

Session 9: ESG moving forward in bonds

2023 Frontier Advisors Annual Conference

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Manager ESG approaches have evolved

Exclusion based ESG approach can no longer meet investor expectation

Limited ESG considerations

Exclusion / Negative screen

Integration and Evaluation

Thematic and Impact

Avoiding issuers in areas of controversial products such as tobacco and weapons

Explicitly evaluate ESG considerations

Desire to create **measurable** or direct impact

- Historically the predominant ESG approach has been negative screening.
- Today, the mainstream approach is ESG integration but differs within fixed income.
 - Positive shift in ESG assessment and active engagement by fund managers.
- Thematic /Impact approach is adopted where there is the desire to create a direct impact.

Fixed income strategies: ESG versus standard

ESG aligned strategies can provide more measurable ESG outcome, but should be assessed carefully

- ESG aligned fixed income strategies are further developed in investment grade credit universe.
- How are they different?
 - Combination of ESG approaches adopted
 - Stronger measurement of positive impact
 - Classification under Sustainable Finance Disclosure Regulation (SFDR).

Example	Negative Screen	ESG integration	Thematic/ impact	Engagement	ESG reporting
Global IG credit strategy	?	✓		✓	?
ESG version	✓	✓	✓	✓	✓

Key takeaways

- ESG approaches in fixed income have evolved, and managers are now held to a high bar.
- Thematic investments will play an increasingly important role in investor portfolios given their tangible ESG outcomes.



Learning by Doing: Sovereign Debt and ESG

Tamar Hamlyn, Principal
Ardea Investment Management

15 June 2023

Rising expectations in sovereign debt

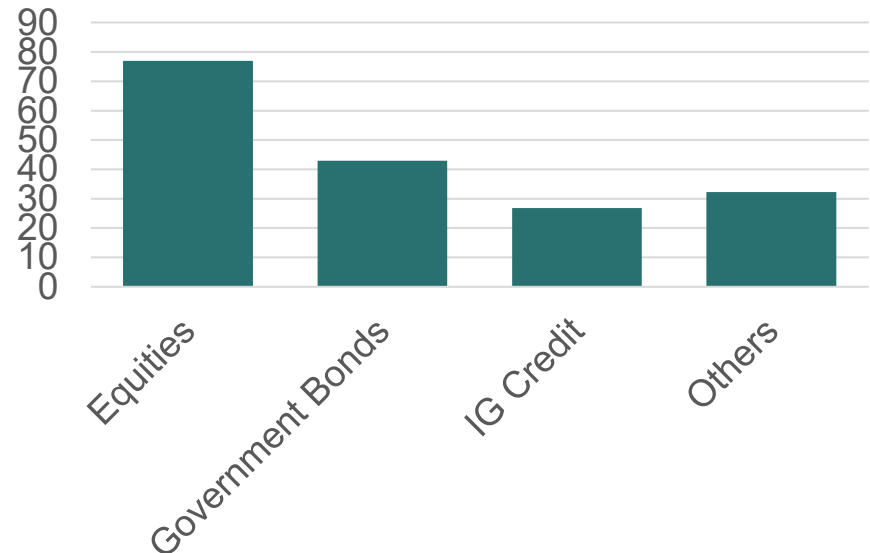
Past: one of the largest asset classes, but with the lowest ESG priority of all

Current: expectations moved from low to high, but sector struggling to meet them

Future: first avoid harm, but what next?

- Product design (is hard)
- Research and partnerships
- Engagement

Global Investment Universe
\$US trn, end-2021



Source: Ardea Investment Management, State Street Global Advisers

Learning by doing: case studies

Case Study	UK	EU
Objective	Drive development of a green bond yield curve	Provide specific guidance on green bond issuance
Process	<p>22 May: conveyed feedback to UK Debt Management Office of investor preference for development of the green bond curve, specifically 5y and 15y green bonds.</p> <p>The DMO later published these comments in the public minutes of the investor consultation program.</p>	<p>9 February: conveyed strong intention to issuer of increased demand for green bonds allowing for larger volumes of issuance</p> <p>17 March: provided specific feedback on pricing relative to other government bonds in lead up to issuance</p> <p>28 March: bonds issued to very strong investor demand at 12x oversubscribed, portfolios allocated 50% of order</p>
Outcome	Strong transparency in communication of market feedback, positive governance outcome	Portfolios received larger allocation than pro rata at discretion of the issuing authority

Source: Ardea investment management

Practical challenges ahead

Watch the gap

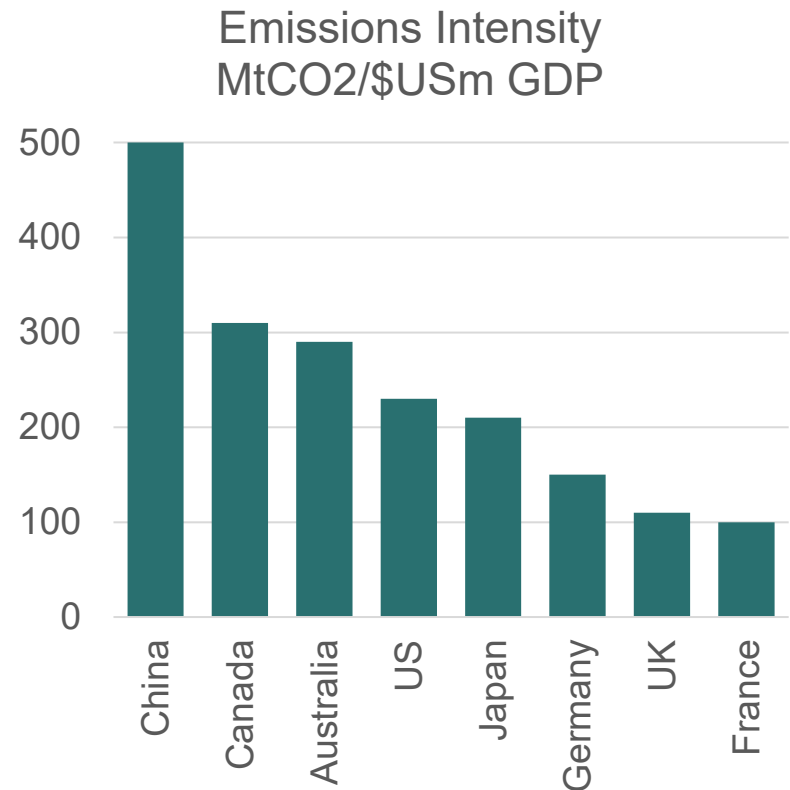
- Emissions intensity varies across countries, by multiples!

TCFD reporting

- Australia, Canada, US are standouts

Federal green bonds

- Strong demand, but tail risks are real



Source: Bloomberg, EDGAR. Data are 2021 or latest available.

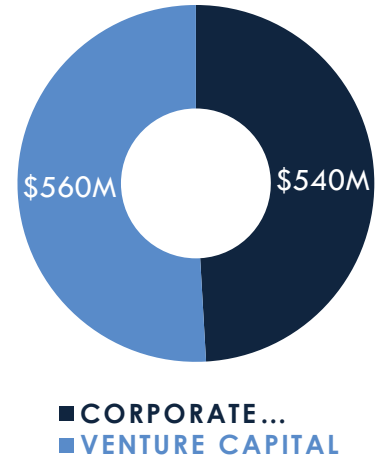
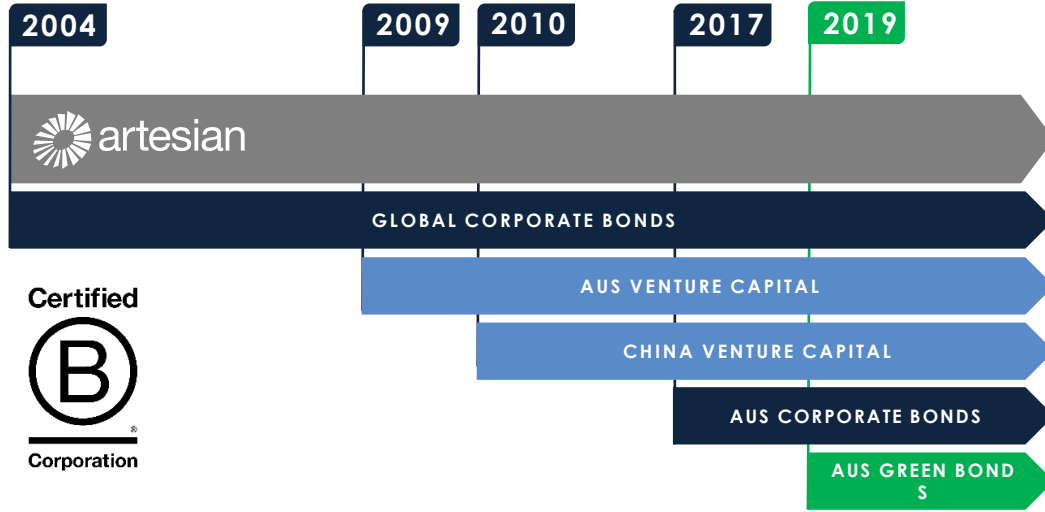
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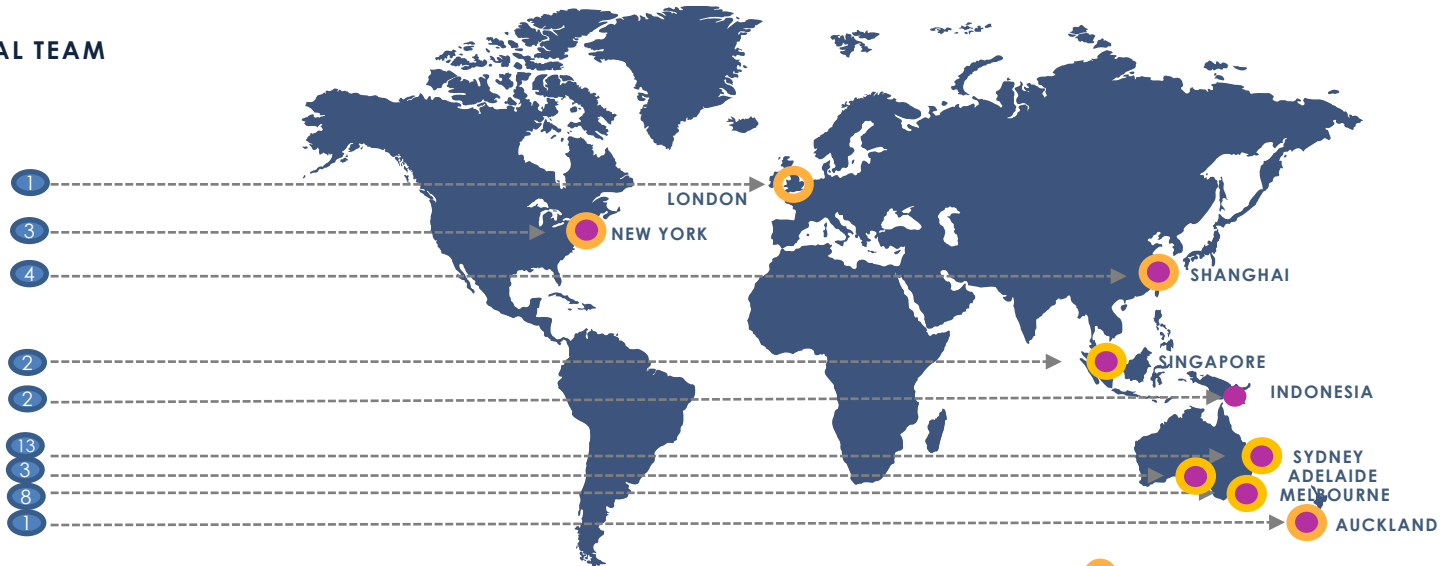


THE ADVANTAGES OF FIXED
INCOME FOR IMPACT INVESTORS

MATTHEW CLUNIES-ROSS
CHIEF INVESTMENT OFFICER



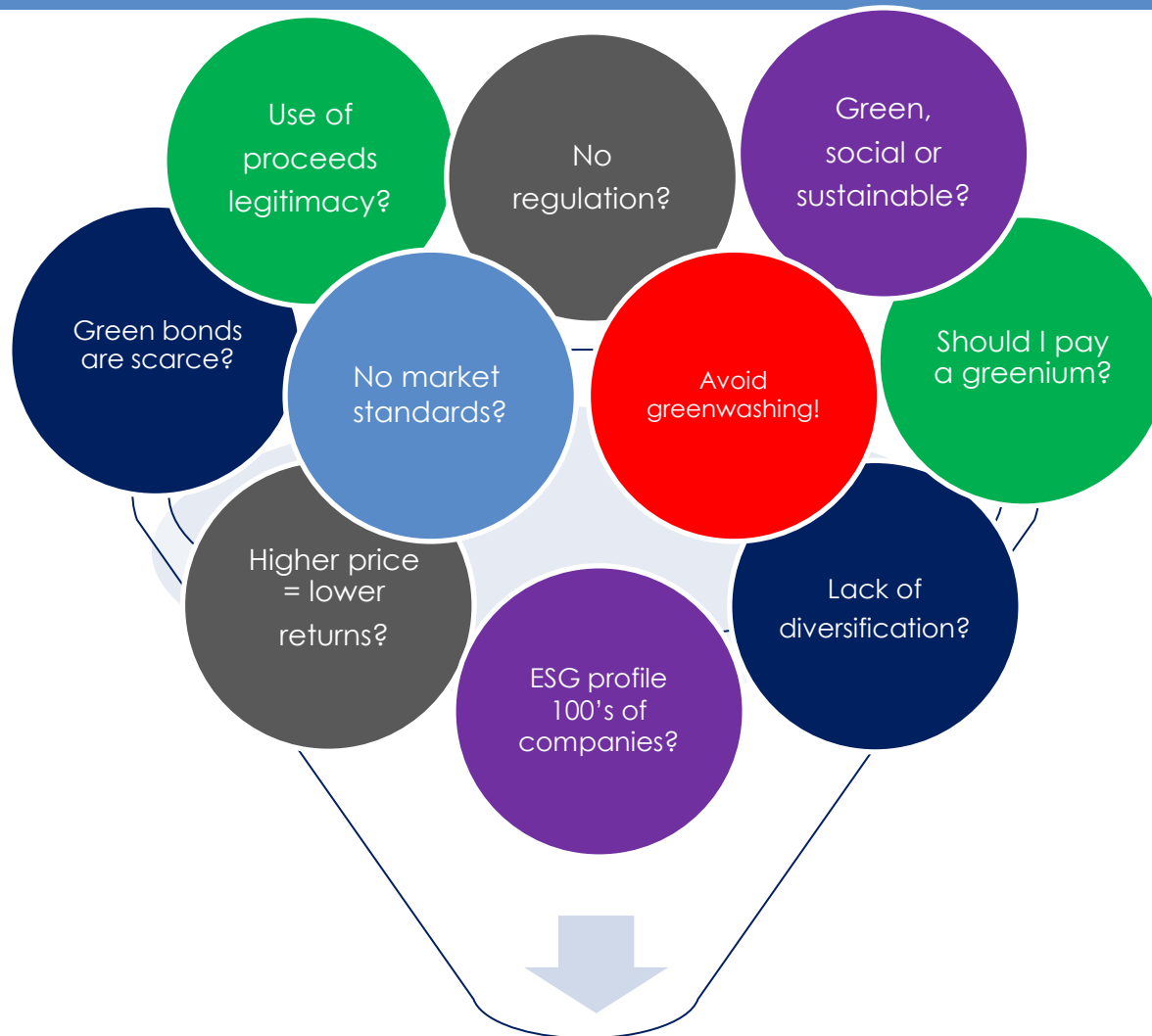
GLOBAL TEAM



37 EMPLOYEES GLOBALLY

● ARTESIAN VENTURE PARTNER

○ ARTESIAN CAPITAL MANAGEMENT



Generate **high impact** financial returns

GREEN BOND ISSUERS



SUSTAINABLE BOND ISSUERS



SUSTAINABILITY LINKED BONDS



SOCIAL BOND ISSUERS



Example of **ESG** screened out



Sustainability Linked Bond

1. Involvement in price fixing and anti-competitive behaviour.
2. Employee health and safety incidents.
3. Numerous animal welfare incidents.
4. Bribery and corruption scandals.

Whilst Artesian did not participate in this transaction, the issuer raised USD 1 billion.

Subsequent to the issue



Sustainability Linked Bond

1. Heightened business risk.
2. Increasing regularly risks.
3. Further divestment risk – several investors have publicly announced divestments from JBS, due to deforestation.

In January, 2023, NGO, Mighty Earth, filed a whistle-blower complaint to the US SEC, seeking an investigation into alleged misleading and fraudulent “green bonds” issued by JBS - tied to its stated goal to cut emissions and achieve “Net Zero by 2040.” Emissions have recently increased and JBS excluded ‘Scope 3’ supply chain emissions that comprise upwards of 97% of its climate footprint.





- Our objective is to generate additional labelled bond issuance in the AUD market, TMT names had not yet issued.
- We had observed that Verizon in the US were a big issuer of green bonds, the use of proceeds in their bond structures had been used to enter into Power Purchasing Agreements (PPAs).
- We approached NBN, Telstra and Optus to gauge their interest and present structural ideas such as PPA's.
- NBN were receptive to the idea and we organised to meet with their management team.



- In our initial meeting we also took along some of our institutional investors, Future Super and the Clean Energy Finance Corporation.
- Discussed their aspirations to issue green bonds and whether the PPAs were possible.
- Agreed that issuing a green bond would be a suitable funding option and they would design their bond framework and revert.
- In the second meeting NBN presented their intended bond structure for feedback.
- Three months later NBN issued their first green bond which included PPAs in the use of proceeds.

A successful collaborative engagement which lead to increased issuance and diversification in the AUD market, also sets a benchmark for other issues.

285,133



Trips made on clean & sustainable transportation.

93,275,386



Litres of water saved.

6,455



Square metres of green energy efficient buildings financed.

31,175



People provided with access to water & sanitation.

1,602



People provided with access to education.

143



Jobs created or preserved.

10



Affordable housing dwellings financed.

100%



Female representation on board of Fund holdings.

SUSTAINABLE DEVELOPMENT GOALS



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Thank you for joining us.

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