

Environmental Fixed Income



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

Sean Kidney, Chair



Opportunity with scale

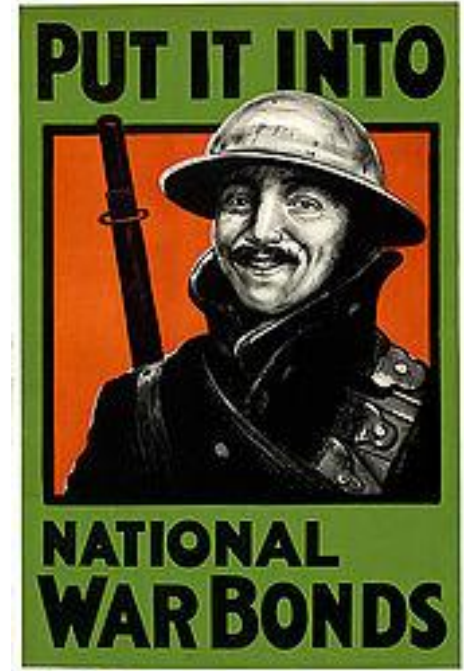
Global bonds outstanding in 2010 = **\$95 trillion+**

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

IFIs : 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



1st bond due Q4 2011:
\$300m AA rated corporate
linked to wind assets

An environmental, not a
financial standard.
Investors still have to do
financial due-diligence.

Assurance



Committee
members
include



STANDARD
& POOR'S

Board



Investor Group on
Climate Change



CARBON DISCLOSURE PROJECT



A global
enviro
NGO
TBA



Investor Network on
CLIMATE RISK

Council of Institutional Investors
EU? IEA? UN?



AVIVA
INVESTORS



PRICE 
WATERHOUSE
COOPERS



SHEARMAN & STERLING LLP

Climate Bonds INITIATIVE

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