

# What Investors Want

## HOW TO SCALE UP DEMAND FOR U.S. CLEAN ENERGY AND GREEN BONDS



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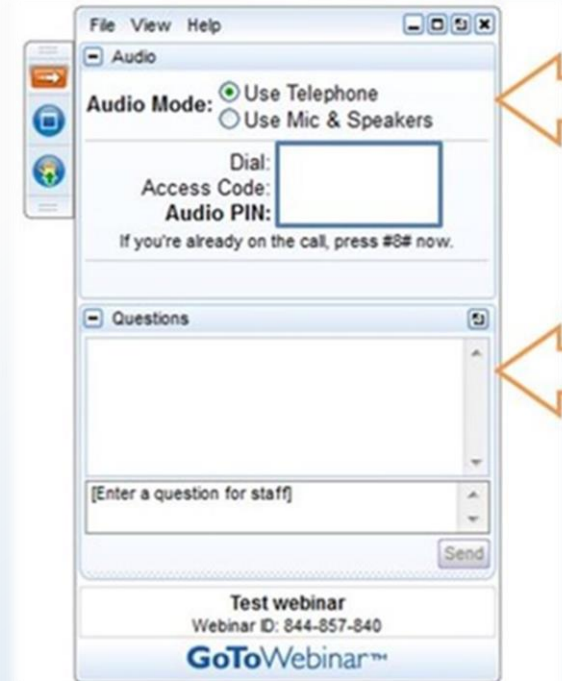


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Clean Energy Group Webinar – January 14, 2015

# Housekeeping

- All participants will be in listen-only mode throughout the broadcast.
- We suggest that you connect to the audio portion of the webinar using VOIP and your computer's speakers or USB-type headset. You can also connect by telephone. If by phone, please select "Telephone" for Audio Mode and enter the PIN number shown on in the Audio box onto your telephone keypad.
- You can enter questions for the panelists by typing them into the "Question Box" on the webinar console. We will pose your questions, as time allows, following the presentation.



# About Clean Energy Group

**Clean Energy Group (CEG)** is a leading national, nonprofit, advocacy organization working on innovative technology, finance, and policy programs in the areas of clean energy and climate change. CEG also manages the Clean Energy States Alliance, a coalition of state and municipal clean energy funds.

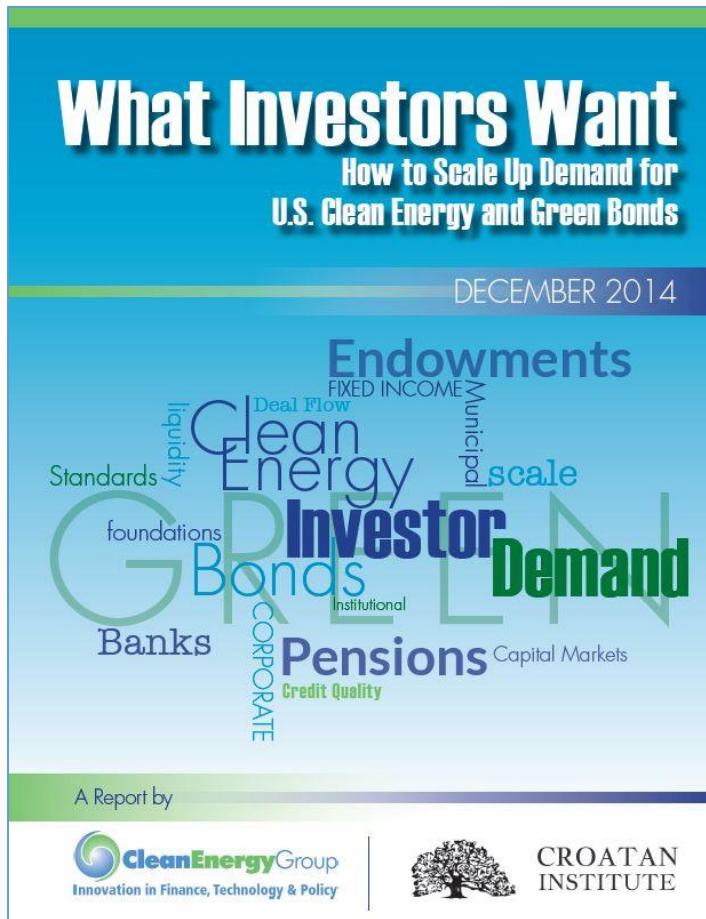
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# About Croatan Institute

**Croatan Institute** is an independent, nonprofit institute for advanced social and environmental research and engagement. The Institute's activities address some of the most complex sustainability challenges of our time, often in close partnership with practitioners in the field and movements for social and environmental change.

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# About the Report



Download the Report at  
<http://bit.ly/What-Investors-Want>

## Thanks to our funders:

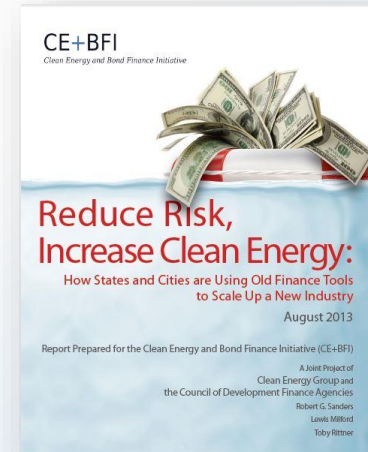
- JPMorgan Chase Foundation
- Tilia Fund
- The Kresge Foundation
- Surdna Foundation

# CEG – Clean Energy Finance

Clean Energy Group (CEG) works with market participants to implement effective public finance mechanisms.

“Reduce Risk, Increase Clean Energy,” see <http://bit.ly/CEG-Reduce-Risk>

“Clean Energy Finance Through the Bond Market,” see <http://bit.ly/CleanEnergy-bond-finance>



# Inquiry Into Investor Demand

- First year: Focus on supply side
  - What are best models of bond financing & credit enhancement to replicate
- This past year: Focus on investor demand characteristics
- Much to learn from institutional investors to scale up clean energy investment

# Inquiry Into Investor Demand

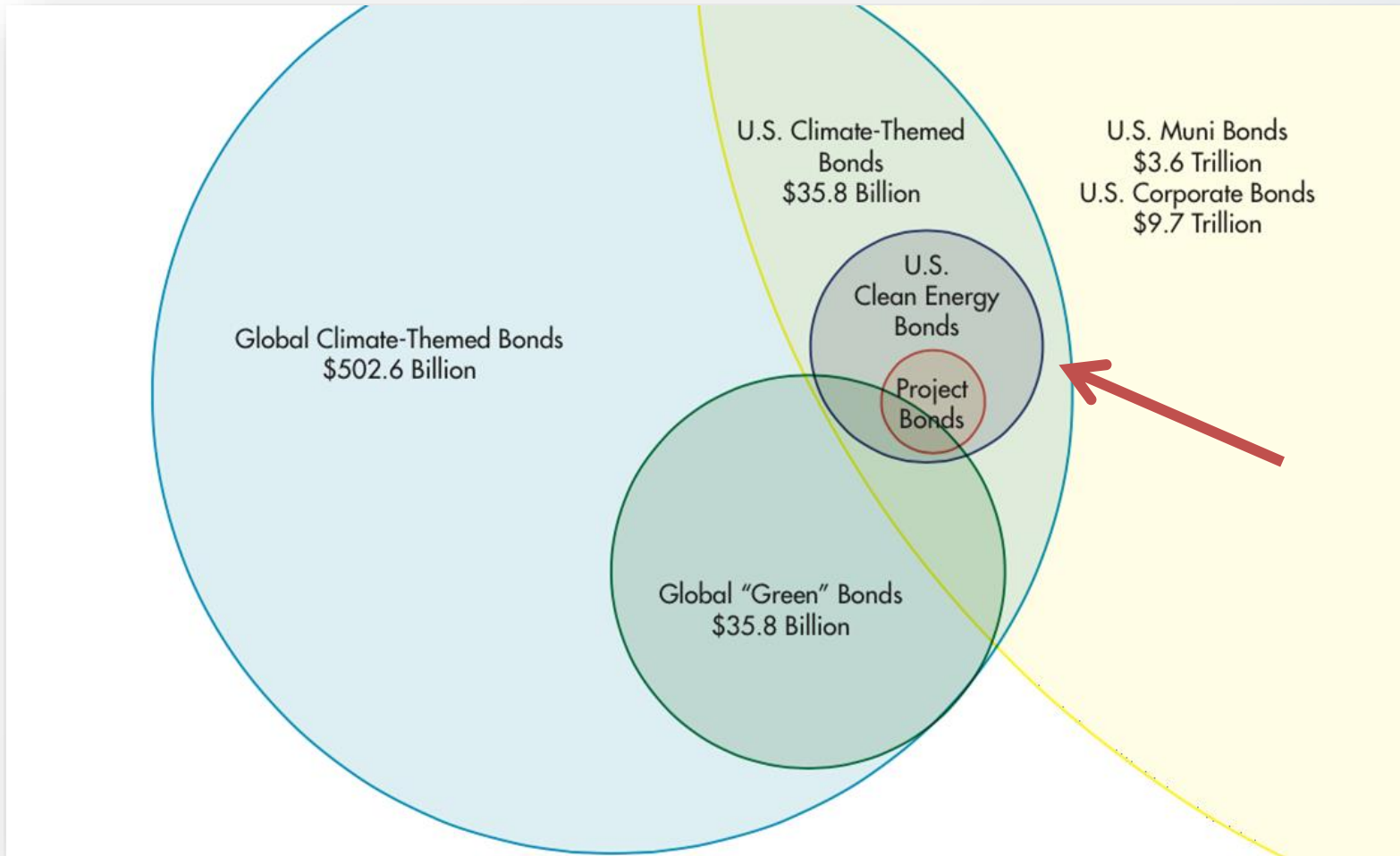
- Process / Methodology:
  - Conducted more than 3 dozen interviews
  - Invitation-only convening of investors & funders
    - Held 9/22/14 as a private side event to the 2014 United Nations Climate Summit
  - 2 dozen investors and stakeholders participated



# Growing Demand in Clean Energy / Green Bonds

- A blueprint for action
- Long history of clean energy bonds in U.S.
- SolarCity: \$225 million in 2014
- Massachusetts: \$350 million in 2014
- Opportunity to align investments with mission without compromising fiduciary responsibility

# The Clean Energy Bond Market



# Findings: Demand by Investor Category

- Demand is not homogenous across all categories of investors
- Each institution applies own investment guidelines and policies
- Socially responsible investors (SRIs) & asset managers are only one driver of green bond demand

# Findings: Demand by Investor Category

- Wide variance in demand characteristics when examine different categories of investors:
  - Asset managers and investment consultants
  - Foundations and endowments
  - Faith-based investors
  - Investment Banks
  - Corporations and Insurers, and
  - Public pensions

# Findings: Asset Managers

- **Conventional Asset Managers, Investment Consultants**
  - Preference for high-quality green bonds with clear performance benchmarks
  - Often require a credit rating to buy
- **SRI Asset Managers**
  - Often more concerned with transparent use of proceeds than green labeling
  - Expect equal financial performance from green bonds
  - Manage money for broad range of clients
    - SRI investors want both taxable and tax-exempt bonds

# Findings: Foundations and Endowments

- **Divest-Invest Philanthropy**

- A growing group of foundations committed to both divesting from fossil fuel securities and “investing” in clean energy & other climate solutions
  - In the past, “reinvestment piece” focused on clean tech private equity and venture capital.
  - Increasingly interested in “green” fixed income securities.
- Foundations who buy green bonds are unwilling to sacrifice returns.

# Findings: Faith-Based Investors

- Strong interest in environmental issues, but generally focused on social issues
- Would buy more green bonds if there were a social dimension
  - E.g., clean energy in affordable housing & community facilities projects
- Guidelines may allow for lower grade & some unrated paper
- Interest in a wide range of sizes of issuances

# Findings: Investment Banks

- Underwrite to hold for own account & to sell
- Big banks focused on large deals, less on small muni project bonds
- JPMorgan Chase, BofA Merrill Lynch & Citigroup – leaders in creating **Green Bond Principles**
  - <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/>
  - Framework & process for evaluating environmental impact of green bonds
  - Moves market towards standard disclosures for green bonds



# Findings: Corporations and Insurers

- Seek investments across all fixed income markets, at all tenors, across credit spectrum
- Zurich Insurance: will double allocation to green bonds from \$1 billion to \$2 billion
- Largest corporations (3M, Ford, Microsoft) have bought green bonds for treasurers' operating portfolios
  - Also to implement companies' sustainability / corporate social responsibility strategies

# Findings: Demand Characteristics of Bond Investors

- **General Observations:**

- Investors who buy green bonds want supply to grow
- Tax-exempt investors (pension funds & faith-based investors) have little interest in most muni bonds
- Problem: insufficient aggregation & non-standardized structures and terms
  - Needs to become “plain vanilla”

# Findings: Demand Characteristics of Bond Investors

- **Liquidity**

- Probably most important demand characteristic across all categories of investors
- Essential for funds that require daily pricing & redemptions

- **Credit Quality**

- Wide range of credit requirements:
  - Some want bonds across the continuum from unrated to BB to high quality AAA
  - Some want only high credit bonds, others only lower quality / higher yielding paper

# Findings: Demand Characteristics of Bond Investors

- **Size**

- SRI asset managers, foundations & endowments all interested in smaller bond issuances
- Large investment banks & institutional investors need “index-eligible” bonds (agency-rated securities, minimum of \$100 – \$200 million)
- Size concerns mitigated by quality issuers building pipelines of standardized, well-structured bonds

- **Terms**

- Need to be priced similarly to other bonds – no “green premium”

# Findings: Demand Characteristics of Bond Investors

- **Use of Proceeds**

- For some, transparency of use of proceeds was central concern
  - Advantage for clean energy project bonds
- Others – if they like the credit and yield, they will buy it

- **Labeling**

- Not all green bonds are alike – investors want information to assess whether meets their “green” criteria

# Key Recommendations

- **Further Research and Analysis**
  - Size demand
  - Assess existing opportunities
- **Convening and Collaboration**
  - With separate peer groups of bond buyers
  - With credit rating agencies and underwriters
  - Focus on Fossil Fuel Divestment space
- **Develop, Diversify, and Deepen Deal Flow**
  - Understand, optimize and replicate key models
  - Diversify offerings along yield curves, tenors, and tax exposure
  - Deepen clean energy focus

# Conclusion and Next Steps

## Conclusions

- Demand is strong but heterogeneous
- Diversification of offerings is key
- Need for investor education

## Next steps

- Focus on foundations grappling with fossil fuel divestment
  - Help endowments understand role of clean energy bonds in their portfolios and programs

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