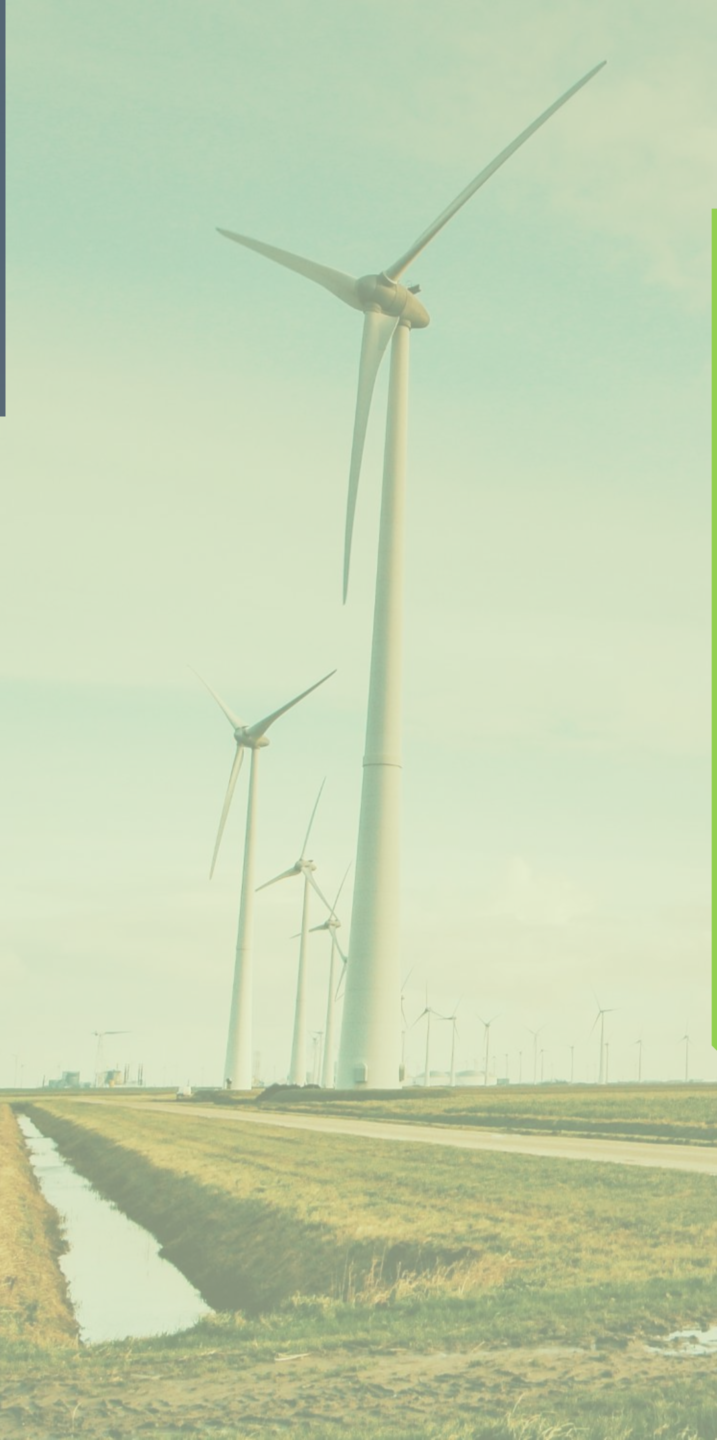


Goodbody

ESG AND ACCESS TO INVESTMENT

AIDAN O'MAHONY
HEAD OF ESG ADVISORY
GOODBODY

May 2023

Why ESG matters to corporates?

There are 3 reasons cited most often

1

2

3

Moral Argument

Regulatory Environment
Of particular importance to European entities

<u>Balance Sheet Benefits</u>
ESG and access to investment

Regulatory background

The EU is pushing the ESG agenda hard with mid and large European corporates

Key pieces of regulation

1. EU Taxonomy

2. Corporate Sustainability Reporting Directive (CSRD)

3. Sustainable Financial Disclosure Regulation (SFDR)

Sustainable Financial Reporting Directive (SFDR)

Article 6 funds

- No sustainability integration in the investment process

Article 8 funds

- “Light Green”, the fund must promote environmental or social characteristics, or a combination. Must report on Taxonomy alignment at a fund level.

Article 9 funds

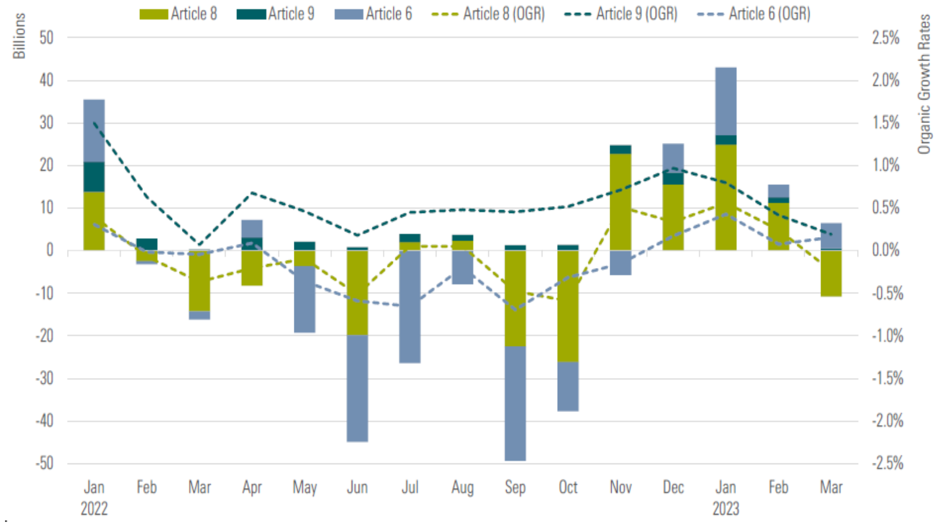
- “Dark Green”, must have a sustainable investment objective. Must report on Taxonomy alignment at a fund level, along with Do No significant Harm (DNSH) and Principal Adverse Impact (PAI) indicators.

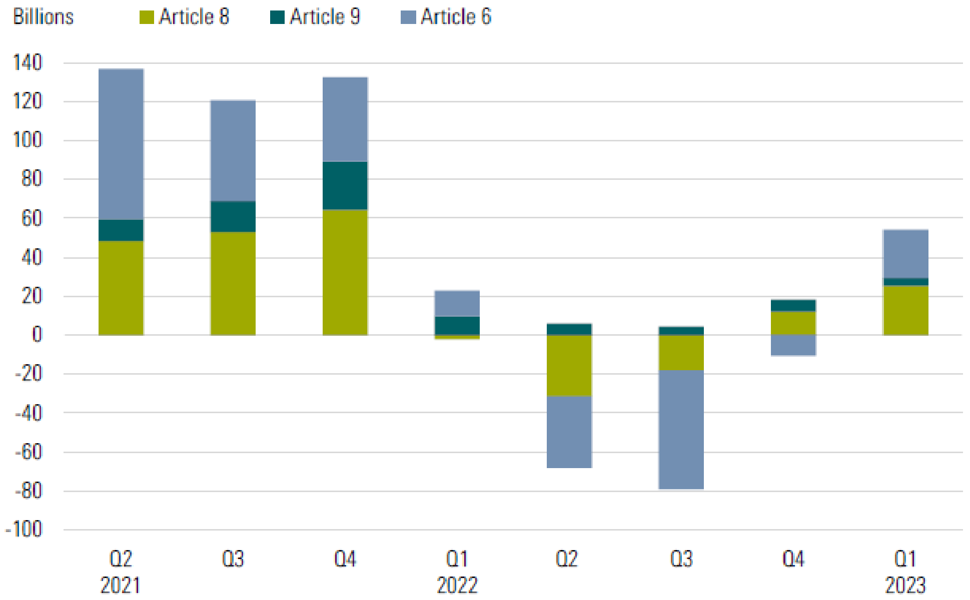
It applies reporting standards on Financial market participants including Banks, Insurance companies and Investment Funds

It does not dictate investment criteria

FUND FLOWs

2022 was characterized by investor concerns over rates, a global recession, inflationary pressures, and the conflict in Ukraine. Despite Investor concerns Article 9 funds continually attracted inflows. Art 8 had outflows, a large portion of which was due to redesignations to Art 6. Art 6 the most severe outflows, despite the 8 to 6 inflows.

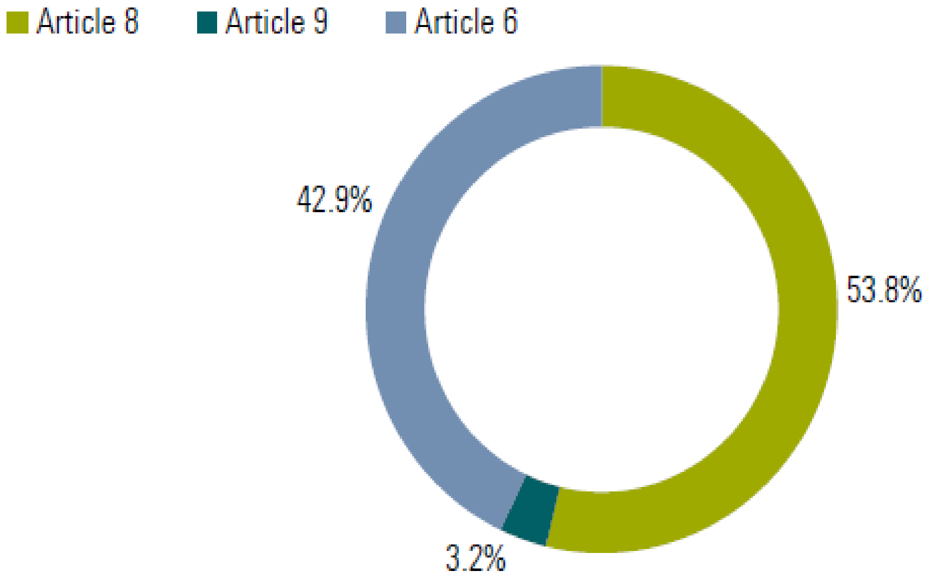




This demonstrates a trend of committed Sustainability focused funds being the only fund type to continually experiencing fund inflows, despite difficult market backdrops. The continued inflows to Art 9 funds becomes even more impressive when looking at the organic growth rate, which looks at growth of flows relative to assets available.

ESG FUNDS ACCOUNT FOR 57% OF THE EUROPEAN FUND MARKET

- Sustainable funds now account for 57% of the European fund market (at 1Q23)
- The growth is exceptional.
- Sustainable funds were only 37% of the market at the beginning of 2022.
- A sustainability strategy improves access to **at least** 57% of the Euro Fund market.

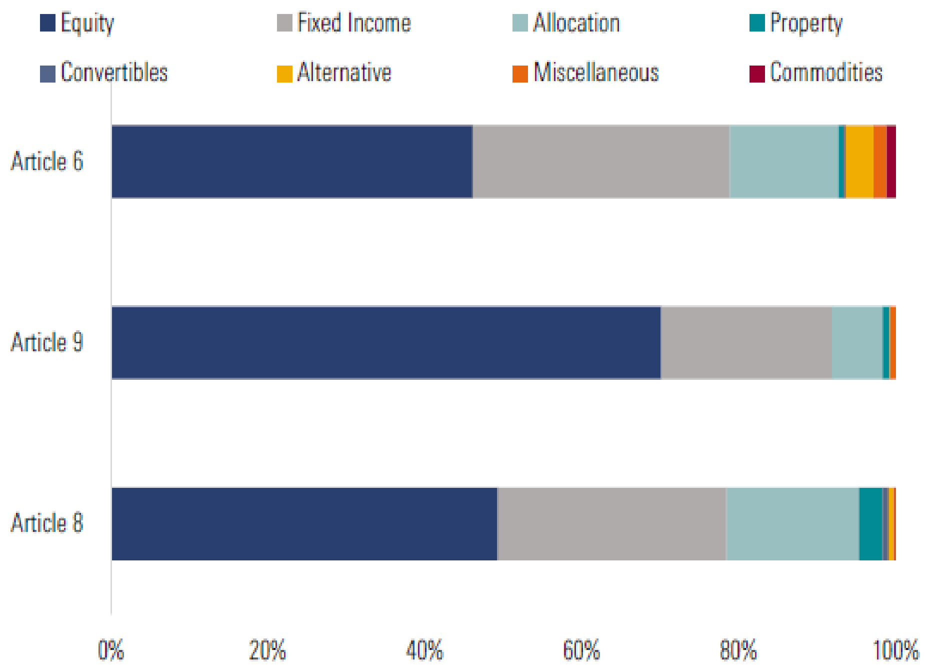


Source: Morningstar

ESG FUNDS BY AREA OF FOCUS

Investor interest in ESG covers a broad spectrum

Equity is dominant, with fixed income debt being an important second and allocation (a combination of the two) making up the majority of the rest



Goodbody

Source: Morningstar

What ESG Factors can drive the investment decision?

SRI Funds set their own individual investment criteria. Understanding fully what is relevant to your investor base means engaging with them on Sustainability

SRIs are likely to skew their decisions to investments where the considerable reporting burden is made easier.

Fundamentally, having a sound and well mapped out ESG strategy, which is updated regularly and understood by senior management, then publicized to investors can make you a preferred ESG investment

Basic Items:

Carbon reporting (Scope 1, 2, 3)

Sustainability Strategy

Materiality Exercise

Sustainability Targets.

ESG Ratings?

Sustainability Linked Loans - What is a SLL?

There are many benefits for a corporate from entering into a SLL – and not just tangible commercial benefits.

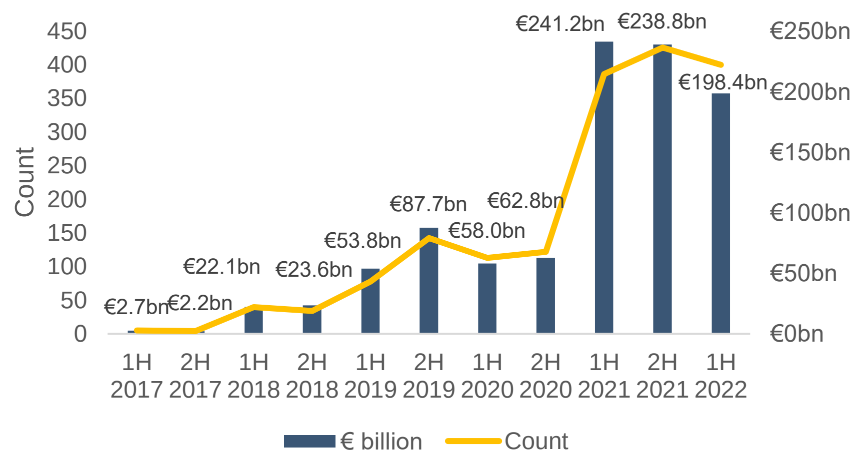
Overview of Sustainability Linked Loans

- SLLs are a type of debt product that offer discounts to borrowers in exchange for setting meaningful sustainability themed KPIs for the firm
- They are a way of encouraging companies to develop sustainability strategies, and focus on their sustainability performance in a way that they might not otherwise be willing or ready to do
- SLLs are reasonably new with the first being agreed in 2017 – however there are market expectations that at least 50% of investment grade corporate loans will be tied to sustainability in 2023
- Many large corporates now have sustainability linked revolving credit facilities. The use of Proceeds of SLLs are typically not restricted, as can be the case in other forms of Green Finance (bonds), and in mamy cases SLLs are used for general corporate purposes
- For corporates there are may benefits from signing a SLL:
  - Demonstrates commitment to the sustainability agenda through specific annual objectives
  - Buttresses your sustainability credentials
  - Can act as a precursor to a broader sustainability framework
  - Use of proceeds does not need to be tied to specific green projects, but rather ‘general corporate purposes’
  - Significant marketing opportunity to signal specific actions with respect to improving sustainability outcomes to stakeholders
  - Commercial benefits if sustainability targets are met (pricing)

SLL Market Overview

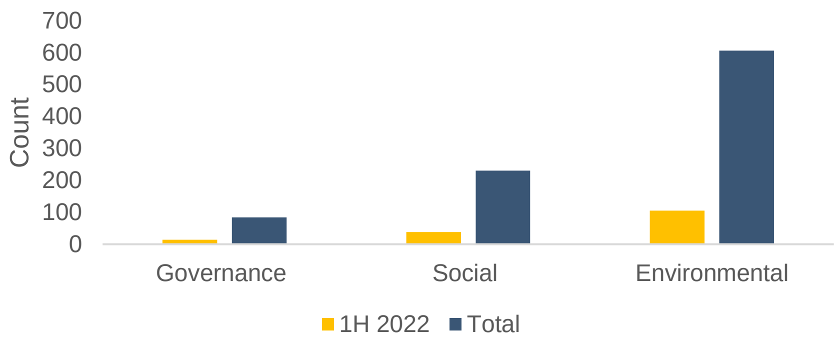
2021 saw a rapid increase in the number of SLLs issued to just under €500bn annually

Global Issuance of SLLs



Sustainability-linked Loans, by volume

Sustainability-linked Loans, by theme



Commentary

- 2021 saw a rapid increase in the number of SLLs issued to just under €500bn annually
- SLLs are filling a gap for Transition Finance where there is a lack of regulatory and industry guidance – UN is attempting to address this
- Generally weaker credit markets saw SLL numbers decline slightly in 2022
- There are market expectations that at least 50% of investment grade corporate loans will be tied to sustainability in 2023

Goodbody

ESG and access to investment

Key Takeaways

- The trend for ESG focussed investment and lending had grown dramatically in recent years and continues to accelerate
- Having a strong ESG strategy and story to pitch or use with potential investors or lenders will materially lower execution risk
- It does this by giving you access to a wider and deeper investor base, or products banks are keen to lend on
- This drives better pricing outcomes or lending rates and can support equity/debt prices in times of volatility