Group Economics – Financial Markets & Sustainability Research

ABN AMRO ESG Investor Survey – 2H 2024

14th October 2024

ABN·AMRO

Key take-aways

1 ESG Investor Profile and Behaviour

- Most ESG-dedicated investors manage either Article 8 or Article 9 funds. For Article 9, many conduct an in-depth screening of the issuer's ESG strategy, but compared to last year's survey, a higher share of investors say they can only invest in ESG bonds (48% vs. 31% in 2023)
- Green bonds remain the dominant label. More investors can now buy SLBs compared to last year. The share of respondents finding an ESG label suitable for securitizations rose from 49% in 2023 to nearly 80%.
- Most ESG investors apply active strategies in their ESG funds that prioritize returns over ESG impact.
- 60% of respondents don't differentiate between ESG and non-ESG bonds in their non-dedicated ESG funds.
- ICMA remains the key standard in the ESG bond market, followed by the EU Taxonomy. Investors increasingly rely on issuers' ESG strategies over ESG risk ratings. Also, the presence of decarbonization targets has gained importance over the years, but fewer use SBTi for their target assessment.
- Most investors use MSCI and Sustainalytics ESG ratings. The purpose of using these ratings varies widely, but nearly 70% of our respondents say they use the data as a compliment to their own analysis. Most investors don't have a specific preference for a particular SPO provider.
- Most investors are willing to accept a greenium, without defining a maximum limit to it.

2 "Use of Proceed" ESG Bonds

- Most investors still prefer ESG bonds that come from sectors of traditional green bond issuers. No preference for the number of "use of proceed" categories included in Frameworks.
- Investors are generally indifferent about the presence of a lookback period and the format applied to allocation reports.
- Data quality remains the main issue preventing the growth of the green bond market.

3 Sustainability-Linked Bonds (SLB)

- Investors see the best sectors for SLB issuance as those with few green assets / expenditures. Bonds in ESG format especially as SLBs, are seen as suitable for issuers in transition.
- Investors want SLBs with coupon step-ups over 25bps, but there is no consensus on whether SLB targets should include scope 3 emissions
- Assessing comparability and ambition of targets still seen as the main challenge for the SLB market

4 Regulation

- Most investors don't expect to change the name of their fund due to the ESMA guidelines.
- Investors expect to take different approaches on the EU GBS requirements. Lack of standardization is the main issue of the SFDR.

1 ESG Investor Profile and Behaviour

Majority of the respondents are portfolio managers from asset management firms; responses focused on North-Western Europe

This ESG survey includes:

54

Investors

From across:

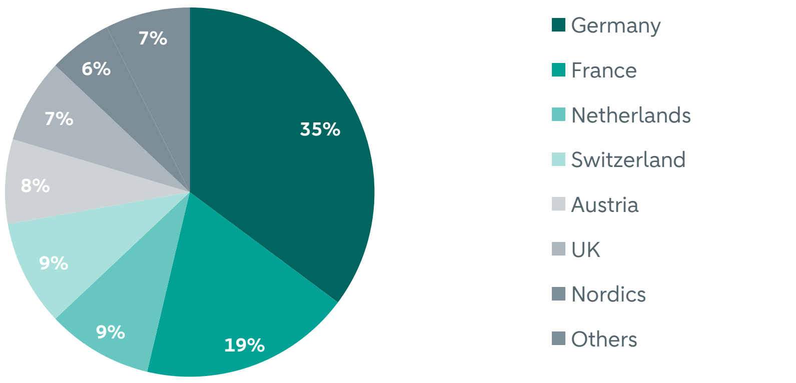
14

countries

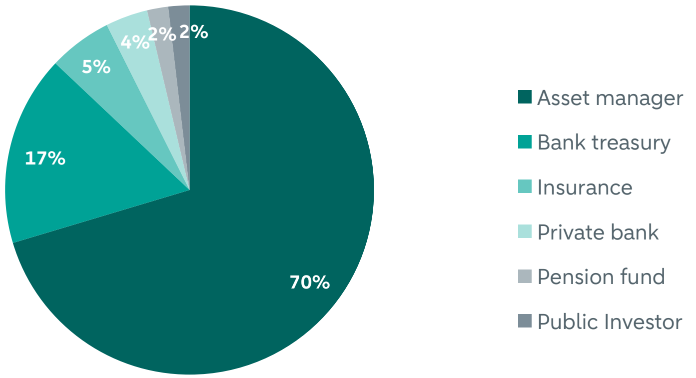
ABN AMRO - ESG Investor Survey 2H 2024:

- ABN AMRO conducts an annual survey among investors to better understand their dynamics, investment behaviour, preferences and screening criteria for fixed income ESG investing.
- The survey had a total of 54 respondents, with the majority coming from Germany, France and The Netherlands.
- Most investors who responded to the survey are asset managers, which also typically manage the majority of dedicated ESG bond funds compared to other investor types.
- Also, the largest share of respondents are portfolio managers (76%), followed by ESG analysts / strategists (17%).

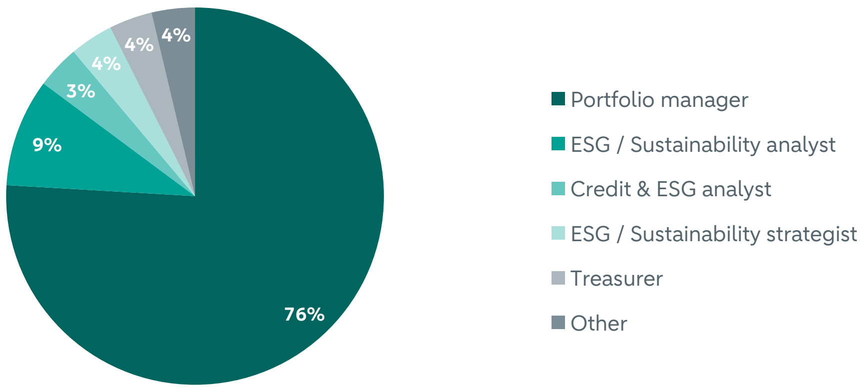
Responses focused on North-Western Europe, Germany leading



Large share of respondents are AMs followed by Bank treasuries



Largest share of respondents are Portfolio Managers

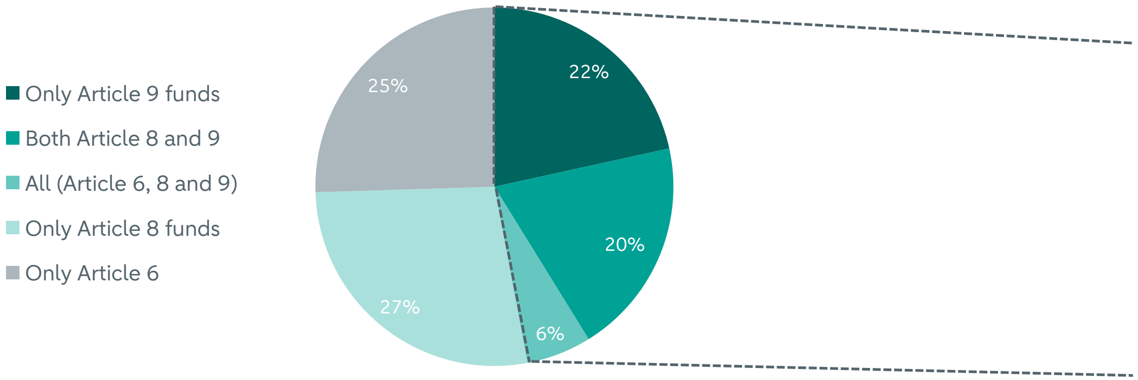


Sources: ABN AMRO Analysis

Most respondents have either Article 9 or 8 funds; ~50% of the Article 9 funds can only invest in ESG bonds

More than 90% of ESG funds have an Article 8 or 9 classification

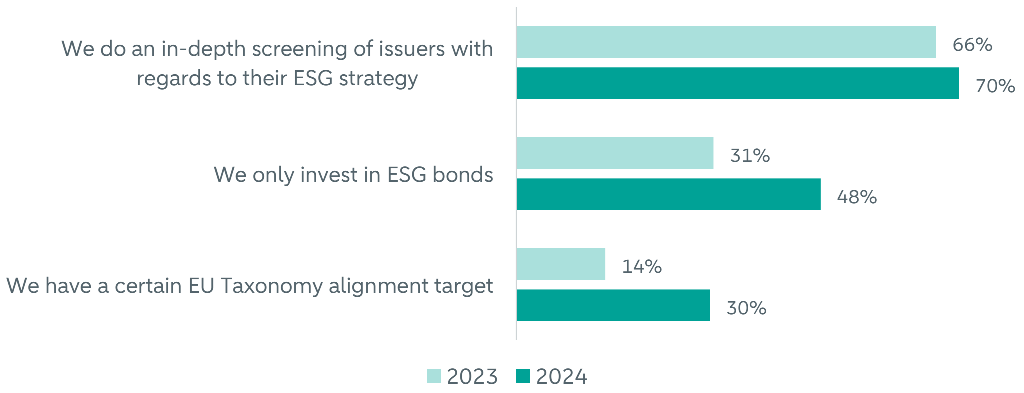
Q. How are your ESG funds classified?



- In accordance with the SFDR, investors need to classify their funds based on the sustainability objective of the products. Article 9 funds are perceived as having the highest level of "greenness" (that is, their primary goal is sustainable investing) while Article 6 is the one with the lowest level of "greenness" (no ESG incorporation).
- Our survey shows that 25% of the respondents' institutions do not have neither light or dark green funds. This compares to 18% from last year's survey. The higher share of investors with Article 6 funds could be attributed to the wave of fund reclassifications that took place after further clarifications on the definition of sustainable investment in late 2022. Other issues related to the implementation of SFDR have also caused confusion among investors leading some institutions to downgrade their fund classification (e.g. from Article 8 to 6) to avoid greenwashing concerns.
- Meanwhile, most of the respondents (47%) indicate to have an Article 9 fund, which is also less than last year's results (52%).

Investors apply different investment criteria in Article 9 funds

Q. Which one of the below more closely describes the investment criteria of your Article 9 fund?



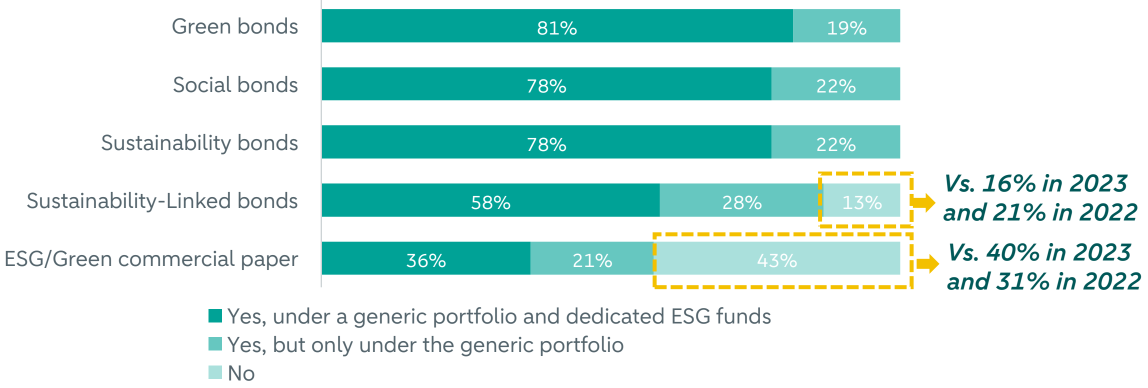
- When zooming into the investment criteria of the Article 9 funds, we see that most of the respondents perform an in-depth screening of the issuers based on their ESG strategy. That is, they assess whether an investment is sustainable based on issuer profile, before considering the label of the bond.
- An increased number of investors with an Article 9 fund (48%) have said that they only invest in ESG bonds. That compares with a 31% figure from last year's survey, indicating a significant increase in the share of investors relying on bond label to screen for sustainable investments.
- Compared to last year's survey, the share of investors that have established EU Taxonomy alignment targets has more than doubled, from 14% last year, to 30% now. These developments likely reflect the clarifications provided by the European Commission, as well as ESMA, earlier this year (see here).

Sources: ABN AMRO Analysis

Investors warm up to SLBs and ESG subordinated bonds

All investors can buy "use of proceed" ESG bonds

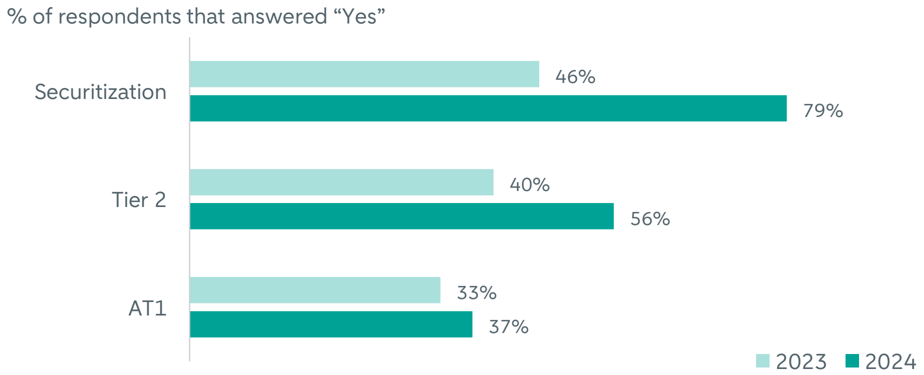
Q. Does your institution mandate allow for investments in any of the following ESG instruments?



- All respondents to our survey are allowed to buy "use of proceed" (UoP) ESG bonds. Furthermore, for dedicated ESG funds, "green" remains the preferred flavour, with 81% of the respondents indicating they are allowed to invest in this type of instrument for their dedicated ESG portfolios. This is followed by social and sustainability bonds.
- The survey indicates a growing acceptance of Sustainability-Linked bonds (SLBs) among investors, with only 13% of the respondents indicating they cannot invest in them. This compares to the 16% of last year's survey and the 21% of the survey before that. Also, the share of investors that can buy them for their dedicated ESG funds has slightly increased to 58% vs. 56% in 2023.
- In contrast, the share of investors permitted to invest in ESG/green commercial paper (CP) has declined, with 43% now indicating they cannot invest in these instruments, compared to 40% last year and 31% the year prior. This low acceptance may stem from min. duration requirements, rather than concerns about ESG factors. Another potential reason is that a few investors still perceive ESG CP as an ALM management tool instead of an impact tool. ICMA just published a paper on the role of CP in the sustainable finance market, which might be support the development of this market in the future.

More investors see subordinated bonds and securitizations as fit for ESG format

Q. Do you think subordinated bank bonds (AT1 / Tier 2) and/or securitizations are well suited to be issued in ESG format?



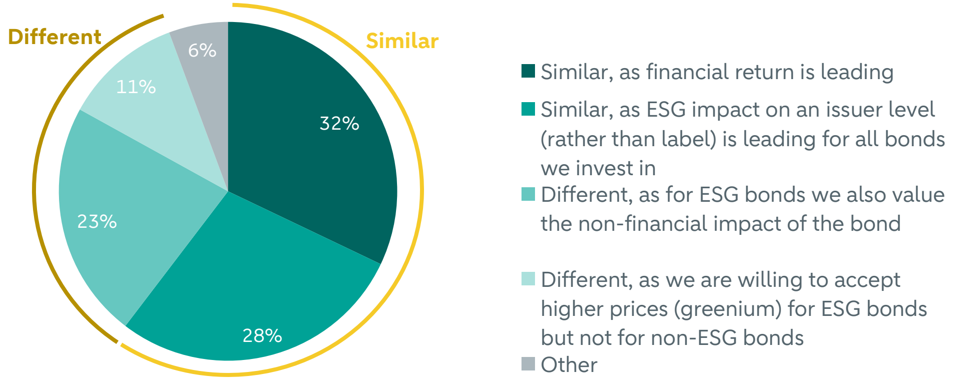
- The share of investors that think the ESG format is well suited for subordinated bonds and securitizations has increased over the years. 37% of respondents think that AT1 bonds are suitable for issuance in an ESG format, while 56% feel the same about Tier 2 bonds. This marks a notable increase from last year's figures of 33% for AT1s and 40% for Tier 2s.
- Still, the resistance of some investors to see an ESG angle to AT1s and Tier 2s can be attributed to the bail-in characteristic of these bonds. That is, if there is a write-down trigger, the bondholders might be left holding equity capital, which disconnects the link between the use of proceeds and the ESG assets.
- The share of investors that think securitizations are well suited to an ESG format has jumped from 46% last year, to 79% now. The larger acceptance of investors towards this type of instrument can be due to regulatory developments, such as the EU Commission's decision to include green securitization under the umbrella of the EU Green Bond Standard and EBA's guidelines on ESG-related disclosure for STS securitizations.

Sources: ABN AMRO Analysis

Investors still seem focused on financial returns over ESG impact

60% of investors treat ESG and non-ESG similarly in non-dedicated ESG portfolios

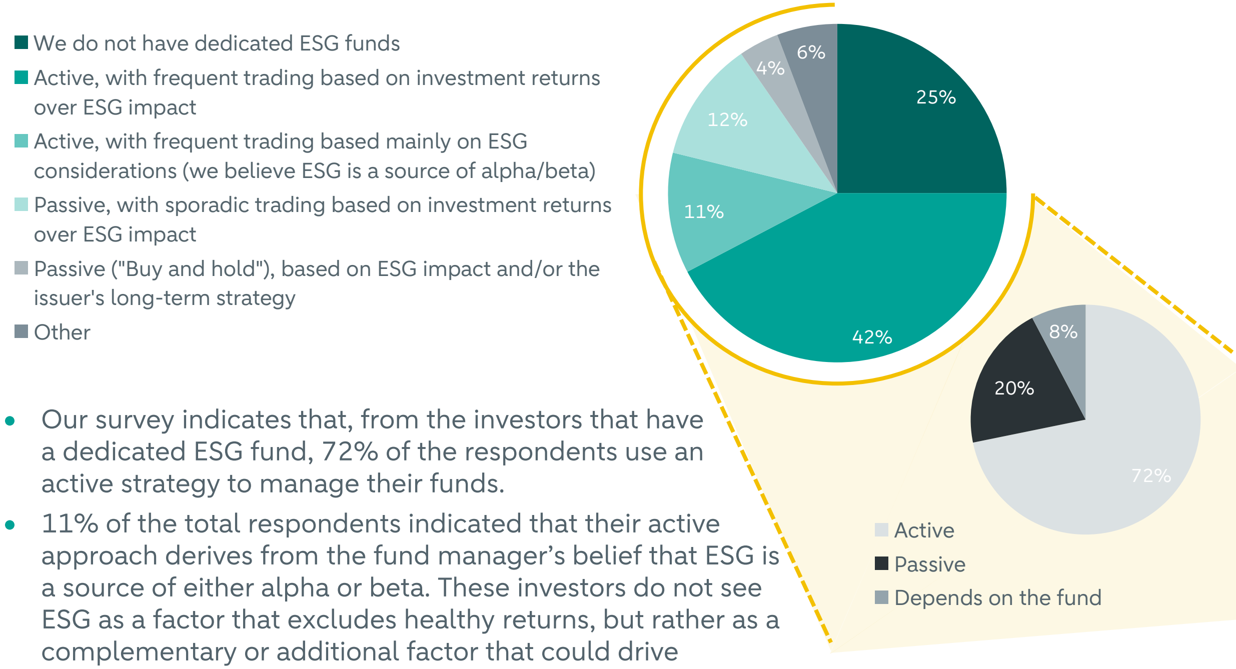
Q. How do you treat ESG vs non-ESG bonds in your general (non-dedicated ESG) portfolios?



- The survey reveals that while 60% of respondents do not distinguish between ESG and non-ESG bonds, 28% consider the issuer's ESG impact when making investment decisions. This means that even if a bond is not labelled as ESG, these investors still prioritize the issuer's ESG performance when deciding where to invest.
- 34% of the respondents indicated that they differentiate between ESG and non-ESG bonds in their general (non-dedicated ESG) portfolio. That is a slight increase from the 30% of last year's survey. Differentiation occurs mainly through investors valuing also the non-financial impact of ESG bonds.
- 32% of the investors indicate they focus on financial returns, and that this is independent of the label of the bond.

Most ESG funds have an active strategy

Q. Which one of the below best describes the investment profile of your dedicated ESG funds?



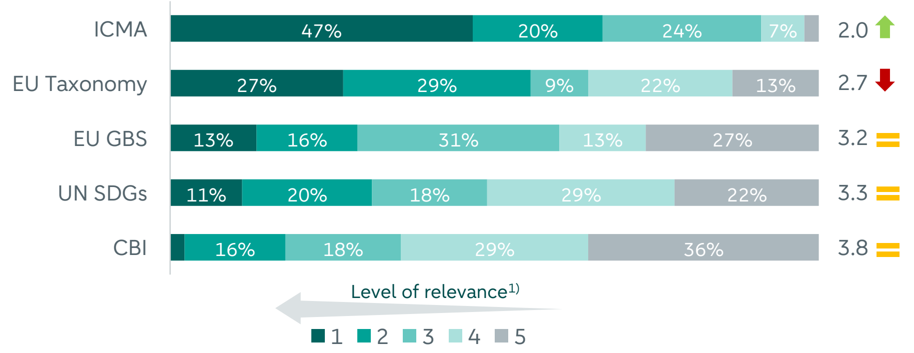
- Our survey indicates that, from the investors that have a dedicated ESG fund, 72% of the respondents use an active strategy to manage their funds.
- 11% of the total respondents indicated that their active approach derives from the fund manager's belief that ESG is a source of either alpha or beta. These investors do not see ESG as a factor that excludes healthy returns, but rather as a complementary or additional factor that could drive financial return.
- Only 4% of the respondents say that they have a "buy and hold" strategy for their dedicated ESG fund.
- Most of the investors indicate that they prioritize investment returns over ESG impact, either through an active (42% of total) or passive (12% of total) approach. That ties with the findings of the chart on the left-hand side, where 32% of the investors indicate that they evaluate ESG bonds based on their financial return potential.

Sources: ABN AMRO Analysis

ICMA is still the most relevant standard in the ESG bond market; Investors' key focus is the issuer's ESG strategy and decarbonisation pathway

Most investors rely on alignment with ICMA to assess ESG instruments

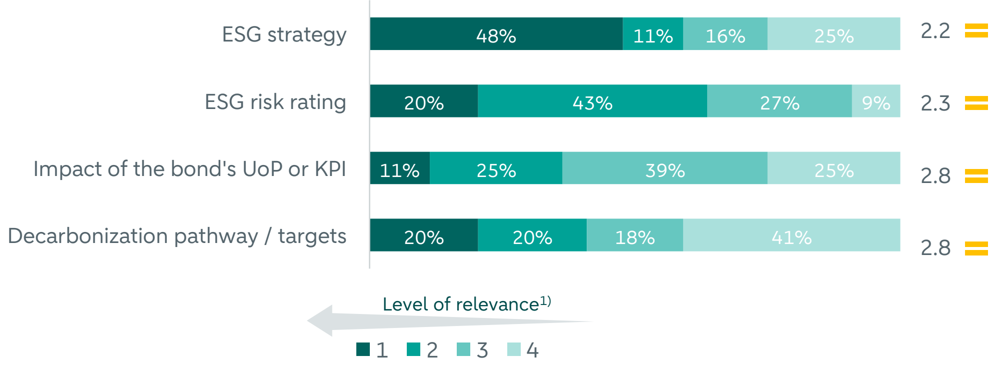
Q. What is for your institution the most relevant external standard when assessing ESG instruments?[2)]



- Aligned with last year's survey, most of the respondents chose the ICMA (Green Bond) Principles as the most relevant standard when assessing ESG investments (as per the weighted average of relevance chosen). However, a larger share of investors now indicate that this is their preferred standard (47% vs. 38% last year).
- The EU Taxonomy remains the second most relevant standard for investors, but an increasing share of investors have selected it as the most relevant one, up from 19% in 2023 to 27% now.
- The share of investors that see EU GBS as either the first or second most relevant standard has slightly decreased vis-à-vis last year, from 33% to 29% now.
- There is still a significant number of investors (11%) that selected the UN Sustainable Development Goals (UN SDGs) as their preferred standard, indicating that they remain key to some investors.
- The Climate Bond Initiative (CBI) certification remains the least relevant standard for investors. A reason for this could be the overlap of CBI's criteria with the EU Taxonomy.

More investors now focus on ESG strategy rather than ESG risk ratings

Q. When analysing ESG instruments, which of the following criteria would you judge as most relevant?



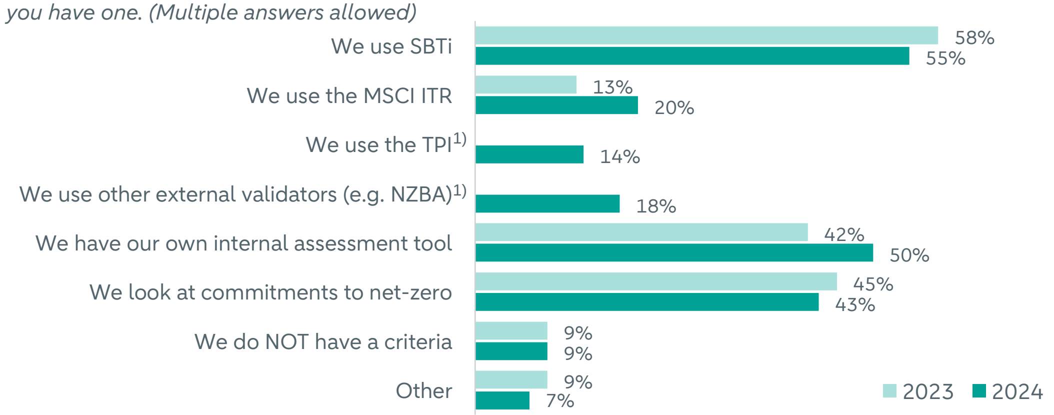
- A whopping 48% of the investors see the issuer's ESG strategy as the most relevant criteria when analysing ESG instruments, up from 18% last year. Also from a weighted average perspective, the ESG strategy remains the preferred criteria for investment analysis.
- The ESG risk rating remains the second most relevant criteria when analysing ESG instruments from a weighted average perspective. The number of investors that selected this as the most relevant criteria has also stayed relatively stable from last year's survey (18% in 2023 vs. 20% now).
- Interestingly, the share of investors that selected the analysis of decarbonization pathway and/or targets as the most relevant criteria has more than doubled from last year's survey (6% in 2023 vs 20% now).
- With regards to respondent's focused on decarbonization pathways, the Science-Based Targets initiative (SBTi) remains the most widely used criteria (see next page).

1) Figures on the right-hand side of the chart indicate the weighted average
2) Arrow indicates change vs. last year's survey
Sources: ABN AMRO Analysis

Most investors have criteria to evaluate decarbonization targets; ESG ratings used alongside other tools

Importance of SBTi for assessing decarbonization targets relatively stable

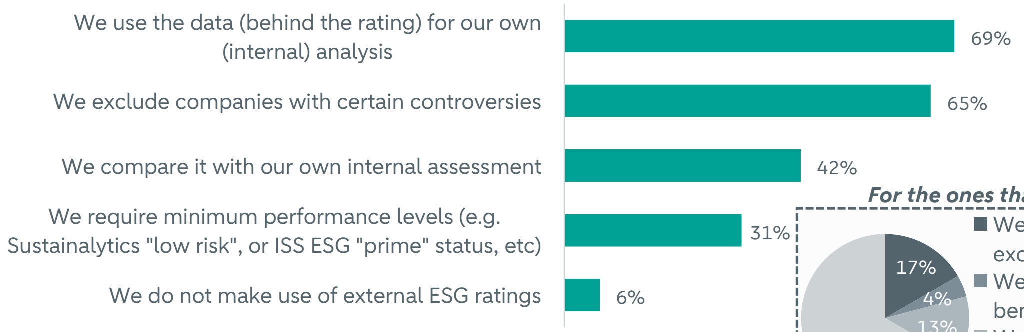
Q. Please specify your institution's criteria to evaluate decarbonization pathways / targets of issuers, if you have one. (Multiple answers allowed)

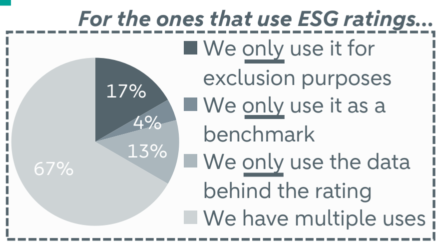


- Overall, the share of respondents that indicate they currently do not have criteria to evaluate decarbonization pathways and/or target of issuers remained relatively stable from last year (7% now vs. 9% in 2023). Clearly, investors are incorporating over time a more holistic view of issuers' ESG strategies. The fact that decarbonization targets are now almost a "must have" also shows that investors' are increasingly shifting their focus to more long-term analysis of issuers' ESG credentials (see previous slide).
- The share of respondents that indicated they rely on the Science-Based Targets initiative (SBTi) to evaluate targets has also remained relatively stable, from 58% in 2023 to 55% now. This indicates that the initiative's decision to allow for the use of carbon credits does not seem to have significantly impacted its credibility towards investors.
- This is also in line with a higher share of investors claiming to use MSCI's Implied Temperature Rise (ITR).
- The share of investors that also now have an internal assessment tool to evaluate targets has increased, from 42% in 2023 to 50% now.

Most investors don't use ESG ratings at 'face value' but rather as an additional tool

Q. How does your organization use external ESG ratings? (Multiple answers allowed)





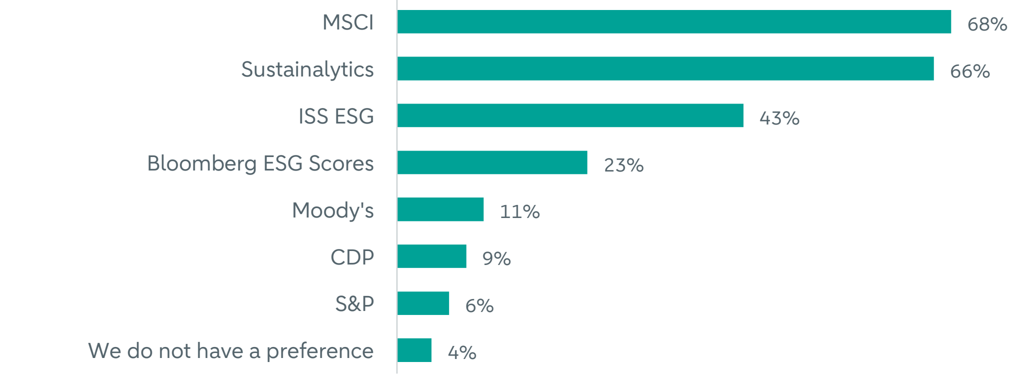
- ESG ratings have multi purposes for investors. For the ones that do use ESG ratings, only a minority of 33% of respondents have indicated they use them for exclusively only one reason, while the vast majority (67%) use them for several purposes.
- Most respondents indicated that they use ESG ratings so that they can access the data behind the rating to do their own analysis.
- Investors are increasingly using ESG ratings not solely as an exclusion criterium, but rather as an input for a more through and holistic assessment of issuers' ESG credentials. Only 17% of the respondents use ESG ratings only for exclusion purposes. That is, by excluding either issuers that are involved in certain controversies and/or issuers that do not meet certain minimum rating levels.
- Nevertheless, controversies exclusion remains key for an important share of investors. 65% of the respondents said they still rely on ESG ratings' controversy assessments to decide on potential exclusions (although only a small share of 6% relies on it *solely* for the purpose of controversy exclusions).

1) TPI = Transition Pathway Initiative. NZBA = Net-Zero Banking Alliance (UNEP FI). No data for 2023 available.
Sources: ABN AMRO Analysis

MSCI, Sustainalytics and ISS as the most commonly used providers for ESG ratings; similar trend in the SPO universe

MSCI and Sustainalytics ratings used by two thirds of respondents

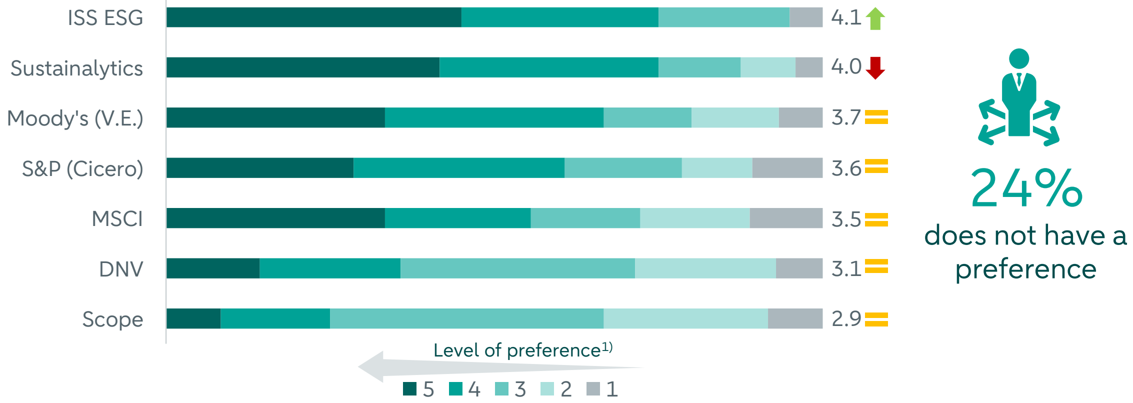
Q. Which ESG rating provider(s) do you use? (Multiple answers are allowed)



- Most of the respondents to our survey indicated that they use either MSCI and/or Sustainalytics' ESG risk ratings. The wide-spread use of these ratings may be attributed to the strong reputations that these providers have built over the years within the investment community. Sustainalytics is known for a wide coverage, while MSCI is recognized for its robust index offerings and extensive ESG data.
- The least used ESG rating providers are CDP and S&P. The low usage of these ratings may stem from their requirement for companies to submit lengthy questionnaires. As a result, not all companies fully participate in the process, which can result in gaps in data coverage.
- Overall, the survey indicates that the majority of respondents have a clear preference for specific ESG rating providers, with only 4% expressing indifference among them.

Sustainalytics and ISS are the preferred SPO providers

Q. Please indicate your preferred Second Party Opinion (SPO) providers for the assessment of ESG bonds[2)]



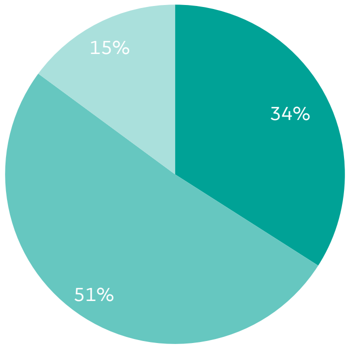
- 24% of investors indicated that they do not have a preference when it comes to a Second Party Opinion (SPO) provider, up from 20% last year.
- Of those that do have a preference, ISS ESG and Sustainalytics are the preferred choice, followed by Moody's (V.E.) and S&P (Cicero). The share of respondents that indicated ISS ESG as their preferred options has increased vs. last year, from 33% to 45%. However, this could be a reflection from our survey containing a slightly higher share of German investors (35% vs. 18% last year), given that this region is known for having a historical relationship with the German ISS Oekom (which was re-branded to ISS ESG following the acquisition by ISS).
- Interestingly, while on last year's survey no investor selected DNV as their preferred choice, this share increased to 8% this year.

1) Figures on the right-hand side of the chart indicate the weighted average
2) Arrow indicates change vs. last year's survey
Sources: ABN AMRO Analysis

Investors seem receptive to Greenium on ESG bonds, in particular when they perceive these bonds as less risky

85% of respondents are willing to accept a greenium on ESG bonds

Q. Are you willing to accept a greenium for ESG bonds?

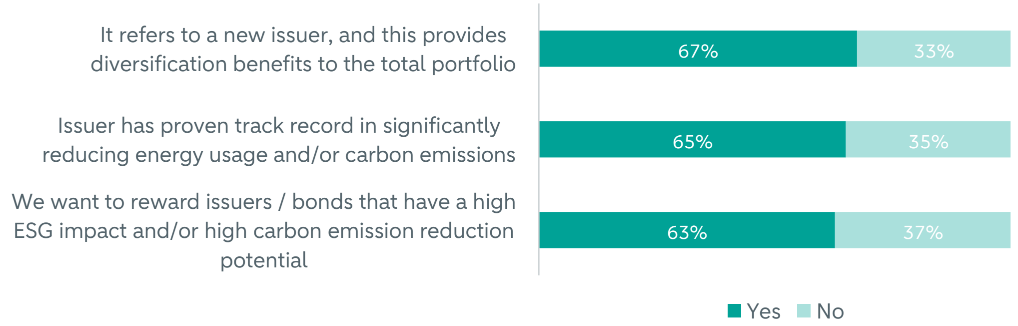


	No	Yes
2023	9%	91%
2024	15%	85%

- 85% of the respondents indicate that they are willing to accept a greenium on ESG bonds. However, the vast majority (51%) would only do so if they perceive the ESG bond as being subject to lower risks (in comparison to the non-ESG bond). Still, this implies that one third of the respondents are willing to accept paying a higher price for an ESG bond even if it provides lower risk-adjusted returns.
- Around 2/3 of investors are willing to exceptionally accept a greenium if it refers to either: (i) a new issuer, (ii) an issuer that has a proven track record in reducing carbon emissions, or (iii) an issuer / bond that shows potential for high ESG impact / emission reductions.
- Furthermore, from the investors that are willing to accept a greenium, 50% does not have a maximum amount it is willing to accept, and 10% is indifferent towards the amount. That is followed by 22% of the respondents that cannot accept a greenium of more than 2bps, and 19% that cannot accept if higher than 5bps.
- The share of investors that are willing to accept a greenium decreased from 91% in 2023 to 85% now.

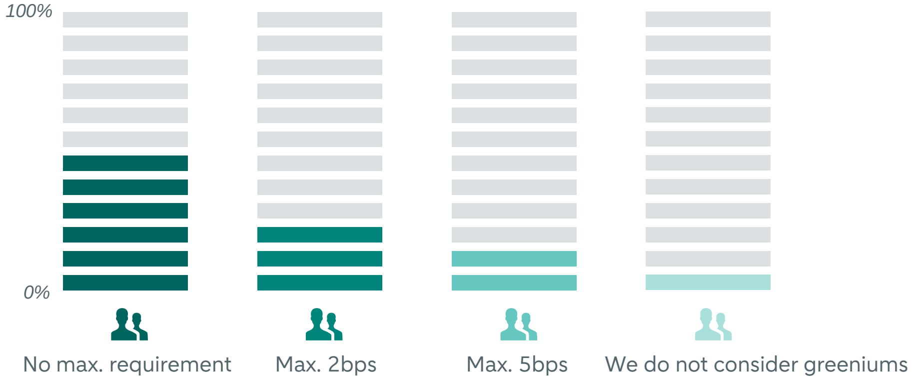
Around 2/3 of respondents show willingness to accept a greenium in these scenarios

Q. Given the foreseeable market conditions (weak economic backdrop, continued tight monetary policy by central banks) would you be willing to accept a primary/secondary greenium in the following circumstances:



Most investors are indifferent about the size of the greenium

Q. What is the maximum greenium you are willing to accept when investing in ESG bonds?



Sources: ABN AMRO Analysis

2 “Use of Proceed” ESG bonds

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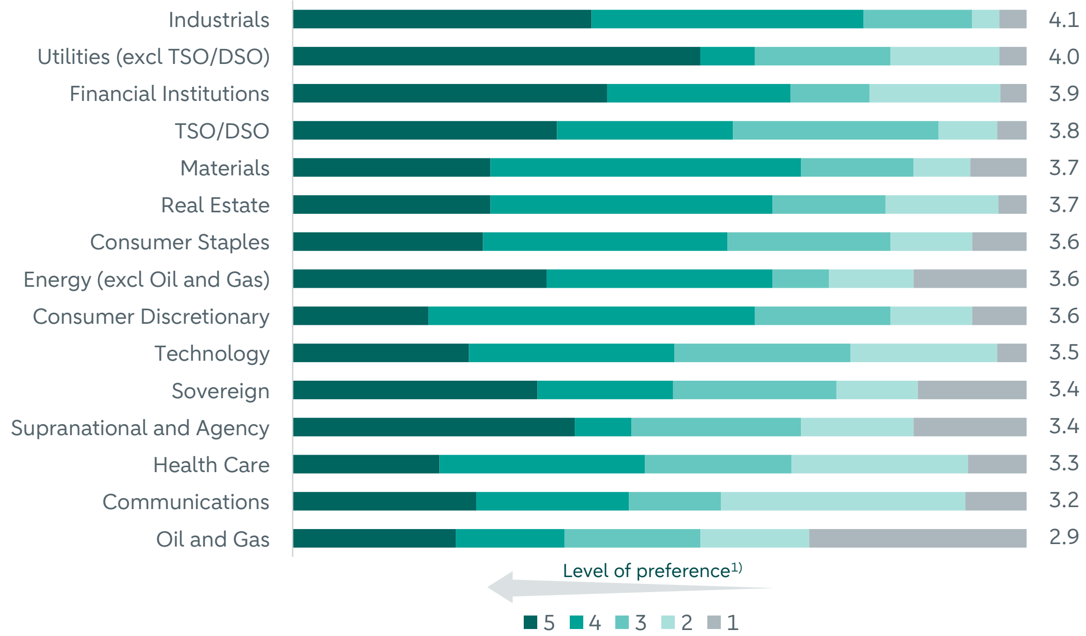
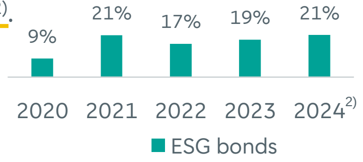
Most investors still prefer ESG bonds from traditional green bond issuers; No preference for the number of use of proceed categories

Sectors that traditionally issue “use of proceed” ESG bonds are preferred by investors

Q. Which sectors would you prefer for "use-of-proceed" ESG bond issuances in 2H24?



- A weighted average of the ranking chosen by investors indicates that investors seem to have a slight preference towards “high-impact sectors” such as industrials, utilities and materials, for the issuance of “use of proceed” (UoP) bonds. That is in line with our last year’s survey. Financial institutions have also returned as a top preference to investors, likely driven by improving fundaments and valuations in the sector, further supported by a higher share of ESG issuance from this sector in 2024[2].

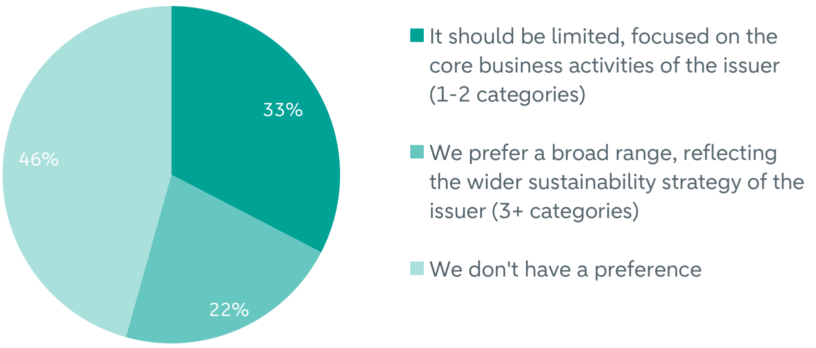


1) Figures on the right-hand side of the chart indicate the weighted average
2) The graph refers to EUR benchmark issuance by banks only. 2024 YTD as of September. Values in EURbn.

Sources: ABN AMRO Analysis

Half of the investors have no preference for the max. number of UoP categories

Q. What is your view on the number of use of proceed categories for a Green Bond Framework?

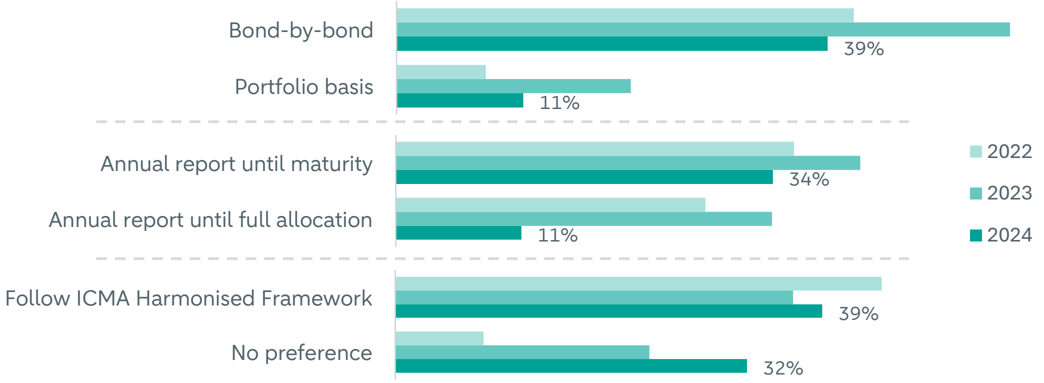


- Nearly half of the respondents indicate that they do not have a particular preference for the number of use of proceed categories included in an issuer’s Green Bond Framework.
- For those that do have a preference, there does not seem to be a consensus on the preferred number. For example, slightly more than half of those that have a preference thinks that the number should be limited to the core business activities of the issuer, i.e. 1-2 categories. The remaining has an opposite view: a wider number of categories should be included to reflect the issuer’s wider sustainability strategy.

Investors generally indifferent about lookback period and approach to allocation reports

Investors more indifferent in terms of how allocation reports should be produced

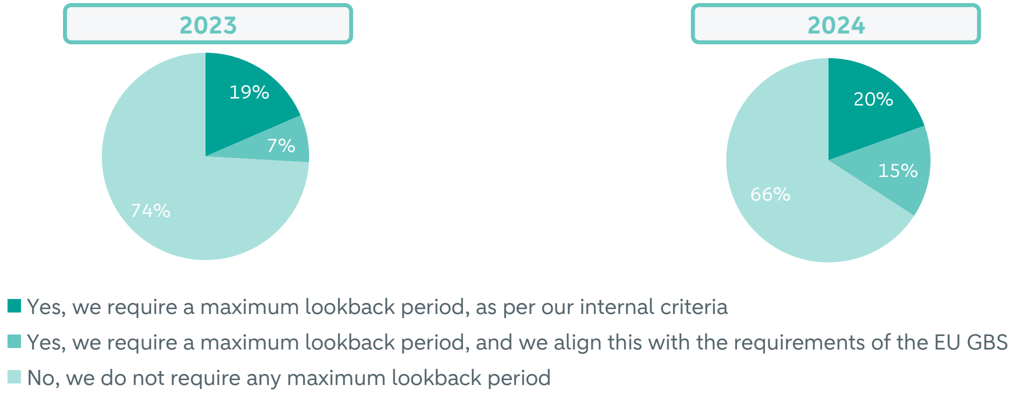
Q. What is your preference with regards to impact and allocation reporting of "use of proceed" ESG bonds?



- Investors have historically favoured detailed bond-by-bond reporting over the more common portfolio basis reporting in “use of proceed” allocation reports. However, this year shows a shift, with a growing number of investors indifferent to the method used. While both preferences for either bond-by-bond or portfolio reporting have declined, there is still a preference towards the former.
- Similarly, when asked about annual reporting, there is an increasing indifference among investors regarding whether it should continue until maturity or only until full proceeds are allocated, although a clear preference for reporting until maturity persists. The preference for reporting until full allocation has dropped significantly in this year’s survey.
- Lastly, the share of investors expecting issuers to do post-issuance reporting aligned with the ICMA Harmonised Framework has remained fairly stable over the years, only slightly increasing from 36% in 2023 to 39% now.

2/3 of investors don’t require a maximum lookback period

Q. What are your requirements for lookback period for "use of proceed" ESG bonds?



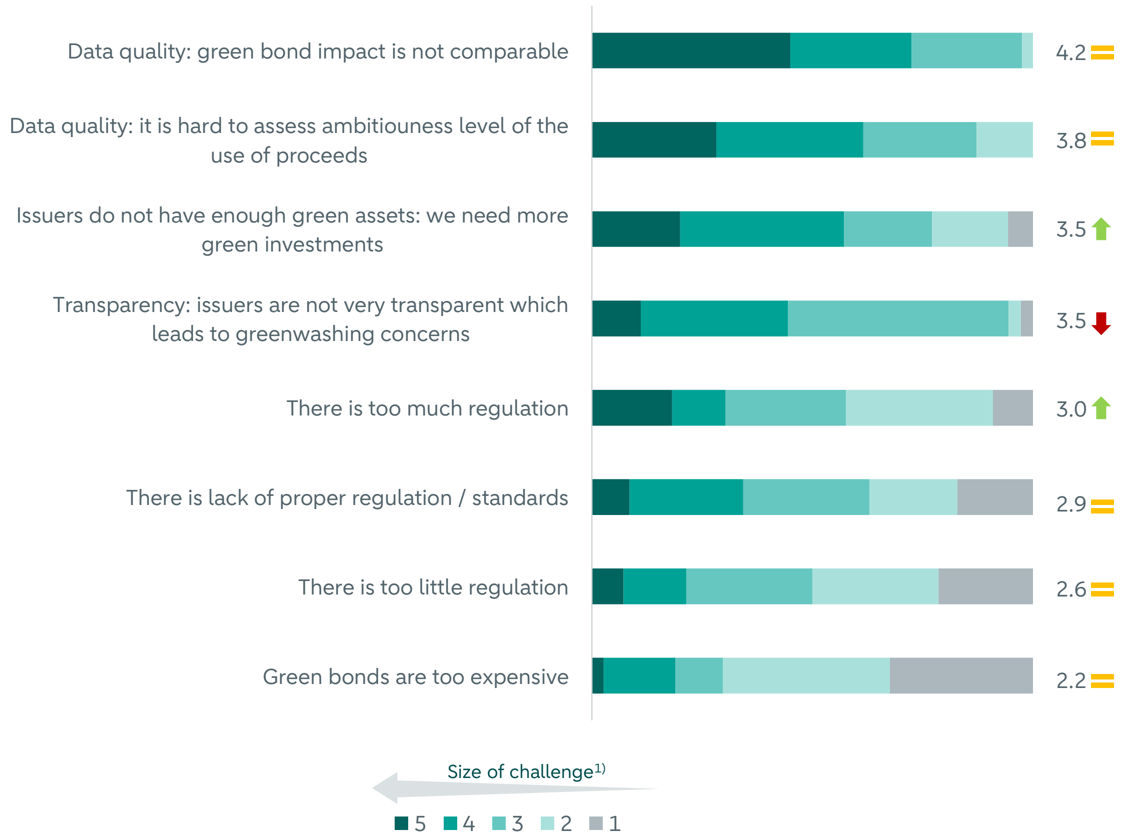
- In comparison to the previous year, the share of investors that require a lookback period has increased, from 26% to 34% now. Still, most of the respondents seem to not require a maximum lookback period.
- Interestingly as well is that the share of investors that aim to align the lookback period requirements with the EU GBS has increased over the years, from 7% in 2023 to 15%. The EU GBS mandates a lookback period of 3y for operational expenditures, but it does not define a lookback period for capital expenditures or financial assets. These findings align with conclusions drawn from another question in our survey, which showed that 1/5 of investors say they will give preferential treatment towards EU Green Bonds over regular green bonds (see page 22).
- When asked to specify what the investor’s internal criteria for lookback period is, most have mentioned a 2y timeframe.

Sources: ABN AMRO Analysis

Data quality remains the main issue preventing the growth of the green bond market

Data quality and lack of comparability are still biggest challenges for green bonds

Q. What are, for you, still the biggest challenges in the green bond market?2)



- Our survey indicates that most of the respondents claim that the lack of comparability of green bond impact is currently one of the biggest barriers harming the growth of the green bond market. Next to that, the difficulty in assessing the ambitiousness of use of proceed (UoP) has been selected by a large share of investors as either the first or the second biggest barrier for the market. Both factors indicate that data quality remains the biggest issue within the green bond market. These findings are aligned with last year's survey.
- In addition, the lack of green assets/investments has been mentioned by respondents as a barrier to the growth of the green bond market. Interestingly is that this seems to have become a bigger issue over the years, as the share of investors that see this as the most serious challenge for the market has increased.
- While transparency issues (which lead to concerns around greenwashing) still appears as a somehow important barrier for the growth of the green bond market, the fact that it no longer tops the third position indicates how the market has been slowly maturing over time. That is, concerns over greenwashing have declined over the years, while now investors are more focused on data quality and reliability around impact.
- In comparison to last year's survey, the share of investors that judge that the amount of current regulation as being "too much" has increased. This could be attributed to the development of regulatory initiatives such as the implementation of the CSRD and the EU GBS as of 2025.
- Pricing is also not seen as a major barrier for the market growth. That aligns with our findings on page 11, where we see that most of the investors are willing to accept a greenium when investing in ESG bonds.

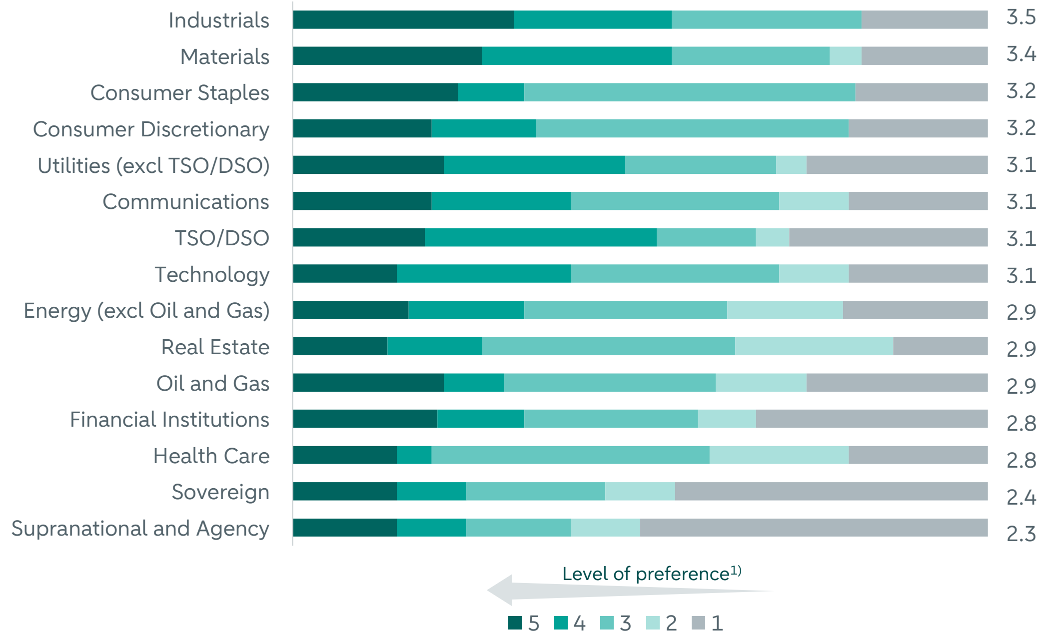
1) Figures on the right-hand side of the chart indicate the weighted average
2) Arrow indicates change vs. last year's survey
Sources: ABN AMRO Analysis

3 Sustainability-Linked Bonds (SLB)

SLB most appropriate for sectors with a limited share of green assets, but in transition

Investors have a preference for SLBs coming from corporates in transition sectors

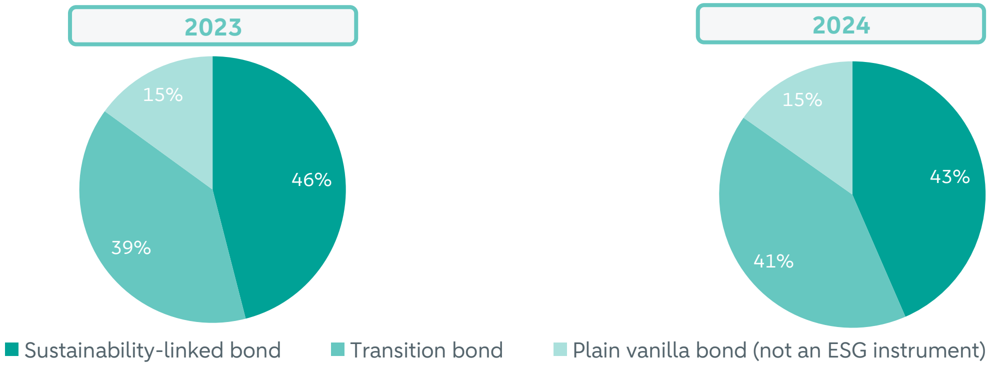
Q. Which sectors would you prefer for Sustainability-Linked bond issuances in 2H24?



- A weighted average of the ranking chosen by investors indicates that investors seem to have a slight preference towards sectors such as industrials, materials and consumers. Sectors such as materials and consumers are usually known for not having a wide range of green assets / investments, but a high potential for decarbonization, which could explain investors' preference towards these sectors. This aligns with the findings presented on the right.
- As shown on page 13, the industrial sector was also preferred for "use of proceed" bonds, indicating that investors' preference for this sector spans all types of ESG debt.

SLB remains the preferred instrument for companies in transition

Q. For a company with a clear transition strategy, which ESG instrument would you judge to be the most appropriate one for issuance?



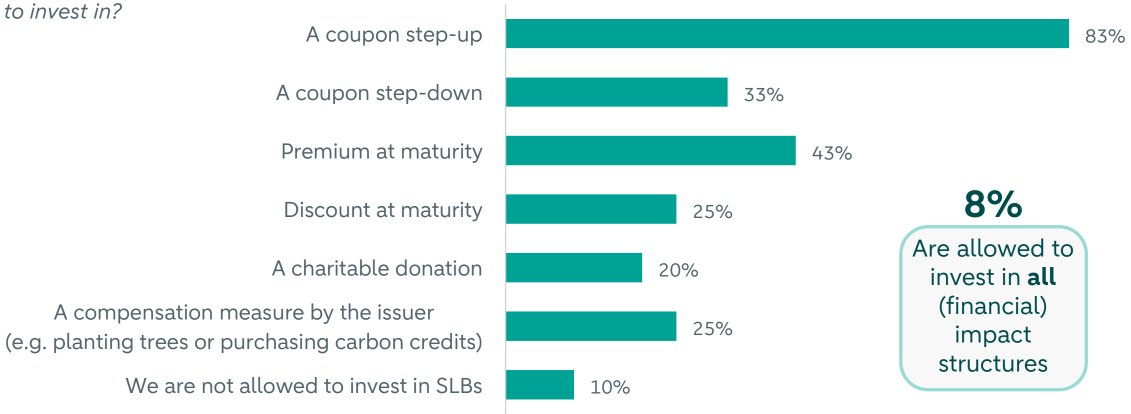
- Interestingly, the share of respondents that indicate they think that SLB is the most appropriate instrument for an issuer that has a clear transition strategy has slightly declined over the year, from 46% in 2023 to 43% now. The slight decline could be attributed to a larger focus on the topic of transition this year, as well as initiatives such as the ICMA's paper on transition finance in the debt capital markets.
- Nevertheless, most of the investors still think an ESG instrument – either in SLB or transition bond format – is most appropriate for issuers in transition. Only a minority of 15% of the respondents think that these issuers should continue to rely only on plain vanilla (non-ESG) bonds.

1) Figures on the right-hand side of the chart indicate the weighted average
Sources: ABN AMRO Analysis

Investors want SLBs with coupon step-ups that exceed 25bps; No clear consensus on whether targets should include scope 3 emissions

Most investors are still only allowed to buy SLBs with coupon step-up

Q. When considering SLBs, which (financial) impact linked to the bond would your institution be allowed to invest in?



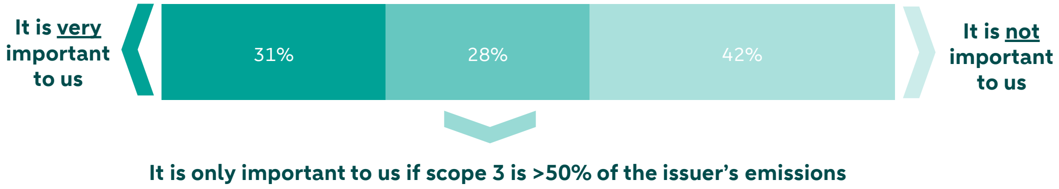
- Our survey indicates that most investors (83%) still prefer SLBs with a coupon step-up, as they are not allowed to invest in some (financial) structures, such as a coupon step down or discount at maturity.
- Only a minority of 8% is indifferent regarding the financial impact structure of the SLB, as their institution does not have any investment restriction.
- Regarding the amount of coupon step-up, half of the respondents (51%) indicate that they no longer think that the “standard” 25bps coupon step-up is deemed as financially material due to the recent rise in rates. This is followed by a 37% of respondents that think the 25bps step-up might still be appropriate for some issuers.
- When asked about the importance of including scope 3 GHG emissions in SLB’s KPIs, there does not seem to be a clear consensus amongst investors. While 42% claims it is not important, 31% sits on the other side of the spectrum indicating that it is very important to them. 28% say that it is only important if scope 3 represents more than 50% of the issuer’s total GHG emissions.

Half of the respondents don’t think that the standard “25bps” coupon still fits

Q. Given the recent rise in rates, do you still think that the "standard" 25bps coupon step-up is still sufficient and deemed as financially material?

Still no consensus around the importance of including scope 3 emissions in targets

Q. How important is it that scope 3 GHG emissions are included in the SLB's KPIs?

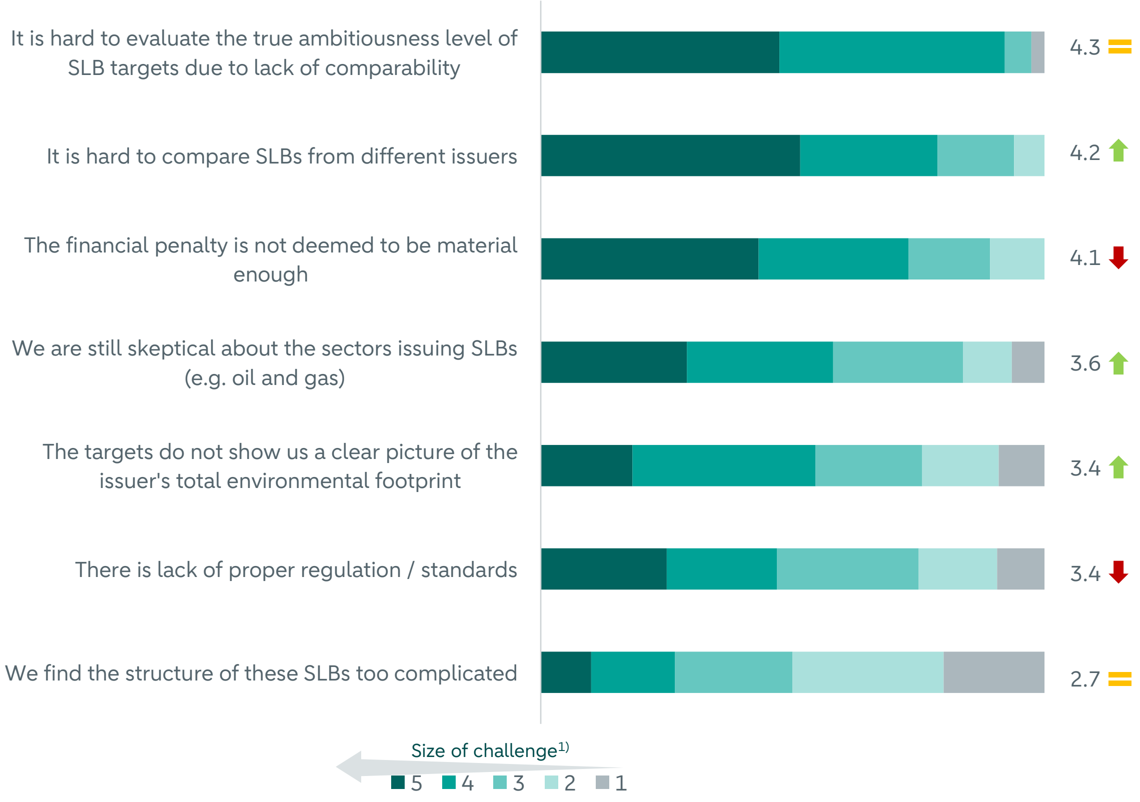


Sources: ABN AMRO Analysis

Assessing comparability and ambition of targets still seen as the main challenge for the SLB market

Difficulty to evaluate quality and benchmark targets as biggest challenges for SLBs

Q. What are, for you, still the biggest challenges in the Sustainability-Linked bond (SLB) market?[2)]



- Our investor survey indicates that the biggest barrier to the growth of the Sustainability-Linked Bond (SLB) market remains the structure of these instruments. Most respondents cite that it is still very hard to evaluate the ambitiousness of SLB KPIs, which makes it hard for them to judge whether issuers are as strongly committed to ESG as they claim. That is even though most instruments receive a Second-Party Opinion (SPO) from an independent party. This brings into question to what extent investors find these (SPO) assessments truly reliable, and what the true value-added of an SPO for an SLB is.
- In comparison to last year's survey, investors see now the lack of comparability amongst SLB targets as a bigger challenge for the market.
- Another strong barrier indicated by respondents of the survey is the low financial penalty of SLBs. Investors seem to perceive that the step-up amount linked to the SLB (and triggered in case the issuer does not meet its pre-defined sustainability targets) is not material enough. That is, they expected issuers to commit to a higher financial penalty than what is currently being applied by issuers.
- These results tie well with our findings shown on page 18, where 51% of the investors indicated that they no longer see the "standard" 25bps coupon step-up as financially material.
- Furthermore, a relatively large number of respondents indicated that they see the lack of representativeness of targets as a key barrier for the growth of the market. On page 18, we show that a significant share of investors (42%) miss the inclusion of scope 3 emissions in KPIs linked to GHG emissions. Hence, one could argue that the amount of SLBs coming to the market with emission targets that do not paint a holistic picture of the issuer's carbon footprint is a reason for why investors are not (yet) fully fond of these instruments.
- Overall, investors say that the biggest challenge for the development of the SLB market is the structural characteristics of these instruments, rather than concerns about greenwashing stemming from either the lack of ambitiousness or representativeness of SLB targets, or the issuer belonging to an ESG 'unfriendly' sector.

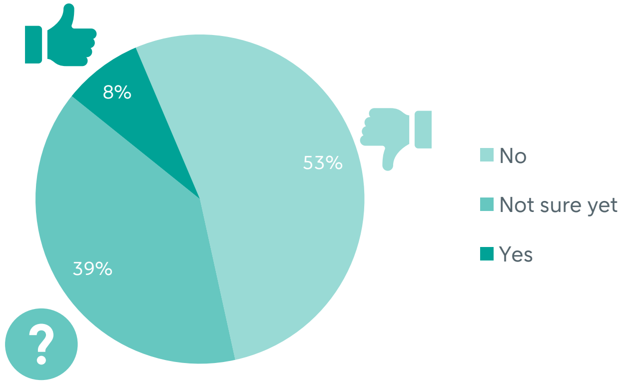
1) Figures on the right-hand side of the chart indicate the weighted average
2) Arrow indicates change vs. last year's survey
Sources: ABN AMRO Analysis

4 Regulation

Majority of ESG investors don't expect a name change due to the ESMA guidelines and are unsure about an increased flow towards ESG funds

More than half does not expect a name change due to ESMA guidelines

Q. Do you expect to change the name (or strategy) of your ESG funds due to the ESMA guidelines?

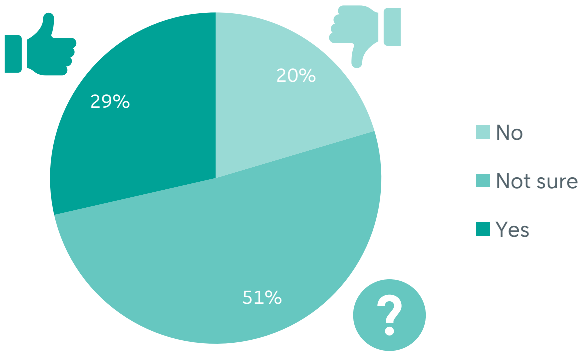


- In May this year, ESMA published the final version of its guidelines on funds' names using ESG or sustainability-related terms. The report established that "if a fund has any ESG-related words in its name, a minimum proportion of 80% of its investments should be used to meet the sustainable investment objectives [of the fund]".
- That led to some funds deciding to change either the name (or the strategy) of their fund in order to meet the new ESMA requirements. Our research has shown that still a whopping 16% of the Article 8 and 9 funds could be in breach of the new ESMA guidelines.
- As such, we asked investors whether they expect more funds to rebrand in response to the new guidelines. The results show that a majority - 53% - does not expect this to happen. However, a minority of 8% of respondents still believes they will need to adapt their funds' strategy or name, while nearly 40% are still unsure about it.
- The high share of investors that are unsure about a potential change of name (or strategy) is worrisome as especially the latter could lead to some funds divesting from ESG bonds due to a less-ESG focused strategy. Furthermore, would they be in breach of the guidelines, this uncertainty could result in regulatory penalties.

Sources: ABN AMRO Analysis

Almost 30% expect to see more inflows into ESG funds versus conventional funds

Q. In the next 6 months, do you expect to see more inflows into your dedicated ESG funds over your conventional funds?

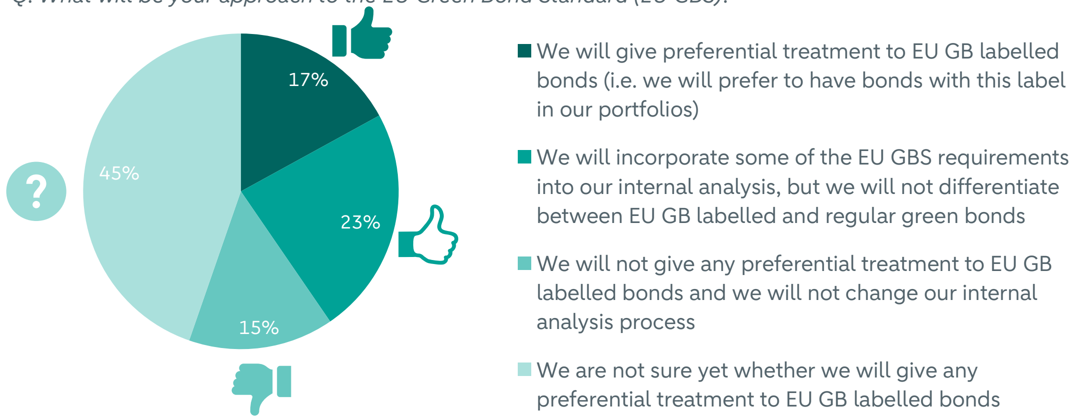


- An important contributor to the demand for ESG bonds is the inflows into dedicated ESG funds over conventional funds. However, half of the respondents to our survey (51%) are unsure on whether they expect to see more inflows over the next 6 months.
- This is followed by almost 30% of the investors indicating that they do expect to see a higher inflow in the coming months. On the other hand, a slightly smaller number of investors (20%) do not expect higher inflows towards their dedicated ESG funds.

Investors take different approaches on the EU GBS requirements, while perceiving lack of standardization the main issue with SFDR requirements

Almost half of the respondents still unclear on future approach to EU Green Bonds

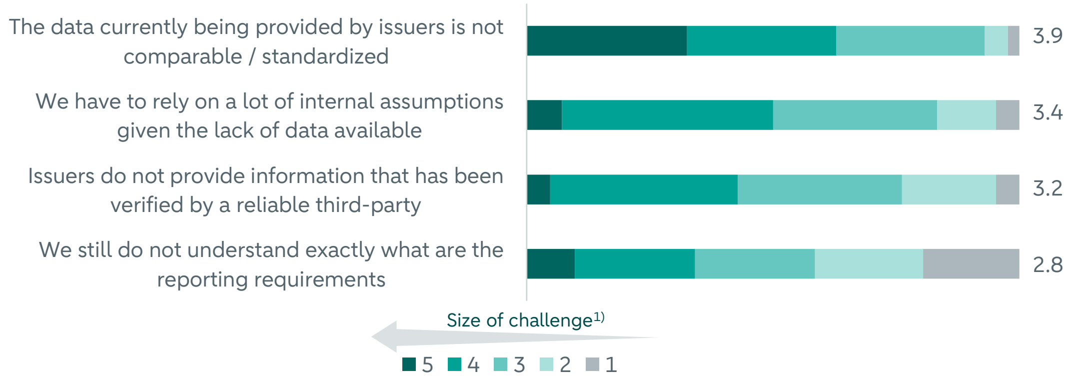
Q. What will be your approach to the EU Green Bond Standard (EU GBS)?



- Almost half of the investors who answered the survey are still unsure on how they will treat EU Green Bonds (that is, bonds that align with the upcoming EU Green Bond Standard – EU GBS). As EU Green Bonds will not be available before year-end, this could be a reflection of most investors still waiting to see how this will market develop.
- That is followed by 23% of the respondents saying they will apply to some extent the EU GBS on their investment or analysis criteria but will not differentiate EU Green Bonds and regular green bonds.
- Only 17% of the respondents indicated that they intend to give a preferential treatment to EU Green Bonds. A potential preferential treatment towards EU Green Bonds could provide issuers that align with the EU GBS with a funding advantage in the form of a higher greenium.
- At the same time, nearly the same proportion of investors (15%) do not intend to give EU Green Bonds any preferential treatment.

Lack of data comparability perceived as the biggest challenge under SFDR

Q. What are your institution's biggest challenges when it comes to regulatory transparency requirements (as per the SFDR)?



- Most of the investors see the lack of comparability and standardization of data being provided by issuers as one of the biggest challenges to comply with the SFDR.
- From a weighted average perspective, that is followed by the need to rely on a lot of internal assumptions, given the lack of data available.
- However, also a significant share of respondents (10%) indicated that a lack of clarity around reporting requirements remains a sizeable challenge for SFDR compliance. These investors claim that regulators need to provide the market with more clarity.

1) Figures on the right-hand side of the chart indicate the weighted average

Sources: ABN AMRO Analysis

Get in touch!

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