



Fixed Income Investor Survey on the use of Second Party Opinions (SPO)

October 2024

Executive Summary

Key findings on investors' needs and expectations in term of content and assessment of SPO providers

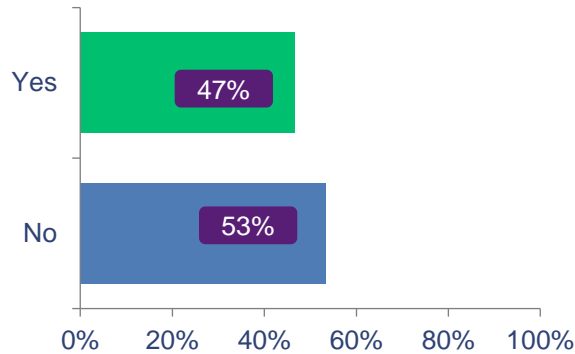
Over the course of June and July 2024, we conducted a survey to understand the use of SPO by investors, along with their needs and expectations regarding content and their evaluation of SPO providers.

Our survey included responses from 15 of the most active investors in Green, Social, Sustainability, and Sustainability-Linked (GSSS) Bonds, representing €11.218 billion in AUM ⁽¹⁾.

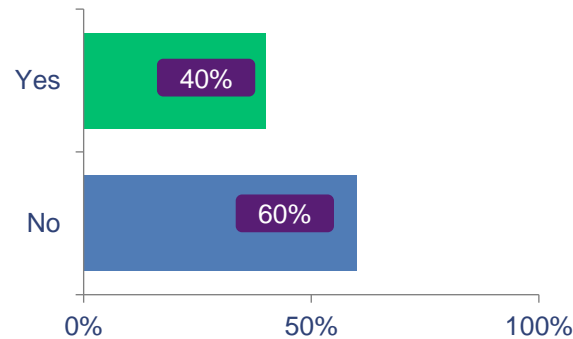
- ✓ **A Box-Ticking Requirement:** SPOs are **mandatory for fewer than half** of the respondents when investing in Green, Social, or Sustainable Bonds (7 out of 15 respondents) or in Sustainability-linked Bonds (6 out of 15 respondents).
- ✓ **Beyond Compliance:** Investors thoroughly review SPOs when **evaluating the alignment of sustainable debt instruments with ICMA principles**, which is mandatory for many portfolios. These reports serve as a **crucial tool for informing them about the strengths and weaknesses of a green finance framework or a specific instrument**.
- ✓ **Expectations vs. Reality:**
 - ✓ For GSS Bonds, investors primarily focus on SPOs to **understand the environmental and/or social characteristics of the projects intended for the Use of Proceeds** (eligibility/exclusion criteria). In contrast, for SLBs, they seek an **evaluation of the credibility of the strategy presented to meet KPIs/SPTs**, considering benchmarks, baselines, and scenario analyses.
 - ✓ Regardless, investors expect SPO providers to **include a section on the issuer** to verify that the issued instrument aligns with the overall sustainability strategy.
 - ✓ Last, investors view the **analysis of EU Taxonomy alignment criteria**—namely 'Substantial Contribution,' 'Do Not Significant Harm,' and 'Minimum Social Safeguards'—as a valuable addition to be included in an SPO
- ✓ **Choosing the Best:** The favored SPO providers are **Cicero Shades of Green - S&P Global, ISS ESG, and Sustainalytics**. Investors evaluate the credibility of these providers based on their internal perspectives and external credentials.

How are SPO used by investors?

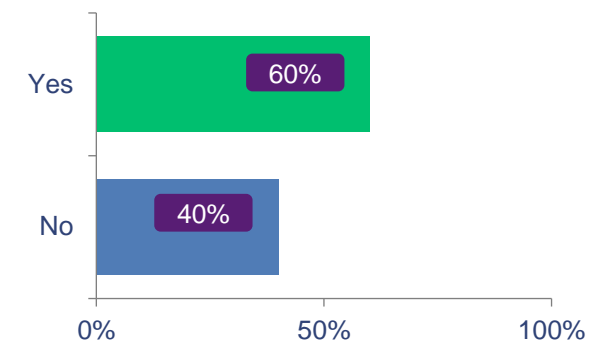
- Are SPOs mandatory to invest in a Green, Social, Sustainability Bond?



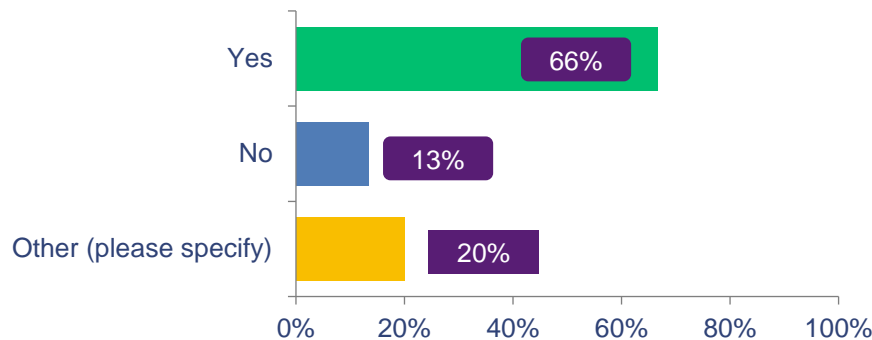
- Are SPOs mandatory to invest in a Sustainability-Linked Bond?



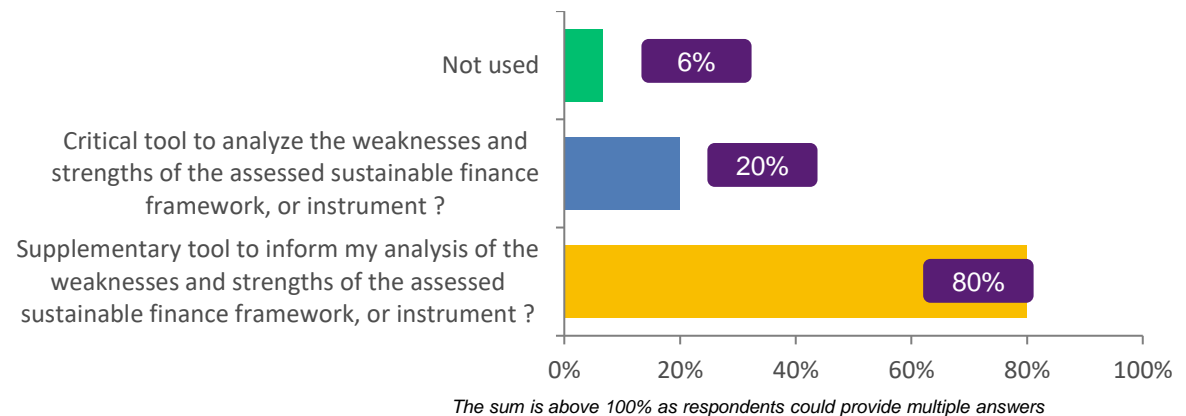
- Is the SPO a core source for ICMA ⁽¹⁾ principles alignment?



- Do you read, in detail, the SPO that accompany the issue of GSSS Bonds?



- How do you use SPOs in your analysis of sustainable debt instruments?



Investors' comments

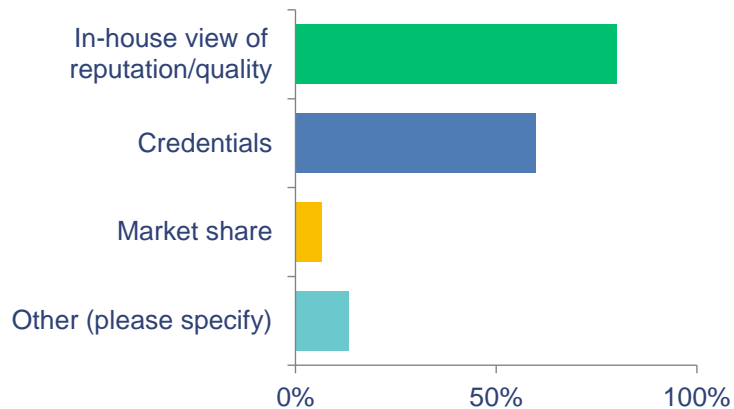
"SPO are not mandatory for investment in GSSS Bonds. On the other hand, the **SPO are so standardized that we need an explanation if there is none**. Otherwise, they are **mainly useful for administrative reasons** (e.g., to be included in indices)"

Investors' comments

"We use SPO to **benchmark our own assessment of GSS Bonds**"

How do investors evaluate SPO providers?

- How do you assess the credibility of an SPO provider? (multiple answers possible)



Investors' comments

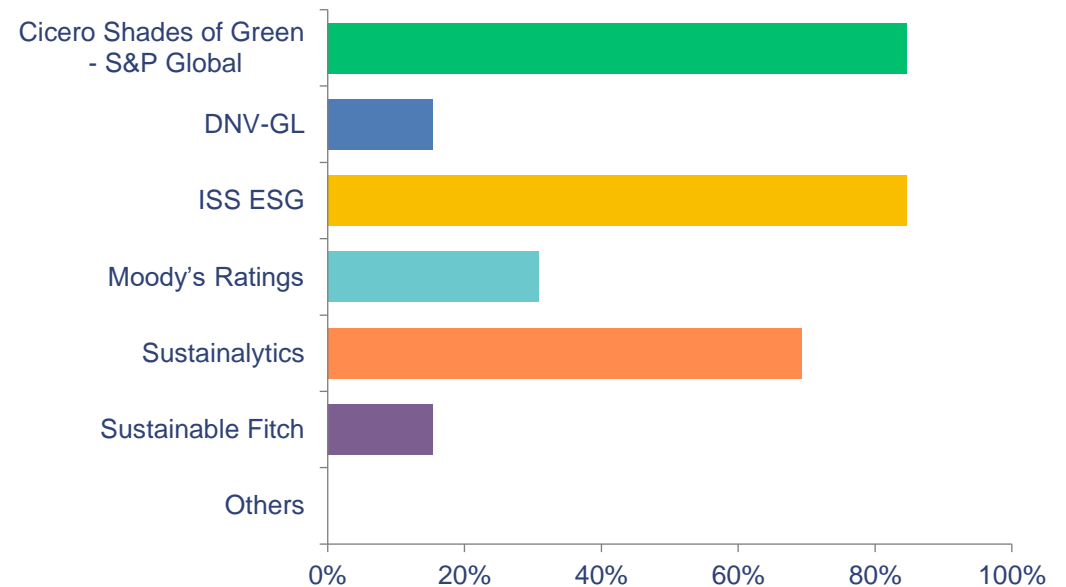
*"Very difficult to link SPO to actual sustainability credentials of the issue/issuer, I don't think SPO gives critical analysis. Also, we would be happy to **get transparency on fees paid** to SPO providers to **assess potential conflict of interest**"*

*"We value the qualitative comments on the use of proceeds section within CICERO's SPOs. Moreover, **we also appreciate the level of details provided** by CICERO and ISS ESG on the issuer's sustainable strategy and objectives"*

Investors' comments

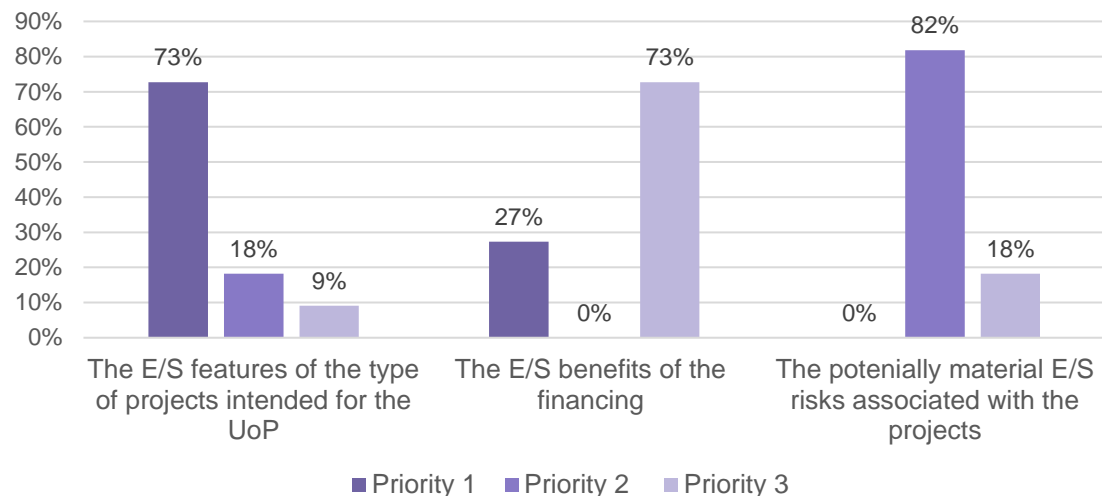
*"SPO is a **supplement tool** for our bond assessment so we will not rely on SPO to **determine the final label or eligibility**. As a result, we do not assess the credibility of an SPO provider"*

- What are your 3 preferred SPO providers?



What matters most in SPOs?

- Which are the most, and conversely the least, useful parts of the SPO for Use of Proceeds (UoP) Bonds?

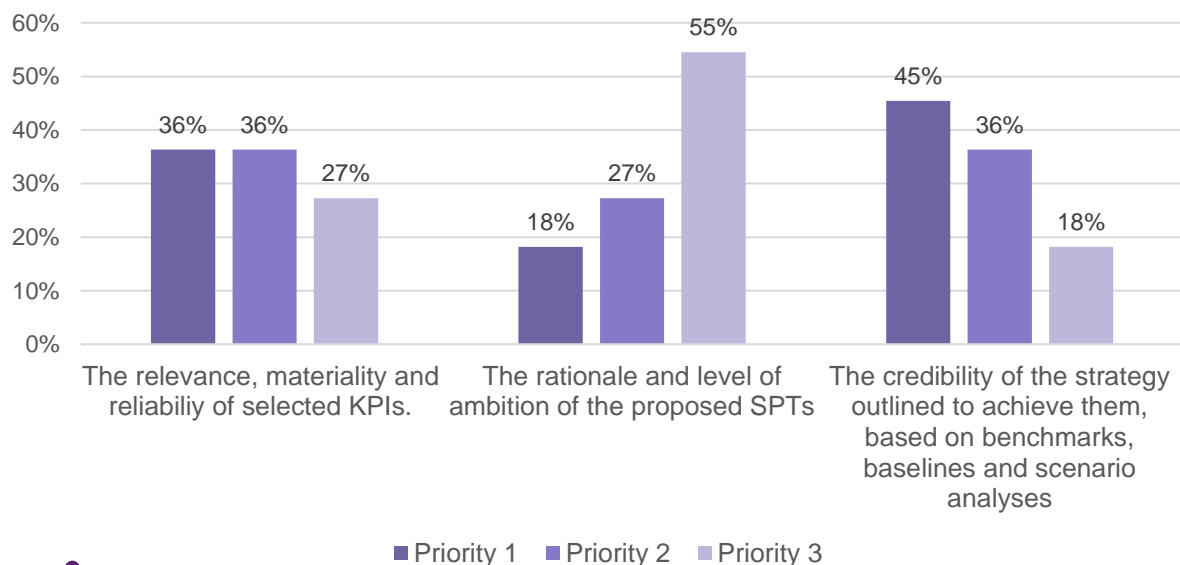


Investors generally concur on the aspects of the Use of Proceeds (UoP) SPOs that they prioritize, which include the following:

- Priority 1: Type of projects for the UoP
- Priority 2: E&S risks
- Priority 3: E&S benefits

→ This highlights the clear value that SPOs add in relation to investors' key priorities.

- Which are the most, and conversely the least, useful parts of the SPO (please rank) for Sustainability-Linked Bonds?



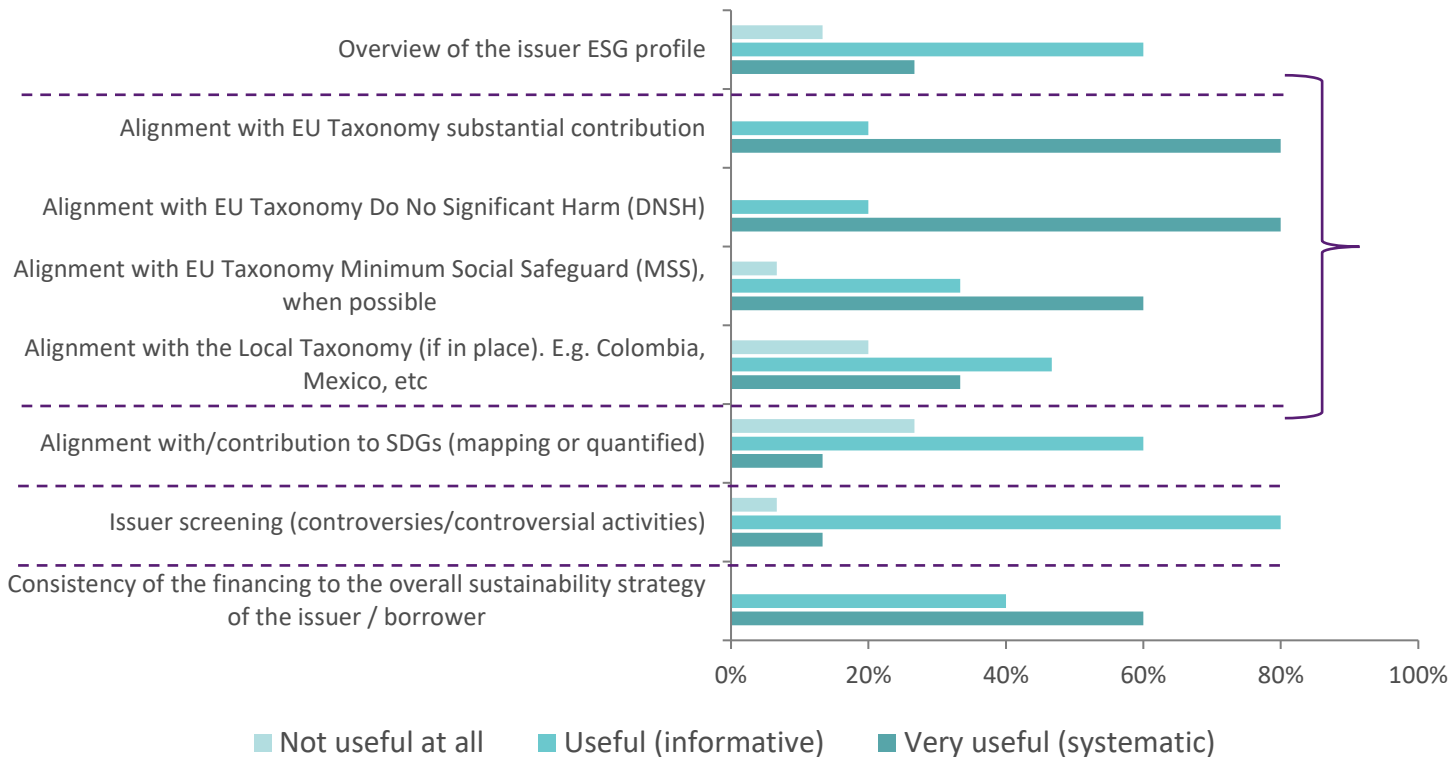
For Sustainability-Linked Bonds, investors do not reach a strong consensus on which aspects of the SPO are most significant:

→ This may suggest that all components of the SPO hold similar relevance.

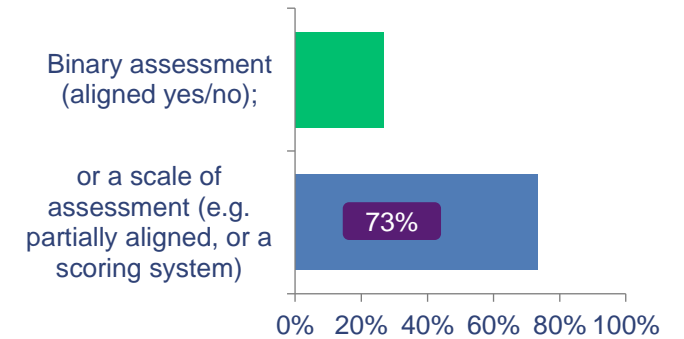
→ It seems that the credibility of the strategy to achieve targets is considered more important than the rationale and ambition behind the targets themselves.

What more can we expect?

- SPO's can often contain additional elements/add-ons. Which of the following do you find useful (score 1-3, 3 = Very Useful, 1 = Not useful at all):



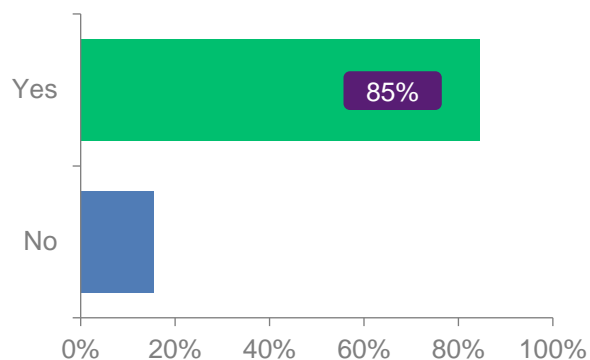
- When an SPO provides an assessment of alignment against the EU Taxonomy which is the most useful:



Towards a more comprehensive analysis

At both issuer and transaction levels

- Do you think there is a need for an external review (SPO or other) at transaction level, in particular for SLBs? Some frameworks (and SPOs) integrate core and secondary KPIs. In practice, not all KPIs are used in individual transactions.

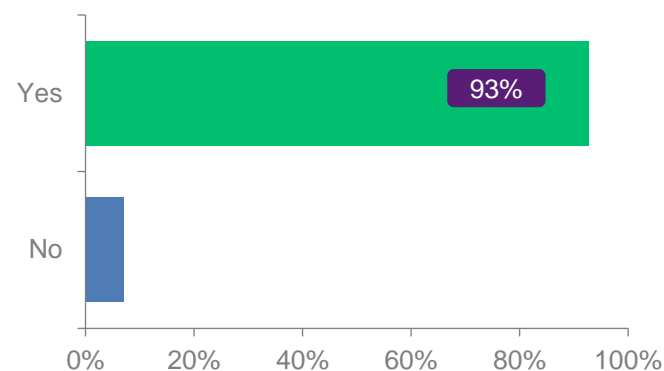


Investors' comments

"Yes, we think there is a need for an external review at transactional level to check the robustness of the KPI's calculation methodology (especially if it's an in-house methodology)"

"It is instrumental especially for SLBs given the specificity of the structure / a "nice to have" feature as internal assessment takes specific KPIs into account"

- Do you expect an SPO report to include an issuer section to ensure alignment of the instrument with the sustainability strategy?



Futures perspectives

→ The rationale behind the issuance framework is increasingly put in perspective with the company's sustainability strategy.

→ The analysis of the ambition and credibility of companies' transition strategies is becoming relevant for most investors converging towards a Net Zero objective, and now supported by EU regulation through Corporate Sustainability Reporting Directive (CSRD).

In this regard, investors advocate for a more holistic approach to SPO providers.

DISCLAIMER

This document is a commercial documentation for discussion and information purposes only. It is highly confidential and it is the property of Natixis. It should not be transmitted to any person other than the original addressee(s) without the prior written consent of Natixis.

This document does not constitute a personalized recommendation. It is intended for general distribution and the products or services described herein do not take into account any specific investment objective, financial situation or particular need of any recipient.

The distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are therefore required to ensure that they are aware of, and comply with, such restrictions or prohibitions. Neither Natixis, nor any of its affiliates, directors, employees, agents or advisers nor any other person accept any liability to anyone in relation to the distribution, possession or delivery of this document in, to or from any jurisdiction.

In any event, you should request for any internal and/or external advice that you consider necessary or desirable to obtain, including any financial, legal, tax or accounting advice, or any other specialist advice, in order to verify in particular that the investment(s), transaction(s), structure or arrangement described in this document meets your investment or financial objectives and constraints, and to obtain an independent valuation of such investment(s)/transaction(s), its risks factors and rewards.

This document should not be construed as an offer or solicitation with respect to the purchase, sale or subscription of any interest or security or as an undertaking by Natixis to complete a transaction subject to the terms and conditions described in this document or any other terms and conditions. Any guarantee, funding, interest or currency swap, underwriting or more generally any undertaking provided for in this document should be treated as preliminary only and is subject to a formal approval and written confirmation in accordance with Natixis' current internal procedures.

Natixis has neither verified nor independently analyzed the information contained in this document. Accordingly, no representation, warranty or undertaking, express or implied, is made to recipients as to or in relation to the accuracy or completeness or otherwise of this document or as to the reasonableness of any assumption contained in this document. The information contained in this document does not take into account specific tax rules or accounting methods applicable to counterparties, clients or potential clients of Natixis. Therefore, Natixis shall not be liable for differences, if any, between its own valuations and those valuations provided by third parties; as such differences may arise as a result of the application and implementation of alternative accounting methods, tax rules or valuation models.

It should not be assumed that the information contained in this document will have been updated subsequent to the date stated on the front page of this document. In addition, the delivery of this document does not imply in any way an obligation on anyone to update the information contained herein at any time.

Natixis shall not be liable for any financial loss or any decision taken on the basis of the information contained in this document and Natixis does not hold itself out as providing any advice, particularly in relation to investment services.

Prices and margins are deemed to be indicative only and are subject to changes at any time depending on, inter alia, market conditions. Past performance and simulations of past performance are not a reliable indicator and therefore do not predict future results. The information contained in this document may include results of analyses from a quantitative model, which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Information may be changed or withdrawn by Natixis at any time without notice. More generally, no responsibility is accepted by Natixis, nor by any of its holding companies, subsidiaries, associated undertakings or controlling persons, or any of their respective directors, officers, partners, employees, agents, representatives or advisors as to or in relation to the characteristics of this information.

Natixis, as part of its activities, may deal as principal in or own securities/instruments or other investments that may be the subject of opinions or recommendation discussed in this document or may advise the issuers of such securities. Natixis and its holding entities, affiliates, employees or clients may have interest or possess or acquire information in any products, markets, indices or securities mentioned in this document that could be material and/or could give rise to a conflict of interest or potential conflict of interest. This may involve activities such as dealing in, holding, acting as market makers, or performing financial or advisory services in relation to any products, markets, indices or securities mentioned in this document.

Natixis is supervised by the European Central bank (ECB).

Natixis is authorized in France by the Autorite de Controle Prudentiel et de Résolution (ACPR) as a Bank – Investment Services Provider and subject to its supervision. Natixis is regulated by the Autorité des Marchés Financiers (AMF) in respect of its investment services activities.

In the UK, Natixis London Branch is authorized by the ACPR and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request.

In Germany, NATIXIS is authorized by the ACPR as a bank – investment services provider and is subject to its supervision. NATIXIS Zweigniederlassung Deutschland is subject to a limited form of regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) with regards to the conduct of its business in Germany under the right of establishment there. The transfer / distribution of this document in Germany is performed by / under the responsibility of NATIXIS Zweigniederlassung Deutschland.

Natixis is authorized by the ACPR and regulated by Bank of Spain and the Comisión Nacional de Mercado de Valores (CNMV) for the conduct of its business under the right of establishment in Spain.

Natixis is authorized by the ACPR and subject to limited regulation by the Bank of Italy and the Commissione Nazionale per le Società e la Borsa (CONSOB) for the conduct of its business under the right of establishment in Italy.

Natixis is authorized by the ACPR and regulated by the Dubai Financial Services Authority (DFSA) for the conduct of its business in and from the Dubai International Financial Centre (DIFC). The document is being made available to the recipient with the understanding that it meets the DFSA definition of a Professional Client; the recipient is otherwise required to inform Natixis if this is not the case and return the document. The recipient also acknowledges and understands that neither the document nor its contents have been approved, licensed by or registered with any regulatory body or governmental agency in the GCC or Lebanon.

This document is not intended for distribution in the United States, or to any US person, or in Canada, Australia, the Republic of South Africa or Japan.



Natixis Corporate & Investment Banking is part of
Global Financial Services, the global arm of Groupe BPCE

