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Impact Insight

NOT ONLY GREEN BONDS: QUARTERLY UPDATE ON THEMATIC BONDS

HIGHLIGHTS

Thematic bond issuance reached USD 36.8 billion in the first quarter of the year, +14% compared to Q1 2017.

- The thematic bond market showed a steady growth trend thanks to continued issuance of green bonds and significant growth in the social bond market.
- In the first quarter of 2018, 56 new green bonds have been issued reaching USD 30 billion (slight increase compared to USD 28 billion reached in the same period in 2017)[\[1\]](#)
- Increase of social bond issuance: during the first quarter of 2018, issuances reached USD 2.3 billion, compared to USD 1 billion in the same period in 2017².
- Sustainability bond issuance increased from USD 3.5 billion in Q1 2017 to USD 4.9 billion in Q1 2018.

Growing attention to sustainability contributed to the diversity of sustainable investment strategies available in the market. Among these strategies, thematic bonds are the fastest growing category, allowing investors to finance projects with a positive impact on society and the environment while earning positive financial returns. Investment themes vary and include environment solutions, food, education, financial services and social housing. The use of a traditional financial instrument combined with the possibility of targeting the Sustainable Development Goals in a measurable way proved to be a winning combination. According to the Climate Bonds Initiative, 2017 was marked by the issuance of USD 700 billion of thematic bonds[\[2\]](#) and growth expectations for this year are even higher, driven by the unstoppable success of these financial instruments. To date, more than 400 issuers have issued thematic bonds in 30 currencies from 50 countries globally. Over the last two years, green bond issuance has grown exponentially, catalyzing the success of the thematic bond market.

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FOCUS ON: SOCIAL BONDS

Social bonds finance projects with a positive social impact. Areas of intervention may include basic infrastructure, access to healthcare and housing services, financial inclusion, food security, employment and socio-economic progress (including poverty alleviation, the reduction of inequality and gender equality).

2017 was a pivotal year in the social bond market: total issuance tripled to USD 10.5 billion^[3] numbering 25 social bonds. This is an encouraging figure considering that so far 41 social bonds have been issued in compliance with the Social Bond Principles 2017 published by the International Capital Market Association (ICMA). Social Bond issuance reached USD 2.3 billion in the first quarter of 2018 versus USD 1 billion during the same period in 2017. We are confident that the growth in the social bond market is well underway and will continue in 2018.

In the first quarter of 2018, Danone issued its first social bond, which has been a success, raising EUR 300 million and recording orders for over EUR 700 million. The social bond has a seven-year maturity and a 1.00% coupon and will finance projects with positive social impact, such as providing support to farmers in rural areas who avoid GMOs, assisting communities with nutrition problems and funding micro and small businesses operating in the field of healthy eating.

SPOTLIGHT ON GREEN BONDS

Green bonds are still generating the highest interest among investors. In 2017, the green bond market grew by 78% compared to the previous year, reaching USD 156 billion and surpassing the expectation of the Climate Bond Initiative which had estimated USD 130 billion total green bond issuance in 2017^[4]. According to Environmental Finance, at a regional level, green bond issues reached USD 61 billion in Europe, USD 56 billion in North America and USD 25 billion in Asia. Issues by institutions, local authorities and companies in the US, China and France accounted for 56% of the total green bond issuance. In 2017, 32% of green bonds were issued by supranational agencies, 30% by companies, 16% by financial institutions, 9% by local authorities, 7% by sovereign states and 6% by international development agencies. Looking at the use of proceeds, 25% of green bonds financed renewable energy projects, 21% energy efficiency, 14% sustainable transport and 10% pollution prevention and control.

In the first quarter of 2018, green bond issues totaled USD 30 billion, confirming the positive trend from last year. The largest green bonds were issued by Indonesia and Belgium. Indonesia issued its first green

sukuk, a USD 1.25 billion bond with five-year maturity and 3.75% coupon, which attracted significant investor demand. In February, Belgium also issued a EUR 4.5 billion green bond, with 15-year maturity and 1.25% coupon, becoming the third sovereign issuance in Europe, after Poland and France.

As for corporate green bonds, which currently account for one third of the total green bond market, most bonds were issued by non-financial companies. Among the most significant, we mention Engie, Envision Energy, Beijing Capital Group, Prologis and Tianjin Rail Transit Group. Within the financial sector, there were two important developments: the issuance of a green bond by Mitsubishi UFJ Financial Group and the announcement of the first green bond placed by Credit Suisse.

THE OUTLOOK FOR THE COMING MONTHS

The growth of the thematic bond market will be boosted by the strengthening of the green and social bond sectors over the coming months and we expect further development of international standards and integration of the UN Sustainable Development Goals within green and social bond frameworks.

According to current estimates, the green bond market is expected to grow by 30%, reaching USD 200 billion by the end of the year with greater differentiation among issuers^[5]. As for social bonds, we expect both an increase in issuances and greater differentiation of the type of issuers, along with increased use of these instruments by private companies, following Danone's pioneering social bond. In the social sector, several international organizations and development banks are considering issuing social bonds, following the example of *Cassa Depositi e Prestiti* and the Council of Europe Development Bank.

Kenya has also revealed the possible issuance of a Water Bond. According to reports, it could be a USD 20 million bond with 15-year maturity the net proceeds of which will finance water infrastructure projects across the country and provide access to running water to half of Kenya's population, who currently lack safe and clean running water.

In the green bond market, Hong Kong also announced its intention to issue a USD 12.8 billion green bond between the end of this year and the beginning of next year. This bond would represent the largest sovereign bond ever issued, surpassing the green bond programs of France, Poland, Belgium and Nigeria.

Finally, potential additional corporate green bonds are expected to be issued by companies operating in the real estate, energy and sustainable infrastructure sectors.

Q1 2018 THEMATIC BONDS COMMENTARY

Green Bond – Belgium

In February, the Kingdom of Belgium issued a 15-year €4.5 billion Green OLO (sovereign bond) which complied with the Green Bond Principles 2017. The motivation for Belgium's inaugural Green issuance was to catalyse the development of the Green Bond market in the country and increase the environmental awareness of the general public. The net proceeds of the Green OLO were allocated towards green expenditures at the federal level, including investing in green buildings and clean transportation infrastructure and the development of renewable energy technologies.

Social Bond – Danone

In March, Danone was the first multinational corporate to issue a 7-year €300m Social Bond aligned with the Social Bond Principles 2017. The Social Bond supports Danone's sustainability initiatives and the net proceeds of the bond will be allocated to R&D for advanced nutrition products, responsible farming, entrepreneurship financing and quality healthcare among others. The Social Bond is designed to contribute to the social benefit of the target populations and Danone has committed to transparent and comprehensive impact reporting.

Sustainability Bond – ANZ Bank

In February, ANZ Bank issued a 5-year €750m Sustainability Bond which it titled a "SDG Bond" following the example set by HSBC in November 2017. The proceeds of the bond were used to refinance a portfolio of existing loans aligned with the UN SDGs. Thematic bonds issued by financial intermediaries can contribute significantly to the development of sustainable finance because the on-lending extends the Green and Social Bond Principles to borrowers who wouldn't be able to access the Green and Social Bond markets with their own issuances. In this way banks can act as aggregators for sustainable finance.

[1] Source: [Dealogic data 2018](#) ©

[2] Source: [Dealogic data 2018](#) ©

[3] ICMA Group, [Quarterly Report, Green, Social and Sustainable Bond Markets \(pages 55-57\)](#)

[4] Source: [Climate Bond Initiative](#)

[5] Source: [S&P Global Intelligence](#)



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FCA Reference Number: 548059

Legal Identifier: 2138001A2O8GOSOGL881



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