

## GREEN & SUSTAINABLE FINANCE UPDATE

2019 GLOBAL INVESTOR SURVEY

***“GREEN & SUSTAINABLE ASSETS: WHAT’S NEXT?”***

Monday July 1st, 2019



Natixis,  
**MOST INNOVATIVE**  
INVESTMENT BANK  
FOR **CLIMATE CHANGE**  
AND **SUSTAINABILITY**



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# Green & Sustainable Assets: What's Next?

*Focus on sustainability themed and impact investing*

## Growth of global sustainable investing assets by region (2016-2018)

**Sustainable investment assets are continuing to climb globally...**

**AUM at end-2017:**

- **USD 30.7tn in the 5 major markets**
- **+34% increase in 2 years!**

**...with some regions demonstrating stronger growth than others within their local currencies**

**AUM growth from 2016-2018:**

- **Japan: +307%**
- **Australia / New Zealand: +46%**
- **Canada: +42%**
- **US: +38%**
- **Europe: +11%**



Source: Global Sustainable Investment Alliance (GSIA), 2018 Global Sustainable Investment Review.

## Our 2019 Global Investor Survey

**Purpose of our investigation:**

- **Update our market intelligence**, with a clear focus on **SUSTAINABILITY THEMED** and **IMPACT INVESTING**
- **Better understand our clients-investors'** needs, practices and appetites when it comes to **GREEN & SUSTAINABLE INVESTMENTS**
- **Work on investment vehicles** that actually meet our clients' needs **ACROSS ALL ASSET CLASSES**

**Respondents to our survey:**

- **60 individuals**
- **56 companies** (mostly European and US investors)
- **Representing a total of ~USD 11trn AUM**

# ESG is becoming asset-class agnostic, FI dominates the game

*From listed securities to real and alternative assets*

## Profiles of the respondents to our survey

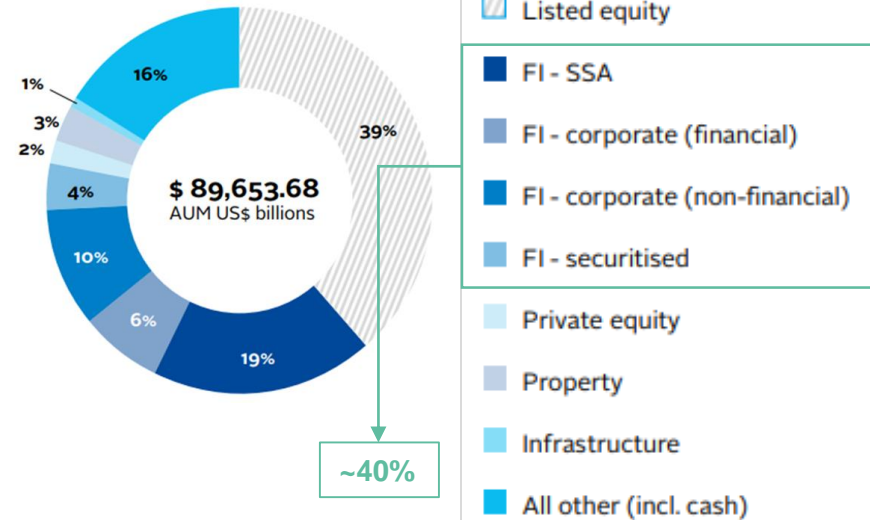
Of course:

- **SRI Analysts, Head of ESG Research, and Head of Responsible Investment (25%)**
- **Green & Sustainable Bonds specialists – analysts & portfolio managers – (10%)**
- **Climate change experts (5%)**

But also:

- **Portfolio Managers – Fixed Income (25%)**
- **ESG integration strategists and CIOs (10%)**

## UN PRI signatories: Breakdown by asset and AUM



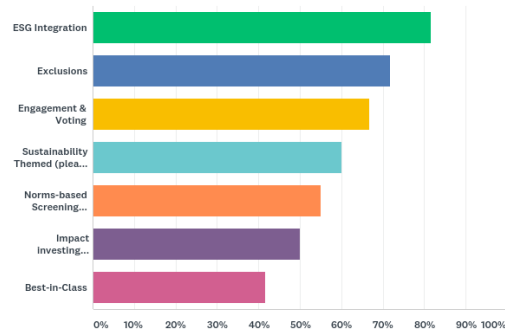
Source: United Nations Principles for Responsible Investments (UN PRI), Annual Report 2018.

# Sustainability themed and IMPACT investing are on rise

*Targeted investments aimed at solving social or environmental problems*

- 60% of the respondents report managing thematic strategies
- 50% report implementing impact strategies

Q4 SRI - STRATEGIES - Overview Can you specify which SRI/ ESG strategy you are managing internally? (if appropriate, tick the box)



## Interesting quotes from investors

***Climate change and energy transition has been integrated in the strategic asset allocation***

*We consider as impact investing mainly our funds on energy transition*

***Green strategy covering all asset classes with specific targets***

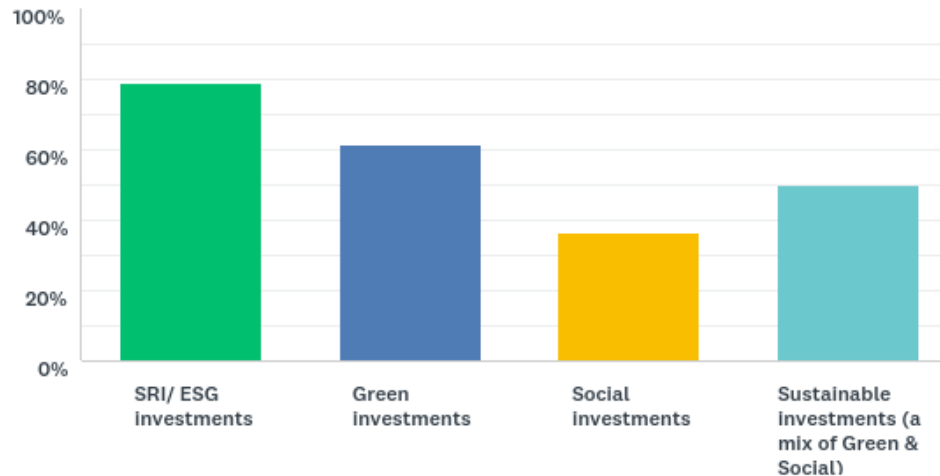
*All fixed income assets have to be CO2 reducing*



# Strategic allocations integrating ESG analysis

*Tactical green, social and sustainable investments*

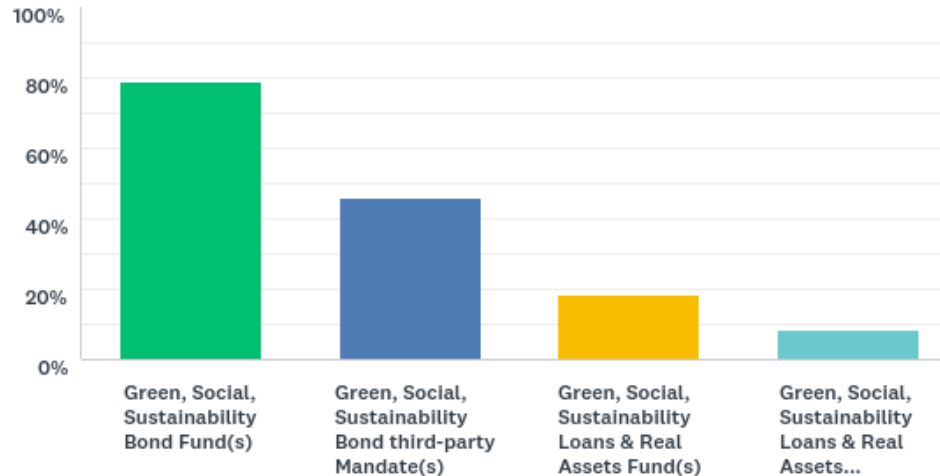
Q5 SRI - TOP DOWN MANAGEMENT COMMITMENTS Can you specify if you have any commitment for: (if appropriate, tick the box)



# Numerous green bond funds/mandates

*Room for real & alternative assets tomorrow?*

Q6 SRI - FUNDS & MANDATES Can you specify if you have any: (if appropriate, tick the box)





# CONTENTS

1. **BOND MARKET DYNAMICS**
2. **SHORT-TERM SECURITIES: UNDER EXPLORATION**
3. **TAKE A WALK ON THE LOAN SIDE**
4. **ALTERNATIVE & REAL ASSETS: THE PROMISED LAND**



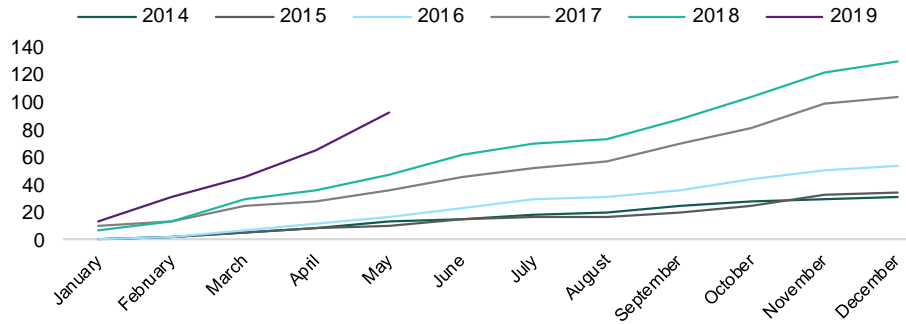
# BOND MARKET DYNAMICS



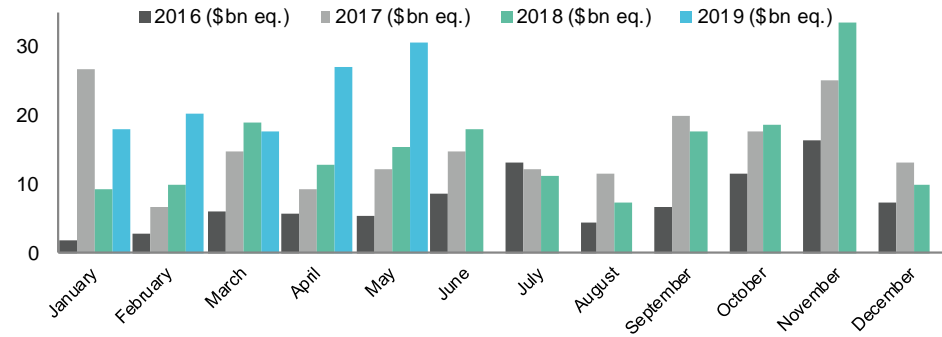


# Green light for Green & Sustainable bond market ramp up!

Issuances by year - since 2014 (\$bn equivalent)



Issuances by month - since 2016 (\$bn equivalent)



Size of the green bonds market - All sizes Issuances (\$bn equivalent)

	International Market	Securitization	Onshore Chinese Market	U.S. Municipal Market	Total Market Size
Total green bond market - amounts outstanding (\$bn equivalent)	453,3	68,1	82,8	31,1	635,3
Total green bond market - amounts issued (\$bn equivalent)	470,4	76,4	91,0	31,6	669,3
Market Growth - 2018 - 2019YTD (%)	+ 95%	+ 64%	+ 71%	+ 31%	+ 81%
Market Growth - Yearly Average (Since inception)	+ 88%	+ 952%	- 21%	+ 31%	+ 96%

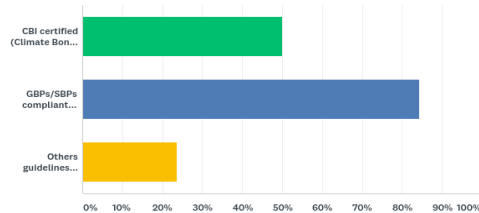


# Alignment with GBPs / SBPs: always a must

*Avoiding green / social washing*

- 84% of the respondents only invest in bonds that are GBPs / SBPs compliant
- 50% require a CBI certification

Q14 Green, Social, Sustainable BONDS - MARKET STANDARDS Do the issuance frameworks necessarily need to be certified and/or compliant with the following standards? (if appropriate, tick the box)



## Interesting quotes from investors

*While we do consider and invest in a variety of frameworks, **we strongly prefer bonds' frameworks clearly aligned with the Green Bonds Principles / Social Bonds Principles (GBPs / SBPs)***

*We need bonds to be GBPs / SBPs compliant **for sake of credibility***

*A second party opinion (SPO) is always welcome*

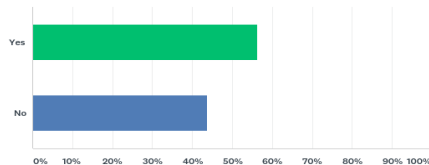
*We use the CBI's taxonomy, but the bonds don't need to be certified necessarily*

# Alignment between UoPs and the issuer's strategy is key

*ESG rating: internal methodologies are on use, and can be adjust for fixed income*

56% of the respondents need a minimum ESG  
(external and/or internal) rating

Q9 Green, Social, Sustainable BONDS - ISSUER / ESG RATING Can you specify if you need a minimum ESG rating?



## Interesting quotes from investors

*We consider the **alignment between the strategy of the issuer and the bond's Use of Proceeds (UoPs)***

*We need an ESG rating and depending the issuer strategy the criteria can be adjusted*

*We use a combination of ESG data providers and our internal ESG research*

*We developed an in-house ESG rating methodology for fixed income*

*We conduct a qualitative analysis of the underlying projects*

*We pay great attention to **second party opinion (SPO)***

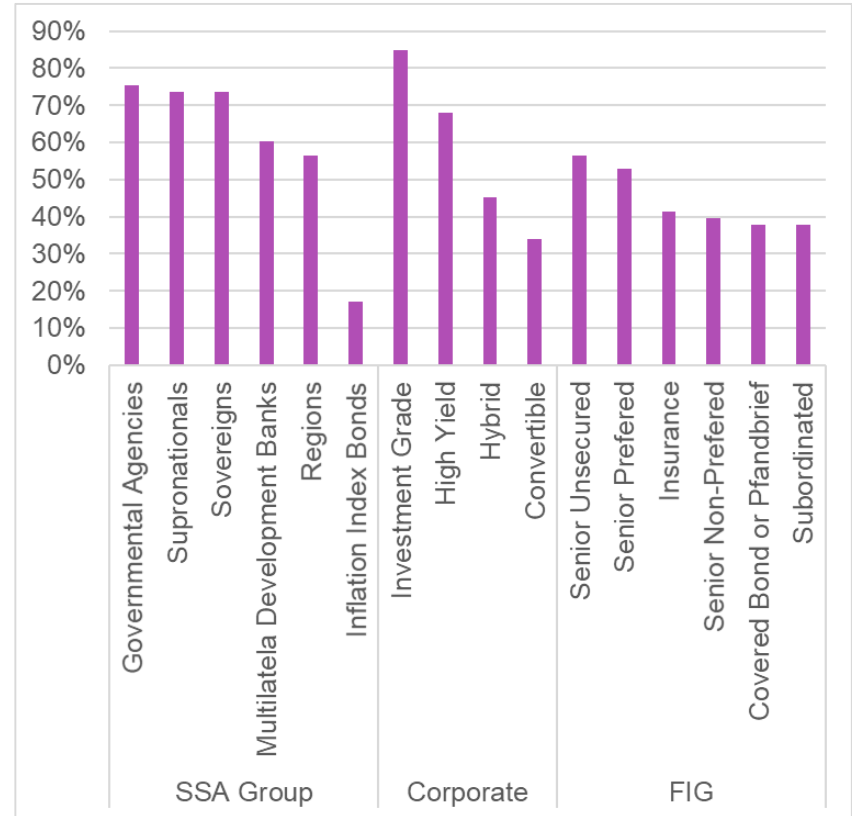
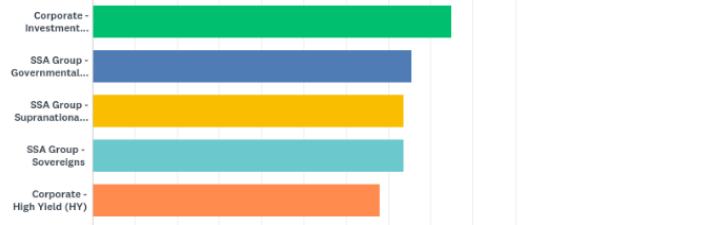
*We have an **internal "green" approval only***

# Investors' appetite: Corporate IG first!

*Need for diversification*

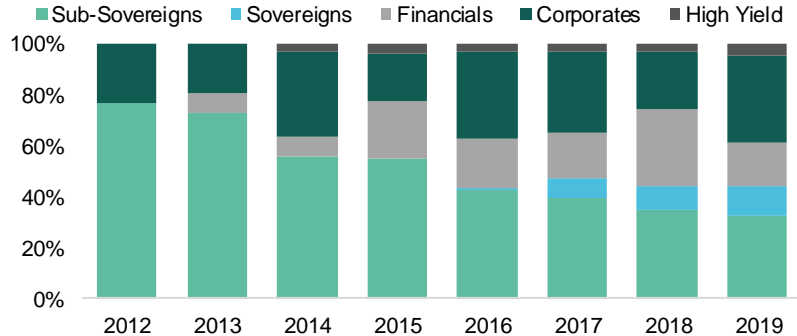
85% of the respondents declare their great appetite for Corporate Investment Grade, but also High Yield

Q7 Green, Social, Sustainable BONDS - ISSUER TYPE / BOND FORMAT Can you confirm your appetite for following issuances: (if appropriate, tick the box)

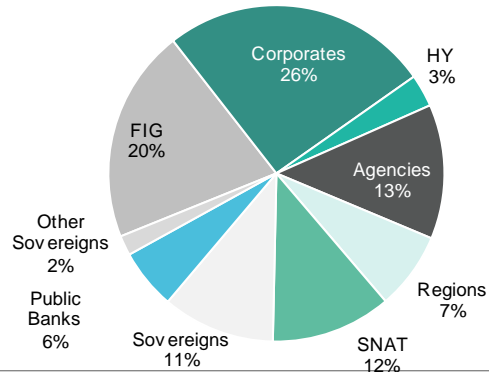


# Acceleration of Issuer diversification

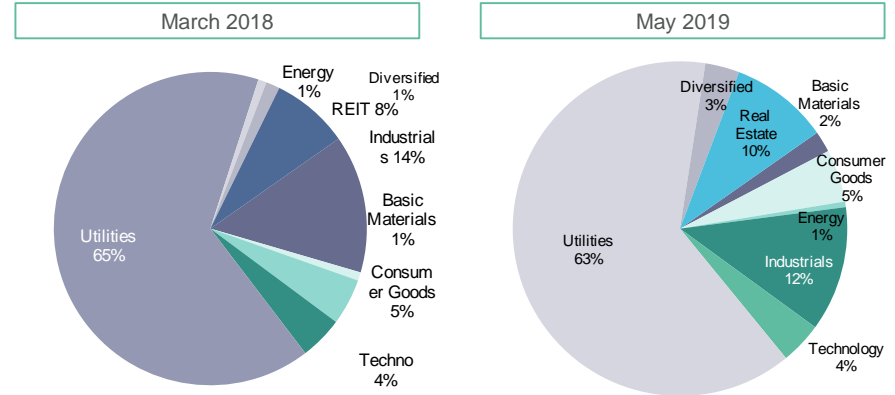
Yearly Issuances by issuer type - since 2012 (%)



Global Issuances by type of issuer – All times (%)



Corporates: Still missing sector diversification



Corporates are more regular but increased sector diversification is still wanted (beyond Utilities & REITs)...

- carbon intensive industrials or car makers ?

Banks on the other hand are lining up for repeat issuances across various formats

- Covered Bond, Senior Preferred & Non-Preferred...

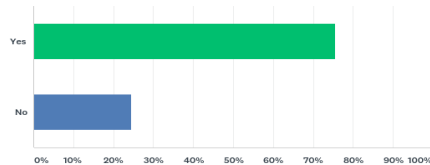
# Sizing: Sub-bench welcomed, Private Placements as well

*Case by case and with certain restrictions*

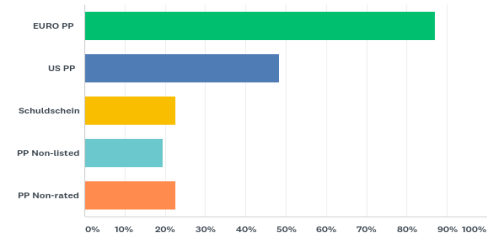
- 76% of the respondents are keen to invest in sub-benchmark (<500mm)
- 250-300mm is a minimum for liquidity reason

- 76% of the respondents are keen to consider EURO PP, and 48% USD PP
- 20% would also consider PP either Non-listed or Non-rated

Q12 Green, Social, Sustainable BONDS - SIZE Can you invest in sub-benchmark (<500mm)?



Q13 Green, Social, Sustainable BONDS - CORPORATES PRIVATE PLACEMENTS (PPs) Are you able/keen to invest in the following PPs? (if appropriate, tick the box)

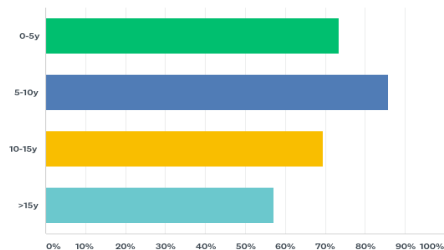


# Maturity: Need for a broader universe

*7-10 years maturity is missing*

86% of the respondents have a great appetite for 5-10 years maturities

Q11 Green, Social, Sustainable BONDS - MATURITY Can you specify your appetite for the following maturities: (if appropriate, tick the box)



## Interesting quotes from investors

*We are driven first and foremost by **minimum yield constraints***

*We need a **broad universe in order to be able to manage actively our strategy***

*Preference for the **7-10 years maturity which is the most underrepresented in the market today***

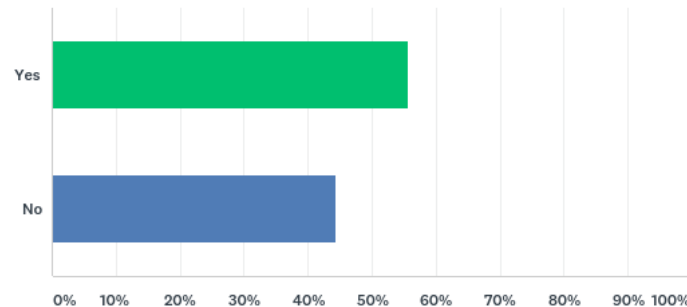
*For dedicated passive funds maturity is irrelevant*

# Non-OECD countries: tear down the borders

*Solely restrictions for oppressive regimes*

56% of the respondents are open for investments in Non-OECD countries

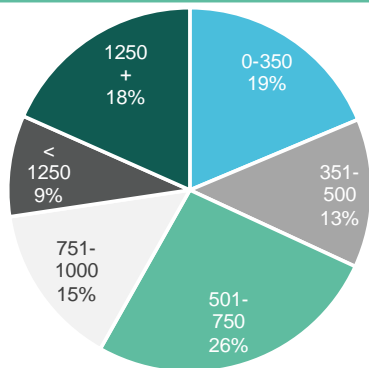
Q10 Green, Social, Sustainable BONDS - COUNTRY Can you specify if you can invest in Non-OECD countries? List of OECD Member countries: [\(link\)](#)



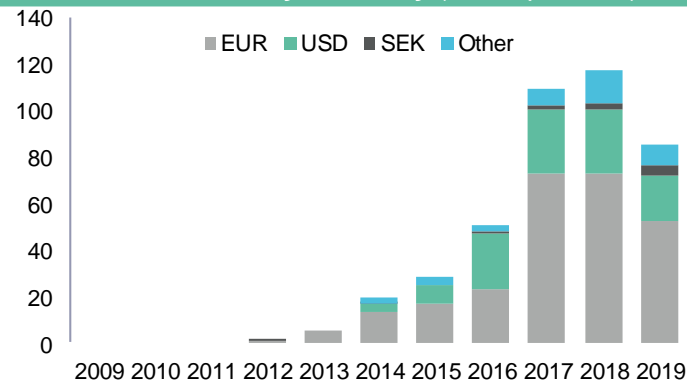


# A market able to meet various investors' requirements...

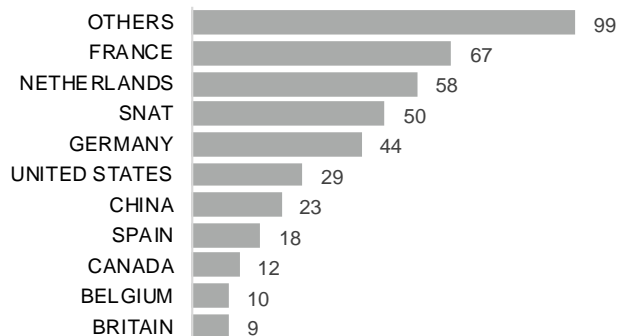
## Issuances by Size (\$bn equivalent)



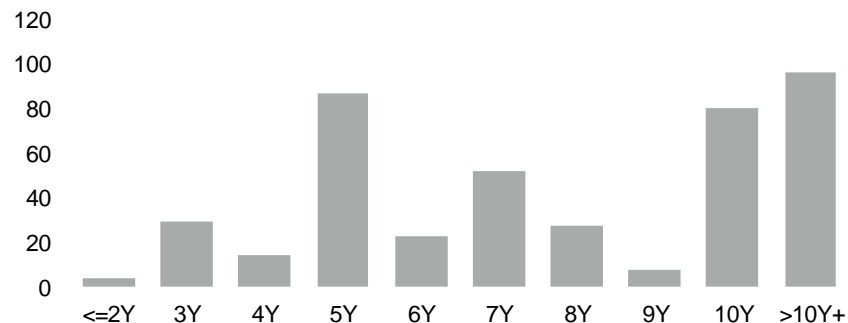
## Issuances by Currency (\$bn equivalent)



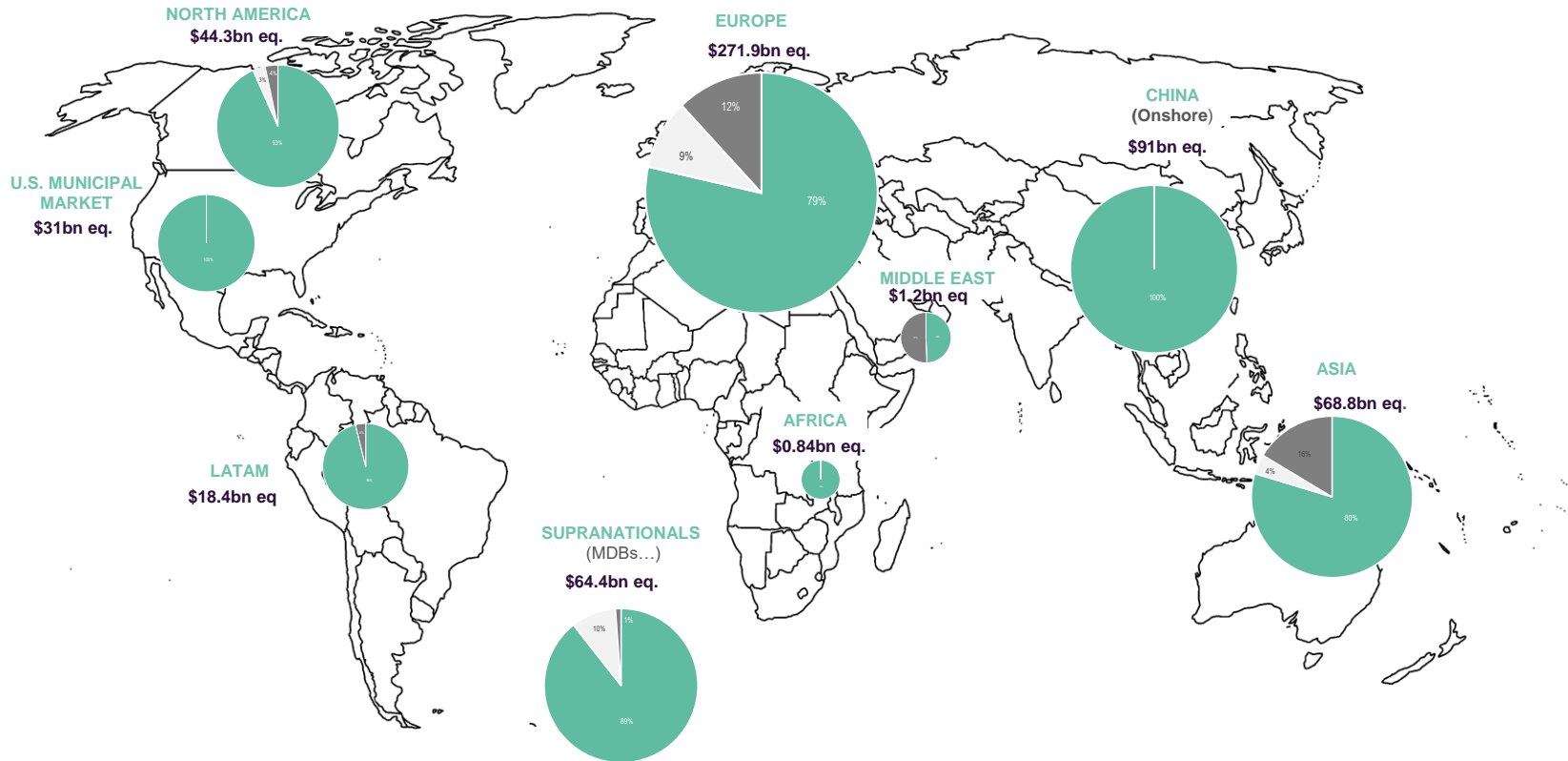
## Issuances by Country (\$bn equivalent)



## Issuances by Maturity (\$bn equivalent)



# ...With an increasingly global presence





# 2

## SHORT-TERM SECURITIES: UNDER EXPLORATION

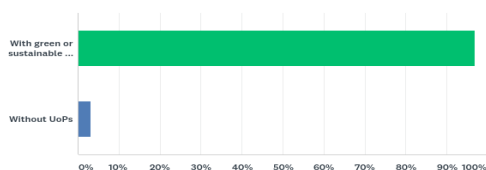
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# The traceability challenge

*Difficult asset liability matching*

97% of the respondents are keen to invest in Short-term securities with green and/or sustainable UoPs

Q17 Sustainable SHORT TERM SECURITIES - COMMERCIAL PAPERS (CPs) Would you consider investing in Green CPs? (if appropriate, tick the box)



*Interesting quotes from investors*

*Considering the amount of effort necessary to report on Use of Proceeds (UoPs), **one would question the utility of a green Commercial Paper (CP) in terms of investment horizon***

*If we would consider a green CP **without UoPs**, then **it would be linked to the ESG rating of the issuer** and we would base our investment decision on that*



## TAKE A WALK ON THE LOAN SIDE



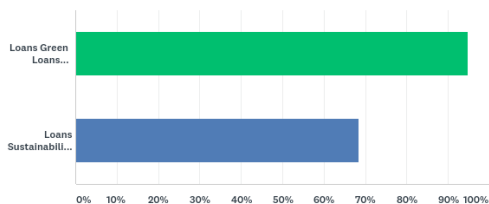
# A relatively unknown asset class to green specialists...

*Need for investor training on GLPs / SLLPs*

Only 25% of the survey participants answered to this question

- 95% expressed their interest in Green Loans
- 68% for Sustainability-Linked Loans

Q18 Sustainable ALTERNATIVE & REAL ASSETS - LOANSCan you confirm your appetite for following debt instruments? (if appropriate, tick the box)



*Challenges to be overcome*

***Lack of knowledge of green specialists***

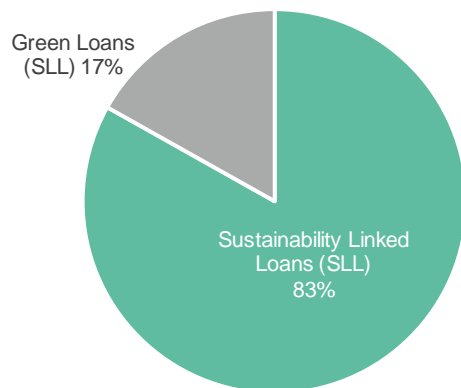
***Lack of internal discussions between green specialists and credit / loan portfolio managers***

***Assets not allowed in green/sustainable bond funds (for the time being)***

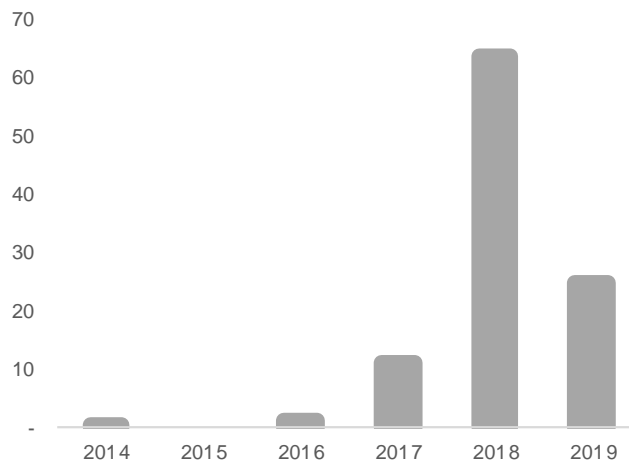
# Nascent asset class - Green & Sustainability Linked Loan Market

*Still early stages but very strong momentum over the past year*

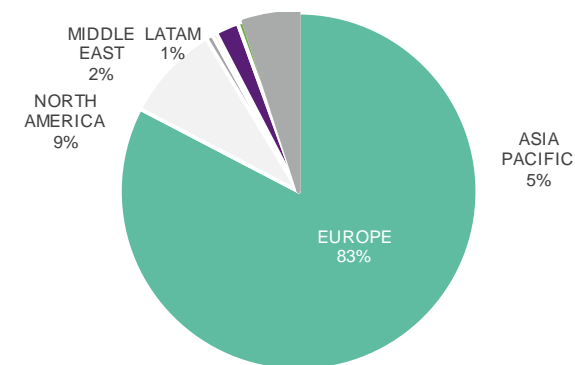
Split by Loan type (%)



Issuances by year (\$bn equivalent)



Split by Geography (%)





# 4

## ALTERNATIVE & REAL ASSETS: THE PROMISED LAND

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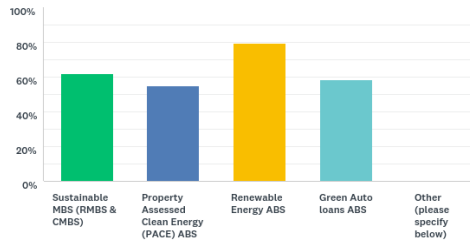
# ABS & CLOs: where do we stand?

*Need for guidelines, taxonomy, SPO and economics...*

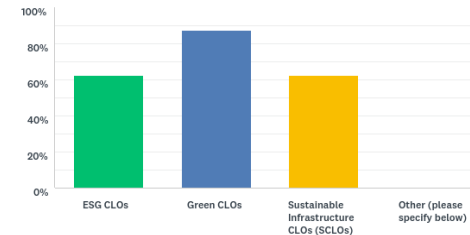
- 79% of the respondents report their interest for Renewable Energy ABS
- 62% for Green/Social MBS (RMBS & CMBS)

- 79% of the respondents report their interest for Green CLOs
- 62% for ESG and Sustainable CLOs

Q19 Sustainable ALTERNATIVE & REAL ASSETS - Asset-Backed Securities (ABS) Would you consider investing in the following assets? (if appropriate, tick the box)



Q20 Sustainable ALTERNATIVE & REAL ASSETS - Collateralized Loan Obligations (CLOs) Would you consider investing in the following assets? (if appropriate, tick the box)



## Interesting quotes from investors

***We are interested as long as criteria for what qualifies as underlying green assets are clearly defined***

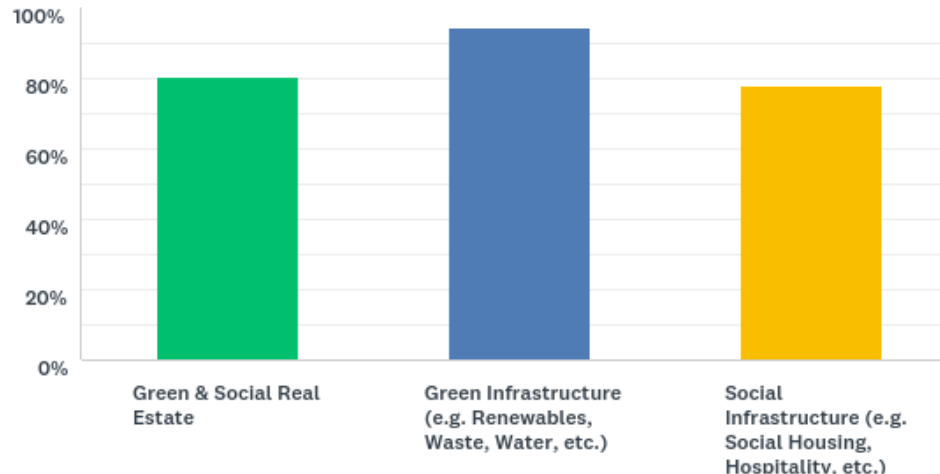
***The entire underlying must be green, not just a tranche***

***We are waiting for European guidelines***

# REAL ESTATE & INFRASTRUCTURE: easy earmarking

*Green infrastructure meet long-term investors needs*

Q21 Sustainable ALTERNATIVE & REAL ASSETS - REAL ESTATE & INFRASTRUCTURE  
Would you consider investing in the following assets? (if appropriate, tick the box)



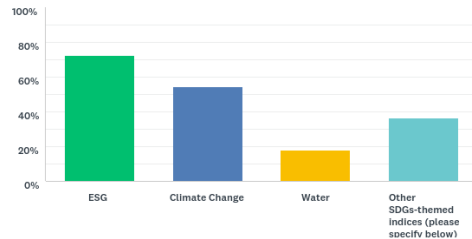
# STRUCTURED SOLUTIONS: for the most sophisticated \*

ESG and low-carbon indexes meeting passively managed strategies

**EQUITY:** Some respondents expressed their interest for sustainable smart beta strategies (i.e. rule-based indexes).

They are interested in ESG indexes and specifically in Climate and Water, amongst other SDGs

Q23 Sustainable STRUCTURED SOLUTIONS - EQUITY Would you consider investing in the following rules-based ("smart beta") indexes? (if appropriate, tick the box)

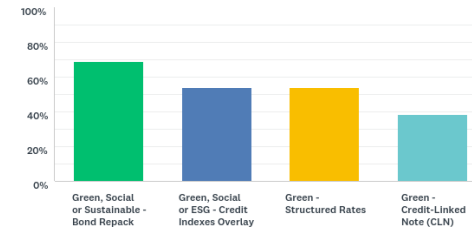


**A smart beta strategy** emphasizes capturing investment factors or market inefficiencies in a rules-based and transparent way. Smart beta strategies **may use alternative weighting schemes such as volatility, liquidity, quality, value, size and momentum.**

**FIXED INCOME:** Likewise, some respondents also expressed their interest for Repack Notes (e.g. OAT 2039 Green Repack).

And to a lesser extent: Credit Overlay, Structured Rates and Credit-Linked Note.

Q24 Sustainable STRUCTURED SOLUTIONS - FIXED INCOME Would you consider investing in the following investing solutions? (if appropriate, tick the box)



**A repackaged note** is a structured finance instrument (being a debt security in the form of a bond) issued by a bankruptcy remote special purpose vehicle (SPV).

A repack note is backed, that is funded, by the cash flows arising from an existing debt that the SPV has acquired. The cash flows from the existing security are channeled through **a swap counterparty to change** one or more of their characteristics, such as **coupon or currency.**

# MARKET DEVELOPMENT

*Which sustainable assets, products and/or thematic arouse the most your interest this year?*

GREEN PRIVATE EQUITY

GREEN &  
SUSTAINABILITY-LINKED  
LOANS

SOCIAL BONDS  
SUSTAINABLE  
BONDS

Thematic funds on  
BIODIVERSITY

EMERGING COUNTRIES

WATER & OCEANS

REFORESTATION  
Natural carbon  
sequestration

GREEN  
TAXONOMY

# GREEN BONDS

LOW CARBON TRANSITION

BROWN TO GREEN

CORPORATE GREEN  
BOND

GREEN HY, GREEN  
PRIVATE DEBT

IMPACT INVESTING

ESG FIXED INCOME  
INDICES

# SDG-RELATED PRODUCTS

LOCAL PROJECTS

CLIMATE CHANGE

GOVERNANCE-RELATED  
THEMES

GREEN SECURITIZATIONS

DIVERSIFICATION

STRESS TESTING

ESG  
INTEGRATION

**WE NEED WANT AND WILL, ALL  
TOGETHER, SHIFT THE TRILLIONS**



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