Sustainable Finance Insights

The UniCredit View – Edition April 2021

Dear readers,

We are very pleased to share with you our third edition of the **Sustainable Finance Insights** to provide you the **latest news and trends on sustainable finance.**

Here you will find relevant information about:

- Sustainable Transition Finance
- Hedging and Investing with a sustainable angle
- ESG Deal Highlights and Credentials
- ESG & Green Research Update

We hope you will find the **Sustainable Finance Insights** inspiring and valuable and we very much welcome your feedback on this and future editions. Please click here to share your view.

Thank you and we encourage you to get in touch with your personal contact in the bank for more information on ESG and how we can support you.

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The view from Sustainable Finance Advisory

SUSTAINABLE TRANSITION FINANCE

Ambitions to mitigate climate change, as outlined in the 2015 Paris Agreement, require **decarbonisation of whole societies and economies globally by year 2050**. The agreed objectives are to keep the global temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The **EU Action Plan on Financing Sustainable Growth considers finance a critical enabler of transformative improvements.** However, while green finance has experienced tremendous growth since its outset in 2007, it has been focusing on harvesting the low hanging fruits, i.e. activities which are already green such as wind farms and photovoltaic parks. If the aspiring climate change mitigation targets are to be reached, the industry will have to broaden its perspective and seriously attend to financing activities which are hard-to-abate. **High-carbon sectors such as steel, aluminium, cement and natural gas, but also shipping and aviation will have to change** dramatically in order to switch to the Paris trajectory. The OECD estimates that EUR 6.35 tr/year are required to meet mitigation goals by 2030 alone and public sector resources will not be adequate to meet this challenge.

To help facilitate the flow of investment to the climate transition process, the International Capital Markets Association (ICMA) published the first guidance for issuers called **"Climate Transition Finance Handbook"** in December 2020. The handbook does not provide definitions of transition projects, but it clarifies the issuer-level disclosures which are recommended to credibly position the issuance to finance the transition. In other words, no new sustainable finance instrument is created, but **each of the existing sustainable finance instruments can be used and structured in a way which supports transition.** Additional credibility can be sought by issuers and borrowers by obtaining a climate **"transition label"** by referencing the guidance.

A framework published by the Climate Bonds Initiative provides an additional view of identifying credible Paris-aligned transitions. The so-called **"White paper" defines five principles** which in our opinion have the potential to be the **goalposts of transition finance going forward:** all goals and pathways need to be aligned with the 1.5°C trajectory and established by science, offsets don't count, technological viability trumps economic competitiveness and it is action that is required, not pledges. The transition concept is applicable for both whole entities and all of their activities. While general corporate purpose sustainable finance instruments are the means to finance entities, use-of-proceeds instruments are used to finance activities. With the exception of activities which already are at or near net-zero emissions, like wind power generation, all other activities, including those which are not yet on a pathway to zero or even stranded, can in principle and selectively be financed under a transition label.

Stephan Mussong

Sustainable Finance Advisor

New: Hedging and Investing with a sustainable angle

UNICREDIT ENRICHES ITS ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRODUCT OFFERING WITH NEW SUSTAINABLE HEDGING SOLUTIONS

As part of the Bank's innovative approach to support our clients in their journey to sustainability, in 2020 we have successfully expanded the range of sustainable financial products to OTC[1] derivatives. These are hedging instruments available to our corporate clients, often used in conjunction with a sustainability-linked loan or bond.

SUSTAINABILITY-LINKED INTEREST RATE SWAPS

One of UniCredit's newly launched OTC derivatives is a **Sustainability-linked Interest Rate Swap ("Sustainability-linked IRS")**. This is an innovative solution, which incentivises clients to pursue sustainable objectives when hedging their financial risks.

HOW IT WORKS

A **Sustainability-linked IRS**, like a conventional fixed-floating swap, allows a company to exchange a fixed interest rate for a floating interest rate or vice versa.

In addition, the **client links the interest rate paid in the swap to the achievement of one or more ESG Key Performance Indicators ("KPIs")**. As an example, these can be linked to targets based on the UN Sustainable Development Goals ("SDG") (e.g. keeping the volume of CO2 emissions below a predetermined level) or based on a pre-defined ESG rating.

The pre-agreed ESG KPIs are checked[2] periodically and the rate paid by the company in the swap is adjusted based on its sustainability performance, e.g. if the client achieves the goals, it will benefit from a reduction in the interest rate paid.

Recent ESG and SDG hedging transactions by corporates in our home markets:

SDG-linked Interest Rate Swap for an Italian Corporate in the Transportation sector
- Sustainability-linked IRS hedging of a sustainability-linked syndicated loan
- First SDG derivative executed by UniCredit in Italy
- Incentive mechanism aligned with three sustainable KPIs set in the loan

ESG Rating-linked Interest Rate Swap for a German Corporate in the Engineering business
- ESG Rating-linked IRS hedging of a newly issued convertible bond
- First ESG derivative executed in the German market
- Incentive mechanism based on company sustainability rating provided by EcoVadis

SDG-linked Interest Rate Swap for an Italian Corporate in the Energy sector
- Sustainability-linked IRS hedging of a sustainable term loan facility
- First SDG derivative executed by the company in the energy market
- Incentive mechanism aligned with an environmental KPI set in the loan

SDG-linked Interest Rate Swap for an Italian Corporate in the Luxury goods business
- SDG-linked IRS hedging of a sustainability-linked syndicated loan
- First SDG derivative executed by the client
- Incentive mechanism aligned with three sustainable KPIs set in the loan

[1] Over The Counter
[2] The sustainability performance must be verified by an independent and qualified third party, such as the auditor, an external advisor or a rating agency

UNICREDIT LAUNCHES NEW SUSTAINABLE DEVELOPMENT INVESTMENTS

UniCredit has launched the **SDG Transatlantic Leaders Index**, the **first** of its kind, enabling **our clients to invest** into companies that significantly contribute to **Sustainable Development Goals.** The Index universe is composed of European and US companies.

The **17 SDG of the United Nations**[3] provide the foundation for this sustainability index which has been developed in close collaboration with **ISS ESG** (our Environmental, Social and Corporate Governance data partner).

UniCredit has built a **range of Investment Products** linked to this new Index which are currently under subscription offer in our **German Networks.** The **roll-out to other countries** and to **external distributors** is planned **over the coming months.**

17 Sustainable Development Goals of the United Nations

↓

UniCredit launched the **SDG transatlantic Leaders Index** comprised of companies which have an **SDG impact**

↓

UniCredit builds and offers **Investment Products** linked to the **SDG Index**

HOW THE INDEX WORKS

To ensure effective diversification of the 1,100 largest US and EU companies up to 55 companies from 11 different sectors are selected with an individual weight cap of 5% on a quarterly basis.

Amongst the top positions of the **SDG Transatlantic Leaders Index**, are the following prominent companies as of 15.03.2021:

1. **Astra Zeneca** – strong contribution to SDG 3 ("Good Health and Well Being")
2. **Unilever** – strong contribution to SDG 13 ("Climate Action")
3. **Salesforce** – strong contribution to SDG 11 ("Sustainable Cities and Communities")
4. **American Water Works** – strong contribution to SDG 6 ("Clean Water and Sanitation")
5. **HP** – strong contribution to SDG 8 ("Decent Work and Economic Growth")

UniCredit considers this new index an important achievement to support our clients in the ESG space.

[3] https://www.unicreditgroup.eu/en/a-sustainable-bank/social-and-relationship-capital/contribution-towards-sdgs.html

ESG Deal Highlights and Credentials

Selection of recent landmark transactions with UniCredit in prominent roles:

ACEA EUR 900 M DUAL-TRANCHE GREEN DEBUT

Acea

EUR 300,000,000
EUR 600,000,000
Dual tranche Green Bond
0% due Sept 2025
0.25% due Jul 2030
Italy, Jan 2021

- Acea issued its first Green Bond following a well-attended one-day marketing activity during which sustainability topics have been brought into focus. The ESG relevance of the bond drove a strong participation from green investors which was essential to the achievement of a successful issuance
- Proceeds from the issuance are dedicated to water management, energy efficiency, circular economy and renewable energy installations
- A deep analysis of the projects as well as the full alignment of the issuance with Acea's sustainability strategy lead to the definition of robust eligible categories, which met investors' expectations
- **UniCredit acted as Green Structuring Advisor and Joint Bookrunner**

EUROPEAN UNION EUR 9 BN SURE SOCIAL BOND

European Union

EUR 9,000,000,000
SURE Bond
0.20% due 2036
Joint Bookrunner
Luxembourg, Mar 2021

- The European Union issued on 9 March 2021 a EUR 9 bn single tranche social bond due in June 2036
- This transaction marks the **fifth EUR transaction under the "Support to mitigate Unemployment Risk in an Emergency (SURE) Programme"** and the second capital markets funding operation this year
- The demand was overwhelming attracting more than 450 investors mainly in the European region.
- Proceeds of this sustainable SURE transaction is to support the EU's recovery and continue supporting European businesses as well as citizens
- **UniCredit acted as Joint Bookrunner**

FLEX USD 2 BN SUSTAINABILITY-LINKED REVOLVING CREDIT FACILITY

Flex Ltd.

USD 2,000,000,000
Sustainability-Linked
Revolving Credit Facility
Co-Sustainability Coordinator
Joint Lead Arranger,
Joint Bookrunner,
Co-Documentation Agent
USA, Jan 2021

- Flex, an established global leader in electronics manufacturing services successfully refinanced its 5y multi-currency Revolving Credit Facility (RCF), linking the new facilities to ESG goals
- This transaction marks the **first U.S. technology company to link its RCF to sustainability metrics**
- The pricing is tied to two meaningful and ambitious ESG KPIs: i) Greenhouse Gas Emissions intensity and ii) Incident rate
- The financing structure of this transaction is in line with the Sustainability-linked Loan Principles
- **UniCredit acted as Co-Lead Sustainability Coordinator, Joint Bookrunner, Joint Lead Arranger and Co-Doc Agent**

TRAFIGURA USD 5.5 BN REVOLVING CREDIT FACILITIES

Trafigura

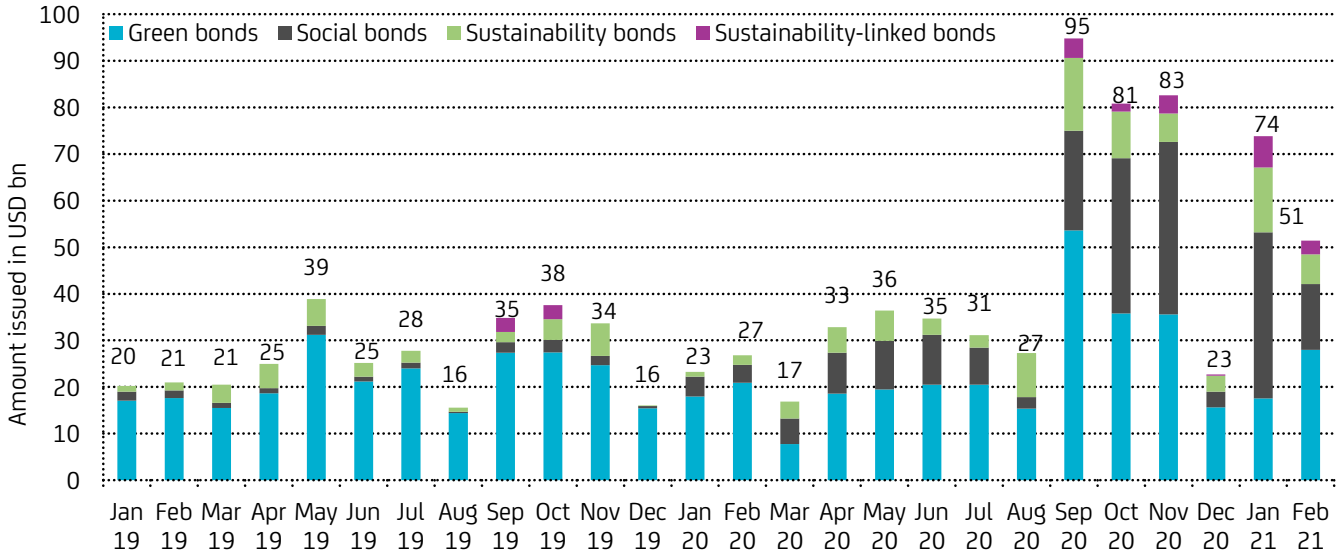
USD 5,505,000,000
ESG-Linked Revolving Credit Facilities
Active Bookrunner,
MLA, Sustainability Coordinator
Switzerland, Mar 2021

- Trafigura, one of the world's leading independent commodity trading and logistic houses successfully signed USD 5.5 bn Revolving Credit Facilities: i) a new 1y USD 1.8 bn RCF and ii) an amendment and extension 3y USD 3.6 bn RCF
- The **RCF represents one of the largest ESG-linked Syndicated Facilities in the commodity sector**
- For the **first time, a sustainability concept is being implemented in both facilities,** providing potential pricing adjustments via testing of 3 KPIs: i) GHG (Greenhouse Gas) Emission, ii) Renewable Energy and iii) Responsible Sourcing
- The deal underscores UniCredit's commitment towards sustainability and represents a further **milestone in the development of UniCredit's Sustainable Finance Advisory (SFA) franchise in the commodity trading sector** after Gunvor Ingolstadt's successful ESG-linked RCF in 2020
- **UniCredit acted as Joint Sustainability Coordinator, Active Bookrunner and Mandate Lead Arranger**

ESG & Green Research Update

The new year has been kicked-off with the highest ESG bond supply that has ever been observed in the first two months of the year. Combined global issuance of green, social, sustainability and sustainability-linked bonds in January and February 2021 amounted to USD 125.2 bn (up by 150% yoy) and was in particular driven by the increased supply of social and sustainability bonds.

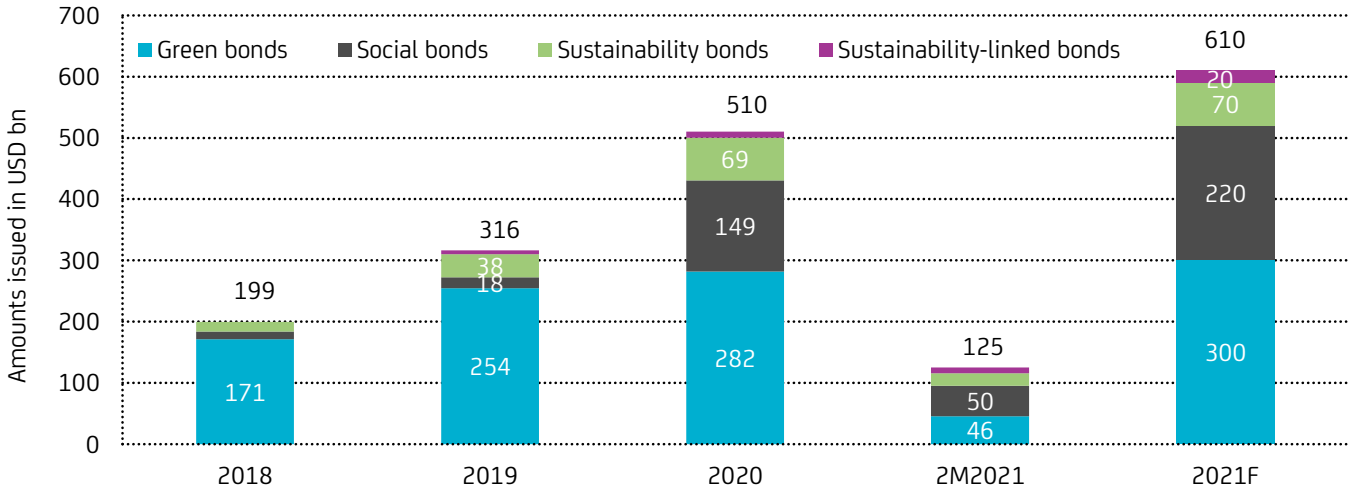
Monthly issuance[4]



FORECAST

We expect the **ESG bond market to continue along its growth path in 2021** and expect global issuance of green, social, sustainability and sustainability-linked bonds to amount to USD 610 bn. Green bond supply is expected to set a new record in that it is expected to amount to USD 300 bn in 2021. We expect combined social and sustainability-bond issuance to amount to USD 290 bn and anticipate a spike in the issuance of sustainability-linked bonds (USD 20 bn) in 2021.

Yearly overview and forecast[5]



[4]Source: Climate Bonds Initiative, Bloomberg, UniCredit Research
[5]Source: Climate Bonds Initiative, Bloomberg, UniCredit Research