Greenium: are investors ready to pay more for green bonds?

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STATE DEVELOPMENT CORPORATION

Global green bonds market: rapidly growing with demand significantly exceeding supply

Rapid growth of demand

Annual growth of AuM (Assets under management) of bond funds, % CAGR

↗ +50% Green bond funds

→ +8% Traditional fixed income funds

Supply does not catch up with the demand

Demand	Supply
$40.5 trln AuM of funds with ESG screening	$740 bn Total volume of outstanding green bonds
$500 bn AuM of green and social bond funds alone	

Does this mismatch affect the price?

Note: AuM growth of bond funds during the last 3 years, demand data for mid 2020, volume of outstanding green bonds for November 2020
Source: Environmental finance, Cbonds, Pensions & Investments Online, Morningstar

Greenium: definition and estimated size

Greenium = *The difference in yield to maturity of a green bond compared to a conventional bond with identical characteristics*

= 15-25[1] bps (~6% of average yield to maturity)

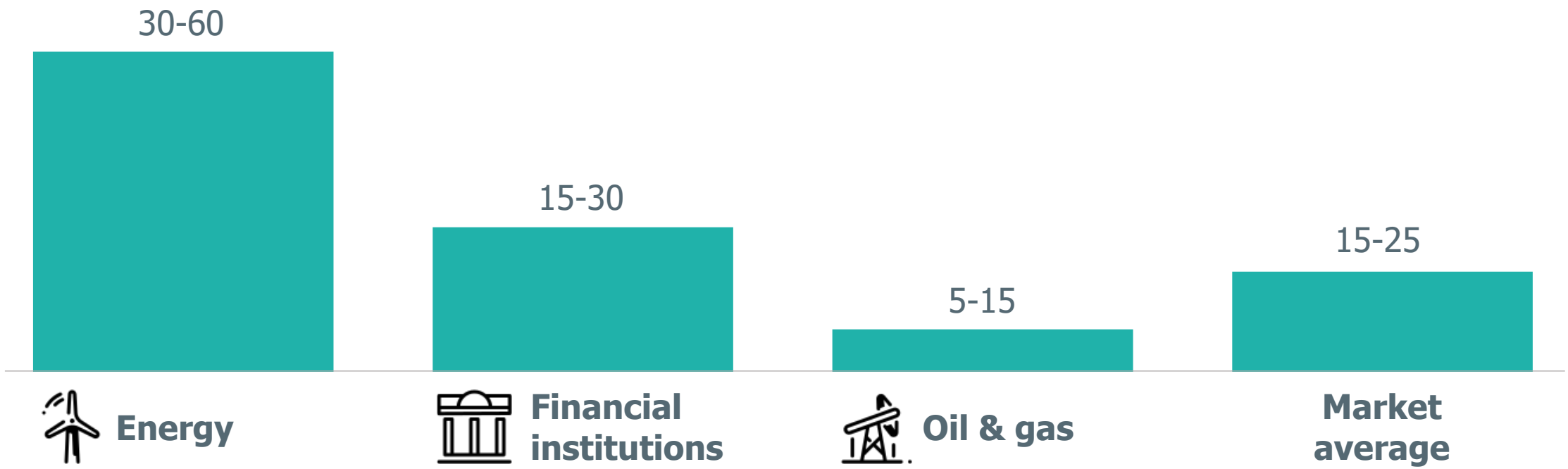
Bonds issued by the same issuers have been compared in order to eliminate credit quality and country differences

Yield to maturity (which represents current market value of a bond; and not yield at placement) was analyzed in order to eliminate differences in underwriting and in dates of placement

1 Greenium for USD bonds, as of June 2020
Total number of observations – 167
Source: VEB.RF analysis

Industry-specific greeniums

Average greenium by industry[1], bps



Total volume of outstanding bonds by industry[2], $ billion

Energy	Financial institutions	Oil & gas	Market average
122	320	6	740

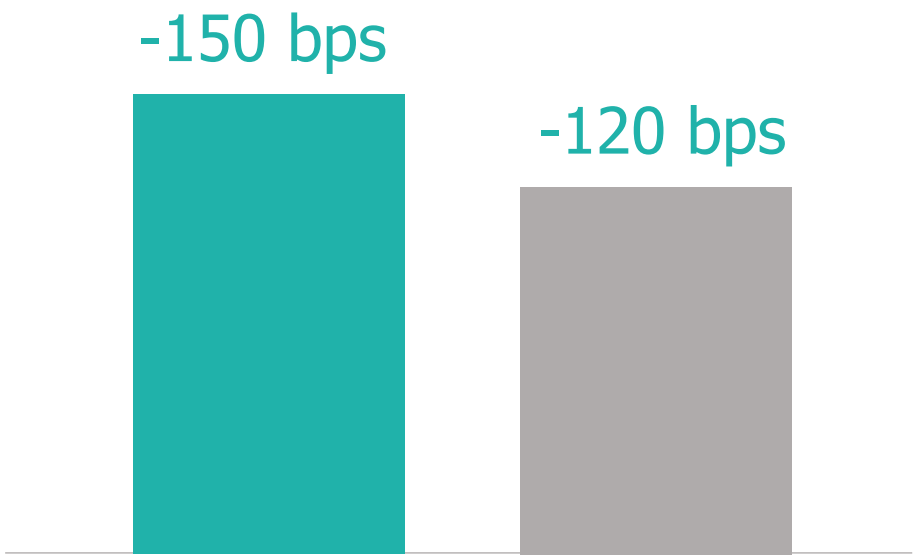
1 Greenium for USD bonds, as of June 2020
2 Total for all currencies – industry structure for major currencies (USD, EUR) is identical
Source: Cbonds, VEB.RF analysis

Green bonds: increase in price due to high demand and resilience during crisis

Green bonds Non green bonds

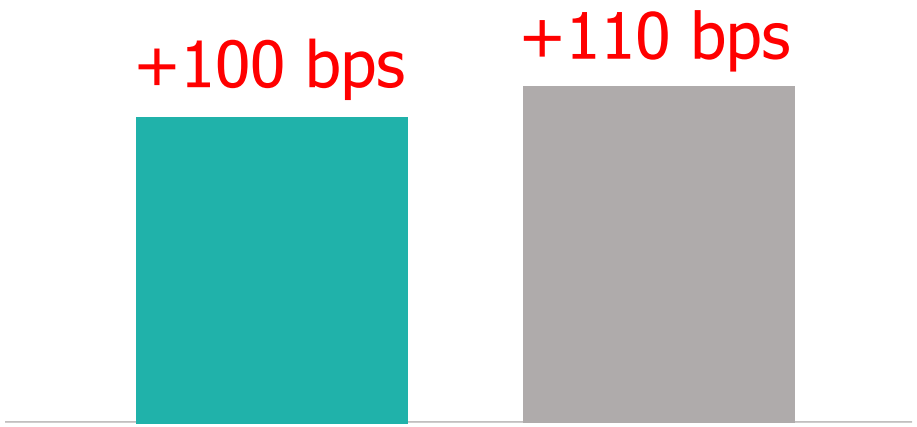
Elevated demand for green bonds leads to an increase in their price….

Average compression of yield to maturity (moves inversely to bond price) after placement for bonds placed during the last 2 years, basis points



…green bonds have also demonstrated resilience during the recent financial shock

Increase in yield to maturity (moves inversely to bond price) during the Covid-19 related financial markets shock (02.12.2019 – 23.03.2020), basis points



Source: Cbonds, Bloomberg, VEB.RF analysis