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PENSION FUNDS LETTER

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Amundi ASSET MANAGEMENT

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EXECUTIVE SUMMARY

Expanding Green Fixed Income Markets: Let's Do It Now!

The clock is ticking for asset owners when it comes to the development of green fixed income markets. Indeed, to meet the climate commitments under the Paris Agreement and finance the associated energy transition, Europe is missing an estimated EUR 180bn of yearly funding until 2030. To reach this level of investment, green finance must mobilize all of the debt capital markets.

Even if there is still a long way to go, a series of positive factors currently at play have been identified, which could accelerate the expansion of green fixed income.

In a recently published study, Amundi Research teams have established a positive relationship between ESG and performance for investment grade EUR-bonds from 2014 to 2019. It has also demonstrated that the cost of capital is lower for issuers with high ESG-scores. These significant discoveries should clearly foster the development of ESG fixed income instruments, both on the investment and finance sides.

Another set of good news come from the finance community directly, where several asset owners have already acted to boost the green fixed income markets. While central banks are progressively integrating more and more climate-related risk into their monitoring framework, several development and investment banks, such as the IFC, the EIB or the AIIB[1], have led successful partnership initiatives to stimulate the growth of green fixed income markets. Pension plans, along with their asset management partners, will also have a key role to play on both the supply and demand sides of these markets.

Additionally, green fixed income provides an array of opportunities for institutional investors, in particular when exploring the new frontiers of this asset class: the "issuer frontier", encompassing both public and private issuers; the "instrument frontier": covering the whole credit spectrum, including high yield bonds and private debt; and last but not least, the "geographic frontier", going beyond developed markets towards emerging markets. In this area, it seems interesting to point out that, aside private partnership initiatives, new investment solutions are now available to all investors, such as emerging markets green bond solutions focusing on corporate credit, a particularly appealing asset class considering impact opportunities and financial attractiveness.

From the outperformance of ESG fixed income to the many innovative initiatives led by major players of the finance community, everything seems in order for all asset owners to accelerate their contribution to the expansion of green fixed income markets. So let's do it!

(1) **IFC:** International Finance Corporation, member of the World Bank Group; **EIB:** European Investment Bank; **AIIB:** Asian Infrastructure Investment Bank.

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Responsible Investing & Performance: The Bond Frontier

After publishing in 2018 a seminal paper exploring the impact of ESG investing on asset pricing in stock markets, Amundi research teams have just released a study addressing the impact of ESG investing in the fixed income space, a domain that has yet to be fully explored by academics and professionals.

While highlighting the higher complexity of ESG integration in fixed income compared to equity, this new study shows that the performance of ESG investing has improved over time in corporate bond markets between 2010 and 2019.

> *“As a responsible asset manager, it is our duty to constantly take the pulse of ESG investing dynamics, to ensure that we remain at the forefront of responsible investing. Last year, we focused on equities. This year, we update this study and consider the case of corporate bonds. Ultimately, we plan to cover all the traditional asset classes.”*

ESG in Fixed Income: Not as Straightforward

In the stock market, integrating ESG is a natural strategy for investors seeking lower extra-financial risks than the average, completing and enhancing traditional security analysis and stock picking processes. For instance, governance scoring can be a useful tool to reduce reputational risks. This is particularly relevant for long-term investors, who are at the cutting edge when it comes to implementing ESG in equity markets. For fixed income, the picture is slightly more complicated. Indeed, investors seem less advanced when managing their bond portfolios. In the sovereign space for instance, ESG filters can lead to significant exclusions or underweighting, pressuring liquidity. There are a few reasons why bond investors may be less prone to integrating ESG:

- Credit agencies increasingly announce that they already integrate ESG risks as one of their metrics.
- Bond scoring systems are mainly driven by three factors: duration, credit spread, and liquidity. Playing ESG in a fully diversified investment grade bond portfolio leaves little room for taking on idiosyncratic risks.
- Liquidity issues are more prevalent in the fixed income space, making it difficult to rebalance actively managed portfolios using ESG signals.
- The objectives and time horizon of the bond holder differs from a stockholder: given the fact that he knows the return on the debt, his main objective is to minimize the risk of default within the maturity of the instrument. Therefore, a stock holder will be more sensitive to ESG risks than a bond holder.

For these reasons, we notice that ESG integration in fixed income is not so much about portfolio *management*, but more about portfolio *completion* with green, social or sustainability (GSS) bonds. In order to observe real disruption of ESG on bond investing, we would need to see supply/demand imbalances on the traditional fixed income market, and not only on GSS bonds.

Main Finding: A Real Transatlantic Divide

Using the same methods as for our previous research on stock markets, we consider the impact of ESG screening on the investment grade universe:

- **For EUR-denominated Investment Grade (IG) corporate bonds,** the results closely echo findings on the stock market:
  - Between 2010 and 2019, best-in-class bonds have outperformed worst-in-class bonds, with the 2014-2019 period even more favorable than the 2010-2013 period. For example, buying the best-in-class (or 20% best ranked) bonds and selling the worst-in-class (or 20% worst ranked) bonds would have generated an annualized performance of 37 bps between 2014 and 2019.
  - Optimizing a bond index with an ESG tilt generated negative excess return for 2010-2013, but positive excess return during the 2014-2019 period. For example, an

optimized portfolio with 25 bps tracking error would have generated an annualized excess return of 3 bps between 2014 and 2019.

- Social was the winning pillar over 2014-2019.

Annualized excess credit return in bps (IG, 2014-2019)

	Long/short strategy				Optimized strategy (TE = 25 bps)			
	ESG	**E**	**S**	**G**	**ESG**	**E**	**S**	**G**
EUR IG	37	4	42	15	3	4	9	-3
USD IG	-32	-36	-12	-19	-9	-10	0	-12

- **For USD-denominated IG corporate bonds,** we notice that the results are more negative for both the long/short strategy and the benchmark-controlled optimized strategy: we do not observe a positive relationship between ESG scoring and performance. For instance, the previous figures become -32 bps and -9 bps in the case of USD IG bonds whereas they were +37 bps and +3 bps in the case of EUR IG bonds. However, we notice an improvement of ESG investing between 2014 and 2019 compared to the previous 2010-2013 period.

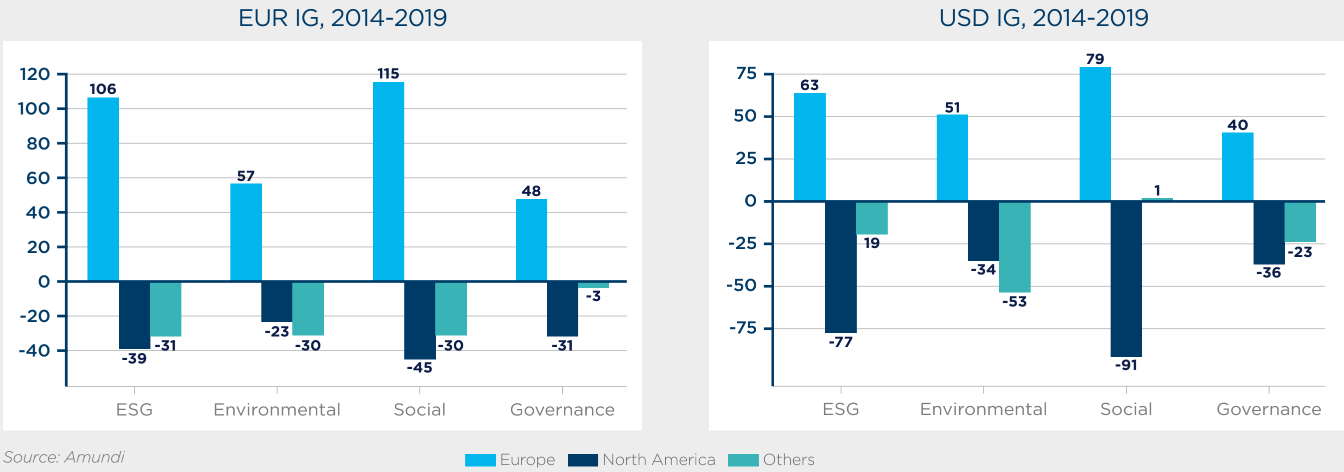
These results seem to indicate that the currency (EUR versus USD) is an important factor when implementing ESG investing. However, we may wonder if this divide really concerns the currency of issued bonds or if it is more a regional issue. For instance, a EUR-denominated bond can be issued by a European corporate, and also by a firm which is located outside Europe. In fact, if we consider the long/short strategy between best-in-class and worst-in-class bonds, our study shows that Europe had a systematic positive contribution whereas North America has a systematic negative contribution, whatever the currency (EUR and USD). If we consider optimized portfolios, results are similar. Therefore, this transatlantic divide shows that ESG investing is a source of outperformance when it concerns IG bonds of European issuers, but a source of underperformance when it concerns IG bonds of American issuers.

“Contrary to common ideas, ESG investing may generate performance in EUR IG bonds. In the case of USD IG bonds, ESG investing is penalized. But we are beginning to see the light, as the cost of ESG investing has been dramatically reduced these recent years.”

ESG Investing & ESG Financing: Two Sides of the Same Coin

The study shows that ESG and credit ratings are positively correlated. In order to identify the marginal effects of ESG, we have developed an integrated ESG-credit pricing model. We found some evidence that ESG affects the cost of capital in a positive way: issuers with higher ESG scores have lower cost of capital than issuers with lower ESG scores for the same credit rating. At the equilibrium, the yield spread difference between a best-in-class and worst-in-class corporation is equal to 31 bps and 15 bps for Euro- and Dollar-denominated IG bonds for the 2014-2019 period, whereas the impact of ESG was not significant between 2010 and 2013.

Contribution in bps to the long/short strategy



Source: Amundi

If we consider a less theoretically extreme example, for instance for a diversified credit portfolio mainstreaming ESG criteria, the yield spread difference is between 3 and 8 bps in EUR IG and half in USD IG. These results are important because they show that ESG does not only concern the investment side, but also the financing side. Bond issuers must take into account these stylized facts all the more since ESG investing will continue to spread in the fixed-income space.

> *"On ESG, there is no turning back. The integration of ESG is now a matter of fiduciary duty for both asset managers and investors."*

Key Takeaways

As investors navigate these new waters, they will need to have a clear sense of the directions they want to take. Looking beyond this study, these are some of the takeaways and convictions we hold for the future:

1. We have crossed the Rubicon: the positive relationship between ESG and performance in the 2014-2019 period shows that ESG is materializing to the point that it has become a factor. Therefore, ESG must be regarded as a key investment decision driver.
2. More and more ESG criteria are integrated in Credit Rating methodologies. As a consequence, ESG criteria have more and more impact on the valuation of fixed income instruments and there are some correlation patterns between ESG and credit ratings.
3. Highlighting the value provided by research throughout the investment life cycle, the integration of ESG means
   (a) being able to clearly explain ESG rating methodologies,
   (b) articulating ESG ratings within credit analysis,
   (c) elaborating impact assessments of ESG on credit quality
   (d) sharing all these elements with investors.
4. ESG integration has gone mainstream and is now assessed by investors as both a financial performance driver and for its impact on each of the three pillars (E, S and G). Therefore, ESG integration should not limit itself to credit analysis. Investment policies must integrate ESG rating objective underpinned by a comprehensive approach on E, S and G. The most obvious objective in this regard is a better ESG portfolio score than the benchmark, complemented by an exclusion policy in each of the three pillars.
5. When selecting asset managers, investors increasingly scrutinize the capacity to generate financial performance and to prove a positive impact of ESG. Thus, the integration of ESG is now a matter of fiduciary duty for both asset managers and investors.

DISCUSSION PAPER
JANUARY 2020

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Responsible Investing & Performance in Stock Markets:
One Year Later, Where Do We Stand?

After publishing in 2018 a first study exploring the impact of ESG investing on asset pricing in stock markets for the periods 2010 to 2017, Amundi research teams have decided to update their findings with new data from January 2018 to June 2019. While they confirm most of their findings from the previous period, some new interesting trends have appeared, reflecting a growing complexity and diversity in responsible investing.

Key Findings

1 The transatlantic divide

After eight years of similar development, we observe a contradictory trend in ESG investing between North America and the Eurozone since 2018. In North America, we notice a decrease in alpha generation on all dimensions, whereas in the Eurozone, the same positive dynamic still operates, with the E and the S pillars over-performing. We do see a slowdown on the G pillar, but this is natural given it was the most dynamic of the three pillars over the last period.

2 Moving from static to dynamic

We observe a new development in ESG integration, with a surprising finding for some pillars. The second-to-last quintile of our sorted portfolios (having ESG scores in the fourth quintile) performs surprisingly well. We interpret this as a shift towards forward-looking strategies, with investors betting on improving companies and integrating a dynamic view of ESG scores.

3 Passive strategies: various approaches, various challenges

Traditional exclusion-based passive ESG strategies continue to outperform. For tilted and optimized portfolios, the study exhibits discrepancies with an overall excess return reduction. Nevertheless, portfolios showing a TE budget below 50 bps – which is the most commonly accepted risk budget by institutional investors - continue to show positive results.

4 Social: from laggard to leader

From 2014 to 2017, we noticed that the S pillar was clearly the lagging pillar. This is no longer the case: we observe very strong performance both on the active and passive side for 2018-2019, most likely as a result of growing investor concern for social themes such as rising inequalities.

5 All quiet on the factor front

Our factor analysis remains unchanged. While remaining an alpha strategy in North America, ESG is the best explaining single-factor of stock returns in the Eurozone. This means that ESG offers real diversification benefits in a multi-factor framework in the Eurozone but not in North America.

DISCUSSION PAPER
DECEMBER 2019

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ESG in Fixed Income: Time to Put Innovation into Action

Each member of the financial community, including pension funds, has an active role to play in order to make the green fixed income transition happen.

Collective action and innovation are paramount to succeed

The financial industry has a clear role to play in channeling capital to the relevant sectors, actors and projects. In particular, "greening" fixed income markets, the largest source of financing, will be critical for the financial sector to successfully embrace the Paris Climate Agreement goals.

However, investors seeking to invest into green financial instruments face three main obstacles:

- **Yield:** green bonds and other green fixed income are often investment grade and issued mainly in developed markets.
- **Additionality:** issuances of green fixed income do not necessarily translate into an increase of capital allocated to green projects.
- **Sourcing:** demand for green financial instruments greatly exceeds supply.

To address these concerns, new frontiers of green finance must be explored:

- **A geographic frontier:** in emerging markets, where more yield and additionality can be found.
- **An issuer frontier:** both public (channeling funds to sub-sovereign entities such as cities), and private (new sectors).
- **An instrument frontier:** green bonds, private debt and social bonds.

Some asset owners have already shown the way

Several institutional investors, from central banks to regional development banks, have already started to act by progressively integrating climate-related risk into their monitoring framework and by expanding green fixed income markets through successful partnership initiatives.

Integrating climate-related risk analysis into financial stability monitoring

As highlighted in the recently published book "The green swan"(2), climate change poses new challenges to central banks, regulators and supervisors. However, integrating climate-related risk analysis into financial stability monitoring is particularly challenging because of the radical uncertainty associated with a physical, social and economic phenomenon that is constantly changing and involves complex dynamics and chain reactions. Traditional backward-looking risk assessments and existing climate-economic models cannot anticipate accurately enough the form that climate-related risks will take.

These include what we call "green swan" risks. Central banks have a role to play in avoiding such an outcome, including by seeking to improve their understanding of climate-related risks through the development of forward-looking scenario-based analysis. But central banks alone cannot mitigate climate change. This complex collective action problem requires coordinating actions among many players including governments, the private sector, civil society and the international community.

(2) "The green swan: central banking and financial stability in the age of climate change", January 2020; Authors: Patrick BOLTON - Morgan DESPRES - Luiz Awazu PEREIRA DA SILVA Frédéric SAMAMA - Romain SVARTZMAN.

Central banks can therefore have an additional role to play in helping coordinate the measures to fight climate change. Those include climate mitigation policies such as carbon pricing, the integration of sustainability into financial practices and accounting frameworks, the search for appropriate policy mixes, and the development of new financial mechanisms at the international level. All these actions will be complex to coordinate and could have significant redistributive consequences that should be adequately handled, yet they are essential to preserve long-term financial (and price) stability in the age of climate change.

Expanding emerging market green bonds

The International Finance Corporation (IFC), a member of the World Bank Group, has led a public-private partnership in order to address the lack of available green solutions in emerging markets, where climate change risks and opportunities are particularly salient but the lack of data and transparency is prevalent. This initiative has given birth in 2018 to the largest emerging market green bond fund ($1.42bn). The strategy, dedicated to investing in green bonds issued by financial institutions active in emerging markets, aims to deepen local capital markets and expand financing for climate investments.

This strategy has been the first of its kind to take a holistic approach, by investing in emerging market green bonds, while also supporting the creation of a robust green bond market through tailored capacity building activities. In particular, an IFC-managed technical assistance program has been funded to support the creation of new markets for climate finance by developing green bond policies, providing training programs for bankers, and facilitating the adoption of the Green Bond Principles and international best practices in emerging markets.

> “*This innovative new approach will help create markets for green bonds in emerging markets, addressing demand by crowding-in new sources of capital to fund climate projects, and do so at scale. The IFC’s advisory work with its global network of financial intermediaries will help boost the supply of green bonds, through capacity building to prepare to issue green bonds and support to identify and measure green investments.*”

Philippe Le Houérou - CEO at IFC

Stimulating fixed income finance in Europe

The European Investment Bank (EIB) has launched in July 2019 the Green Credit Continuum programme, which aims to expand Europe’s green debt markets by investing in green high yield corporate bonds, green private debt and green securitised debt.

This initiative has emerged with the need to develop the entire green credit spectrum in Europe in order to contribute to the EU Commission Action plan and to anticipate the taxonomy.

The programme is about tackling the demand and supply side of the equation, offering investors diversification and higher yields as well as an opportunity to invest in the decarbonisation of the economy, while a green transaction network with banks and issuers will work on sourcing and producing relevant, high-quality and transparent green debt, financing impactful activities.

The goal of the initiative is to create several vintages based on this model and to help establish market standards for these new green finance segments.

France’s Caisse Des Dépôts (CDC), a state development bank, has made an initial commitment to the programme in its capacity as an institutional investor.

> “*CDC is happy to contribute to this initiative which is perfectly in line with its green bond investment strategy and its climate policy; it will enhance the development of the green bond market beyond investment grade bonds, toward high yield and non-listed debts.*”

Olivier Mareuse - CIO at Caisse des Dépôts Group

Developing a comprehensive climate change framework

The Asian Infrastructure Investment Bank (AIIB) has built a partnership leading to the creation in 2019 of a USD500-million Asia Climate Bond Portfolio, which aims to accelerate climate action among the Bank's members and address the underdevelopment of the climate bond market.

Facing the absence of investment frameworks incorporating all dimensions of climate change, the AIIB has built a new climate change investment framework, which takes into account three variables to analyze issuers' ability to cope with climate change:

- Portion of green business activities;
- Climate mitigation;
- Resilience to climate change.

The Asia Climate Bond Portfolio invests in labeled green bonds and unlabeled climate bonds and engages with issuing companies to help them transition their business models to increase climate resilience and green leadership. The portfolio will seek performance[3] by identifying, analyzing and selecting tomorrow's climate champions based on this framework.

This project also entails an ambitious engagement policy to support the emergence of climate champions in infrastructure and other productive sectors.

These successful initiatives led by a variety of asset owners illustrate that it is possible to innovate in the green fixed income universe and that it can be done now.

> *"We expect this investment will demonstrate how international financial institutions can approach development finance differently to support the Paris Agreement and adoption of climate finance principles."*
>
> **D.J. Pandian -** Vice President and Chief Investment Officer at AIIB

As important members of the financial community, pension funds also have their role to play, by stimulating the supply and demand sides of the green fixed income markets and by investing in a responsible way.

According to the old adage "united we stand, divided we fall", pension funds should intensify their relationships with asset managers and build strong partnership initiatives so as to face together the various obstacles and challenges encountered on the green fixed income road.

The Innovation Award 2019 at the World Pension Summit Amundi

Amundi Employee Savings & Retirement (ESR) received the 2019 Innovation Award for the life cycle strategies at the World Pension Summit, organized by Pensions & Investment (P&I).

We are keen to offer innovative and customised solutions to our clients. To face longer longevity, Amundi ESR provides efficient pensions investment options, including the decumulation phase after retirement.

The World Pension Summit is the global platform 'for and by' pension professionals.

World Pension Summit

(3) Past performance does not prejudge future performance, nor is it a guarantee of future returns.

Green Emerging Market Debt in the 2020s: A Land of Opportunity in Front of Investors

Climate change will be a major challenge for emerging markets over the coming years and investors have a clear role to play in supporting the green transition and contributing to the appropriate climate-related investment opportunities.

Emerging markets are more vulnerable to the impacts of climate change due to inadequate capacity and adaptation mechanisms to effectively deal with extreme weather changes, such as rises in the sea level, floods, droughts, tropical storms, hurricanes, and heatwaves.

They also face an unprecedented challenge to decarbonize their economies, while maintaining a sustainable economic development trajectory. One of the biggest challenges met by emerging markets is balancing increased infrastructure financing with environmental and social safeguards to ensure that new infrastructure needs meet climate-smart requirements in the quest to build sustainable infrastructure.

For these reasons, there was a significant mobilization from policy makers, issuers and investors in developed and emerging markets around the green bond solution.

A growing number of emerging markets are now in the process of creating regulatory environments to promote issuance of green, social, and sustainability bonds. Green bonds represent also an effective financing mechanism which advantage both investors and issuers.

Thanks to the involvement of a plurality of organizations from the financial community, a more sustainable economy is starting to take hold. This global mobilization is taking place to develop green fixed income markets and push it to new frontiers. In the green bond space, emerging markets particularly progressed but have yet to be explored by investors at scale.

Green bonds bring benefits for both investors and issuers in a win-win relation

POTENTIAL BENEFITS for investors

- Offer long-term maturities with stable and predictable returns, with given risk exposure
- Provide environmental benefits
- Satisfy environmental, social, and governance (ESG) requirements for sustainable investment mandates (i.e. when ESG standards, such as IFC Performance Standards[4] are applied to green projects)
- Enable direct investment in the "greening" of brown sectors and social impact activities
- Provide increased transparency and accountability on the use and management of proceeds

POTENTIAL BENEFITS for issuers

- Provide an additional source of green financing
- Match maturity with project life (in the case of green project bonds)
- Improve investor diversification and attract buy-and-hold investors
- Enhance issuer reputation
- Attract strong investor demand, which can lead to high oversubscription and pricing benefits
- Support issuers with environmental risk management

Source: SBN, "Creating Green Bond Markets - Insights, Innovations, and Tools from Emerging Markets.", 2018.

(4) Available here: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards.

Interview with Maxim Vydrine

Maxim Vydrine
Co-head of Emerging Markets corporate and High Yield Fixed Income at Amundi

What is the green bond market in emerging economies today?

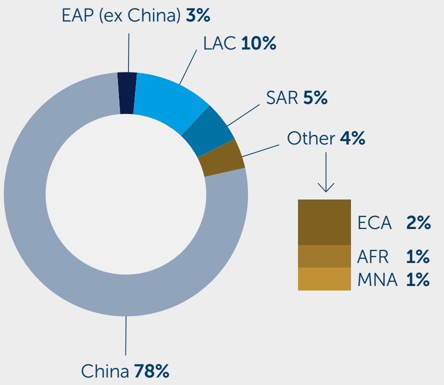
The green bond market is nascent in emerging countries, with the potential for promising growth. The size of emerging green bond markets is estimated at $160bn as of today. It is growing fast and is expected to reach $200bn by the end of the year. The universe is still quite skewed towards China, but this is expected to normalize over time as supply from other countries pick up. For instance, in 2019 we saw first green bonds being issued from countries like Turkey, Russia and Ukraine among others.

What are the key characteristics of this market?

It is crucial to keep in mind the geographical aspect. In markets such as India or China, green bonds have become more popular recently, as they represent an opportunity for issuers to access a diversified pool of capital. We also see a trend in increasing numbers of sustainability bonds[5] compared to pure green bonds. That might be attractive for smaller issuers, who do not have enough environmental projects to support a benchmark-size green bond but mixing their investment with social projects gets them enough scale.

(5) As defined by the Sustainability Bond Guidelines issued by the International Capital Market Association. Available here: https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/

Figure 1 - Emerging Market Green Bond Issuance, by Region, 2012-2018



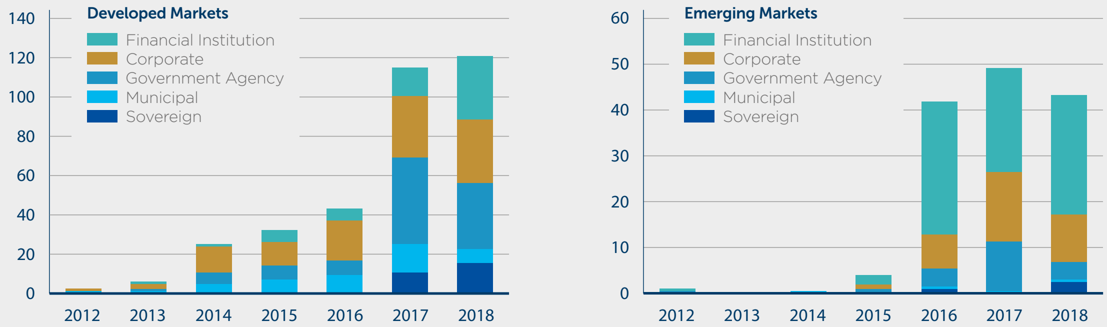
Region	Number of countries	Number of green bond issuers	Volume ($ billion)
Africa (AFR)	4	8	1.5
East Asia and Pacific (EAP)	7	160	112.3
Europe and Central Asia (ECA)	5	9	3.2
Latin America and the Caribbean (LAC)	8	32	14.1
Middle East and North Africa (MNA)	3	6	1.0
South Asia (SAR)	1	20	7.7
Total	**28**	**235**	**139.7**

Source: IFC analysis, Bloomberg, Environmental Finance, Climate Bonds Initiative. AFR: Sub-Saharan Africa Region (Namibia, Nigeria, Seychelles, South Africa) - EAP: East Asia and Pacific Region (China, Fiji, Indonesia, Malaysia, Philippines, Thailand, Vietnam) - ECA: Europe and Central Asia Region (Estonia, Latvia, Lithuania, Poland, Slovenia) - LAC: Latin America and the Caribbean Region (Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Uruguay) - MNA: Middle East and North Africa (Lebanon, Morocco, UAE) - SAR: South Asia Region (India).

"On a regional basis, East Asia and the Pacific had the largest volume of green bond issuances cumulatively (81%), while Latin America and the Caribbean (10%) and South Asia (5%) had the next highest levels. Debut issuances in Indonesia, Lebanon, Namibia, the Seychelles, Thailand, and Uruguay brought the number of emerging countries with green bond issuances to 28 countries from 22 countries".

Financial institutions will continue to drive future growth of the green bond market in emerging countries. 57% of green bond issuances in emerging markets are from financial institutions. Sector-wise, banks are still the largest issuers of green bonds, however non-financial corporates and sovereign are starting to issue as well. 45% of the bonds have a maturity of three years or five years, indicating the potential for rapid new issuances as these bonds mature.

Figure 2 - Emerging Market Green Bonds, by Issuer Sector, 2012-2018 ($ billion)



Source: IFC analysis, Bloomberg, Environmental Finance, Climate Bonds Initiative.

"While financial institutions in developed markets accounted for some 18% of total green bond issuances, they were the largest-issuing sector in emerging markets, making up 57% of cumulative green bond issuance, followed by non-financial corporates (25%), government agencies (14%), sovereigns (2%), and municipals (1%).
Figure on the right: recently, from 2016 to 2018, new EM sovereign issuers entered the market. These sovereign green bonds, which could serve as benchmarks for future issuances, were issued by Poland (2016, 2018), Nigeria (2017), Fiji (2017), Indonesia (2018), and Lithuania (2018)".

In terms of currency, some 34 percent of emerging market green bond issuances were in hard currency (USD and EUR) in the 2012-2018 period. Among local currencies, the Chinese Yuan (CNY) represented the big majority of green bond issuances with 60% while the other local emerging markets currencies totalled 6%.

About half of the bonds had a credit rating, and 90 percent of those were investment grade. Given the conservative nature of traditional green bonds investor base, investment grade rated issuers still find it easier to come to the market. However, the dynamic is positive with more High Yield issuers entering the universe.

What are the differences in best practices between issuances in developed and emerging markets?

Green Bond Principles are the global guidance standards for developed and emerging markets.

In emerging markets, many green bonds adhered to the Green Bond Principles or local green bond guidelines and had external reviews and/or second-party opinions. Even if standards and practices were quite heterogeneous between emerging and developed countries during the first stages of the green bond market, the recognition of the International Capital Market Association (ICMA) Green Bond Principles and the Harmonized Framework for Impact Reporting, founded by development finance institutions, helped to harmonize the market on a common understanding of "green."

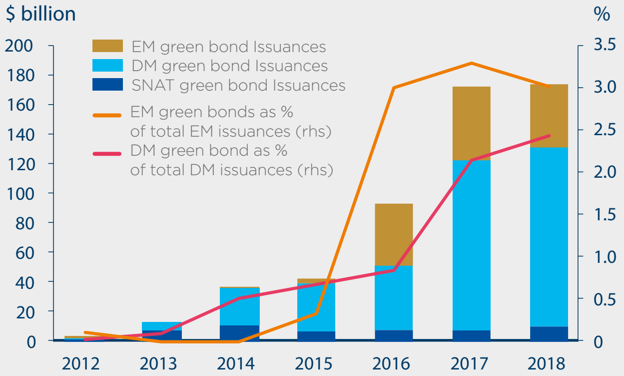
Today, almost all the issuers, from either emerging markets or developed markets, issue green bonds following the same guidelines.

What are the challenges and the expectations?

One of the challenges to access the market is limited supply. Accessing the market through a pooled fund managed by a specialist might prove to be a more efficient way of getting a diversified exposure. Going forward, we would like to see issuances from a wider range of countries and private institutions.

We now see quite a few governments or quasi-sovereign issuers being the debut green bond issuers. We expect these placements to "open the doors" for private companies to start issuing green bonds as well. Finally, as the market deepens, we would also like – and expect – to see more issuances in local currencies.

Figure 3 - Growing Emerging Market Green Bond Issuance, 2012-2018



"While green bond markets in emerging countries initially grew at a slower pace than similar markets in developed countries, they have had a noticeable "catch-up" in their share of issuances. Green bond issuances in emerging markets represented 3% of overall bond issuances in emerging markets in 2018, a similar level (2.4%) to developed markets".

Source: IFC analysis, Bloomberg, Environmental finance, Dealogic, Climate Bonds Initiative. Note: SNAT (Supranational).

Conclusion

The green emerging market bond space is growing, and many issuers are at the early stages of developing their green bond frameworks. Some chose to 'test the water' with a green private placement before they are ready for a benchmark size deal.

Capital flows from developed markets to emerging markets have also a critical role in supporting the green emerging market area and combating climate change.

New investment solutions are now available to investors with strategies that look to venture towards the new frontiers of the green finance. For instance, investors should consider an emerging markets green bond solution completely invested in green bonds at launch, focusing on corporate credit. The corporate market is actually the "place to be", considering impact opportunities and financial attractiveness. This solution aims at sourcing exposure to the very attractive yields available in the emerging markets debt space, a fast-growing and fairly diversified universe. At the same time, it will provide funding for green projects where they are most needed.

To make it happen, engagement and encouragement by sustainability-minded investors is crucial to support these issuers on their path. The financial community also needs to build a green superstructure to embrace the full potential and support the development of the emerging market ESG debt space.

Consequently, emerging market's issuers need support and direction through investor engagement and policy maker guidance with a long-term approach.

The PEPP Regulation: A Source of New Business Opportunities, in Particular for ESG-Driven Asset Owners

Key milestones and objectives of the PEPP Regulation

Regulation timeline

4/4/2019
Parliament endorsement

7/25/2019
Publication in the Official Journal of the EU

2021 or 2022
Entry into application*

PEPP Regulation

6/14/2019
Council adoption

8/14/2019
Entry into force

* 12 months after the publication in the Official Journal of the European Union of the delegated acts referred to in Articles 28 (5), 30 (2), 33 (3), 36 (2), 37 (2), 45 (3) and 46 (3) of the PEPP Regulation.

What is the PEPP?

The Pan-European Personal Pension Product (PEPP) is a voluntary personal pension scheme that will offer consumers a new pan-European option to save for retirement. This new type of product is designed to give savers more choice and provide them with more competitive products, while enjoying strong consumer protection.

The regulation on the PEPP establishes the legal foundation for a pan-European personal pension market, by ensuring standardisation of the core product features, such as: transparency requirements, investment rules, switching right and type of investment options.

What is the purpose of this new regulation?

PEPP aims to help addressing demographic challenges due to the aging of the population and close the pensions' gap in the EU. Currently, only 27% of Europeans between 25 and 59 years old have enrolled themselves in a pension product. PEPP will offer to all EU citizens an additional opportunity to save for their retirement.

PEPP will complement existing public and occupational pension systems, as well as national private pension schemes and it will not replace or substitute them. PEPP was carefully designed to avoid any spill-over effects on existing public and occupational pension schemes.

The emergence of a pan-European personal pension market, with room for new entrants

With the new regulation, PEPP providers will benefit from a **true single market for personal pensions** and from **facilitated cross-border distribution**, including an EU passport. Furthermore, thanks to the standardisation of the core PEPP features, providers will also be able to sell PEPPs online and to distribute them in several Member States with one single product registration.

New market entrants, such as asset managers and pension funds, will be able to compete with more traditional providers (such as insurance companies). More generally, PEPP will offer new business opportunities to a variety of providers that could operate on a cross-border basis, in particular in those Member States where the supply of personal pension products is limited.

The PEPP regulation fits in with the transformations that many European states have initiated to reform their different pension pillars. The PACTE Law in France is a good example with the introduction of a major pension reform on the 2nd and the 3rd pillar. Indeed, this French reform introduce links between personal pension products and occupational pension products that may turn France as Europe's "PEPP hub" and therefore create the opportunity to develop a pan European offer.

Last but not least, **the regulation provides additional business opportunities to ESG-driven providers**. Indeed, PEPP providers are encouraged to consider sustainability factors in their investment decisions and risk management systems, in particular encompassing the long-term nature of their investments. The regulation prescribes that PEPP savings should be invested considering environmental, social and governance (ESG) factors such as those set out in the European Union's climate and sustainability objectives defined in the Paris Agreement on Climate Change (Paris Agreement), the United Nations Sustainable Development Goals, and the United Nations Guiding Principles on Business and Human Rights. PEPP providers should also inform PEPP savers about how ESG factors are taken into account in the PEPP investment policy. This is in line with the ambitious Commission agenda on sustainable finance. The Commission presented in March 2018 an Action Plan on Sustainable Finance and on 24 May 2018 several legislative proposals, with the aim to create a taxonomy, clarify investor duties and disclosures and to create low-carbon benchmarks.

Sources: Amundi; European Commission Memo 4/4/2019 "Capital Markets Union: Pan European Personal Pension Product (PEPP)"; European Commission Regulation 2019/1238 "Law details"; Moody's Regulatory News "EU Finalizes Regulation on Pan-European Personal Pension Products".

Multi-Asset Forecast

OUR HIGH CONVICTIONS IDEAS ON MULTI-ASSET (SHORT TERM VIEWS)

Time to reduce risk, but be prepared to re-enter

Our fundamental view on the stabilisation of global growth around potential has not changed and we believe the continued active role of monetary and fiscal policies will support this. However, the spread of Covid-19 beyond China into other areas in Asia, Europe and America could have an impact on demand and this is now reflecting in asset prices.

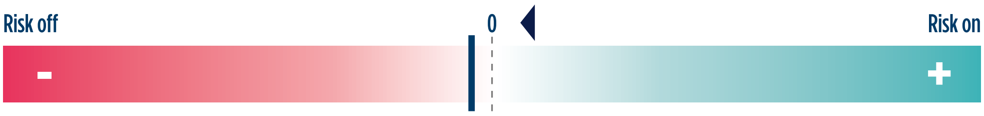
As a result, **we have become more cautious on risk assets to accommodate these possible events.**

Having said that, our strategy is to stay vigilant and monitor fresh data to better assess the effects on the global economy.

Overall risk sentiment

Tactical risk reduction, looking for entry points to recalibrate risk once the situation calms.

"In search for protection from continued market volatility, we moved to a lower risk stance and would look for more favourable entry points when visibility improves."



Overall risk sentiment is a qualitative view of the overall risk assessment of the most recent global investment committee.

Amundi Cross-Asset Convictions

	1 month change	---	--	-	0	+	++	+++
Equities	↘			■				
Credit	↘					■		
Duration	↗					■		
Oil					■			
Gold						■		

Source: Amundi. The table represents cross-asset assessment on a 3-6 month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change. March 2020.

GLOBAL INVESTMENT VIEWS
MARCH 2020

Read the full publication on our online portal **Amundi Research Center**

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Monthly market analysis and asset allocation views

This series sets up our analysis of the markets and our investment convictions. Each month, listen to Monica Defend, Global Head of Research, who discusses our views with Tom Burges-Watson, your host on this podcast.

BLUE CONVERSATION

Financial talk on geopolitics

This series is a free talk on geopolitical main events. Renowned international experts as well as Amundi CIOs and Research professionals are interviewed by Jean-Jacques Barberis, Head of Institutional and Corporate Clients Coverage, to provide you with insights, consequence assessment, market views as well as asset allocation recommendations.

BLUE RESEARCH

Knowledge sharing on financial research

This podcast deep dives into a significant financial research theme with an Amundi Research expert. Every quarter, learn more about our latest significant publications and findings with this interview led by Tom Burges-Watson.

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The 2019 edition of the Amundi–CREATE Research survey provides a key independent assess ment of the challenges faced by pension plans in a post-QE environment.

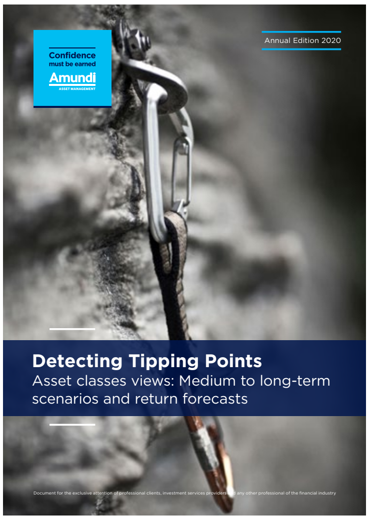
This report covers three questions:

- What has been the impact of previous rounds of QE on the financial viability of pension plans?
- Where can they find decent returns in this new era of policy reversal?
- What business model changes will become essential in the process?

To Go Further: The Amundi Research Center

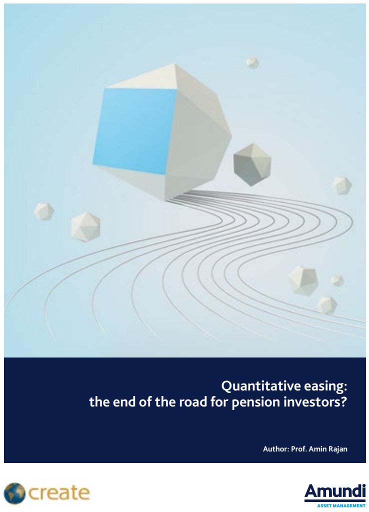
Research Center

Amundi's independent research platform boasts 126 international experts who support both domestic and international investment teams. Covering the main aspects of investment research, our in-house experts seek to anticipate and innovate to the benefit of both investment teams and clients alike. For more information on the below documents and to download them please enter key words on our website: **research-center.amundi.com**



Asset Class Views
Detecting Tipping Points
Edition 2020

The green swan
by Patrick BOLTON
Morgan DESPRES
Luiz Awazu PEREIRA DA SILVA
Frédéric SAMAMA
Romain SVARTZMAN



Quantitative easing: the end of the road for pension investors?
by Prof. Amin RAJAN