently asked questions during investors pitch & roadshow

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- Why now to issue a sustainable bond? Why not an SLB? Why in this currency? Why local?
- Why to focus on this or this category of projects? Why to exclude other ones? Which taxonomy you follow?
- What is your pipeline of projects?
- How does the issuance fit with your sustainability strategy and overall funding?
- For the reporting, which reporting approach will you be following: project approach or a portfolio approach?
- What investors are you targeting? Some countries might have some strict requirements for international investors, have you considered that?
- If you are targeting European investors, have you looked at the EU taxonomy?
- Do you expect to secure a greenium?
- Who is your external reviewer? Why not a rating?
- Is there any international anchor investor? IFI? MDB?



Source: LuxSE/LGX observations

Media and communication strategy

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SIGNIFICANT OPPORTUNITY

- Put in place a clear and well-resourced communication plan on both local and international level
- Leverage on presence in international / regional meetings and forums
- Leverage on the “partners” communication platforms and network
- Don’t forget to make all the above accessible on your website





https://www.youtube.com/watch?v=S338JDwz2lw

Fiji leveraged its role as COP 23 President to bring the issuance to a global platform. As part of the COP 23 meeting, they held various seminars and press conferences and utilized social media platforms. With World Bank Group technical involvement, Fiji also benefitted from its global communications platform, with a joint president-level media release, broad media reach, an animated ‘explainer’ video, social media presence and televised interviews. Following the issuance of each tranche, the Reserve Bank of Fiji disclosed the tender process and results on their website.

Source: guidance for sovereign green bond issuers – IFC adapted by LGX

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Thank you!

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