



Capital
Markets



Sustainable
Finance Group

2022 Global ESG Credit Investor Survey

Summary Results

NOVEMBER 2022

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



“ESG integration in investment mandates continues to be driven by end-investor and executive leadership, creating top-down/bottom-up support for the sustainable finance market.”

Lindsay Patrick

Global Head, Strategic Initiatives and ESG



“Meeting market expectations and high ESG standards pays off in terms of credibility, investor engagement and economics.”

Sian Hurrell

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



“RBC’s global ESG survey shines a light on investor expectations around ESG topics, providing valuable insight from a global perspective.”

Robert McCormack

Global Head, Debt Capital Markets



“Investor engagement on ESG topics is high priority for the vast majority of issuers globally.”

Dan Botoff

Global Head, DCM Syndicate



“Investors show more responsiveness to a well-thought through sustainability strategy than just the ESG features of an instrument.”

Janet Wilkinson

Managing Director, Head of Global Markets Flow Sales, EMEA



“Investors are taking a holistic approach to ESG integration, imbedding it in both individual credit analysis and broader firm mandates.”

John Maggiamo

Head, US Credit Sales

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2022 GLOBAL ESG CREDIT INVESTOR SURVEY

Survey Context

- The survey addresses key sustainable finance topics, including:
 - Integration of ESG considerations
 - Expected trends in the sustainable finance market
 - Investor appetite and preferences around ESG formats

Summary Observations

- As Investors continue to focus on ESG, respondents are expecting inflows into ESG mandates of ~US\$100-200Bn over the next 12-18 months
- Client demand and leadership mandates are key drivers for ESG integration
- ESG integration within credit analysis is relevant even for those Investors managing few to none ESG mandates
- ESG ratings, controversy levels and climate metrics and risks are the key ESG drivers impacting investment decisions
- Global Investors continue to display a material preference for green bonds for which they are willing to attribute higher premiums over other ESG labels
- Investors' unfamiliarity with transition labels is an opportunity to increase awareness and potentially fuel the growth of transition finance in the future
- Despite lack of comparability of KPIs and targets in sustainability-linked bonds (SLB), Investors show an overwhelming preference for instruments with both interim and long-term target test dates
- For issuers in industries where indirect GHG emissions (Scope 3) are material, the presence of some form of commitment (either in the framework, in the strategy or through proxy KPIs) materially increases Investor appeal
- Integrating DE&I considerations in financial instruments increases investor engagement and helps deliver additional value for issuers, particularly in the US

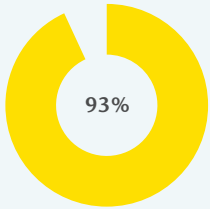
145 respondents across the US, UK/Europe, Canada and APAC, (the “Investors”) representing a combined AUM: **\$42 Trillion**¹

1. AUM as per company reports (USD)

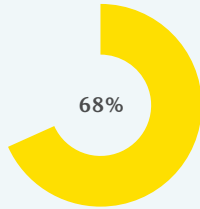
COMPREHENSIVE INVESTOR POOL ADDRESSING MULTIPLE INSTRUMENTS, CURRENCIES AND GEOGRAPHIES

Percentage of global survey respondents investing in:

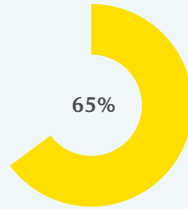
Investment Grade Bonds
(Corporate/Financial)



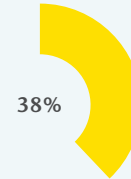
High Yield Bonds
(Corporate/Financial)



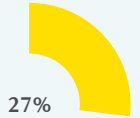
Sovereigns, Supranationals
& Agencies (SSA)



Structured Products

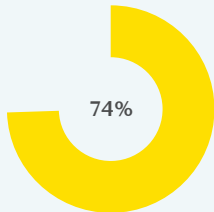


Loans

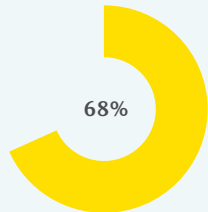


Currency exposure of global survey respondents¹:

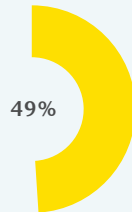
USD



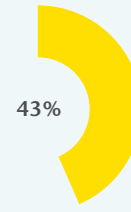
EUR



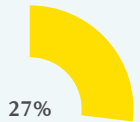
CAD



GBP

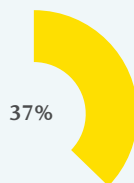


AUD

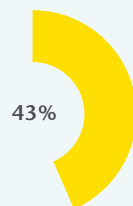


Location of global survey respondents' client base²:

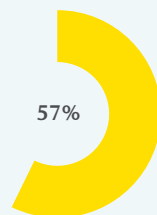
USA



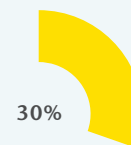
Canada



Europe & UK



Asia Pacific



Other

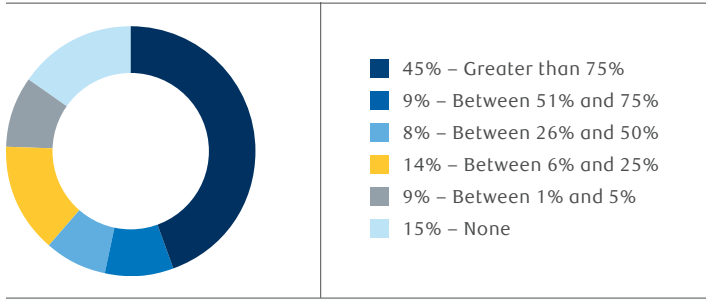


1. Other currencies (6%): NOK, SEK, DKK, JPY, SGD, PLN, MXN, CNY, MYR, IDR, INR, NZD, CHF, DKK

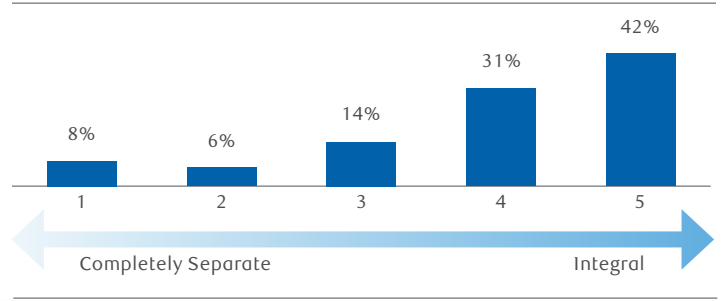
2. Other client locations (2%): Middle East and North Africa, Latin America

ESG IMPACT AND INTEGRATION IN INVESTMENT DECISIONS: TRENDS AND PRACTICES

What percentage of Investor mandates incorporate ESG considerations?



What percentage of Investors see ESG as integral in credit analysis?



Sustainability mandates are driving ESG integration in Investor credit analysis



Percentage of respondents, level of ESG integration in credit analysis per percentage of ESG-relevant mandates managed

- ESG integration within credit analysis is relevant for Investors irrespective of the percentage of ESG-relevant mandates they manage
- Investors managing a high percentage of mandates incorporating ESG considerations show a higher level of ESG integration within their credit analysis

TRENDS AND PRACTICES (CONT'D)

What factors are driving ESG integration?



- Push from the bottom (clients) and guidance from the top (firm leadership), as well as reputational and marketing benefits are the top drivers for ESG integration globally
- Regulatory trends as drivers of ESG integration are picking up momentum as regions implement and propose stricter policies

Top 3 factors across geographies:



- 1 Clients mandate or are asking for it
- 2 Reputational and marketing benefits associated with ESG offerings
- 3 Regulation or regulatory trends



- 1 Clients mandate or are asking for it
- 2 Our firm's leadership is pushing for it
- 3 Regulation or regulatory trends

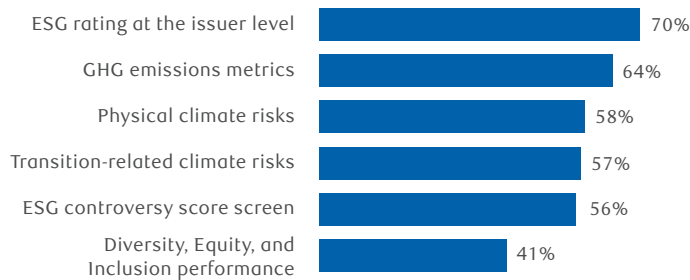


- 1 Clients mandate or are asking for it
- 2 Reputational and marketing benefits associated with ESG offerings
- 3 Our firm's leadership is pushing for it



- 1 Lower long-term credit risk
- 2 Clients mandate or are asking for it
- 3 Our firm's leadership is pushing for it

Which ESG drivers have an impact on investment decisions?



- The key ESG factors in investment decisions are relatively consistent across all four geographies
- Minor differences in priorities across regions exist, for example, GHG emissions metrics seem more prevalent in Canada and APAC than in the US and UK/Europe
- Qualitative survey responses indicate that Investors consistently consider strong governance to be an important prerequisite to virtually all ESG-driven investment decisions

Top 3 drivers across geographies:



- 1 ESG rating at the issuer level
- 2 Physical climate risks
- 3 GHG emissions metric



- 1 ESG rating at the issuer level
- 2 ESG controversy score screen
- 3 GHG emissions metrics



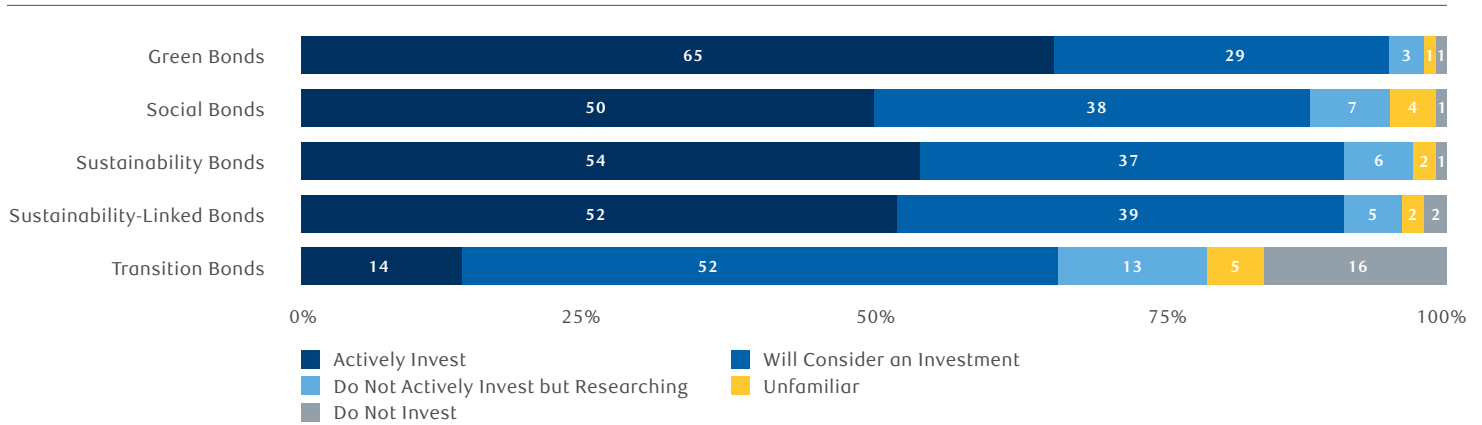
- 1 GHG emissions metrics
- 2 ESG rating at the issuer level
- 3 Physical climate risks



- 1 Transition-related climate risks
- 2 Physical climate risks
- 3 GHG emissions metrics

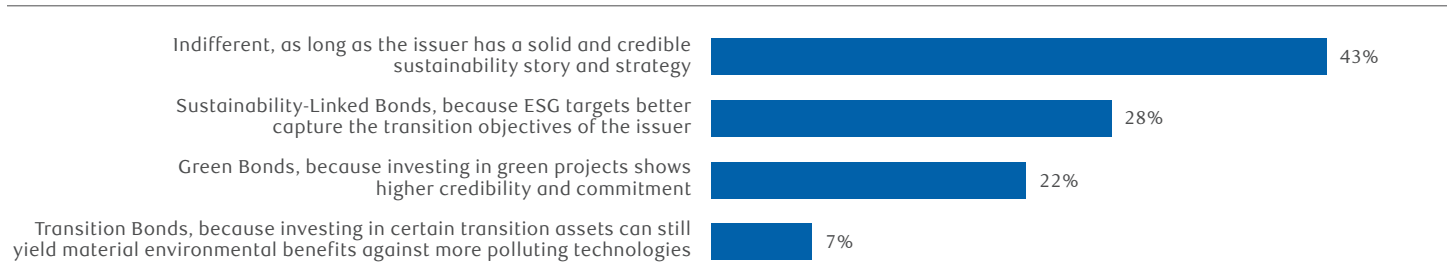
INVESTOR PREFERENCES FOR SUSTAINABLE FINANCE INSTRUMENTS

Which sustainable debt products do Investors prefer to invest in (%)?



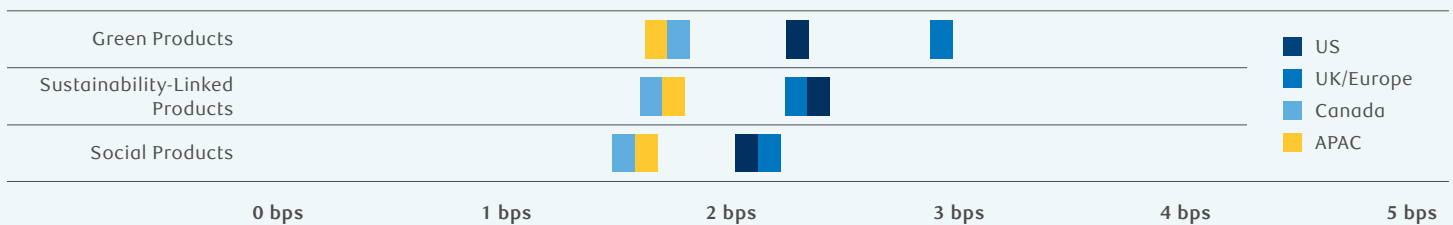
- Global Investors display a material preference for green bonds
- Transition bonds have little active investment but display a runway for growth as a significant number of Investors are considering, researching, or unfamiliar with the product

Which ESG bond formats better support an issuer's transition story?



- Responses are generally aligned across regions, with Investors indicating indifference with respect to the ESG bond format as long as they are supported by a credible issuer transition strategy

How much value are Investors willing to ascribe to each product?



- Global Investors generally exhibit a higher willingness to pay a premium for green bonds over sustainability-linked and social bonds

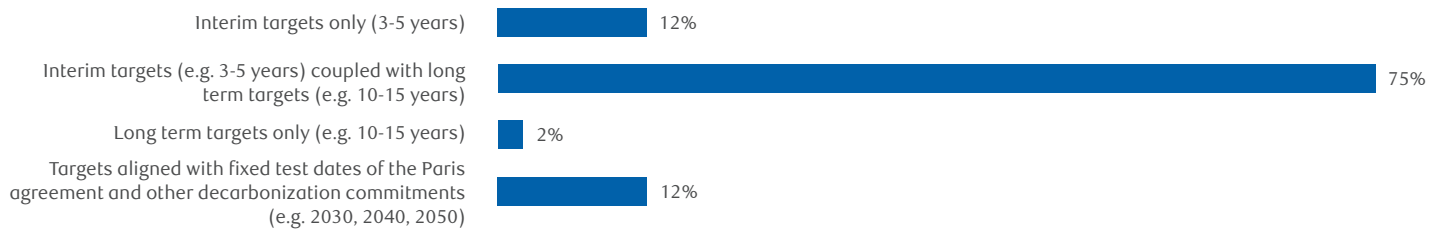
INVESTOR PERSPECTIVES ON SUSTAINABILITY-LINKED BONDS

What are the most material challenges in investing in current ESG instruments?



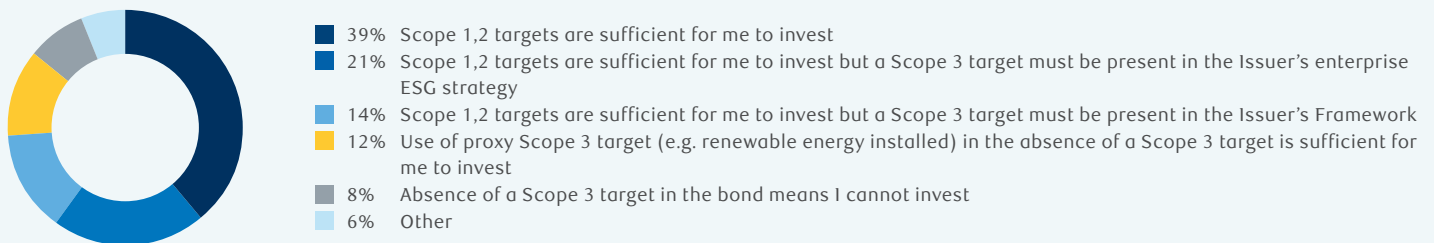
- Investor perspectives on the challenges of investing in sustainable debt instruments are consistent across all four geographies
- Concerns around unambitious targets are also perceived as an area where the US and APAC markets may need to improve upon in the future

Regarding SLBs, what coupon step-up structure do Investors view as most appropriate?



- Global Investors favor SLBs that have interim and long-term target test dates, with the exception of the US, where Investors seem to have less conviction on the topic

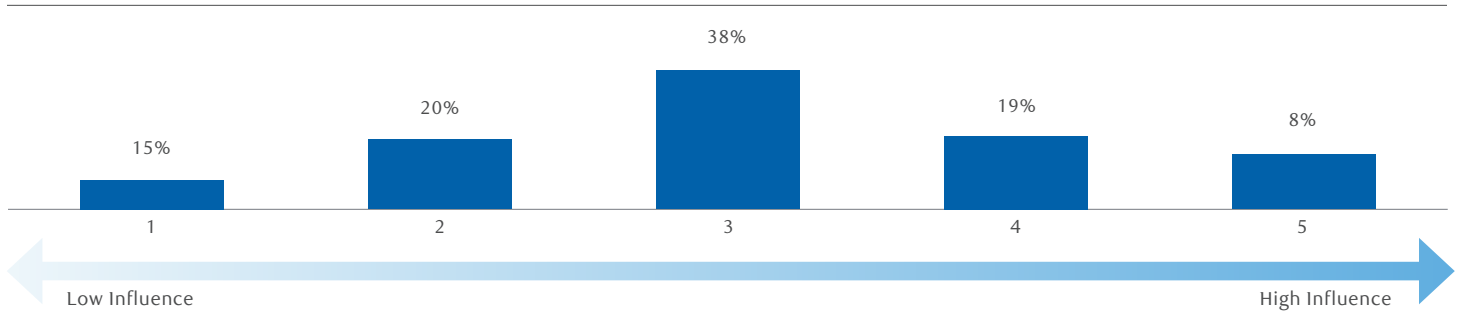
Investor perspectives on Scope 3 emissions targets



- Across regions, Investors seem to be supportive of Frameworks including only Scope 1 and 2 targets
- Presence of some form of Scope 3 commitment (either in the framework, in the strategy or through proxy KPIs) is welcome and materially increases Investor appeal
- Scope 3 targets in the bond are a must for a limited portion of responders

ADDITIONAL OBSERVATIONS

To what extent do geopolitics influence ESG investment strategy?



- Geopolitical volatility displays a moderate impact on ESG integration in investment strategies, pointing towards a level of resilience of ESG methodologies adopted by Investors

Preferred ESG rating providers



- MSCI, Sustainalytics, and Bloomberg are the most widely used third-party rating providers by global Investors
- 39% of global Investors indicated that they utilize proprietary internal ESG score cards

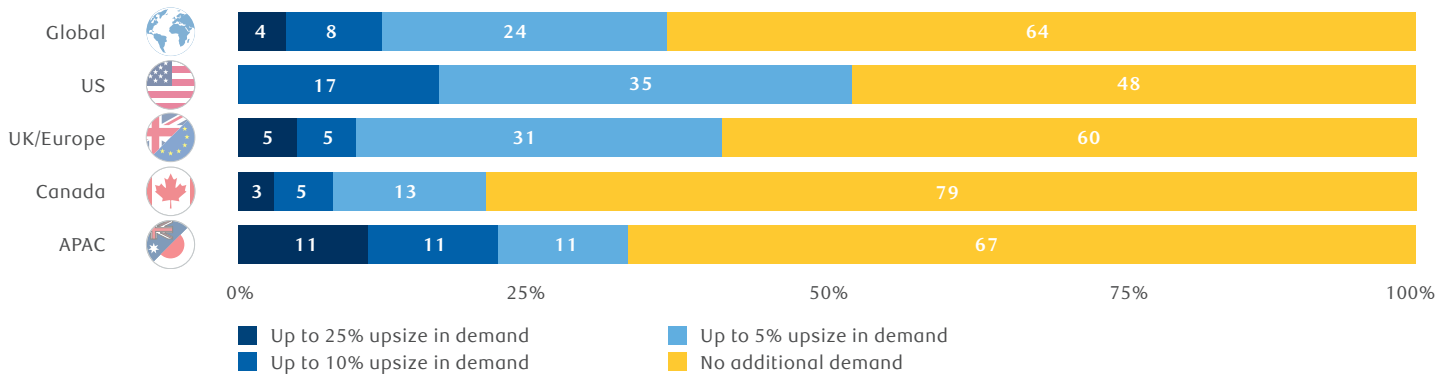
Global Investor preferences for ESG disclosure frameworks & standards



- SASB, UN SDGs, and TCFD are among the frameworks, guidelines, and standards preferred by Investors across all geographies

ADDITIONAL OBSERVATIONS (CONT'D)

How much incremental demand does a Diversity, Equity & Inclusion angle attract from a traditional or ESG portfolio (%)?



- On average, global Investors believe that adding a DE&I angle to a portfolio has potential to increase demand, although results vary
- The majority of US Investors believe that adding a DE&I angle does drive higher demand
- Potential DE&I angles may include the presence of a D&I coordinator in the syndicate, as well as D&I KPIs or dedicated D&I projects within the instrument

Do Investors welcome ESG-specific update meetings with issuers?

- 81% of Investors across all geographies support ESG-specific update meetings with issuers

Preferred Second Party Opinion providers

- Investor preference for SPO providers is well diversified across global market leaders, with Sustainalytics ranking clearly on top

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