

The Green Bond

SEB

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The green bond market rebounded in September with new issuance of USD 58.7bn. This is the highest monthly volume ever in the green bond market. Total green bond issuance in Q3 of USD 98.1bn was also a record as the largest quarter ever recorded, but issuance is still behind our 2020 scenario. The social and sustainability bond markets have continued to improve in Q3.

Measuring sustainability

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An increasing number of investors measure the alignment of their investments to the EU Taxonomy in anticipation of upcoming regulatory requirements. We show how measuring Taxonomy alignment can add another perspective to the discussion, but also that achieving both a low carbon intensity and high Taxonomy alignment is difficult.

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The COVID-19 pandemic put the focus on supply-chain transparency for purely near-term economic reasons. Putting supply chains at the center of sustainability analysis is also essential to make a successful transition to a circular economy considering the full lifecycle of infrastructure, products & services in formulating policy and devising business strategy.

Issuers

Daimler: Spurwechsel. A new Daimler for a new era. – page 22

We are living in a time of transformation and face enormous challenges. At the same time, however, there are new opportunities. Our goal is to create a new Daimler for a new era: sustainably fascinating, sustainably carbon-neutral, and sustainably profitable.

MuniFin: Defining Social bonds in the Nordic Welfare state context – page 26

MuniFin was the first Nordic agency to issue a social bond on 2nd September 2020. The inaugural bond was a major success and received the backing of many ESG-focused investors

Thomas Thygesen

Editor

Head of Strategy, Head of Research, Climate & Sustainable Finance

thomas.thygesen@seb.dk

Kristoffer Nielsen

Advisor

Climate & Sustainable Finance

kristoffer.nielsen@seb.se

Elizabeth Mathiesen

Senior Strategist

Equity Strategy Research

elizabeth.mathiesen@seb.dk

Lene Boe Nielsen

Junior Quantitative Strategist

Equity Strategy Research

lene.boe@seb.dk

[SEB Green Bonds Website](#)



Letter to the reader

In a time of transformation: Green Bond issuance reaches USD 1Trn

Green Bonds are back on track after a significant drive from Europe, where issuers like Germany, Sweden, Daimler, Volvo and VW are now participating, supported by the EU where Von Der Leyen announced that 30% of The Next Generation EU Euro 750bn program shall be funded through Green Bonds.

At the same time, the foundation of The Green Bond Market – which has been joined by Social, Sustainable and Sustainable Linked Bonds – has been tested and proven its contribution. In order to identify and fund urgent investments targeted towards Covid19, markets have been using the Use of Proceeds language and governance infrastructure established first by the green bond principles – hence – we now have an infrastructure that enables fast track financing and makes investors comfortable supporting issuers in certain themes. As a result, The Social Bond market has raised more than USD 100bn this year – primarily led by Covid19 emergency programs – this is something all of us can be proud of – where all of us have paved the way!

The entry of Daimler, Volvo and VW to The Green Bond Market – where Daimler use the term “Changing lanes” – is putting pressure on the whole automobile sector to share their position and engage with investors on how their pathway looks. It is our expectation that this will create several new participants in the Green Bond market, raise a new set of questions for the automobile industry and challenge several pathways. At SEB we currently identify ways of helping our clients to benchmark their transition trajectory and support their preparations to meet these new challenges. Others do the same and 2021 should thus see a range of new norms for corporate sustainability disclosure emerge.

Looking further into 2021, we have strong expectations for The COP in Glasgow. With NGFS and large cities globally addressing climate issues in a structured, systemic and convincing approach, we should move from policy-setting to implementation. This means infrastructure investments from the cities as well as most regulatory regimes will continue to sharpen the demand on disclosure and impact. This will force companies – at least those who want to be relevant for populations in cities and their and environmental committed regimes – to consider the lifecycle impact of their products/services and the financial sector to adjust access to capital and risk/return analysis accordingly

Lastly, as always, we have a number of contributors in this edition. 1) Moving from own footprint to lifecycle one of the most important factors is the supply chain and we have asked Scope to share their model on supply chain assessments 2) With the automobile sector's strong entrance we have Daimler giving a reflection from the issuers side and 3) Expanding from Green to include social – we got MuniFin from Finland sharing their experience on creating a Social Bond framework and 4) our colleague Anne Kästner highlights the challenges in measuring sustainability and working with the taxonomy.

Enjoy your reading

Christopher Flensburg, Head of Climate and Sustainable Finance



Transition update

New policy regime emerging

Thomas Thygesen

Editor

Head of Strategy, Head of Research,
Climate & Sustainable Finance

thomas.thygesen@seb.dk

Elizabeth Mathiesen

Senior Strategist

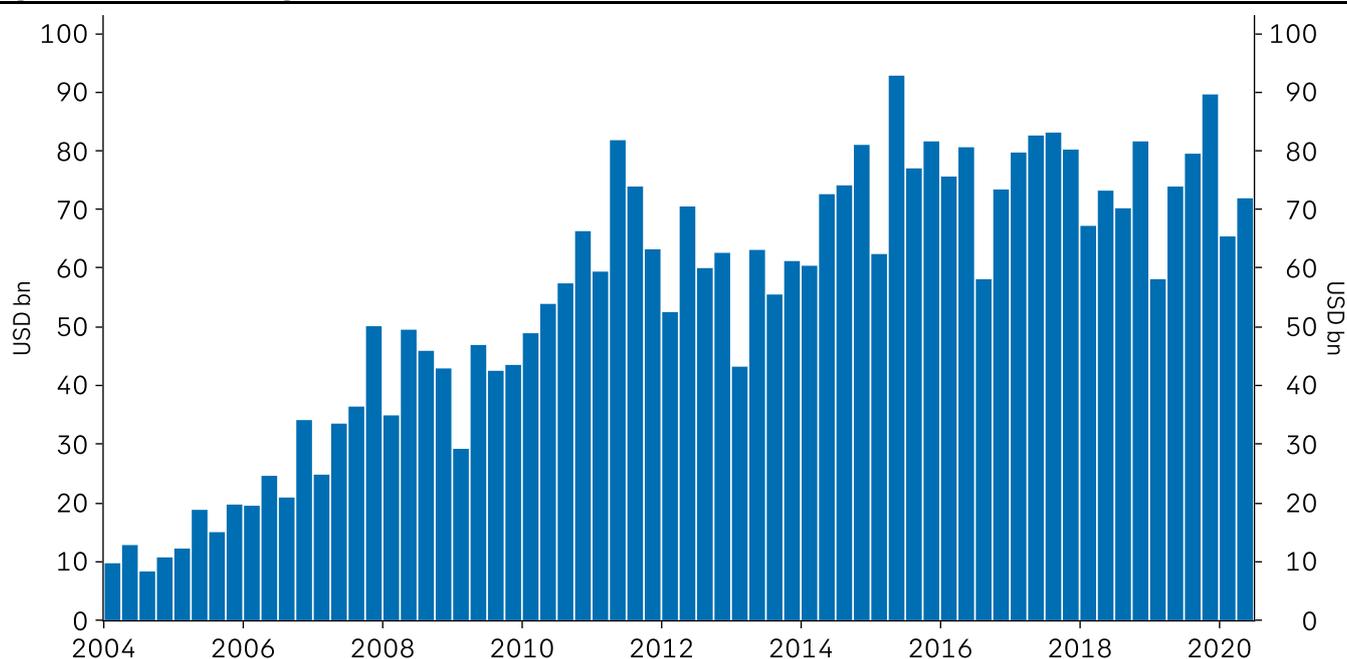
Equity Strategy Research

elizabeth.mathiesen@seb.dk

Like all other parts of the economy, renewable energy investments were hit by the global pandemic and the economic lockdown it triggered. It is now coming back from the immediate COVID-19 shock. Hopes of a green reactivation have not yet been fulfilled and 2020 is shaping up to be another lost year in the energy transition. However, the sharp rebound in green bond issuance in September suggests the underlying trend remains strong. There are also signs that a more sustainable policy regime is taking shape in the background.

Total investments in renewables saw an increase of 5% in the first half of the year in dollar terms compared to the same period last year according to BNEF estimates. However, a closer look at the quarterly profile tells a different story, see Figure 1. Q1 2019 had seen extremely low investments following China's shift to a different subsidy model but rose sharply in the rest of the year and ended the year with Q4 investments of USD 90bn. This was close to the all-time high from 2015. In the first two quarters of 2020, renewable investments averaged less than USD 70bn, a decline of almost 25%. Furthermore, the initial wave of stimulus to address the COVID-19 shock turned out to be anything but green. There were a few examples of corporate bailouts being tied to reduced emissions, but according to BNEF only 1% of the USD 12trn in stimulus that has been approved so far has been aimed specifically at climate objectives.

Figure 1: Global clean energy investments, 2004 Q2 – 2020 Q2



Source: BNEF, SEB

This is not too surprising. Governments initial focus had to be on fighting the disease, supporting income and keeping companies alive for the time being. This is still the case. The main concern is to prevent virus restrictions from pushing the economy into a deep recession this winter and this calls for short term measures. And we might as well be realistic: right now, it is politically more

important to extend unemployment benefits and expand virus testing capacity than to build a new energy system for the long term.

Furthermore, the short-term support is placing deep strains on government budgets and resources, leaving little room for other spending - at least if markets are supposed to fund it. From that perspective, 2020 is likely to end up as another lost year in the race to meet the Paris agreement goals. Renewable energy production is rising due to the falling cost of production, but investment in dollar terms has been flat for almost half a decade.

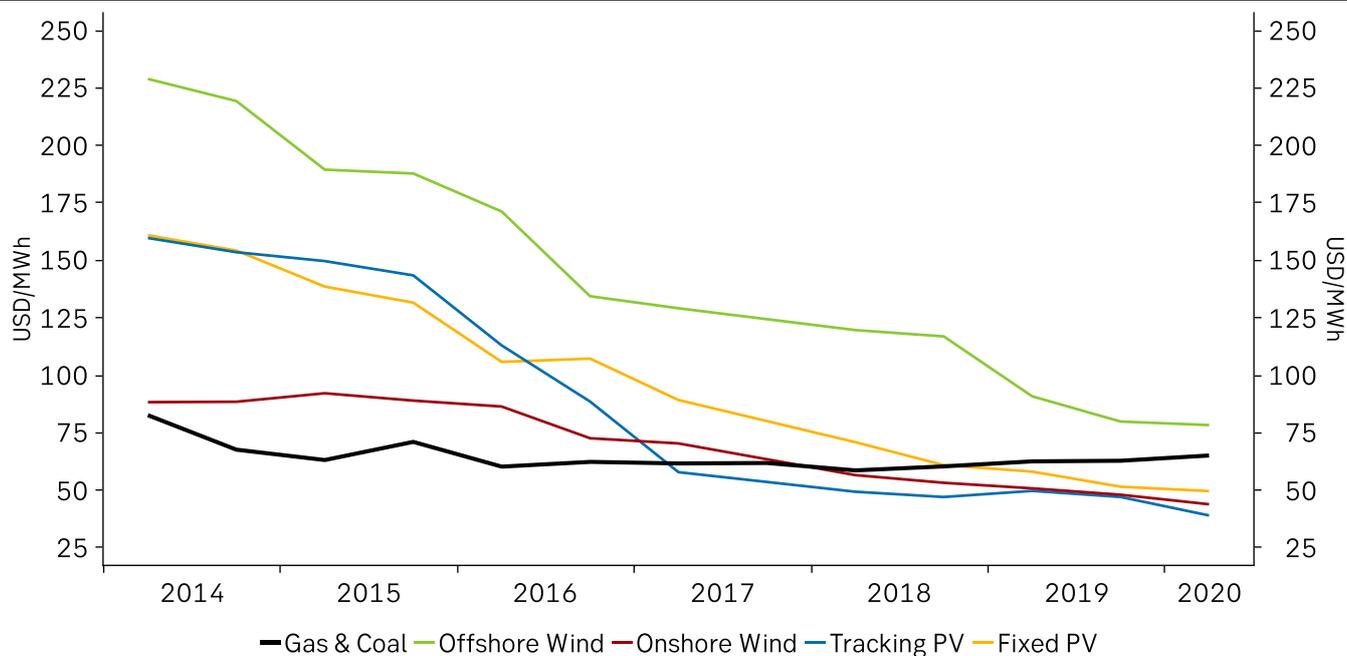
However, while all this is going on, the contours of a new policy regime are taking shape in the background, led by the EU's ambitious plans for green investment and regulation. The European climate action plan clearly aims at speeding up the long-term transition to a more sustainable economic model. At the same time, it seeks to support near-term job creation and improve business productivity. While the first two climate taxonomies are due to take effect in 2021, the EU has spent 2020 lining up a series of additional far-reaching policies that will take effect in the first half of the 2020s.

EU blueprint takes shape

The EU plan has two parts. The first is massive investment in increased supply of emission-free energy using both public and private capital. The second is a set of regulatory tools that a) allow market forces to drive the innovation among sectors that use large amounts of fossil energy today and b) align corporate interests more broadly with society's interests.

The first part is necessary because infrastructure typically has a lifetime that exceeds that of a normal business investment and tend to offer returns to society that exceed the direct financial return. Renewable energy technology shows the same learning curve effect as past revolutionary technologies.

Figure 2: Levelized cost of energy (2019 real prices)



Source: BNEF, SEB

After almost 40 years of development, renewable energy is now cheaper than both coal and gas when it comes to new installations, as you can see in Figure 2. The transition will therefore already now deliver long-term economic benefits to society. But historical experiences with learning curve effects suggest prices will continue to fall for decades and that subsidising investment today will speed up the decline in the cost of energy, drawing in more private investors in the future.

By structuring long-term public-private investments with reduced risk on the private side, it should be possible to meet the EU's new target of 55% emission-free energy by 2030, at least on the supply side. However, this still leaves the more intractable issue of how to shift energy demand away from fossil fuels.

Large parts of the economy cannot do that today, because energy is deeply embedded in the production technology they use. These include the manufacturing, transport and construction sectors, who will all be crucial suppliers to the investment in new infrastructure.

The EU already transformed the market's approach to this question by focusing the first two taxonomies exclusively on these sectors, providing investors with tools to assess whether companies were using the most sustainable technologies available today. More importantly, it was made clear that this would be a dynamic process with threshold values adjusting as new technologies are developed and deployed. Over the coming years, this first step will be supplemented with an even more ambitious framework for broader ESG regulation

Big changes in next 5 years

The two existing taxonomies focusing on climate risks will become much more powerful when the GHG threshold values are extended to include scope 3 emissions. This is important because the energy transition will have to involve coordinated changes across entire value chains: you cannot change one part without changing all the others at the same time. Providing guidelines for measuring the shared emissions caused by the whole supply chain will force the participants to share the responsibility, creating powerful incentives for cooperation on the development of sustainable technological responses.

The EU also plans to add a series of new taxonomies starting in 2023 with the introduction of four new environmental taxonomies covering water, circular economics, biodiversity and general pollution. This will provide a broader and more realistic framework for measuring sustainability, defining the full set of environmental constraints for corporate behaviour.

At a later stage, they will be supplemented by a social taxonomy and a 'brown' taxonomy. The details of these are not yet known but a social taxonomy is likely to outline companies' responsibility towards a broader group of stakeholders. We suspect that the brown taxonomy may be aimed at dealing with assets that are rendered obsolete when the transition is accelerated.

Taken in its entirety, the EU action plan is a massive and surprisingly realistic attempt to steer the economy in a new direction, addressing the three problems of growth, social stability and the climate crisis simultaneously. As you can see in Figure 3, the next five years will lead to a profound change in the way that companies have to navigate. Even though not all details are clear, we suspect that company behaviour will start changing well before any legislation is passed.

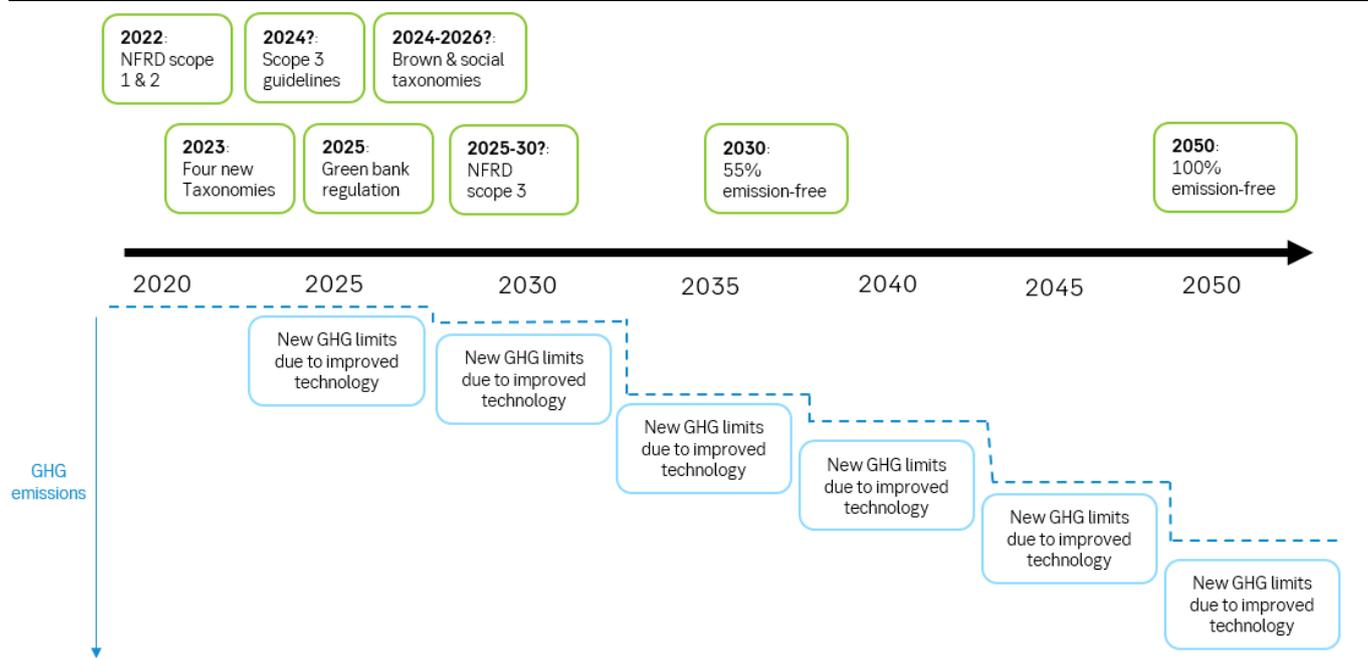
Will the rest of the world follow?

The EU is not the only major economy that has raised its ambitions for the energy transition in 2020. China’s president Xi announced a new target of net zero emissions by 2060 at the UN general assembly on 22 September. While China’s near-term policies remain focused on traditional stabilisation, experience suggests that China does not take such commitments lightly. Aligning with this objective will require major changes in investment and regulation over the coming five to ten years, and we suspect the EU framework will provide the blueprint.

However, the US administration has over the past four years pushed in the opposite direction, subsidising fossil fuel producers. November’s US election could be a pivotal event in the global transition process. The democratic candidate Joe Biden has put forward an ambitious plan, based on the ‘green new deal’ proposed by the party’s more left-leaning members of Congress. It looks a lot like the European plan, at least when it comes to investing in green infrastructure for both short- and long-term reasons.

A clear victory for the contender could thus be a catalyst for a proper race towards a more sustainable global economy, especially if the Democrats also gain control of the Senate. However, if the current administration continues, it could delay any real US transition for another four years. In that case European efforts are unlikely to be enough tip the global scales in favour of the Paris agreement goals.

Figure 3: Transition towards Paris agreement targets



Source: SEB



Kristoffer Nielsen

Advisor

Climate & Sustainable Finance

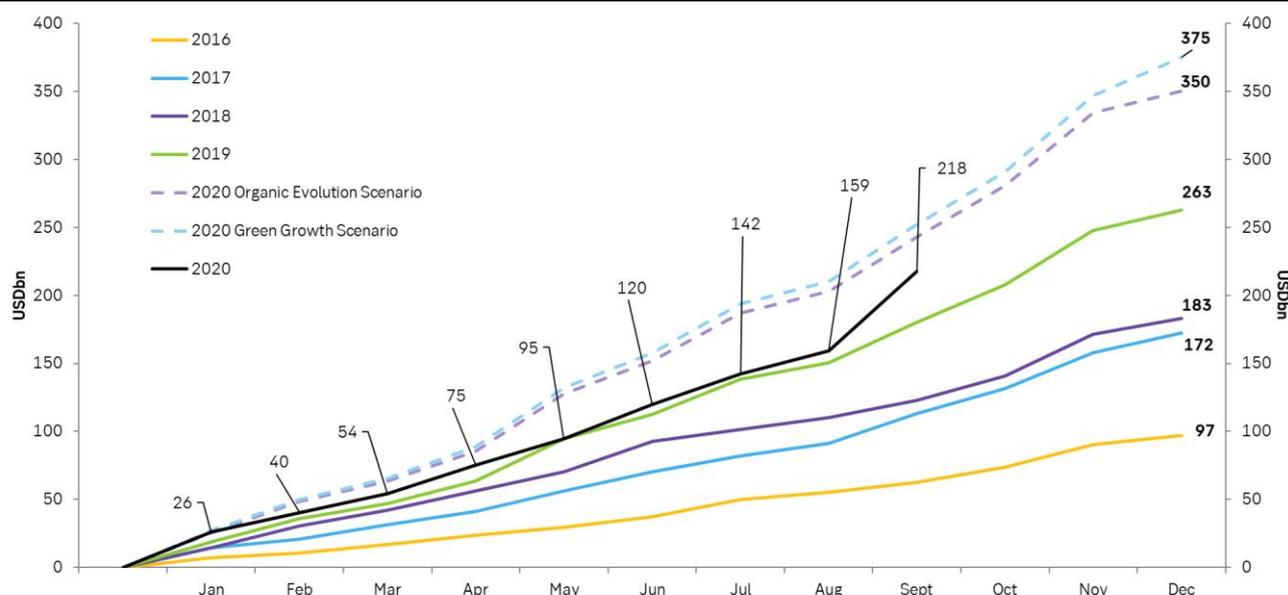
kristoffer.nielsen@seb.se

Green Bond Market Update

The green bond market performed remarkably well in September with new issuances totalling USD 58.7bn. This is the highest monthly volume ever recorded in the green bond market, and it was in great part due to two landmark sovereign issuances from the Government of Sweden (SEK 20.0bn green bond) and The German Federal Government (EUR 6.5bn). The July and August green bond issuances totalled USD 22.6bn and USD 16.9bn, respectively, and as a result the total for Q3 was USD 98.1bn - the largest quarter the green bond market has ever recorded. The YTD 30 September 2020 green bond issuance was therefore USD 218.0bn (Figure 4). This is USD 34.2bn ahead of 2019 and is almost exclusively due to the strong performance in September as the markets were mostly in line until August.

The market is still behind the pace envisioned in our Organic Evolution Scenario and Green Growth Scenario, which it has been for most of the year, but the gap is now smaller due to the strong results. It should be noted that the volume for all months has been revised upwards due to the addition of green bond issuances from earlier in 2020, most notably three taps from the French government totalling USD 7.4bn.

Figure 4: Cumulative annual green bonds issuance & 2020 scenarios (USDbn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

The social and sustainability bond markets have continued to improve in Q3 and, as of 30 September, a combined USD 99.9bn of bonds under these labels has been issued. This was to some extent driven by COVID-19 earlier in the year, but the purpose to issue under these labels in Q3 is more varied with there being a strong growth of sustainability bonds issued by corporations and financial institutions. However, it should be noted that even the USD 5.75bn sustainability bond issued by Alphabet Inc. in September, the largest ever of its kind, included an eligible project category labelled 'support for small business and COVID-19 response'. September also had three sovereign sustainability bond issuances from Luxembourg, Mexico and Thailand that raised a total of USD 3.7bn.

Regional update

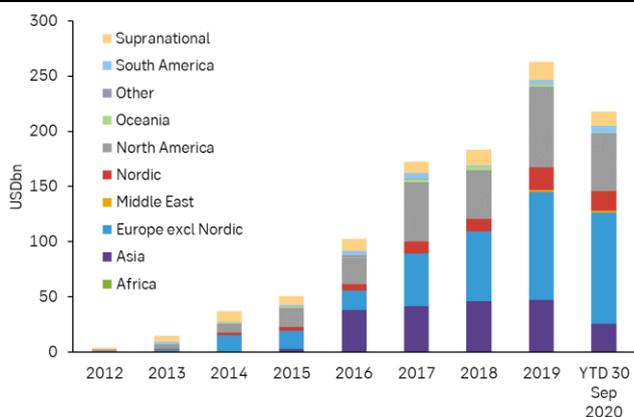
Europe (excl. Nordics) has at 46.8bn been the largest market in Q3 by a wide margin, accounting for 48% of all green bond issuances, during the period. Europe (excl. Nordics) surpassed USD 100bn of total issuance so far in 2020 as a result (Figure 5 and Figure 6). German issuers were responsible for USD 24.2bn, of which USD 8.8bn was issued by government agencies (KfW and Rentenbank) and USD 7.7bn from the German government through their inaugural green bond issuance. France (USD 6.6bn), The Netherlands (USD 4.7bn), Italy (USD 3.3bn), Spain (USD 2.1bn) and Ireland (USD 2.7bn) were responsible for a total of USD 19.7bn of green bonds in Q3, primarily by corporations and financial institutions.

North America was the second most active region for green bonds in Q3 with total issuances of USD 21.4bn, of which the United States accounted for USD 20.4bn.

Asia had total issuances of USD 12.4bn in Q3. Chinese issuers, all from the financial or corporate sectors, were responsible for USD 7.2bn while total issuance from Japan was USD 2.5bn in the third quarter.

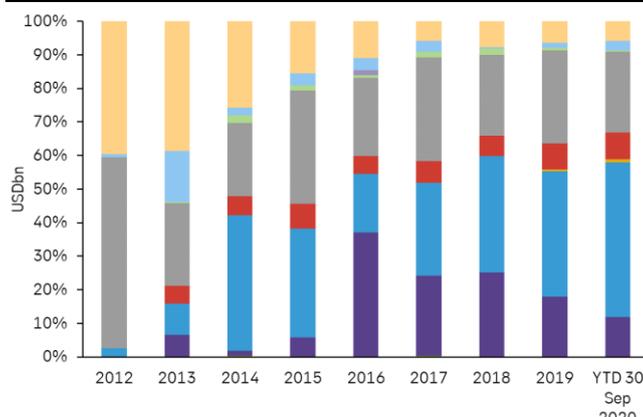
The Nordic green bond market totalled USD 9.6bn in Q3. Swedish issuers accounted for more than half of this with a total of USD 5.7bn, while issuances from Norway and Denmark were USD 2.3bn and USD 1.0bn, respectively. The single largest issuance in the Nordic region was the SEK 20.0bn (USD 2.3bn) sovereign green bond issued by the Swedish Government.

Figure 5: Green Bond market growth by region (USD bn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Figure 6: Regional evolution (% share of ann. issuance)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Sector analysis

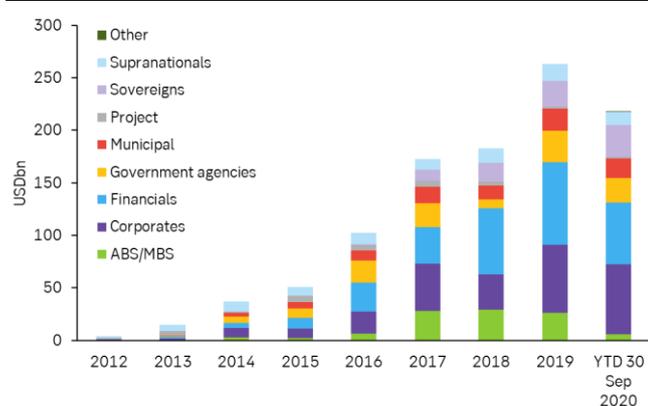
The Corporate sector had combined green bond issuance of USD 27.8bn in Q3, which is USD 15.3bn higher than Q3 2019. North America, Europe (excl. Nordics) and Asia all had total green bond issuances exceeding USD 5bn in the period with a total of 76 new transactions. There were 10 Nordic issuances totalling USD 1.3bn. The total YTD 30 September 2020 was as a result USD 65.1bn, representing 30.4% of total issuances so far in the year (Figure 7 and Figure 8), and USD 18.1bn ahead of last year.

Two major German car manufacturers - Daimler and Volkswagen, issued their inaugural green bonds in September. Volkswagen International Finance issued a EUR 2.0bn (USD 2.3bn) dual tranche (8-year and 12-year) green bond for projects related to the manufacturing of electric vehicles and building e-charging infrastructure. Daimler AG issued a 10-year 1.0bn (USD 1.2bn) under

a green finance framework (dark green score from CICERO) in which proceeds can be used for clean transportation projects, including R&D and manufacturing of electric vehicles and other zero emission transport solutions, charging infrastructure, energy efficiency projects, pollution prevention and control, and renewable energy projects.

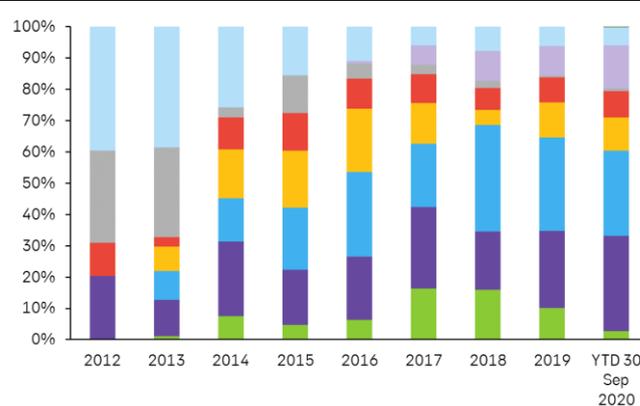
The largest corporate green bond issued outside of the German car industry in Q3 was from Hong Kong railway operator MTR Corp Ltd with a 10-year USD 1.2bn green bond, the largest green bond ever issued from Hong Kong, for the purpose of financing projects within a wide range of eligible categories including low carbon transportation and sustainable transit stations. The two other USD +1.0bn green bond issuances in the corporate sector came from Dutch electricity transmission operator Tennet with a perpetual EUR 1.0bn (USD 1.1bn) bond - eligible projects include transmission of electricity from offshore wind to the onshore electricity grid, and US telecommunications company Verizon with a 10-year USD 1.0bn green bond.

Figure 7: Green Bond market growth by sector (USD bn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Figure 8: Regional sector (% share of ann. issuance)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

The financial sector had total green bond issuances of USD 30.1bn in Q3 2020, which was USD 10.5bn more than Q3 2019. Europe (excl. Nordic) accounted for nearly half of this total with total green bond issuance of USD 14.3bn. As a result, the total volume of green bonds issued in the financial sector up until 30 September was USD 57.6bn, representing 26.9% of the total market, and USD 3.2bn ahead of last year. The remaining financial transactions came primarily from Asia (USD 5.4bn), North America (USD 5.4bn) and the Nordics (USD 4.3bn). The Nordics had a particularly strong period given the size of the market (USD 3.1bn in the first half of 2020) aided by two large Norwegian green bonds from SpareBank 1 Boligkreditt with a 7-year EUR 1.0bn (USD 1.2bn) green bond and Sparebanken Vest Boligkreditt with a 7-year EUR 500 (USD 562m) green bond – both primarily focused on financing green buildings.

The largest financial sector green bond in Q3 was the 21-year EUR 1.25bn (USD 1.5bn) by Munich RE that stipulates financing for a wide range of eligible categories, including equity investments in companies with at least 90% of turnover from eligible projects stated in the green finance framework. Financial institutions from a wide variety of countries were also active in the market in Q3, including Societe Generale of France, AIB Group of Ireland, BBVA of Spain, JP Morgan Chase & Co of the United States and Rabobank of the Netherlands.

Sovereigns issued green bonds totalling USD 14.7bn in Q3 2020 as a result of new sovereign issuances from Sweden, Germany and Hungary in addition to a EUR 2.0bn (USD 2.4bn) tap of the French Government's green bond and a EUR

1.0bn (USD 1.0bn) tap of the green bond issued by the government of The Republic of Ireland. The Swedish Government raised SEK 20.0bn (USD 2.3bn) in September with their inaugural 10-year green bond that is earmarked for a wide range of eligible green expenditures with a stated focus on the transport sector. The German Federal Government also issued a green bond in September for the first time with a 10-year EUR 6.5bn (USD) issuance that, according to their green bond framework, is allocated to green expenditures in the transport, international cooperation (including bilateral technical and financial cooperation), research, innovation and awareness raising, energy and industry, and agriculture, forestry, natural landscapes and biodiversity. As a result of these transactions, the total volume of sovereign green bond issuances YTD 30 September 2020 was USD 27.9bn and as such already exceeds the volume for the whole of 2019.

Government agencies issued green bonds totalling USD 10.1bn in Q3, which is USD 2.0bn above Q3 last year. As a result, YTD 30 September green bond issuances from the government agencies sector was USD 23.3bn – USD 5bn ahead of last year. Germany dominated the sector in Q3 with 6 taps and new issuances from two government agencies, KfW and Rentenbank, totalling USD 8.8bn, while government agencies in Sweden, Denmark and Japan were responsible for the remaining USD 1.2bn of issuances. The largest green bond issuance of the sector, by a substantial margin, came in July from the German development bank KfW, issuing an 8-year EUR 4.0bn (USD 3.5bn) green bond to support their loan programmes for renewable energy and energy efficiency.

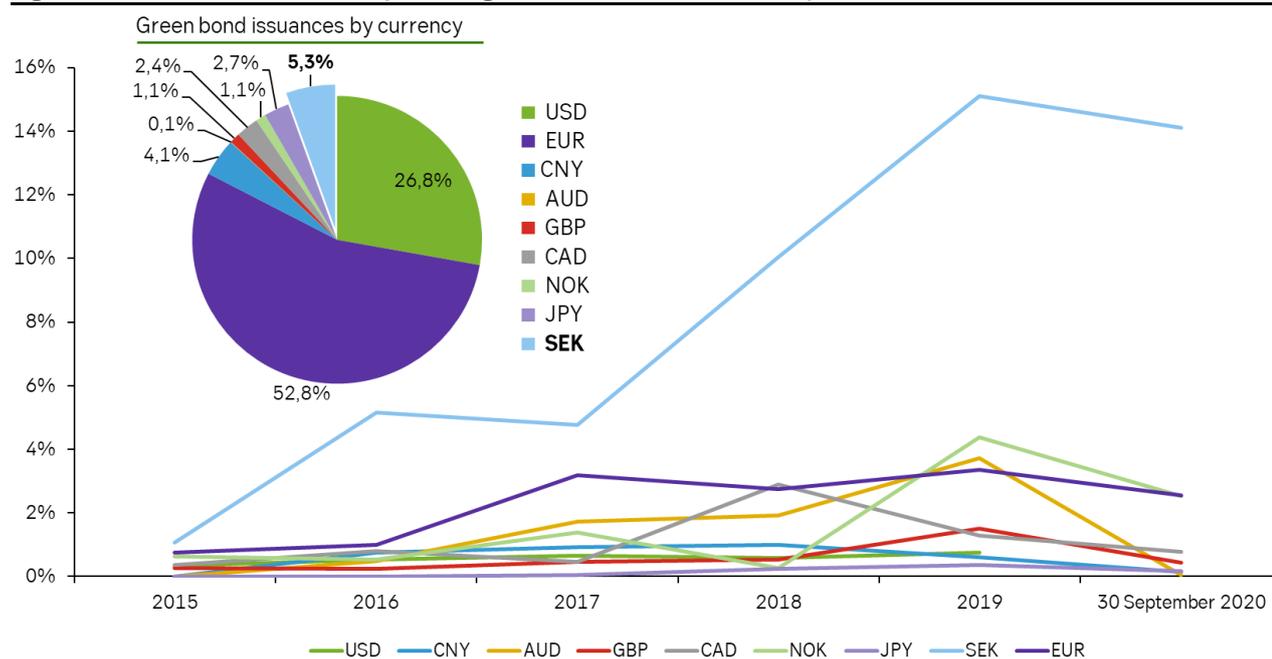
The supranational green bond sector had 26 new issuances totalling USD 4.4bn in Q3. As a result, up until 30 September the total for the year was USD 12.8bn – USD 3.2bn ahead of last year. EIB issued the largest supranational green bond so far in 2020 with a 10-year USD 1.5bn green bond. This was also the only supranational transaction larger than USD 500m in Q3.

The municipal green bond sector increased by USD 7.2bn in Q3. This takes the total of the year so far to USD 18.0bn - USD 7bn higher than all of 2019. USD 4.3bn, or 85%, of new issuance in Q3 came from US municipalities with the remaining deals coming from four issuances in Sweden and one in New Zealand.

The ABS/MBS sector issued USD 2.6bn worth of new securities in Q3, which was significantly lower than Q3 last year. This reflects a general decline in the volume of mortgage backed securities from Fannie Mae, which was USD 171m in July and USD 174m in August (September figures not yet reported). However, other asset backed securities, including Tesla Auto Lease and Loanpal Solar Loan, have become quite prominent within this market.

Green Bond currency analysis

The percentage of green bonds to total bonds has increased slightly in the recent quarter due to the growth in issuance and was 0.6% on 5 October. SEK is still the currency with the highest ratio at 14.1% and this is also reflected in the share of green bonds issued in SEK, currently standing at 5.3% while the equivalent is only 0.2% for all bonds (Figure 9). A similar trend is evident for EUR bonds – 52.8% of all green bonds are issued in EUR although only 13.2% of all bonds are issued in EUR.

Figure 9: Green bond issuance as a percentage of total bond issuance in major currencies and distribution

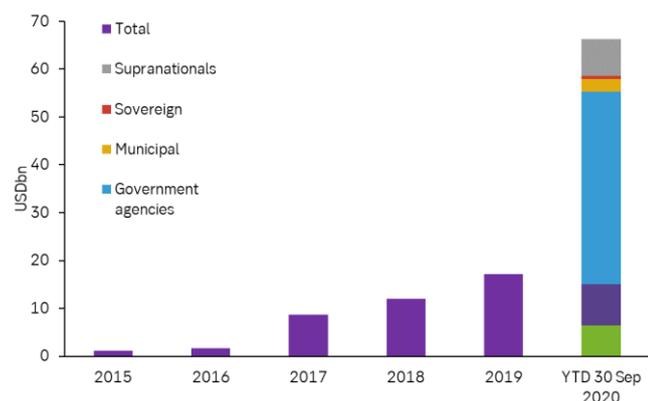
Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Social and Sustainability Bonds

Social and sustainability bonds have continued to grow with USD 41.2bn added in Q3 2020. As a result, the total for the full year is USD 99.9bn, combined for the two product types as of 30 September. This is almost twice the amount that was issued under these labels in the first three quarters of 2019. Interestingly, the social bond market is dominated by government agencies and supranationals while the sustainability bond market is dominated by corporations and financial institutions.

Social Bonds

Social bond issuance increased by USD 25.5bn in Q3, taking the total for the year to 66.3bn (Figure 10). South Korean issuers are responsible for the three largest social bond issuances in Q3 – the largest is a 5-year EUR 500m (USD 564m) from Korea Housing Finance Corp. South Korean issuers have done 18 more social bonds in Q3, although it should be noted that most of these were smaller issuances, in the USD 30-150m range, from South Korean government agencies supporting SMEs, start-ups and providing student aid. With a total social bond issuance of USD 19.3bn, Government agencies have been by far the largest sector in Q3. This is primarily due to issuances from South Korea, but government agencies in Japan, France, The Netherlands, Finland, Italy and Germany have also been active in the social bond market over the last three months.

Figure 10: Social bond market growth by sector

Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Figure 11: Social bond market growth by region

Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

The sustainability market has also been strong with USD 22.2bn added in Q3. This brought the total for YTD 30 September to USD 40.2bn (Figure 12) – USD 3.2bn ahead full-year 2019. 32 new sustainability bonds were issued in Q3, of which 18 came from Asian issuers (primarily Japan), six from North America and five from Europe.

The three first sovereign sustainability bonds were issued in Q3 2020 from Luxembourg, Mexico and Thailand. Luxembourg's 12-year EUR 1.5bn (USD 1.8bn) will be used to finance green and social projects, including climate financing and R&D, affordable housing and job creation. The Mexico Government's 7-year EUR 750m (USD 890m) sustainability bond will use the proceeds from the sustainability bond to finance projects in line with the sustainable development goals. The Kingdom of Thailand's 15-year THB 30bn (USD 960m) sustainability bond will finance a wide range of green eligible categories and social eligible categories including access to essential service and food security.

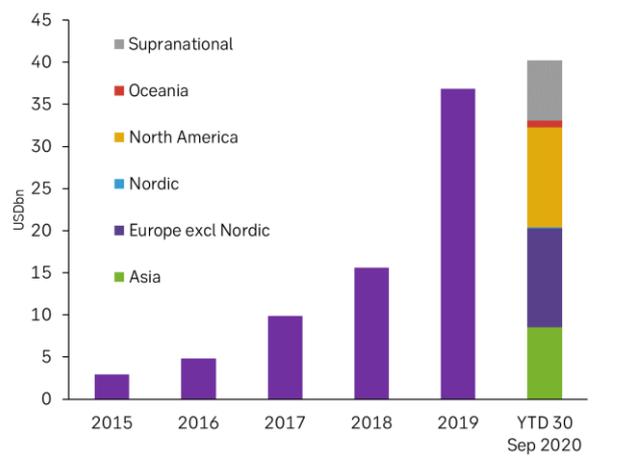
USD 8.0bn of sustainability bonds in Q3 were issued by issuers in the corporate sector while USD 5.8bn were issued by financial institutions. The largest issuer, by a substantial margin, was Alphabet Inc with their triple-tranche USD 5.75bn sustainability bond. Alphabet's sustainability bond framework has the eligible project categories energy efficiency, clean energy green buildings, clean transportation, circular economy and design, affordable housing, commitment to racial equality, and, notably, support for small business and COVID-19 response.

Figure 12: Sustainability bond market growth by sector



Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Figure 13: Sustainability bond market growth by region



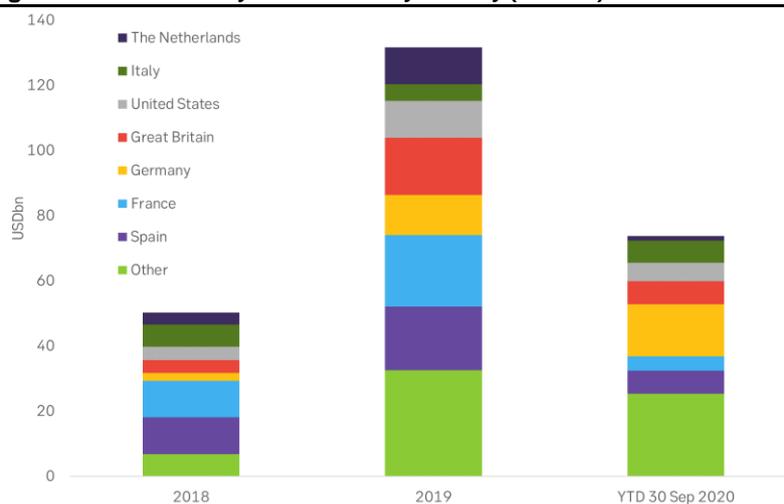
Source: SEB analysis based on Bloomberg and SEB data, as of 30 September 2020

Sustainability-linked loans

Note on data: The sustainability-linked loan market, whereby the loan margin is typically linked to a set of targets or an ESG score, is a private market with limited access to information. We use the loans listed in Bloomberg New Energy Finance, which we think provides a good reflection of the overall market.

The sustainability-linked loan market has increased by USD 16.4bn in Q3 and YTD 30 September 2020 is as a result USD 73.8bn (Figure 14). As noted in previous publications, data gathering is a bit slower as it consists of private debt facilities and this figure could as such retroactively be updated in the future. Regardless, the product type continues to reach new markets with loans provided to companies in Hong Kong, Germany, Great Britain, Spain, Chile, Norway, Italy, Belgium, Malaysia and Singapore over the last three months. Volkswagen subsidiary Traton borrowed the largest sustainability-linked loan in Q3 2020 with a 3-year EUR 3.75bn (USD 4.4bn) revolving credit facility

Figure 14: Sustainability-linked loans by country (USD bn)



Source: SEB analysis based on Bloomberg (BNEF) and SEB data, as of 30 September 2019

October green bond update (up until 5 October)

12 green bonds have been issued so far in October. Province of Ontario was responsible for the largest issuance so far this month with a CAD 2.0bn (USD 1.1bn) green bond. Crédit Mutuel Alliance Fédérale issued the second largest green bond in October so far with a 7-year EUR 750m (USD 881m) green bond that will be used for financing green buildings, renewable energy and low carbon transport.

Issuer Name	Ticker	Curr	Deal Size (USD)
Kuntarahoitus Oyj	KUNTA	EUR	589,325,000
European Investment Bank	EIB	EUR	589,325,000
European Bank for Reconstruction & Development	EBRD	USD	50,000,000
Province of Ontario Canada	ONT	CAD	1,131,012,000
Asian Development Bank	ASIA	SEK	112,217,000
Svensk Exportkredit AB	SEK	SEK	56,280,000
Vacse AB	VACSEA	SEK	22,420,400
Mizuho Financial Group Inc	MIZUHO	EUR	587,240,000
European Bank for Reconstruction & Development	EBRD	EUR	58,724,000
Banque Federative du Credit Mutuel SA	BFCM	EUR	880,860,000
National Bank of Greece SA	ETEGA	EUR	587,240,000
Union Electric Co	AEE	USD	550,000,000

Source: Bloomberg, as of 5 October 2020

Publicly Announced Green, Social & Sustainability Bond Pipeline¹

- Societe du Grand Paris EUR 6bn green bond mandated
- Just Group GBP 250m green bond mandated
- Arjena 6-year EUR 300m green bond mandated

¹ As of 6th October 2020



Measuring sustainability systematically

Anne Kästner

Climate & Sustainable Finance

annekristin.kastner@seb.se

Disclaimer: SEB's quantitative model is based on reported and estimated data. Please note that the model is still under development, has not yet been verified by third-party and should not be seen as legal adherence to a future taxonomy regulation. The described analysis is based on indices and funds from May 2020 (model version May 2020).

New insights on EU Taxonomy alignment

An increasing number of investors have started to measure the alignment of their investments to the EU Taxonomy in anticipation of the upcoming regulatory requirements. This article aims to demonstrate how measuring Taxonomy alignment systematically can add another perspective to the discussion. Systematic modelling enables us to gain a market overview and detect patterns, something that is beyond the capabilities of a bottom-up analysis of individual funds.

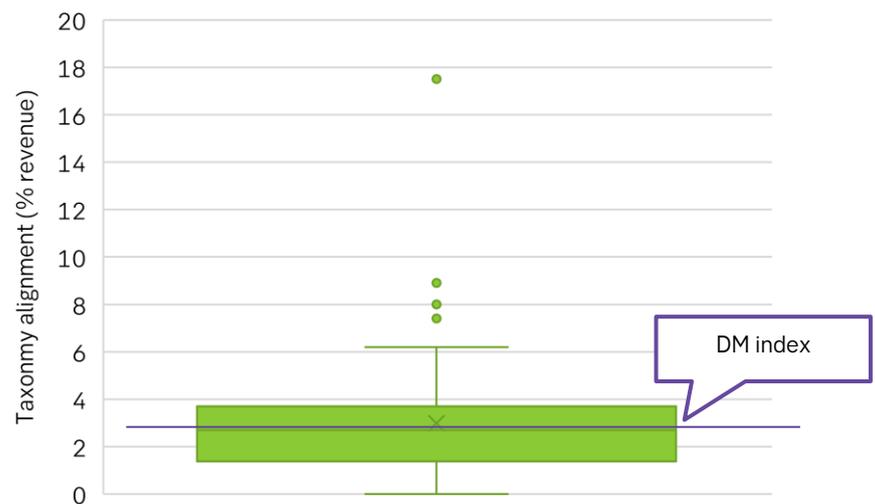
An interesting aspect of the Taxonomy, from a strategic point of view, is how it aligns with existing sustainable investment strategies such as exclusions, norms-based screening or best-in-class. The Taxonomy is the first cross-sector definition of sustainability for economic activities within the European Union. It is linked to the environmental objectives of the European Union and introduces strict technical screening criteria for every included economic activity. Some of the established sustainability strategies seem like a diametral approach compared to the Taxonomy whereas others might align with it. One way to explore this is to analyse existing sustainable funds and pose the question: How sustainable are those 'sustainable' funds according to the EU Taxonomy?

The SEB EU Taxonomy Model was utilized to conduct a study on around 100 sustainable funds. As avid The Green Bond readers might remember, the systematic model was developed last summer, after the EU Technical Expert Group released the first Taxonomy report. It has been updated since, according to the final technical report from March 2020. In the study, 98 funds were analysed using the model to measure their potential Taxonomy alignment.² This universe of 'sustainable' equity funds was created with the following criteria: (1) Only ETFs or mutual funds were selected. They had to be (2) non-thematic, (3) with a global geographic focus and (4) available to Swedish investors. Lastly, (5) the definition as 'sustainable' was derived from either the name, product description or the Lipper global classification of the fund.

Looking at the overall results, potential Taxonomy alignment is low amongst sustainable funds, even though single outliers with higher alignment can be detected (Figure 15). In a developed market (DM) index, around 2.8% of total revenues are potentially Taxonomy aligned. On average, the 98 sustainable funds have 3.0% of potentially Taxonomy aligned revenues. However, the aim of this article is not to discuss why sustainable funds score just marginally higher than the market as this would require several more pages. Instead, let us come back to sustainable investment strategies and focus on carbon intensity.

² Please note that the Taxonomy model is measuring potential alignment to the EU Taxonomy as the complete assessment of DNSH and minimum safeguards is not provided in the model. In the remainder of this article, Taxonomy alignment and potential alignment are used synonymously.

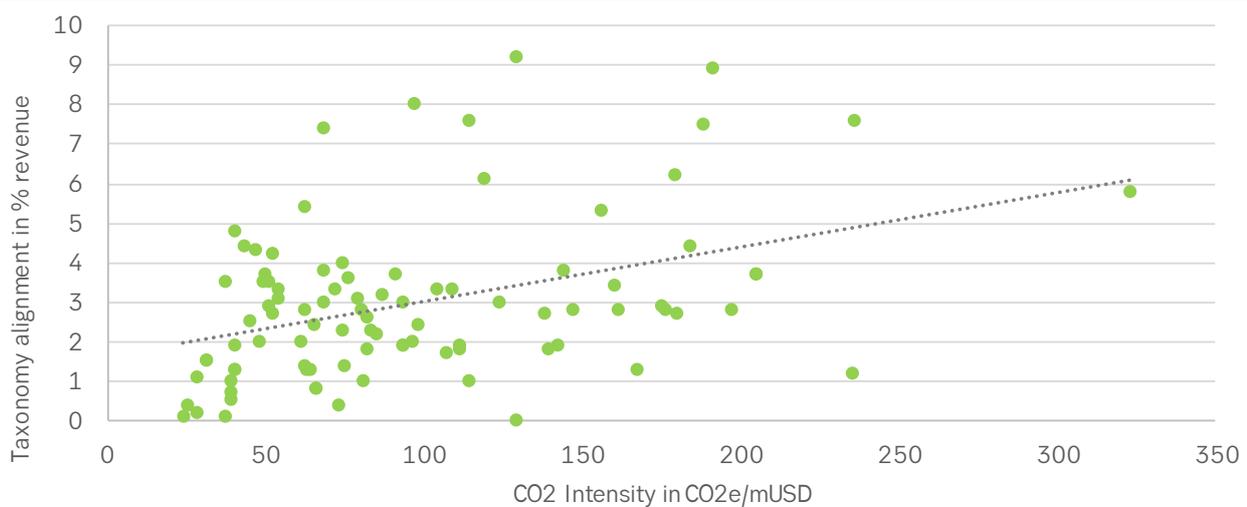
Figure 15: Spread of Taxonomy alignment in analysed fund universe.



Source: SEB

Currently, the EU Taxonomy is limited to two of the EU’s six environmental objectives, climate change mitigation and climate change adaptation. At a first glance, it seems to be only natural that the EU’s new definition of sustainability should go hand in hand with strategies that minimize the carbon footprint. One would expect that a low carbon intensity indicates high Taxonomy alignment. But the study suggests that this is not the case. Instead, a moderate positive correlation between the Taxonomy alignment and the carbon intensity of a fund can be observed in the sample, as illustrated in Figure 16. As the correlation is quite weak, this does not necessarily suggest that a higher carbon intensity leads to a higher Taxonomy alignment. However, these findings indicate strongly that minimizing the carbon intensity of a portfolio will not in any way result in a high Taxonomy alignment for an investor.

Figure 16: Moderate positive correlation between Taxonomy alignment and CO2 intensity (r=0.4; outliers removed)



Source: SEB

Detecting this disconnect between the two different sustainability approaches – one of them widely used today, the other one required by EU regulators tomorrow – demonstrates why a systematic perspective can be so valuable.

With the help of SEB's model, it was shown that achieving a low carbon intensity and high Taxonomy alignment seems to be currently difficult for sustainability funds. Taking a second look at the Taxonomy, it is not necessarily surprising that there is a disconnect between a fund's carbon intensity and its Taxonomy alignment. The Taxonomy expanded the green universe by including transition activities – activities that are on a transition towards net zero-emissions by 2050 but that are not low carbon today – as well as “enablers” that help others on their transition. Thereby, the Taxonomy encourages investors to search for the green in historically “brown” sectors such as steel and cement manufacturing.

In conclusion, this study strengthens the argument that the Taxonomy embodies a changing view on sustainability. It requires investors to not use a snapshot of the current situation, e.g. current emissions of a company, but to shift towards thinking about the coming transition and about where we want to be positioned in ten or thirty years. The Taxonomy is a more challenging approach to sustainability in terms of measuring, as many investors have come to realize, but it will hopefully be more impactful as well.

**Diane Menville**

Head of ESG

Scope Group

d.menville@scopegroup.com

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Joining the dots: understanding supply chains is crucial for ESG analysis, sustainable growth

The critical role that supply chains play in provisioning cities, companies and whole countries is no secret, but we have increasingly taken them for granted as globalisation has advanced in recent years. When it comes to analysing corporate sustainability, they are often ignored.

The shock of the Covid-19 pandemic has made policy makers, investors and managers focus much more intently on supply-chain transparency for purely near-term economic reasons.

The same is proving true for long-term economic sustainability. Putting supply chains at the centre of sustainability analysis is essential if we want to make a successful transition to a circular economy where we consider the full lifecycle of infrastructure, products and services in formulating policy and devising business strategy.

Supply chain transparency remains a huge challenge for investors, managers

Around 40% of a company's adverse environmental, social and governance impacts typically derive from the farms, mines, transport and businesses that make up its upstream supply chain, according to Scope's impact analysis of 1600 companies in the MSCI World Index. The proportion rises to around 60% if we look only at the environmental impact. In other words, more than half of all adverse environmental impacts of producing goods and services are created in global supply chains. To ignore them is to create a misleading impression of corporate sustainability.

Until now, corporate reporting on ESG performance usually extends only to the impact of the company's own sites and perhaps the first tier of suppliers. Often, it is difficult for a company to trace impacts throughout the supply chain, not least because there may be little quality data available. In worst cases, companies may have deliberately organised their businesses to shift indirect ESG impacts – known as "scope 3" impacts in the terminology of the 2018 Paris Agreement on climate change – down through the international supply chain to make it easier to comply with domestic regulation.

Proactive companies seeking to mitigate such so called negative externalities can find it hard to judge where action is most effective.

The danger is that companies hoping to reduce harmful impacts then take a shot in the dark with their ESG strategy. Take one bank's attempt to introduce wooden credit cards to reduce plastic waste. While recycling wood instead of plastic is far less harmful to the environment, the added emissions in producing wooden cards and the short lifecycle of the less durable product aggravated the overall impact. Trivial as this example may seem, it exemplifies the adverse implications of only considering the environmental impact of the product itself and not its production.

Macro-economic approach to ESG analysis captures a more complete picture of externalities

To capture these hidden impacts, Scope has developed an ESG impact methodology where the supply chain is integral to assessment of a company's sustainability. We take a macroeconomic approach to capture the economic flows of economic value added between sectors and countries. With the help of an input-output model, we start by working out which in which countries and sectors a company incurs costs along the supply chain. We rely on publicly available data.

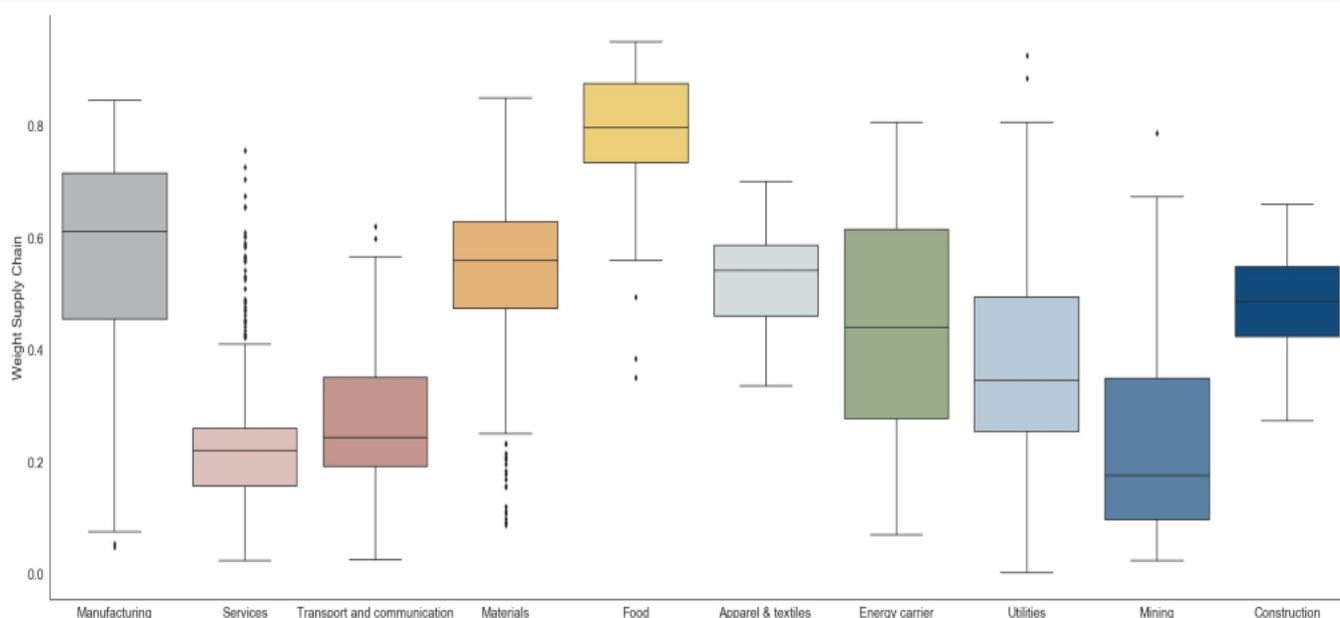
Then we link this information to data on emissions, resource use, labour standards and wages in the relevant countries and sectors to determine an average ESG impact incorporating the supply chain. Once the statistical proxy is determined for a company, its mitigation measures are taken into consideration which will influence the final ESG score.

Our methodological focus on supply chains shows how much companies' ESG impacts vary not only between sectors and geographic regions, but between companies in the same sector depending on their business models and/or where their suppliers are situated.

ESG impacts vary within sectors depending on business models

The energy sector (Figure 17) shows how significant that variance is. Take Finland's Neste Oyj, an oil refining and marketing company. It produces, refines and markets oil products but has no extraction activities. Therefore only 17% of externalities stem from its company sites. In comparison, about 75% of the ESG impacts of integrated oil and gas companies BP PLC and Royal Dutch Shell PLC stem from their company sites due to the integration of their activities covering exploration, production, refining, distribution and marketing.

Figure 17: Weight of the supply chain by sector (height of coloured bar shows dispersion within sector)



Source: Scope Group

Food sector illustrates how ESG impacts vary between different sectors

Our analysis also shows how much the proportion of supply-chain ESG impacts varies from sector to sector, with food exhibiting the highest level of 10 MSCI sectors a 78%. Considering just environmental impacts, the supply chain-related share reaches 88%.

We can also see how significantly the impact of each individual ESG factor varies from sector to sector in Figure 18 which details the sectoral composition of the supply chain for the food sector. The average impact of food companies' own sites is represented by the "Food" segment (marked in red) while the supply chain impact is represented by the aggregation of all other segments. For the environmental and social impact, the agricultural component of the supply chain accounts for most significant share. In contrast, governance impact is concentrated in companies' own sites.

Figure 18: Food sector



Source: Scope Group

Geographic location of supply chain another determinant of ESG impacts

Within sectors, our model also differentiates between the geographic location of a company's headquarters and the geographic distribution of the supply chain.

A good example is Europe's automotive sector. If we take some of the leading original equipment manufacturers, the ESG impacts of Italian luxury sports-car maker Ferrari NV are concentrated in Europe, at 70% of the total, a region where it derives 89% of its economic value. In contrast, the ESG impacts of mass-market French car maker Renault SA in Europe are 53% compared with 78% of the economic value it creates. For Germany's Daimler AG, the figures are 78% and 46% respectively. This disparity between the higher share of value added and lower share of ESG impact in Europe also reveals differences in companies' sustainability impact by region.

Monetising ESG impacts facilitates fair comparisons and sustainability scoring

Our macro-level approach has two other advantages. First, it gets around the problem encountered by many investors in having to rely until now on

companies' self-disclosed, non-standardised information on their externalities which make comparisons difficult.

Secondly, by calculating cost estimates of individual E, S, & G factors, we tackle the problem of how to score and compare such different ESG issues such as water pollution, poor treatment of workers and weak corporate governance without relying on arbitrary weightings. We give specific monetary values to ESG impacts based on the latest available scientific results on environmental and social costs of economic activities, such as the economic price for society of polluting one litre of clean water.

In assigning prices to all impacts, Scope turns physical units – for instance litres of water or tons of CO₂ – into a common unit: the costs of ESG factors in euros. This allows different impacts to be added up and makes transparent comparisons of different E, S and G impacts possible. If a company has a low impact on water consumption but a high impact on GHG emissions, how can an investor judge the combined effect? With the costs of ESG factors expressed in monetary terms, they can be added up, thereby avoiding the use of subjective weightings for one factor or another.

Supply-chains increasingly in focus as regulations tighten in Europe

A holistic approach to ESG analysis is becoming more important as European governments increasingly focus on supply chains in tightening up regulations. Legislation is already in place in France and the Netherlands requiring companies to disclose information on their supply chains and is currently subject of debate in Germany. Any discrepancies that emerge between our macroeconomic analysis and companies' self-disclosed data may serve as a good indication of where data is lacking or of poor quality.

Supply chains are typically viewed as a linear, one-sided flow of goods from supplier to manufacturer, to distributor and to end-consumer. But in a circular economy, output is recycled to sustainably generate new inputs and reduce waste. For now, it is simply too difficult for companies to track the source of materials, components, and products throughout their chain of suppliers to assess the circularity of the activities of any one link in the chain. Furthermore, the complexities and geographical dispersion of supply chains – exposed by the Covid-19 pandemic - has made this alignment difficult, as does the lack of standardised data. Our macroeconomic approach to ESG analysis contributes to squaring this circle.

DAIMLER

Sven Ost

Manager

Corporate Finance / Capital Markets

Daimler

sven.ost@daimler.com

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Spurwechsel. A new Daimler for a new era.

We are living in a time of transformation. Climate change, digitalization, market decline as a result of the Covid-19 pandemic: We are facing enormous challenges. At the same time, however, there are new opportunities. Daimler AG is one of the world's most successful automotive companies – and with its Mercedes-Benz Cars & Vans, Daimler Trucks & Buses and Daimler Mobility divisions one of the leading global suppliers of premium cars and one of the world's largest manufacturers of commercial vehicles. In order to remain "the Mercedes" among the providers of self-determined mobility, Daimler needs to change as well. This is why Daimler is committed to changing lanes, or, as we call it, to a fundamental "Spurwechsel". With this German term, we describe our company's sustainable transformation. Our goal is to create a new Daimler for a new era: sustainably fascinating, sustainably carbon-neutral, and last but not least, sustainably profitable.

For Daimler, sustainability means creating lasting economic value for shareholders, employees, and partners, while always keeping in mind the environmental and societal impacts of the activities on our stakeholders along the entire value chain.

Sustainability@Daimler

Daimler's sustainable business strategy supports the implementation of the Sustainable Development Goals (SDGs) – as defined by the United Nations. Although the SDGs primarily target governments and countries, the success of these goals is greatly dependent on businesses due to their innovative spirit and investment capabilities. Daimler's sustainable business strategy has been closely formulated around the themes of the UN's 17 SDGs. Daimler focused on the SDGs that are significantly influenced by its business model and value chain — areas where the company can contribute the most for bringing about change.

Our six strategic action areas

1. **Emission free mobility:** Emission-free mobility is a core element of our sustainable business strategy. Our aim here is for our new vehicle fleet to become CO₂-neutral by 2039 and to no longer have any relevant impact on air quality in inner cities
2. **Resource conservation:** Our goal is to transform our value chain into a value cycle. That's because even as the global demand for mobility is increasing, the availability of resources is declining. We are seeking to increasingly decouple resource consumption from production growth.
3. **Livable cities:** People who wish to move around in a city can already take advantage of a variety of options. Nevertheless, there remains a huge potential still to be tapped. Our vision is to offer sustainable mobility and transport solutions that help to make cities desirable places to live. With services that are simultaneously comfortable, fast, environmentally friendly, and safe.
4. **Traffic safety:** Accident-free driving — this vision is a firm component of our sustainable business strategy. In order to make this vision a reality, we are focusing on the further development of our driver

assistance and automated driving systems in particular. The societal and ethical implications of such systems are always taken into account.

5. Data responsibility: As digitalization increases, the right way to deal with data is becoming more important as a success factor. Our vision of mobility is one in which the privacy of individuals is protected. We therefore design our products and services with the needs of our customers in mind and make every effort to ensure that their data is managed responsibly.
6. Human rights: We pursue a systematic approach to exclude the possibility of human rights violations to the greatest extent possible and we are doing that along the entire automotive value chain. Wherever appropriate, we work together with various associations, organizations, and competitors to promote the responsible procurement of raw materials.

We are convinced that tomorrow's mobility cannot be shaped by prohibitions. What we need is fair competition that produces the most innovative solutions and technologies. We will make our contribution.

And that's the point where Green Finance comes into play: with a dedicated Green Finance Framework and the first ever green bond at Daimler AG.

Green Finance Framework

With a Green Finance Framework Daimler is enabling investors to participate in the ambitious sustainability goals and creating new opportunities to finance significant upfront investments towards CO₂-neutral technologies and services.

The Green Finance Framework is a summary of principles under which Daimler will utilize green financing instruments in the future. It applies to a broad range of debt instruments such as green bonds, green promissory notes (Schuldscheine), green commercial paper and green loans. Due to Daimler's frequent and standardized public reporting, the company is creating transparency on the positive climate effects of the financed projects.

Daimler follows the best practices in relation to green bonds and loans as market standards develop and as the EU classification of environmentally sustainable economic activities (taxonomy) and the EU Green Bond Standard enter into force.

Daimler will allocate the net proceeds from the green financing instruments to develop and produce zero-emission vehicles such as battery-electric (BEV) and fuel-cell electric vehicles (FCEV), for example.

More than 50% of the proceeds will be allocated to the category "CleanTransportation". Furthermore, proceeds may be used, for example, to upgrade manufacturing facilities or construct new facilities for the production of zero-emission vehicles and their drivetrains, and to establish the recycling of batteries and fuel cells.

Figure 19: CO2 neutrality at Mercedes-Benz Cars

Source: Daimler

Next year the all-new EQS from Mercedes-Benz will enter the showrooms. This all-electric vehicle will be based on a newly developed, dedicated battery electric vehicle architecture. The electric flagship model from Mercedes-Benz will drive off the production line in the new “Factory 56” in Sindelfingen, about 20 kilometers from the Daimler headquarters in Stuttgart. This ultramodern production facility is consistently applying innovative technologies and processes in vehicle production that are digital, flexible and sustainable. The EQS will be partially equipped with CO₂-neutral battery cells. The entire battery package will be manufactured in Mercedes-Benz’s global battery production network.

Figure 20: CO2 neutral production

Source: Daimler

The large-scale development, production and commercialization of fuel-cell systems for heavy-duty commercial vehicles and other applications is planned in a Joint Venture with Volvo Trucks. The common goal is for both companies to offer heavy-duty vehicles with fuel-cells for demanding long-haul applications in series production in the second half of the decade.

Figure 21: Daimler Trucks & Buses – making CO₂-neutral transport a reality

Source: Daimler

Daimler has consulted CICERO Shades of Green, a leading provider of independent, research-based evaluations of green finance frameworks to assess the environmental robustness of its framework. Daimler's framework for which SEB acted as Sole Structuring Advisor, obtained the highest rating, "Dark Green", from CICERO and an "Excellent" for its governance procedures.

The Second-Party Opinion from CICERO is available on Daimler's website: <https://www.daimler.com/investors/refinancing/green-finance/>

Daimler's first green bond

The first Green Benchmark Eurobond issued by Daimler AG on September 3, 2020 with a volume of €1 billion, a term of 10 years and an annual coupon of 0,75% was more than 4-times oversubscribed and driven by a high-quality orderbook with 430 investors. The strong demand for this green bond demonstrates the attractive conditions as well as the confidence of investors in our strategy. The whole project, which was a collaborative project of various departments within Daimler, underpinned that CO₂-neutral mobility and production is a clear goal and an integral part of our sustainable business strategy.

Figure 22: Committed investments

Committed investments as part of our electrification strategy

€10 bn

About €10 billion to expand our fleet of electric vehicles.

€1 bn

More than €1 billion to expand our battery production.

€20 bn

Buying battery cells for more than €20 billion in order to systematically promote our Group's entry into an electrically driven future.



Source: Daimler



Defining Social bonds in the Nordic Welfare state context

Miia Palviainen

Funding Analyst

MuniFin

Miia.Palviainen@munifin.fi

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MuniFin was the first Nordic agency to issue a social bond on 2nd September 2020. The inaugural bond was a major success and received the backing of many ESG-focused investors. With the introduction of this new bond and future issuances, we are able to respond to the growing interest of sharing more information about the projects we finance and their potential impacts on the social side as we have been doing with our green bonds since 2016. SEB acted as sole structural advisor on the [Social Bond Framework](#).

Given that MuniFin's sole mandate is to provide finance to municipalities and the social housing sector in Finland, we enable investments across the country that promote the fundamental aspects of our welfare state. Municipalities provide the majority of welfare services and therefore investments by them account for the largest share of the day-to-day services like education, healthcare and culture. The social housing sector, on the other hand, ensures that people have the opportunity to live in an affordable manner and make sure that the housing supply matches with the demand.

One may wonder, and rightfully so, what type of investments are deemed social in the Nordic welfare state context. In Finland, we pride ourselves that we are the happiest country in the world (UN World Happiness Report), but that still does not mean there are no social issues present in our society. For the social bonds and the matching social finance product on the lending side, it was key for us to select projects that promote some of the most important SDG challenges faced by Finland and make sure the funding is targeted towards projects that benefit the most vulnerable population whenever possible and appropriate. In some cases targeting the general public is the most appropriate because the Nordic welfare model is built on the notion of equal opportunities and services are provided to everyone regardless of their income or social status. All of the projects are at the core of MuniFin's customer finance business but only best-in-class projects are eligible for our social bonds.

To better define the targeted social challenges, we started to work together with experts outside of our organisation and formed an official social evaluation team for the project selection process. This approach safeguards our selection criteria's validity and credibility as we have learned from our green finance process where we also have a separate green evaluation team. The social evaluation team consists of three members who all have their own expertise areas, two of them are external members and one is a MuniFin representative. One of the current external member brings in expertise on regional leadership and development and the other from affordable rental housing.

The social evaluation team takes a holistic approach when approving the projects into the portfolio. The final decision is based on the overall impact and the projects need to promote some of the wider social goals such as equality, communality, safety, wellbeing and vitality of the area. Further, the ability to narrow wellbeing gaps is discussed.

In the social bonds framework, the following eligible project categories are included: social housing, welfare and education.

Social Housing

Under this category we can select social housing projects that are for the vulnerable population or alternatively standard social housing projects that place communal elements in high priority. Social exclusion is on the rise in Finland and preventative measures include ensuring people experience a sense of community. With these communal social housing projects this issue can be addressed.

Welfare

Healthcare facilities that we finance are public and support access to services to the wider population given the nature of the healthcare system in place in Finland. Primary healthcare service is provided in health centres and specialized medical care is provided by hospital-district hospitals. MuniFin does not finance private health care providers.

The target population for these projects is the general public as these facilities are publicly financed and provide care and treatment to the wider population. Both primary and specialised healthcare provide equal care and treatment to everyone and in accordance with Social Bond Principles they service target groups by addressing the general public. In addition, specialized wards in hospitals can impact more specific target groups such as children, women and people with mental health issues.

In addition to healthcare, we felt strongly that sports and culture facilities should be included in this category as well as they are often organized by municipalities and promote health and education. Having access to these services reduces inequality as people can enjoy the services either free of charge or paying a minimal amount. In addition, they can improve the vitality of the area and build communal atmosphere.

Education

Under the education category the projects are essentially school buildings from day-care up to higher education campuses. In addition, education hardware such as computers for students can be approved.

When selecting the education projects in the portfolio, an internal evaluation model is used for screening. The schools need to target population that lives in an area where investments in education would have the greatest impact on the vitality of the area. By targeting population from less vital areas, the schools can narrow differences in learning outcomes between students from different socio-economic background and also lead to reduced inequalities and social exclusion.

Figure 23: Eligible project categories within the social bonds framework

Source: MuniFin

With the introduction of the product, we wish to showcase projects that are in line with our view of social finance and hope this will lead to knowledge sharing and discussions on how investments can be made more inclusive and promote important social values. By doing this we will be in a better position to serve our clients and expand our own in-house expertise. Bringing the second ESG-component to the discussions makes us an even better companion to our clients as we navigate the SDG-world together.

For our investors, we want to be a transparent issuer and provide information as much as possible. We are committed to report annually on the allocations and impacts of our social finance portfolio. Our green bond impact report is of high standard and we work towards achieving similar level for our social bond impact report as well.

Our goal for the future is clear – we want to continue building our social and green finance portfolios and issue dedicated bonds annually. With the success of the inaugural social bond issuance, we are confident that we have been able to build a solid framework and are excited about the future.



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Christopher Flensburg

Head of Climate & Sustainable Finance

Phone: +46850623138

christopher.flensburg@seb.se

Assistant: lina.apsheva@seb.se

Gunilla Svensson

LC&FI Marketing & Communications

gunilla.Svensson@seb.se

Mats Olausson

Senior Advisor

Climate & Sustainable Finance

mats.olausson@seb.se

Gabriella Eriksson

Advisor and Specialist Green Library

Climate & Sustainable Finance

gabriella.eriksson@seb.se

Kristoffer Nielsen

Advisor

Climate & Sustainable Finance

kristoffer.nielsen@seb.se

Olle Billinger

Advisor

Climate & Sustainable Finance

olle.billinger@seb.se

Carol Au-Yeung

Climate & Sustainable Finance Asia

carol.au.yeung@seb.se

Anna Svensson, CFA

Head of International Credit Sales

anna.x.svensson@seb.se

Urban Josefsson

Head of International Financial Institutions Coverage

urban.josefsson@seb.se

Thomas Thygesen

Editor

Head of Strategy, Head of

Research, Climate & Sustainable

Finance thomas.thygesen@seb.dk

Elizabeth Mathiesen

Senior Strategist

Equity Strategy Research

elizabeth.mathiesen@seb.dk

Tine Vist

Quantitative Strategist

Equity Strategy Research

tine.vist@seb.dk

Steven Brooker

Head of Financial Strategy

Denmark

steven.brooker@seb.dk

Caroline Lehmann Christiansen

Analyst

Financial Strategy

caroline.christiansen@seb.dk

Charlotte Asgermyr

Chief Covered Bond and FI Market

Strategist

Macro & FICC Research

charlotte.asgermyr@seb.se

Lars Dybwad

Head, Macro Sales, Norway

lars.dybwad@seb.no

Sean Yokota

Head, Markets, Singapore

sean.yokota@seb.se

Martin Bergqvist

Head, Markets, Hong Kong

martin.Bergqvist@seb.se

Sascha Köhler

Head of Institutional Sales DACH

sascha.koehler@seb.de

Sir Roger Gifford

Senior Banker, Large Corporates &

Financial Institutions, London

roger.gifford@seb.co.uk

Bo Madsen

FI Sales, Denmark

bo.madsen@seb.dk

Paul Bergel

Macro & Credit Sales New York

paul.bergel@sebnyc.com

Anders Wickman

London UK Sales, Fixed Income

anders.wickman@seb.co.uk

Vincent Vennberg

FI Sales

vincent.vennberg@seb.se

Fredrik von Platen

Debt Capital Markets

fredrik.vonplaten@seb.se

Frank Teuber

Debt Capital Markets

frank.teuber@seb.de

Helena Kernell

Debt Capital Markets

helena.kernell@seb.se

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