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Markets



Sustainable  
Finance Group

# 2024 Global ESG Fixed Income Investor Survey

## Summary Results

FEBRUARY 2024

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# “One thing I learned from the result of RBC Global ESG survey...”



*“This year’s ESG Fixed Income Investor Survey sheds a new light on evolving regional trends and preferences among fixed income investors.”*

**Lindsay Patrick**

Global Head, Strategy, Marketing, and Sustainability



*“Investors are increasingly considering the holistic sustainability profile of an issuer, underscoring the importance of aligning debt issuance with a credible and authentic sustainability strategy.”*

**Sarah Thompson**

Global Head, Sustainable Finance



*“ESG factors are broadly included in investor mandates, highlighting the importance of integrating sustainability considerations in corporate strategy and disclosure.”*

**Sian Hurrell**

Global Head, Sales and Relationship Management and Head, Global Markets Europe



*“The emphasis on sustainability integration by investors has continued despite macroeconomic headwinds, heightened geopolitical risks, and the politicization of ESG.”*

**Robert McCormack**

Global Head, Debt Capital Markets



*“Overall demand for sustainable investment opportunities remains strong despite some regional nuances.”*

**Dan Botoff**

Global Head, DCM Syndicate



*“Data availability and transparency remain key priorities for sustainable investors globally, with the aim to mitigate greenwashing risks and adhere to regional and internationally-accepted best practices.”*

**Janet Wilkinson**

Managing Director, Head of Global Markets Flow Sales, EMEA



*“Sustainable debt labels continue to capture pricing benefits in all regions, allowing RBC to broaden financing opportunities for clients through a wide network of investors.”*

**Dan Spitzberg**

Head, US Investment Grade Sales

## EXECUTIVE SUMMARY

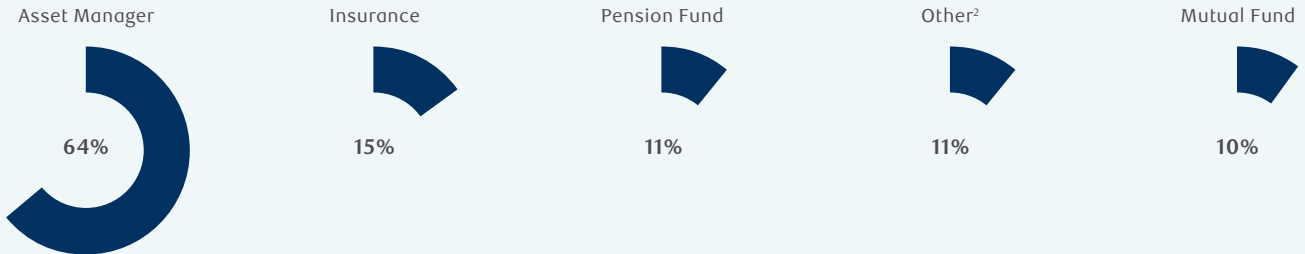
- RBC's 2024 ESG Fixed Income Survey brings views on the most salient themes in the sustainable finance market from over 110 institutional investors representing more than \$26.3 Trillion<sup>1</sup> in AUM, globally.
- Survey results were collected in November 2023.
- Despite increased scrutiny from regulators and changing market sentiment, the vast majority of investors (90% globally) experienced stable or increased demand for sustainable funds over the course of 2023, underlining persistent demand for sustainability-focused investment opportunities.
- ESG considerations are playing an even more prominent role in investor mandates in 2023 than they were in 2022.
- The majority of investors consistently pointed towards ESG ratings, ESG controversies, and GHG emissions as drivers impacting investment decisions.
- Over 90% of sustainable investors that participated in the survey rely on ESG ratings to inform their investment decisions, consolidating the role of ESG ratings as an investment tool.
- The majority of investors that rely on ESG ratings use both proprietary models and external providers, with those focusing singularly on either solution exhibiting a slight preference for internal models as opposed to external ESG ratings.
- Green Bonds remain the preferred label across regions with 63% of investors actively investing, followed by Sustainability, Sustainability-Linked (SLBs), and Social Bonds with approximately 50% of investors actively investing.
- Transition Bonds, on the contrary, currently attract only a minority of investors; however, a large proportion of investors are considering or researching the subject.
- RBC observes different regional preferences, with sustainable labeled bonds finding more appeal in Europe and Canada when compared to the US, the latter showing a strong willingness to consider investment opportunities across labels.
- Investors remain willing to ascribe additional value to sustainable labels compared to non-labeled products, although RBC notices a contraction of 1bp across all labels and regions in the expected greenium when compared to [2022 survey results](#).
- When looking at SLBs, investors identify an increased number of challenges to investing in the label. Themes such as unambitious targets, insufficient penalties, and immaterial KPIs add to the lack of KPI standardization, which was the top concern for the label in 2022.
- Investors' views on Scope 3 targets for SLBs from issuers in high-emitting sectors have seen some change since 2022. The inclusion of Scope 1 and 2 targets in SLBs only suffice for 28% of investors as the majority now require Scope 3 targets to be included in the framework or featured within an issuer sustainability strategy.
- Looking forward to 2024, ESG data collection and integration remain top of mind for investors, with greenwashing risk mitigation and regulatory disclosures following suit.
- Investors are increasingly relying on a broader range of ESG data providers, with 65% of investors using data from Bloomberg, 60% from MSCI, and 45% from Sustainalytics. Responses also showed that 86% of investors use two or more ESG data sources, highlighting the importance for issuers to manage their ESG profile across a broad range of providers.

110+ respondents from across the US, UK/Europe, Canada, and APAC, (the “Investors”) representing a combined **AUM of \$26.3 Trillion<sup>1</sup>**

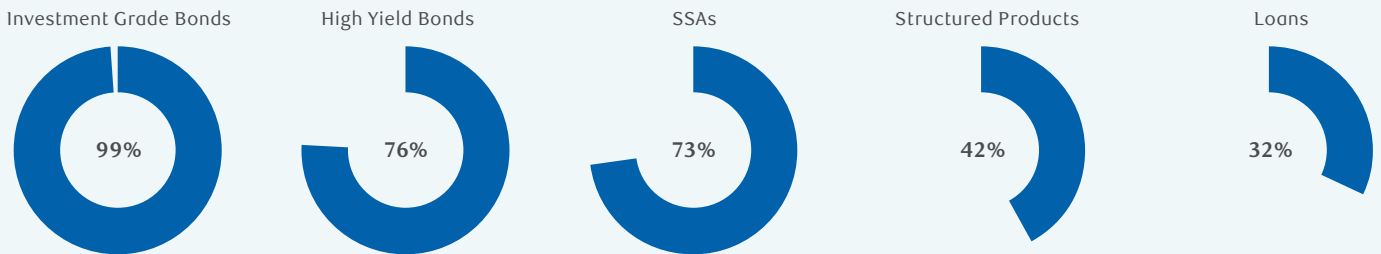
1. AUM as per company reports (USD)

# COMPREHENSIVE INVESTOR POOL ADDRESSING MULTIPLE INSTRUMENTS, CURRENCIES, AND GEOGRAPHIES

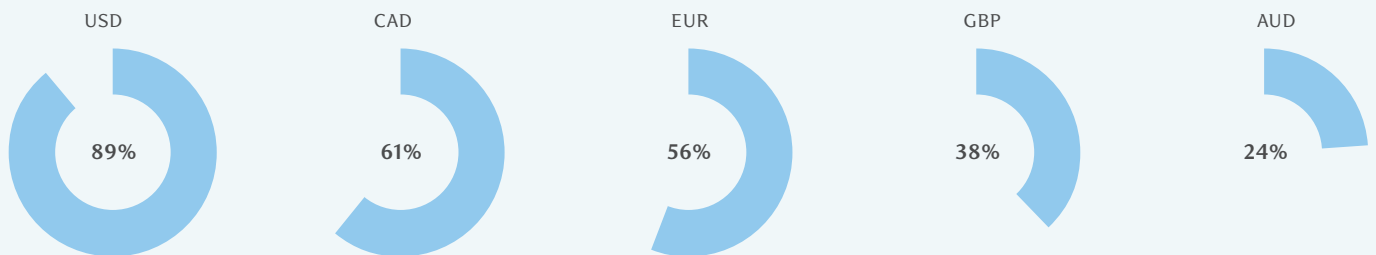
## Percentage of global survey respondents by type:<sup>1</sup>



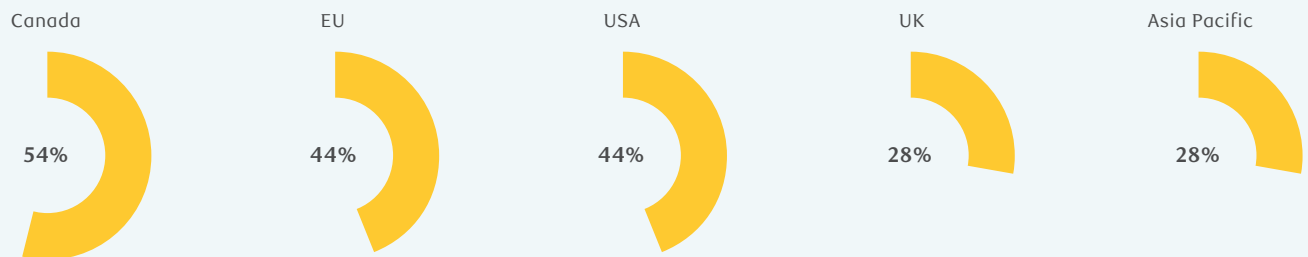
## Percentage of global survey respondents investing in:<sup>1</sup>



## Currency exposure of global survey respondents:<sup>1</sup>



## Client base of global survey respondents by geography:<sup>1</sup>



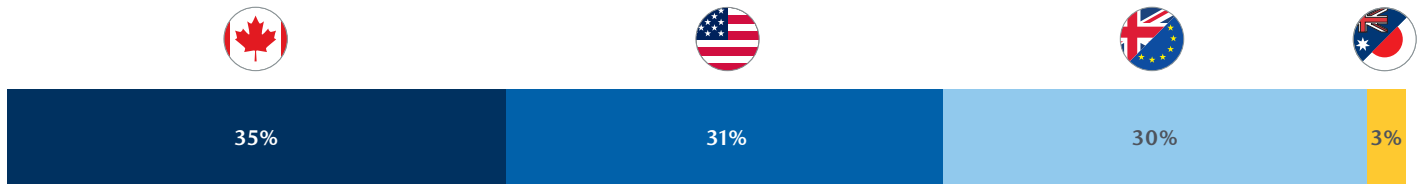
Source: RBC Capital Markets survey

1. Multiple responses possible

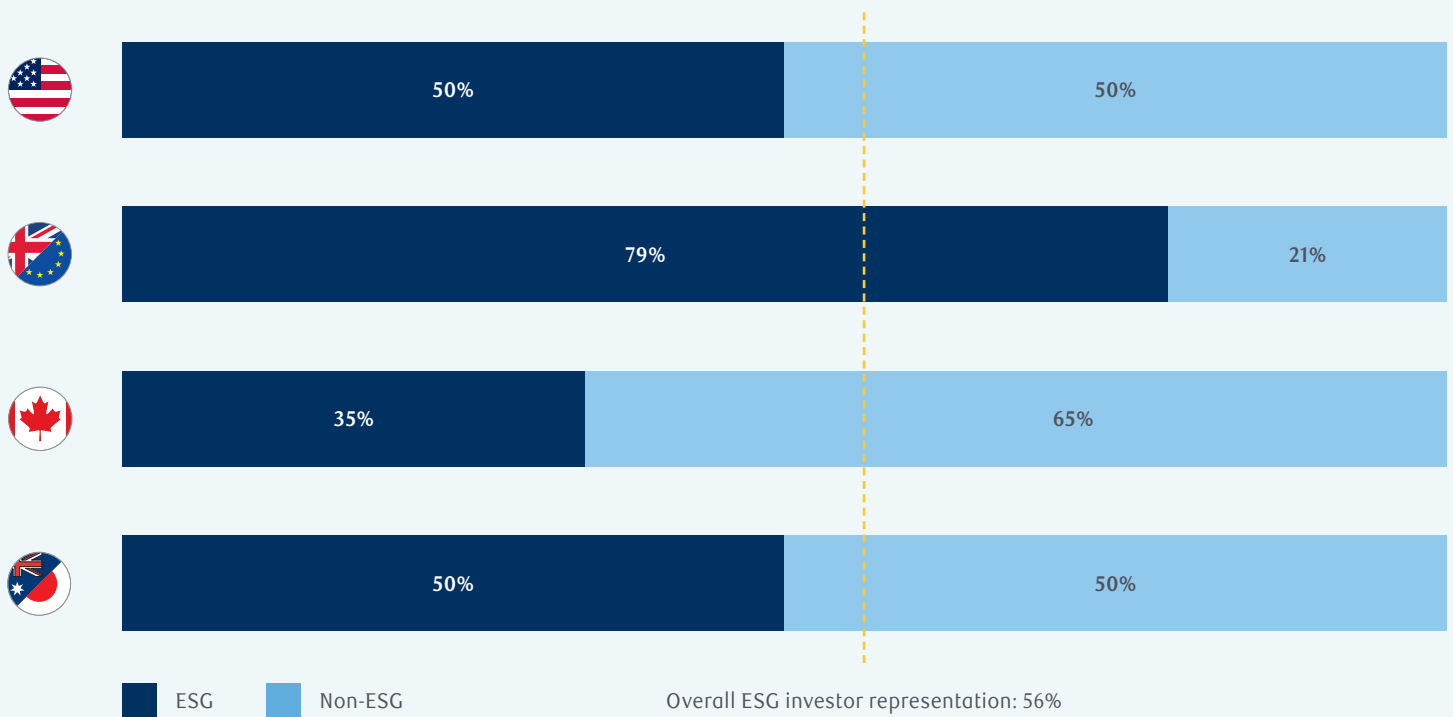
2. Others include: Hedge funds, Bank treasury, Corporate treasury, Sovereign wealth funds, etc.

## BALANCED GEOGRAPHIC DISTRIBUTION AND SUSTAINABLE INVESTOR PARTICIPATION

110+ respondents across RBC's core geographies:



Percentage of ESG focused investors across regions:

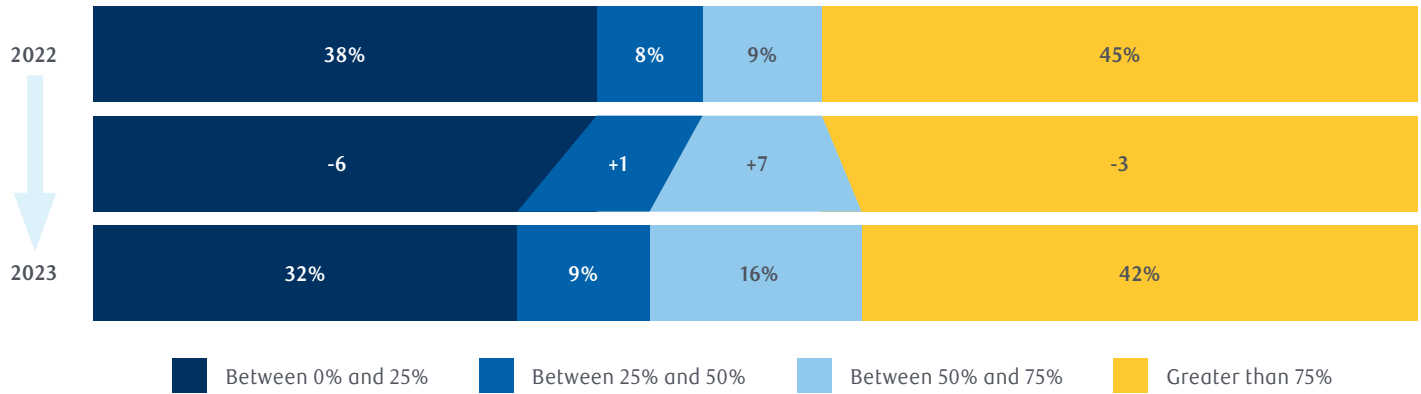


Source: RBC Capital Markets survey

Note: "ESG focused" is determined if a respondent's fund either discloses under SFDR Article 8/9 or classifies itself as sustainable

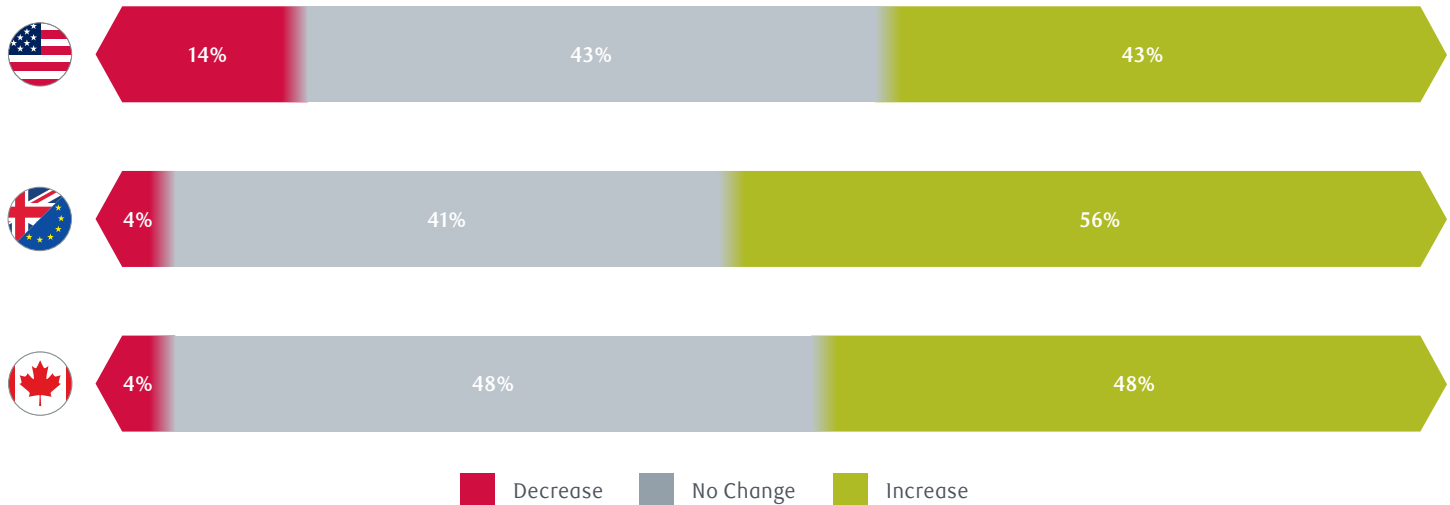
## ESG INTEGRATION IN INVESTMENT DECISIONS: TRENDS AND PRACTICES

### Percentage of investor mandates incorporating ESG considerations:



- ESG incorporation in investor mandates is increasing, with close to 60% of investors experiencing integration of ESG considerations across 50% or more of their mandates

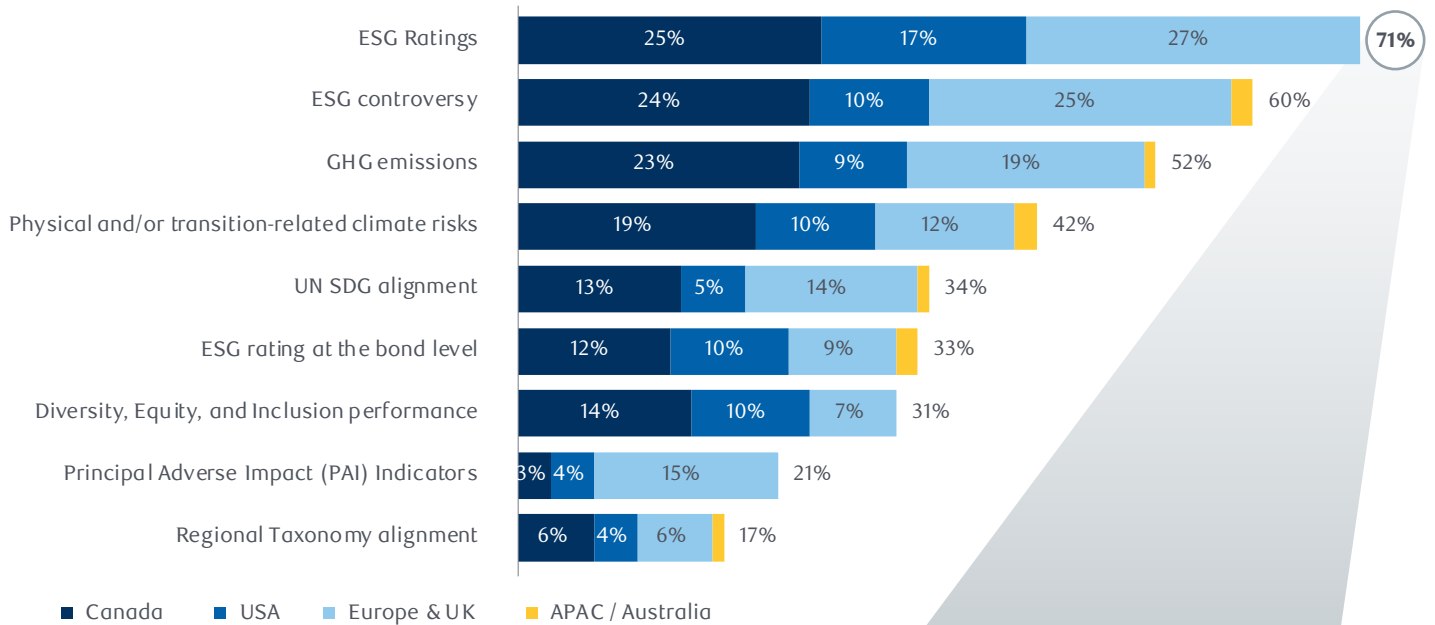
### Perceived change in demand for sustainable funds relative to non sustainable funds:



- 85+% of investors across regions experienced stable or increased demand for sustainable funds, underlining a persisting demand for ESG focused investment opportunities globally

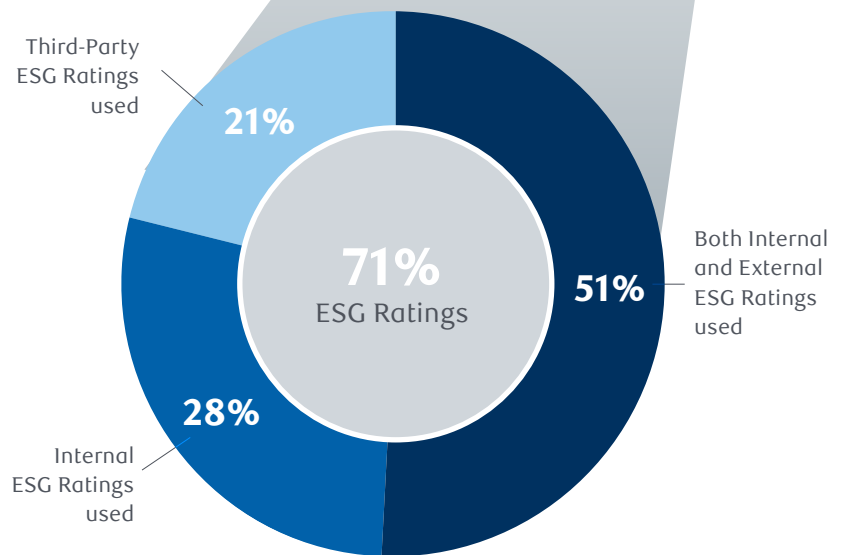
Source: RBC Capital Markets survey

ESG drivers impacting investment decisions by region:



YOY INSIGHTS

- Compared with 2022, a lower percentage of respondents reported GHG emissions (2022: 64%) and physical and climate risks (2022: ~57%) as drivers impacting investment decisions



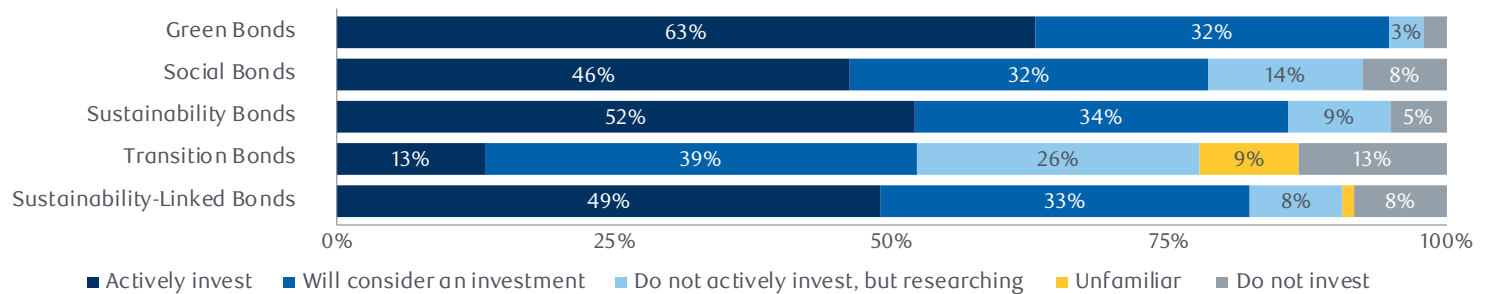
- Third party and proprietary ESG ratings remain a key driver of investment decisions across regions
- ESG controversies influence almost two thirds of investors with controversies based exclusions appearing to be the common denominator across the spectrum of sustainable investment strategies

Source: RBC Capital Markets survey  
 Note: Data labels <2% removed for readability



## INVESTOR PREFERENCES FOR SUSTAINABLE FINANCE INSTRUMENTS

### Preferred sustainable debt labels according to investors:

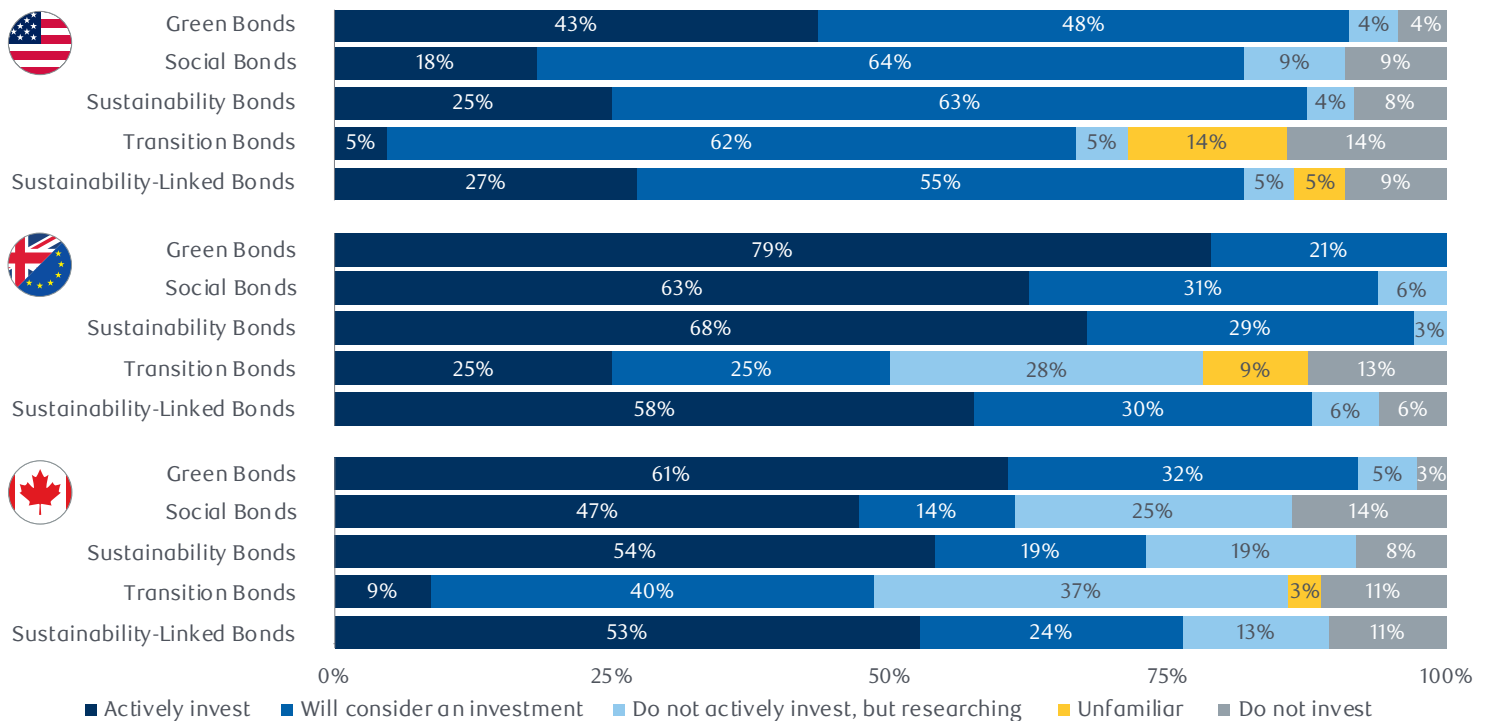


### YOY INSIGHTS

- Investor appetite remains unchanged across labels compared to 2022

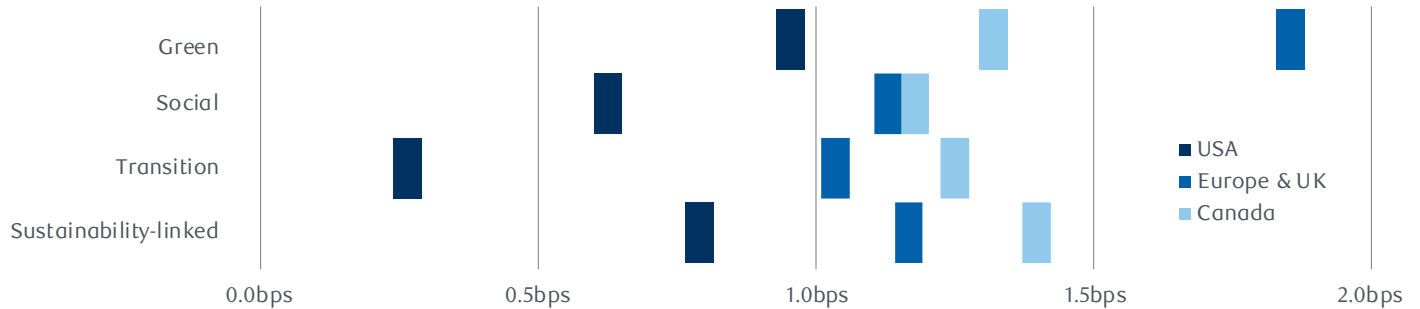
- Green Bonds are the preferred label across the sustainable debt market, appealing to the majority of investors
- Other labels retain good appeal for investors, apart from Transition, which currently attracts only a minority of investors with a large proportion considering or researching Transition Bonds

### Preferred sustainable debt labels according to investors by region:



Source: RBC Capital Markets survey  
 Note: Data labels <2% removed for readability

### Where is the “greenium”?

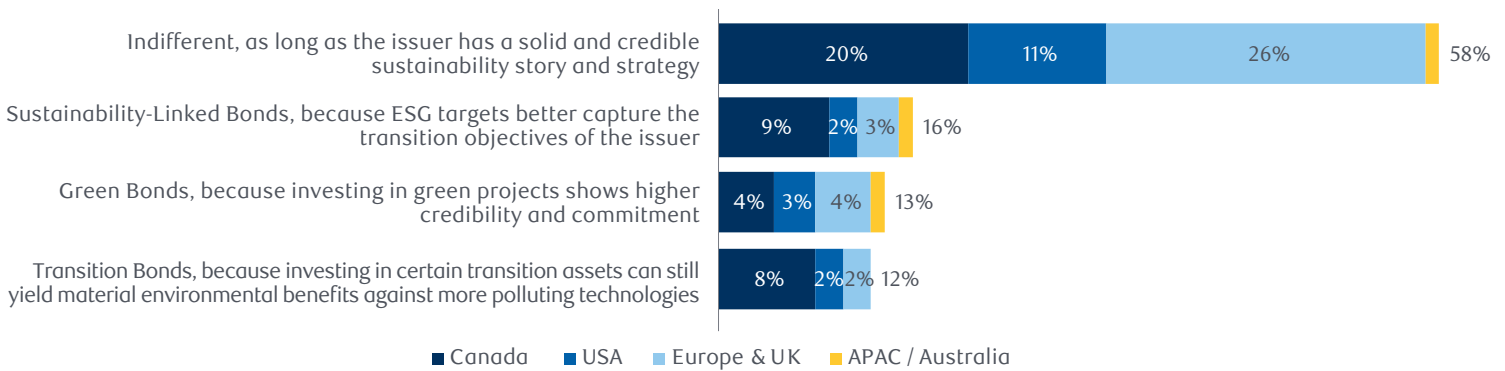


### YOY INSIGHTS

- Comparative pricing advantage of ESG labels remain relatively unchanged YoY; however, overall premiums have shrunk by 1bp compared to 2022

- Overall, investors are willing to ascribe additional value to sustainable labels compared to non labeled products
- The Green label seems to be the preferred option across regions
- A Transition label seems to call for the least amount of premium in Europe & UK and the US, whilst Canadian investors are willing to ascribe as much value as a Green alternative

### Which sustainable debt instruments best support the transition strategy of an issuer?



### YOY INSIGHTS

- Transition labels slightly gained traction as a tool for supporting the transition strategy of issuers compared to 2022

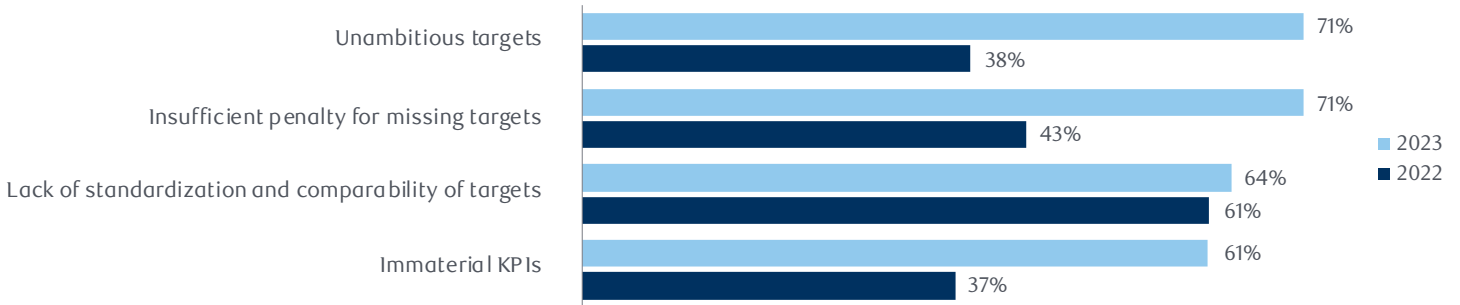
- A strong and credible sustainability strategy is top of mind for investors when assessing the credibility of an issuer’s transition journey, with only partial contribution from the use of sustainable debt labels

Source: RBC Capital Markets survey

Note: In 2022, global investors reported a “greenium” range for green products of [1.6, 2.9], social products of [1.5, 2.2], and sustainability linked products of [1.6, 2.4]  
Data labels <1% removed for readability

## INVESTOR PERSPECTIVES ON SUSTAINABILITY-LINKED BONDS

### Perceived challenges to investing in SLBs:

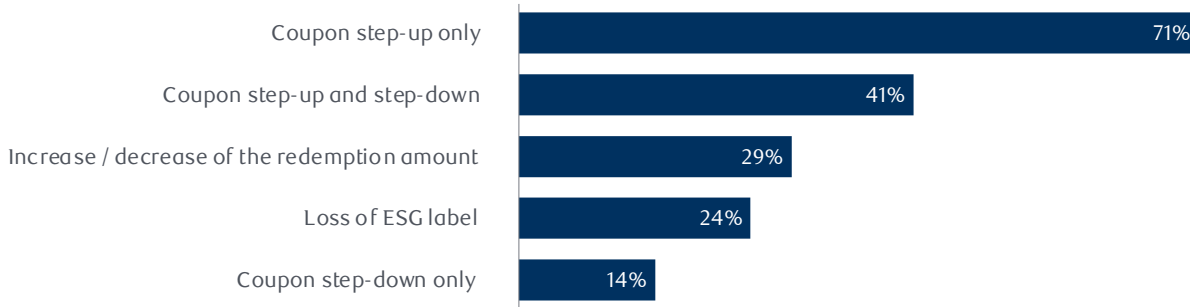


### YOY INSIGHTS

- Lack of standardization and comparability of targets remains a key challenge for investors

- Investor challenges to investing in SLBs are mainly driven by insufficient penalties and unambitious targets
- Immaterial targets also score high in the list of issues investors see in the SLB market

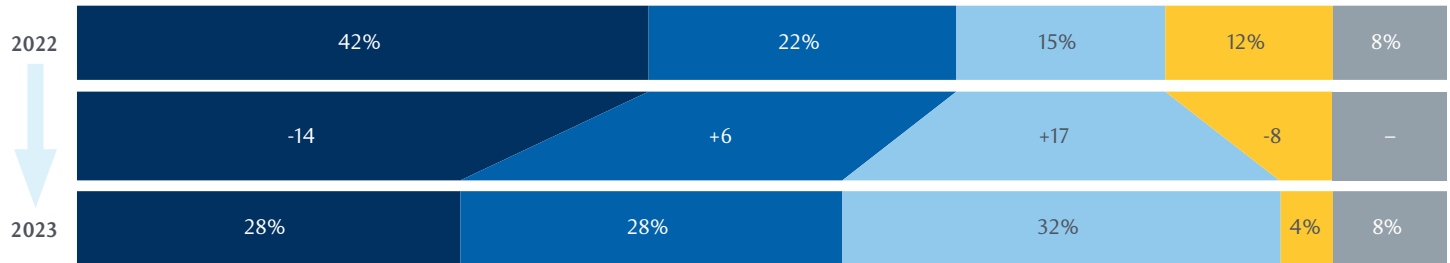
### SLB incentive mechanisms preferred by investors:



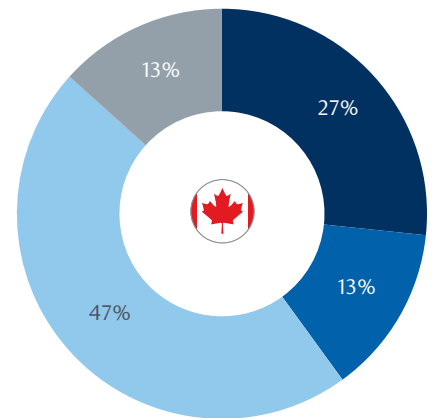
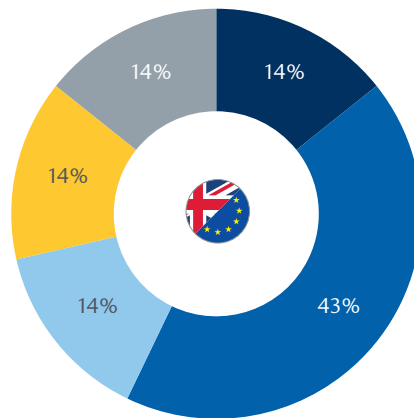
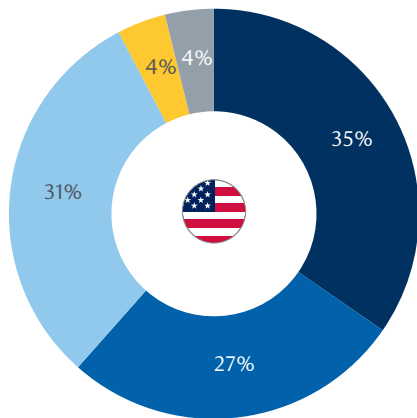
- Coupon step ups remain the preferred incentive mechanism for investors
- However, coupon step downs appear to be acceptable to investors when paired with a coupon step up
- Loss of ESG label is considered an acceptable incentive by only one quarter of respondents

Source: RBC Capital Markets survey

Investor perspectives on Scope 3 emissions targets:



- Scope 1 and 2 targets are sufficient for me to invest
- Scope 1 and 2 targets are sufficient for me to invest but a Scope 3 target must be present in the issuer's ESG strategy
- Scope 1 and 2 targets are sufficient for me to invest but a Scope 3 target must be present in the issuer's Framework
- Use of proxy Scope 3 target in the absence of a Scope 3 target is sufficient for me to invest
- Absence of a Scope 3 target in the bond means I cannot invest



YOY INSIGHTS

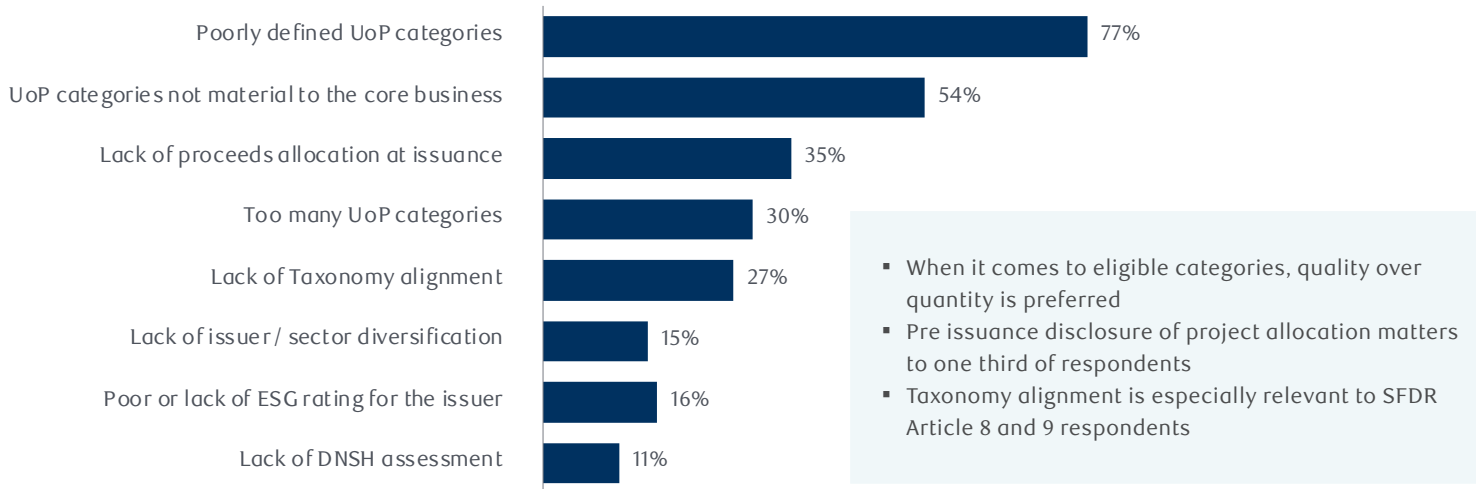
- The share of investors expecting to see a Scope 3 target in an issuer's framework or ESG strategy increased from 38% in 2022 to 60% in 2023
- On the contrary, fewer investors are willing to accept securities with only Scope 1 and 2 targets
- Scope 3 proxies have lost traction among investors since 2022

- Absence of Scope 3 targets in the bond affects investors' ability to participate in the trade in 8% of cases on average, with notable regional nuances
- Across regions, inclusion of some form of Scope 3 targets is a requirement for the majority of respondents
- When compared to Canadian and European counterparties, US investors show higher willingness to participate in trades featuring KPIs addressing direct emissions only

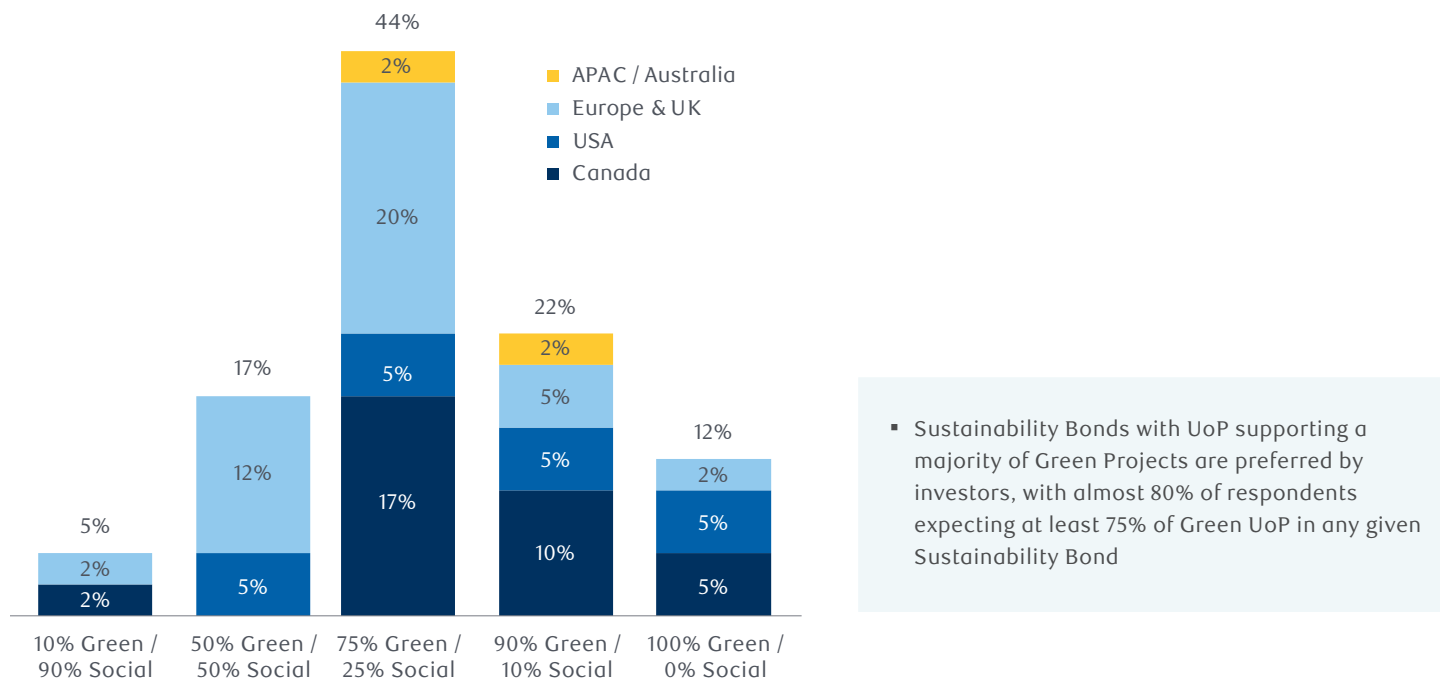
Source: RBC Capital Markets survey

## INVESTOR PERSPECTIVES ON GSS BONDS

### Perceived challenges to investing in GSS bonds:



### Investors' preferred split of Green vs. Social UoP for Sustainability Bonds:

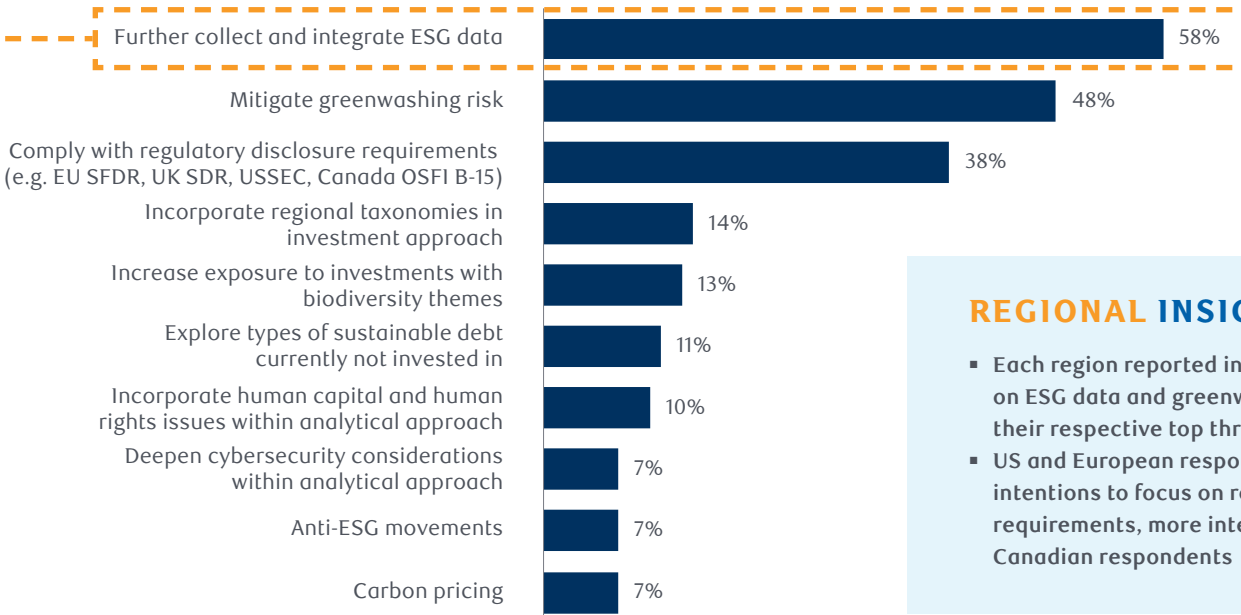


Source: RBC Capital Markets survey

Note: DNSH stands for "Do Not Significant Harm". UoP stands for "Use of Proceeds"

# SUSTAINABLE FINANCE THEMES TO LOOK FOR IN 2024

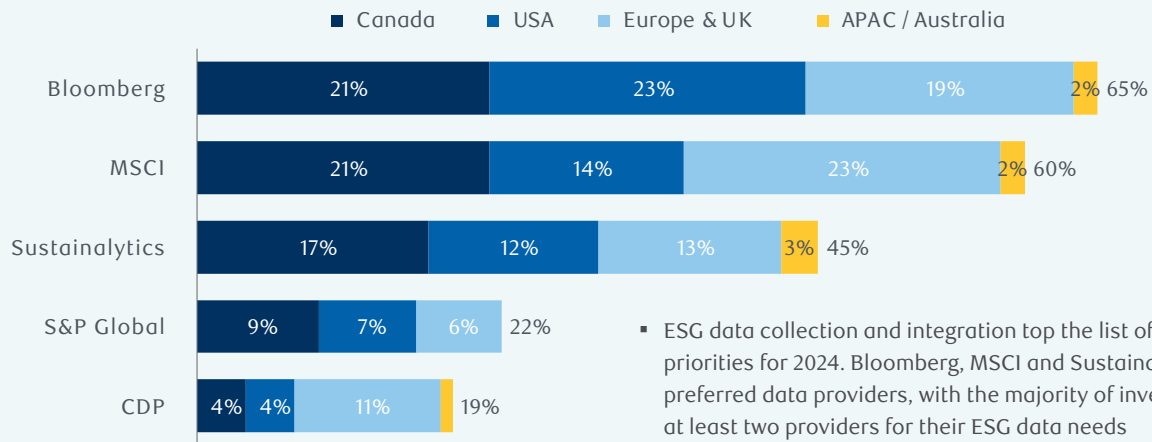
## ESG key focus areas for 2024:



### REGIONAL INSIGHTS

- Each region reported intentions to focus on ESG data and greenwashing risk within their respective top three responses
- US and European respondents reported intentions to focus on regulatory requirements, more intensely than Canadian respondents

## Preferred ESG data providers



ESG data collection and integration top the list of investor priorities for 2024. Bloomberg, MSCI and Sustainalytics are the preferred data providers, with the majority of investors relying on at least two providers for their ESG data needs

## Number of ESG data providers used



Source: RBC Capital Markets survey  
 Note: Data labels <2% removed for readability

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