Document for professional investors only
Written in June 2023

MySustainableCorner

Sustainable Bond Markets in H1 2023!

Investors, whether institutional, banks or retail, tend to invest **in line with their convictions**, and protecting the environment is a central theme. Beyond climate, investors also have social ambitions, seeking to align investments for a socially responsible **Just Transition**. This search for "impact" solutions is very supportive for the **sustainable bond market**, from an issuer perspective - including governments - and from and investor perspective.

In 2023, the sustainable bond market has continued to grow. This is excellent news as it signals closer alignment **between investors' and issuers' financial and sustainable investment objectives**. For the full year 2022, sustainable bonds showed good resilience, accounting for 26% of new issues in the euro bond market.

Key figures

58% of sustainable bonds issued in 2022 **were issued in EURO**

23% of sustainable bonds issued in January were **SOCIAL BONDS**

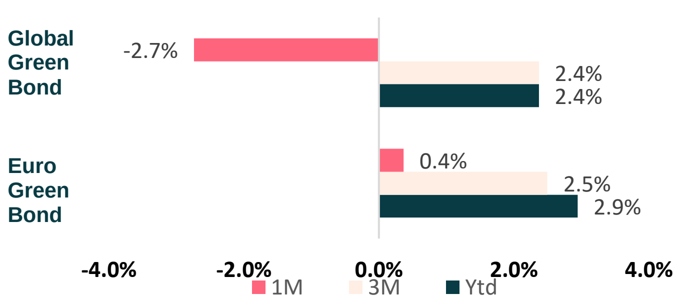
281M$ in financing is needed for **INDONESIA to achieve its 2030 carbon emissions goal**

800M$ Is the amount issued by a **car rental company for its 1st GREEN BOND issue**

30M€ Is the amount of **SUSTAINABLE BONDS** at Ostrum AM (June 2023)

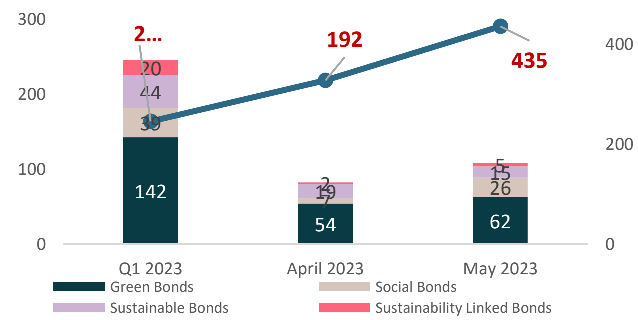
Dashboard

Green Bond Returns (%)



Data as of 05/31/2023 - Sources: Bloomberg MSCI Euro Green Bond Index et Bloomberg MSCI Global Green Bond Index

Sustainable Bond Issuance ($ Bn)



Sources: Bloomberg / Ostrum AM - Data as of 05/31/2023

Monthly highlights

JANUARY

Sustainable Investment: more clarification needed

SFDR Regulation[1] defines a Sustainable Investment as “an investment in an economic activity that contributes to an environmental objective [...] or an investment in an economic activity that contributes to a social objective […], provided that such investments do not materially prejudice any of these objectives and that the companies in which the investments are made apply good governance practices […]”.
SFDR’s ambition is clearly to set common ground in the marketplace, across asset managers. However, the definition is very general, leaving room for interpretation.
Relying on this definition, asset managers have been asked to commit with a minimum percentage of sustainable investments for all funds and mandates. SFDR Article 9 products, as specificized by European Commission, must have a 100% investment commitment level.
In addition, Asset Managers must justify those investments “Do No Sustainable Harm” (DNSH) to the objectives stated in the definition. This is a real challenge. The European Regulator has started to lay down conditions to be compliance, but more clarity is needed, making implementation complex. The “Place de Paris” has mobilized to help Asset Management Companies converge towards common and transparent standards.
Pending clarification, asset managers have had to position themselves, establishing their own definitions and calculation methodology.
Standardization across actors is the real challenge. In the current context, it is difficult to compare Sustainable Investment rates from one Asset Manager to another.

[1] Article 2 (17) of Regulation (EU) 2019/2088 of 27 November 2019 on the publication of sustainability information in the financial services sector

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FEBRUARY

The ECB wants to go further to green its investments

Speaking at the Central Bank Symposium in Stockholm, Isabel Schnabel, member of the ECB's Executive Board stressed the need for the central bank to go further in its contribution to the achievement of European objectives related to the Paris Agreements. This will require an adaptation of its policy and additional actions to ensure a trajectory of decarbonization of its operations in line with carbon neutrality by 2050.

A change of approach to achieve its objective

With the upcoming reduction of its reinvestments of around €15 billion per month starting in March, the ECB wants to change the composition of its credit debt portfolio by modifying the implemented flow-based approach (adjusting private bond reinvestments based on a climate score that reflects the carbon intensity of issuers and incorporates their decarbonization plan). Considered limited in order to achieve the decarbonization objectives, this approach should be replaced by an inventory-based approach that allows for more flexibility.

Green bonds favoured

Within the corporate bond sector, the ECB will be able to redirect its portfolio towards issuers with good climate scores at the expense of carbon-intensive issuers. While it will be present through the secondary market, it will make an exception in order to intervene on the primary market for green bonds and issuers of non-bank companies performing from a climate perspective. As for the public sector, it could prefer green bonds issued by supranationals and agencies and favour green issues by sovereign issuers as soon as it can, while respecting the ECB’s capital allocation keys. Overall, this new approach is expected to support the decarbonization of bond investments and provide significant support to the sustainable bond market in 2023.

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MARCH

- The European Union sets standards to avoid greenwashing: provisional agreement for the creation of a **EU Green Bond Standard**
- The **AMF** proposes to introduce into European law minimum environmental requirements that financial products should meet in order to be categorized as Article 8 or Article 9 that would usefully complement the current regulatory structure.
- **The European Commission** presented its **Industrial Green Deal** to improve the competitiveness of European industry in order to achieve its carbon neutrality goal.
- Public consultation on first land science-based targets: the **Science Based Target Network** has opened an international consultation on its draft technical guidelines to equip companies to set the first targets based on earth sciences, focusing on the protection and restoration of ecosystems
- The ban on the sale of thermal cars by 2035 has been approved by the European Parliament

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APRIL

- The **European Commission** invites the European Supervisory Authorities to conduct a one-off climate risk scenario analysis to assess, in cooperation with the ECB and the ESRB, the resilience of the financial system on the way to the EU's targets for 2030
- The **AMF** (Autorité des Marchés Financiers) invites listed companies to improve their shareholder dialogue regarding their climate strategy
- **The Bank of England** will continue to explore whether changes to the macro prudential framework might be appropriate to help protect against climate risks while being wary of unintended consequences of increasing capital requirements for banks and insurers
- **UN delegates** reach historic agreement on protecting marine biodiversity in international waters: already being referred to as the 'High Seas Treaty', the legal framework would put more money into marine conservation and covers access to and use of marine genetic resources
- The United Nations Intergovernmental Panel on Climate Change has released its sixth report, which states that the decade is essential to address climate change and calls for continued climate investment.

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MAY

- **European parliament** adopts new rules on binding pay-transparency measures, making easier for employees to compare salaries and expose existing gender pay gaps
- **The Banque de France** stepped up its climate commitments, and affirmed its goal of aligning all equity components with a global warning trajectory of 1.5°C by end-2025
- **Bruno Le Maire, the French Minister of Economy and Finance**, said that the 5% savings measures requested from the ministries for 2024 will make it possible to release 7 billion euros that will be used in particular to finance the ecological transition
- The **IIGCC** published a new framework aiming at helping investors to assess alignment of oil and gas compagnies' transition plans with a 1.5°C climate scenario
- **The US Environmental Protection Agency** proposes new pollution standards for cars and trucks to accelerate transition to a clean transportation future
- **The International Bank for Reconstruction and Development** issued a 2 billion euro-denominated sustainable bond

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JUNE

- **President Emmanuel Macron** announced a broad plan to support the development of the "zero emission" aircraft, consisting of several hundred million aid and investment

- The reviewed text on **the EU Green Bond Standard** has been published on 10th of May

- **The Collaborative Sovereign Engagement on Climate Change** is a pilot PRI-led investor initiative to support govern-ments to act on climate change

- **RCI Banque**, Renault group subsidiary, has launched a Euro denominated green trans-action of €750 million

- **Legrand**, world leader in electronics and systems for electrical installations, launch-ed a Sustainability Linked Bonds aligned with its Sustain-ability framework

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Additional notes

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