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  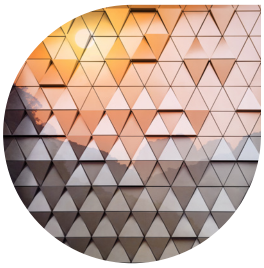

Interview with:

Federica Calvetti – Head of ESG DCM, EMEA Deutsche Bank

Deutsche Bank supports the transition of economies towards sustainable and low-carbon growth through its business activities by directing financial flows towards more sustainable and climate-friendly solutions. Deutsche Bank has clearly demonstrated its commitment to sustainability by setting an ambitious target of facilitating €200bn in ESG financing plus its portfolio of sustainable investments by 2025.

Q: Everyone is talking about sustainable finance these days – are you seeing increased appetite from investors for bonds which have sustainable features such as specific use of proceeds or interest step ups linked to sustainable targets?

A: Since the beginning of the year, the pace of new ESG issuance has accelerated globally, supported by continued inflows into ESG funds. According to Deutsche Bank's research data, recent net inflows and AuM figures show that demand for sustainable (ESG-dedicated) ETFs and mutual funds is increasing. While the majority of flows still come from outside the US (at nearly 5 times that of the US), the acceleration of flows is more dramatic in the US, as it was for 2020.

Depending on the adopted ESG investment strategy, investors may require bonds to have certain features (for example Use of Proceeds dedicated to green and/or social expenditures) and, as a result, drive demand for products with specific "labels" (such as "Green" bonds). In this context, we have witnessed the relentless growth of the green bond market, as well as a pick-up in social and sustainability issuance over time.

As ESG continues to be integrated into investment processes, Sustainability-linked financings (such as those with an interest rate step-up linked to sustainable targets) are becoming more prevalent. The success of these instruments is certainly linked to their ability to provide a forward-looking trajectory of an issuer's performance, the fact that they offer additional transparency on the actual levers an issuer has to meet those targets and ultimately that they provide a better understanding of the credit story.

Naturally, following the implementation of SFDR on March 10, transparency is key for investors and, as long as ESG continues to be a tool to improve it, we believe it will continue to drive investment decisions and demand for sustainable products.

Q: Can companies who are new to capital markets issue sustainable products successfully? What is important to ensuring a successful issue?

A: Of course. We have numerous successful examples of companies that are inaugural issuers in the sustainable bond market, as well as several recurrent issuers, who have perhaps already tapped different pools of ESG demand (loans, bonds, and other treasury funding instruments for example).

In my opinion, the main thing to ensure when contemplating the issuance of sustainable securities is addressing "credibility": companies should ask themselves what is the rationale behind the issuance, how it fits into the overall company's strategy, why now and why in the chosen format.

Indeed, investors would want to hear about a company's sustainability track-record and strategy as a means of creating value, showing leadership and possibly lowering business risk overtime. In this context, the issuance of sustainable products would in fact represent a tool for the company to achieve such goals.

Naturally, there would be specific requirements to ensure the issuance is structured in line with the best market guidance, including the respective instrument's ICMA's Principles, as well as the establishment of internal governance processes to manage, among others, certain reporting obligations which are key given what we said earlier on the importance of transparency.

Q: Have you seen any economic impact in sustainable capital markets products – is it a cheaper source of funding for an issuer, are investors willing to accept lower returns?

A: Unfortunately, there is not yet a clear-cut answer to this question. We have seen increased demand for sustainable products which, by all means, supports performance of these instruments. However, we continue to monitor data points and it is fair to say that on average the “greenium” seen in recent transactions is anywhere between 0-10bps, but investors will not buy sustainable products at levels that are difficult to justify in the context of a company’s credit performance and the outstanding conventional curve (when available).

Federica Calvetti

Head of ESG DCM, EMEA Deutsche Bank

Within Debt Capital Markets, Federica Calvetti is responsible for driving the ESG effort in the EMEA region, with a focus on the corporate sector. Federica joined DB in 2004.

Q: Do you see any risks or challenges in sustainable bonds?

A: The overall backdrop for sustainable bonds is in constant development and as such, risks and challenges are naturally evolving over time, as much as opportunities.

For example, how applicable regulation may be implemented globally will affect the direction of travel in the coming months and years and will likely create further growth opportunities for the market. At the same time it will also likely require additional disclosure considerations, especially around the impact that is being achieved by these instruments.

The pace at which the market is growing is raising the question on whether we are witnessing an “ESG bubble”: this is a question that first of all affects asset valuations but is equally applicable to the financing market. The main risk I see at the moment is that investors could get flooded with new issuance with ESG characteristics and it may prove more and more difficult to appreciate the distinguishing features of these transactions, especially at a time when market guidance is evolving. As a result, marketing of a prospective transaction and a robust structure are key in order to position it well with investors and have an opportunity to explain the rationale and key characteristics of the offering.

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