Environmental Fixed Income

Sean Kidney, Chair

Investor-focused NFP, promoting large-scale transition investment

50 member advisory panel in 15 cities, incl.
- Henry Derwent
- James Cameron
- Nick Robins
- Pedro Moura Costa

Projects in UK, US, EU, India, Australia, Korea
Opportunity with scale

Global bonds outstanding in 2010 = $95 trillion+

72% held by pension funds, insurance funds & sovereign wealth funds

Under-exposed to energy & Infrastructure

19 of world’s top 20 pension funds are public sector

“Give me two products with the same risk/reward profile, one brown, one green - I’ll pick the green”

Dealing with risk at the deal engineering stage rather than passing to investors.
Types of Climate Bonds

Asset-backed / ring-fenced bonds ... investments in climate change solutions

Investment grade returns + theme label

**IFI/Government** bonds for low-carbon transition financing
IFI s : WB, IFC, EIB, ADB, EBRD
Governments: UK, California, Samoa
Municipal: Birmingham, Tianjin, Chicago
NAMA bonds

**Asset-backed**, e.g. Breeze, SunPower

**Corporate / Covered Bonds**

Carbon Upside
Retail w. carbon upside (index, CER – Japan retail)
IETA sectoral + carbon credits
Penalty gilts
Issues

1. Lack of **deal-flow**

   Engineer & demonstrate investibility
   - Partnership between institutional investors and governments
     - Green Investment Banks
   - Policy and regulatory support
     - De-risking EE investment in UK and Australia
   - Forest bonds (WWF/GCP)

Reaching investment grade

   Developing investor understanding of novel assets
   - Targeted credit enhancement or insurance: Govts, IFIs *and* banks
     - Euro 2020 Project Bonds
     - Policy risk insurance
     - Bank partial guarantees for ABS

Future capital constraints of banks and utilities

   Corporate and covered bonds -> ABS Covered Bonds
   - Basel III and Solvency II
Issues

2. **Liquidity** to attract big investors
   - Unblock large-scale deal flow: e.g. renewables purchasing, interconnects
   - Credible forward policy narrative: e.g. energy efficiency
   - Standardization of products
     - *Backcasting*: roughly $14bn green bonds out there + clean energy $40bn

3. Do investments **genuinely** address climate change? (Potential for greenwash?)
   - Certification: environmental due diligence for investors
   - L-C economic development plans
International Standards

Aim: Allow investors & governments to prioritise ‘low carbon’ investments.

Objectives:
1. Avoid greenwashing / assure investors (+ NGOs) that investments are for climate change solutions
2. A simple preferencing tool
3. Standardization of credentials = liquidity Energy, transport, water, etc

Benefit for issuers
New investors
Reputation enhancement
Softening the market for ABS post-Basel III
Assurance

Committee members include

A global enviro NGO TBA

Council of Institutional Investors EU? IEA? UN?
Low-carbon economy assets

Eligibility criteria per wedge

- Wind, solar + supply chains
- Energy efficiency
- Bio-energy
- Broadband
- Development Bank
- Grid / energy infrastructure
- Hydro power
- Forestry
- Shipping
- Water for adaptation
- Waste
- Agriculture

Science-based low-carbon economy framework
www.climatebonds.net