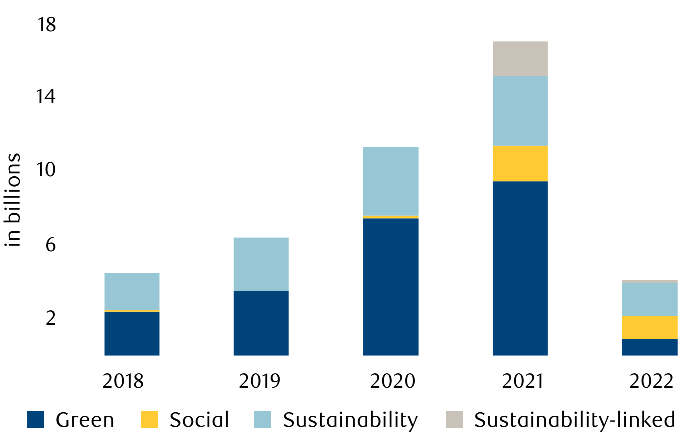
**RBC Global Asset Management**
PH&N Institutional

# Labelled bond primer

The ESG-labelled bond market[1] has experienced rapid growth over the past several years, with global labelled bond issuance having reached USD$3 trillion at the end of the first half of 2021.[2] While Canada represents just ~2% of global labelled issuance,[3] that volume more than doubled between 2019 and 2021, and a growing number of investors are looking to understand the evolving language, structure, and intent behind these instruments. This primer is meant to be an introductory document explaining this new and evolving landscape, as well as an opportunity to share our thoughts on the role labelled bonds may play within fixed income portfolios today and in the future.

### Figure 1: Canadian labelled bond issuance




Source: RBC GAM, Bloomberg, as at March 31, 2022.

## Overview

Similar to conventional fixed income securities, labelled bonds are typically senior unsecured instruments issued by entities for the purposes of funding projects or expenditures with ESG benefits or facilitating improvements to an issuer's sustainability targets. Some of the reasons entities might wish to issue labelled bonds include to fund specific ESG-related projects, to improve or diversify their access to debt capital markets, and/or to attempt to secure a lower cost of funding. On the other hand, labelled issuance tends to come with higher reporting and administrative burdens for the issuers and, thus, may not always be the most optimal path to choose.

The market for ESG-labelled bonds can be broadly separated into two categories: use of proceeds (UOP) and key performance indicators (KPI) based.

***Use of proceeds bonds:*** *These instruments include green bonds, social bonds, and sustainability bonds, with projects funded in accordance with the issuer's labelled bond framework. Proceeds must be tracked and allocated to specific spending, and allocations must be publicly reported (typically on an annual basis).*

**Green bonds** fund projects or initiatives with an environmental benefit. Examples might include a waste reduction project or the development of a new solar field. Green bonds can be allocated to a specific asset or a number of eligible environmentally friendly expenditures. The first-ever green bond was a Climate Awareness Bond issued by the European Investment Bank in 2007; the following year, The World Bank issued the second.[4] Meanwhile, the first Canadian entity to issue a green bond was Export Development Canada, which brought a USD$300 million security in January 2014. Later that year, TD Bank issued the first CAD-denominated corporate green bond and the Province of Ontario issued the first CAD-denominated government green bond.[5] Today, the Canadian green bond market is $24 billion in size and growing rapidly.[6]

An example of a recently issued green bond is Allied Properties REIT's $600 million 1.726% 2026 security, brought to market in February 2021. Approximately 79% of the proceeds were used toward green building projects, such as The Well in Toronto, and 21% went toward resource efficiency and management projects, such as lighting, heat recovery, and ventilation improvement in various buildings owned by the REIT.[7]

**Social bonds** fund projects or initiatives with a social benefit. Examples might include a project to reduce health-related issues in a particular community, or to fund education opportunities in low income neighbourhoods. The first social bond issued in Canada was a "Woman in Leadership Bond," issued by CIBC in 2018, but overall we have seen very little dedicated social issuance in Canada.[8]

**Sustainability bonds** are becoming an increasingly popular option. Sustainability bonds allow proceeds to be used to fund green and/or social projects or initiatives, giving the issuer greater flexibility in its allocations. An example of a recent sustainability bond is the $500 million Bell Canada 2.2% 2028 security, issued in May 2021. 50% of the bond was allocated to green initiatives such as deployment of an energy efficient fiber network, and the other 50% was allocated to social initiatives such as improving wireline access to underserved communities.[9]

***KPI-based bonds:*** *These instruments include sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs). The instruments do not fund specific projects, and proceeds can be allocated to any corporate activity, including those that may be contributing to negative environmental outcomes. Instead, the issuer of these instruments makes a commitment to improve one or multiple ESG-related performance metrics. If the issuer does not meet its ESG targets, a coupon penalty or step-up will apply.*

**SLBs** and **SLLs** are any type of bond or loan instrument for which the issuer makes a contractual promise to improve a predetermined ESG metric. Relative to UOP bonds, these instruments may be a better fit for carbon-intensive sectors, or issuers with limited spending that would qualify as making a positive contribution to ESG factors. Instead, the idea is for the issuing entity to set company-wide ESG improvement targets. If the issuer is unable to meet its commitments, the bond's coupon would increase by a predefined step-up amount. The penalty should be large enough to serve as an incentive to meet the stated objectives. The first Canadian SLB was issued by Telus in 2021, along with a commitment to reduce its absolute Scope 1 and 2 greenhouse gas (GHG) emissions[10] by 46% from 2019 levels by 2030. If Telus does not achieve these targets by December 31, 2030, the coupon on the bonds would increase by 100bps effective November 13, 2030, and would remain at this level until the bonds matured a year later on November 13, 2031.[11]

## USE OF PROCEEDS GUIDANCE

We are often asked how an issuer or investor determines whether an activity contributes positively to ESG factors; unfortunately, the answer to this question is not as straightforward as one would hope. While some industries are widely viewed as ones not considered to have strong ESG profiles – for example, coal, weapons, and tobacco – and other industries such as wind, solar, and health care are widely considered to be ESG focused, many other sectors and practices fall into a grey area due to lack of consensus, negative externalities, and limited regulation. While many international independent bodies have been set up to provide broad guidance, there are currently no formal or regulatory standards that define what is and is not considered a sustainable business or business practice.

Most UOP bonds in Canada are issued in alignment with the International Capital Market Association (ICMA) principles. ICMA serves as secretariat to a set of guidelines that outline core components and key recommendations for UOP frameworks. These guidelines include the Green Bond Principles (GBP), the Social Bond Principles (SBP), and the Sustainability Bond Guidelines (SBG),[12] and aim to provide guidance on the format of what a labelled bond framework should look like. Alignment with ICMA is completely voluntary but appears to have become the standard in the Canadian market.

While ICMA also provides broad categories of green, social, and sustainable activities, they are somewhat open to interpretation. For example, "green projects" include renewable energy, sustainable water and water management, and green buildings, but the terms "renewable," "sustainable," and "green" are not defined. As a result, issuers themselves can define these terms, and those definitions can vary from one issuer to another.

We feel it is important for investors to be mindful that alignment with ICMA does not eliminate greenwashing risk – that is, the risk that a company makes exaggerated and potentially misleading claims regarding the issuance's ESG benefits. We have observed some of the following drawbacks present in UOP frameworks in Canada:

- Alignment with ICMA or any other labelled framework is not mandatory; as a result, we have come across self-labelled issuance in the Canadian market, where an entity self-declares its bonds as ESG-labelled.
- ICMA guidelines are intentionally broad in nature, in order to accommodate a range of industries. This leaves ample room for interpretation, and allows issuers to potentially include long lists of activities that could be classified as green, social, or sustainable. Investors can sometimes be left wondering whether everything an issuer does can now be considered ESG friendly.

- Frameworks and reporting do not address the concept of "additionality." That is, in many cases the issuers bringing UOP bonds to market have existing long-term sustainability plans or have already planned certain types of spending, making it difficult to assess whether the proceeds from UOP bonds are being used toward projects that would have occurred anyway, or if the spending is in fact incremental to the issuer's original plans.
- Under the ICMA guidelines, issuers are expected to define a look-back period for eligible spending, and Canadian entities tend to state that proceeds may be allocated to expenditures that occurred in the 24–36 months prior to the labelled bond's issuance. Our preference would be for proceeds to be allocated toward future projects or initiatives.

The absence of formal guidance or standards on what activities are considered to have ESG benefits in Canada presents another risk of greenwashing, as investors are left to their own expertise and research to determine if they agree with an issuer's decision to classify certain activities as green, social, or sustainable. Globally, the EU Taxonomy (EUT) is the most well-recognized (but still not mandatory) classification system that establishes a list of environmentally sustainable economic activities. By EUT standards, in order to be considered sustainable, an activity needs to meet at least one of its six defined objectives and must not violate the remaining ones. A Canadian taxonomy has not been published but is currently in development, led by the Sustainable Finance Action Council.

It is important to keep in mind that while taxonomies can provide more clarity on what activities can be classified as sustainable, they remain prescriptive in nature, and many require specific underlying data in order to align with the taxonomy that, in many cases, is not yet being reported by issuers. (In other words, they require data that does not yet exist.) Furthermore, taxonomies can be exposed to political and special interests' interference; for example, we recently witnessed opposing views on the proposal to include natural gas and nuclear energy as part the EU Taxonomy. As a result, following the release of the Canadian taxonomy, we will continue to rely on these documents for a measure of guidance but ultimately form our own view on each activity.

## Use of proceeds – Canadian landscape

There are currently 80 ESG-labelled UOP bonds denominated in CAD. Of those, 54 are labelled as green, 8 are labelled as social, and 18 are labelled as sustainable. Total market value of the labelled bond segment currently stands at $42 billion, of which $11 billion was issued in 2020 and $15 billion was issued in 2021, demonstrating the rapid acceleration in issuance experienced in the Canadian market.[13]

On the investment grade corporate side, the real estate sector makes up approximately 30% of the labelled bond dollar volume and security count. REITs have been early adopters of labelled issuance, specifically green bonds, and some REITS now intend for all their future public debt to come under a green bond framework. Another 20% of total issuance is represented by power generators, specifically nuclear entities (e.g., Ontario Power Generation, Bruce Power, and Lower Mattagami Energy) and diversified renewables (e.g., Brookfield Renewable Partners). The remaining issuance is evenly split between banks and other financial entities, telecommunications, and transportation.[14] Bear in mind, however, that these statistics refer to labelled bonds only – some of the most positively impactful offerings, such as health care and renewable power generation construction and maintenance, are often issued in conventional bond format. Such securities can represent attractive opportunities for fixed income portfolios but require in-depth credit analysis of the issuer and structure by the asset manager.

In order to align with ICMA, issuers are required to report on the use of proceeds allocation at least annually. It is particularly important to keep an eye on this reporting, as labelled frameworks tend to be broad in nature and allocation reporting allows analysts to better gauge greenwashing risk. See Appendix I for a few examples of UOP allocations for existing Canadian green, social, and sustainability bonds.

## Sustainability-linked bonds – Canadian landscape

As mentioned above, there are no allocation requirements for KPI-based securities such as SLBs. Proceeds may be used for any corporate or general purpose, even activities that may be contributing to negative environmental outcomes, which is a broad market criticism of these instruments. Instead, issuers are making company-level commitments to reach a specified target or targets on their selected KPI(s), making SLBs a better fit for certain sectors such as oil & gas, where expenditures with ESG benefits may be insufficient to justify a UOP instrument.

The incentive to improve comes from avoiding a penalty step-up in the coupon if the issuer fails to meet its target(s). In Canada, we have seen only punitive SLB structures, but a positive adjustment is a nascent alternative, meaning a coupon discount is provided if the issuer meets its KPI objectives. The date at which the final KPI is measured for the purposes of determining whether a coupon change will occur is called the "observation date." This date typically occurs in the second half of a bond's life, typically within a year or two prior to maturity and sometimes even at maturity. Examples of two notable SLBs outstanding in Canada are:

Telus: TCN 2.85 11/13/2031 $750 million[15]

- Security has 1 KPI:
  - i. Reduce absolute Scope 1 and 2 GHG emissions by 46% from 2019 levels by 2030.
- KPI step-up is +100bps with an observation date of December 31, 2030.
- Issuer uses Sustainalytics for second-party opinion, and target was set according to the Science-Based Targets initiative (SBTi) standard.

In the case of Telus the observation date falls on December 31, 2030, and the bonds mature on November 13, 2031. In order to avoid having to pro-rate the coupon step-up, the issuer clarified that if the KPI is not met on the observation date, the bond's coupon will increase effective November 13, 2030, until the bond's maturity one year later. This implies that if Telus is unable to achieve its emissions reduction target, it will cost them $7.5 million in additional interest costs.

Enbridge Inc.: ENBCN 3.1 09/21/2033 $1.1 billion[16]

- Security has 3 KPIs:
  - i. Reduce Scope 1 and 2 emissions by 35% by 2030 from 2018 baseline. KPI step-up is +50bps with an observation date of December 31, 2030.
  - ii. Achieve 28% representation of Racial and Ethnic Diversity in the workforce by 2025. KPI step-up is +5bps with an observation date of December 31, 2025.
  - iii. Achieve at least 40% Women on Board of Directors by 2025. KPI step-up is +5bps with an observation date of December 31, 2025.
- The issuer uses ISS ESG for second-party opinion.

We feel it is important to highlight that unlike Telus, Enbridge Inc. did not apply the SBTi methodology or have its target verified by SBTi targets. For background, SBTi is a partnership of multiple global organizations. The entity establishes standards and promotes best practices, and provides technical assistance and expert resources for companies to set targets in line with latest climate science, which SBTi then independently assesses and validates. One highly notable feature of SBTi methodology is that offsets and avoided emissions do not count toward science-based climate targets. In addition, when it comes to net-zero standards, SBTi targets require long-term deep decarbonization of 90–95% across all scopes before 2050. When a company reaches its net-zero target, only a very limited amount (no more than 5–10%) of residual emissions can be neutralized with high-quality carbon removals.

## Sustainability linked bonds – global landscape[17]

Given the small size of the Canadian SLB market, we opted to examine global issuance data for further insight into trends and findings. In 2021, total global non-sovereign SLB issuance amounted to just over USD$100 billion. Of this, just over half – when measured by security count – came from three sectors: Power & Utilities, Industrials, and Consumer Products. Power & Utilities and Industrials were also the top two sectors when looking at issuance by size (measured in U.S. dollars). This makes sense given issuers in these industries may have limited expenditures that would qualify under a UOP framework. However, we should note that this does not automatically make SLBs a better fit for all issuers within these sectors. For example, transmission and distribution utilities in Canada recover their spending through their local regulated regimes. If the framework for recovery does not address step-ups, this may prevent Canadian utility companies from considering these instruments.

### Figure 2: Global non-sovereign SLB issuance by largest sectors

| | Total Issuance (in billions) | Number of Securities | Average number of KPIs | SBTi Commitment | Average Tenor |
|---|---|---|---|---|---|
| **Power & Utilities** | $30,195.50 | 36 | 1.2 | 25 | 8.9 |
| **Industrial** | $13, 864.40 | 21 | 1.5 | 12 | 7.9 |
| **Consumer Products** | $5,274.52 | 12 | 1.8 | 8 | 8.2 |
| **Pharmaceuticals** | $7,073.00 | 5 | 2.6 | 5 | 6.6 |

Source: RBC GAM, Scotia Capital, Bloomberg, as at January 2022. Figures reported in U.S. dollars.

We found that 60% of all recorded KPIs were related to the measurement of GHG emissions. Some examples include: GHG emissions intensity, absolute Scope 1 and 2 GHG emissions, and reduction of physical emissions intensity (e.g. tCO2 eq./KwH). Of the 226 KPIs we tracked, only 10 were directly tied to Scope 3 emissions;[18] these came primarily from the Industrial, Consumer Products, and Building Materials sectors. Other notable KPIs focus on water intensity, renewable energy utilization, safety, representation of women within various levels of corporate structure, housing, biodiversity, and waste management. Approximately 60% of KPIs are set in accordance with SBTi's standard, which in our view adds credibility to those instruments and their overall approach.

The most common size for a coupon step-up if a KPI is not met is +25bps. Other common step-ups were +12.5bps and +50bps, but step-ups can vary greatly depending on the type of key performance indicator being measured. For step-ups +25bps and lower, there is typically a 2–2.5 year period between the observation date and bond maturity, meaning that in the event of failure to meet a KPI, investors would receive a 2–2.5 years of an increased coupon. Step-ups +50bps and higher typically occur at or very close to maturity. The largest step-up on record is +150bps from a 10-year bond issued by a building, materials, and construction entity, and the second-largest step-up on record is the Telus SLB mentioned above, at +100bps.

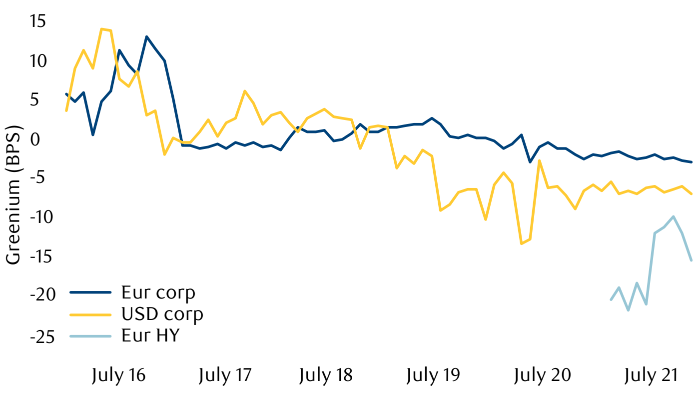
## Canadian labelled bond issuance – greeniums

A greenium is the amount by which interest costs are reduced for a green or labelled bond relative to an issuer's conventional curve. The idea is that an issuer should be able to obtain a cheaper cost of financing for activities deemed to have a positive ESG impact. Greeniums can be a challenge to estimate, as valuation levels can be highly dependent on market conditions and liquidity, the presence of a full existing conventional curve, idiosyncratic issuer-specific developments, perceived strength of a labelled bond framework, and investor preferences.

According to HSBC's May 2021 ESG research article, greeniums tend to be in the 1–3bps range among Canadian public sector entities, while among Canadian investment grade corporates, dealers report an average range of 2–6bps at the time of new issue.[19] After examining six years of data, HSBC confirmed that, on average, a greenium is present in the primary market.

HSBC also observed that secondary-market greeniums are structurally negative, driven by strong demand and sometimes limited supply, as labelled bond investors find themselves in competition with regular investors for the same bonds. Figure 3 demonstrates that greeniums are present across EUR and USD issuance and vary depending on the issuer type and quality.

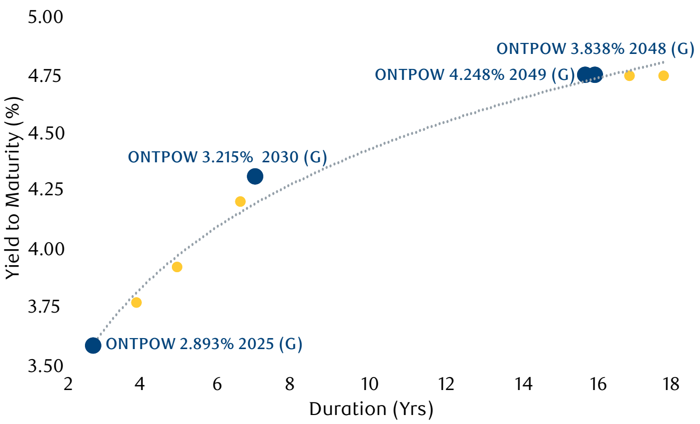
### Figure 3: Average greenium of corporate indices




Source: HSBC Green Bond Outlook 2022, December 2021.

Finally, we observe that greeniums and secondary-market levels may be driven by the nature of the issuer's business. For example, Ontario Power Generation (OPG) is a provincially owned power generation entity, and its key assets include two nuclear power plants and 66 hydroelectric stations. Based on the nature of its business, it is evident that this issuer is involved in a socially critical function of providing clean, renewable energy to its consumers. As a result, an investor buying OPG bonds may feel that they are getting organic exposure to a use of proceeds with ESG-related benefits, and feel indifferent when selecting between green or conventional issuance from such an issuer. Indeed, Figure 4 demonstrates that green bonds issued by OPG trade in line with conventional bonds and do not appear to command a premium in the market.

## Figure 4: Ontario Power Generation yield curve, May 2022




Source: RBC GAM, Bloomberg, as at May 31, 2022. For information purposes only. The above does not constitute an offer or recommendation to buy or sell any specific security.

Looking ahead, issuers with fairly ESG-focused operations may consider revisiting their existing bond classification to determine whether it's possible to reclassify previously issued conventional bonds as green. While this hasn't been done in Canada, there is global precedent: In May 2021, French real estate company Gecina reclassified its debt portfolio under the green theme, labelling its 15 outstanding bonds worth a combined USD$6.8 billion as green and committing to issue all future bonds under the green label.[20] Its framework was reviewed by Sustainalytics and published in April 2021. Climate Bonds Initiative[21] is currently working on a framework that will provide guidance for entities to certify such firm-level re-labelling transitions.

## PH&N Investment Grade Corporate Credit Team

Thus far in this paper, we have provided a primer on labelled issuance in Canada and some of the trends observed internationally. Based on this information, there are a number of findings and conclusions one may draw – some of our team's thoughts are elaborated on below.

We are supportive of labelled issuance and will continue to encourage issuers to consider labelled bonds as part of their financing strategy. That said, the following are some key considerations we keep in mind as we evaluate the fit of UOP instruments within our clients' portfolios:

- **Quality of framework:** It is critical to examine the strength of the labelled bond framework. We encourage issuers to keep their frameworks brief and specific. In our experience, we have come across extensive lists of eligible categories. These long lists can sometimes include nearly all of an issuer's activities, leaving us wondering if everything the issuer does is now considered to contribute positively to ESG factors. In our view, this presents a risk of greenwashing and/or fails to distinguish how labelled issuance truly differs from conventional securities. We feel that a higher bar should be set for activities to be viewed as green, social, or sustainable. As part of our direct engagement with management teams, we continue to encourage companies to improve on publicly disclosing what internal parameters are used to determine eligibility of expenses.
- **Use of proceeds allocation:** Issuers must report on their ultimate use of proceeds allocations on an annual basis, and while a look-back period is in alignment with ICMA, our preference would be to keep this period as short as possible or avoid it altogether. We feel that the spirit of UOP instruments is to encourage ESG-focused spending that otherwise would not have occurred. As such, the truest application of this spirit would be to allocate proceeds to future projects or activities. This would also address the concept of additionality, which is important for certain ESG mandates. Finally, investors should beware of cases where green spending can be used to justify further investment in activities that may be contributing to negative environmental outcomes; for example, using investment in carbon capture technology to justify expansion of oil & gas production.
- **Nature of issuer's operations:** Both items above will contribute to a view on what level of greenium, if any, is justified for the issuer's labelled bonds. However, it is also important to consider the entity's line of business. For example, conventional issuance of entities operating in the

fields of clean energy or health care may be considered a darker shade of green from an ESG perspective than labelled issuance from a consumer services entity.

- **Social issuance:** As previously mentioned, green bonds dominate the labelled fixed income market. However, sustainability bonds appear to be growing rapidly. While we appreciate the flexibility sustainability issuance provides, we would like to see more social bonds come to market. So far, pure-play social bonds issuance in Canada has been limited. On the investment grade corporate side we have seen two, both issued by banks and supporting women-led initiatives. Given the vast opportunity for social improvement, we would like to see more issuance in this space.

With regards to SLBs, we feel that these instruments may be more appealing within sectors that tend to have higher carbon intensity, difficulty switching to greener alternatives, or industries in transition. This may include Oil & Gas, Pipelines, Utilities, and others. Similar to UOP bonds, we are supportive of ongoing SLB issuance, but remain cautious on two factors:

- KPI selection and calibration: We feel that KPI selection needs to be material for the business model. For example, a GHG emissions KPI may be appropriate for an airline issuer, but would not be particularly relevant for a nuclear power generation issuer. The appropriate aggressiveness of targets is also difficult to gauge, as issuers have a significant information advantage over market participants as to how challenging it will be for them to meet such targets. We feel one way to address this concern is to ask management teams whether it would be possible for them to continue investing in polluting or high-emissions sectors and still meet their targets. For example, just 10 days before issuing its Canadian SLB, Enbridge announced its $3 billion agreement to buy Moda Midstream LLC, North America's largest crude export terminal.[22] We hope further development of international standards and regulatory oversight should provide guidance on setting of KPIs; for example, by setting climate targets that align with the Paris Agreement and/or are verified by SBTi.
- Use of proceeds: As mentioned above, given SLBs do not require an allocation of proceeds disclosure and the issuer is able to use the proceeds for any activity, there is some apprehension that activities that are not contributing to positive environmental outcomes may be effectively funded with labelled issuance. We remain supportive of SLBs issuance but will continue to assess each issuer's sustainability frameworks and overall commitment to addressing their ESG risks.

It is likely that greeniums in both primary and secondary markets will persist to varying degrees, but this will depend on many factors, including the nature of issuers' operations, demand and supply for labelled issuance, and overall market tone. We believe that investors should approach each security on an individual basis when assessing whether a greenium is justified. Over the long term, we hope that additional labelled issuance alleviates any demand pressures that may arise from investors.

We believe that green bonds are an important instrument for the fixed income market and should be considered for both broad and more specific mandates. However, their suitability will differ from one mandate to another. For broad portfolios, relative value will play a more important role in making an investment decision. Broad mandates will also be more sensitive to the movement and size of greeniums associated with labelled securities. For thematic or ESG-specific mandates, labelled bonds may present an avenue to get exposure to a specific issuer while meeting the ESG requirements set out by the mandate objective. The requirements of such accounts are extremely varied, with some investors searching exclusively for energy transition portfolios, while others limit their investable universe to health care or social outcomes. In any case, thematic investing products cover nearly every plausible ESG preference, but it is always important to keep greenwashing risk top of mind when it comes to labelled bonds. Not all ESG-labelled bonds are created equal, and some may not be suitable for ESG-focused mandates despite bearing the label.

We remain of the view that fundamental analysis of all issuers and securities is key to prudently managing our clients' portfolios. We do not, and do not plan to, seek out labelled issuance in order to view a holding as green or ESG-friendly. For example, many project-specific securities that we view favourably and that invest directly in renewable energy, hospitals, or social housing do not come with a label. However, we want to recognize that most issuers in the Canadian and global markets have become increasingly aware of the ESG risks facing their businesses, and we are happy to see the development and growth of the labelled market.

## APPENDIX I: Use of proceeds bonds: allocations as reported by issuer

| **Ontario Power Generation 4.248 49 – Green** | **$500 million total issue size** |
|---|---|

### Guidance

Solar energy, wind energy, hydroelectricity, transportation efficiency/electrification, industrial efficiency, climate change and eco-efficient products, production technologies and process. Note that in 2021 ONTPOW amended their framework to allow nuclear as UOP eligible.

### Allocations

- Totals are not allocated per bond, instead, a rolling tally of total green bond issuance is kept. As at Dec 31, 2020, ONTPOW has $1.193 billion of green bond dollars to allocate. Of this, 94% was allocated to the CUBE transaction and the remainder was allocated to Nanticoke Solar. CUBE is a portfolio of small- and medium-sized hydro power facilities in the northeast and southeast U.S.
- 2020 disclosures state that the bond is 100% allocated.

| **Brookfield Renewable Partners 4.25 29 – Green** | **$475 million total issue size** |
|---|---|

### Guidance

Solar energy, wind energy, hydroelectricity, biomass energy, industrial efficiency, climate change and eco-efficient products, production technologies and processes, and energy storage technologies and assets.

### Allocations

- 64% allocated to Terraform Power, a wind and solar energy portfolio of assets. Remainder allocated to smaller wind, solar, and battery storage projects.
- 2021 disclosures state that the bond is 100% allocated.

| **RioCan REIT 1.974 26 – Green** | **$500 million total issue size** |
|---|---|

### Guidance

Green buildings, resource efficiency and management, renewable energy, adaptability, and resilience to climate change.

### Allocations

- 90% allocated to green buildings and 10% allocated to renewable energy.
- Green buildings allocation is split between three properties in Toronto, ON, all of which are new construction and pursuing a green certification (LEED Platinum, LEED Gold, or TGS Tier 2).
- 10% allocation to renewable energy was for the commissioning and installation of a geo-exchange heat pump system in the Frontier, which is located in Ottawa, ON. The new system is designed to satisfy the building's heating and cooling needs and will save over 300,000 kWh of electricity and 46,000 cubic meters of natural gas, more than 100 tons of $CO_2$ emissions, and more than 600,000 gallons of water annually.
- 2020 disclosures state that the bond is 70% allocated.

| CIBC 2.9 2021 – Social | $1 billion total issue size |
|---|---|

**Guidance**

Women in Leadership Bond: minimum 30% board positions held by women or minimum 30% of executive positions are held by women or signatory to Catalyst Accord 2022 and minimum 1 woman on the board and 1 woman in an executive position.

**Allocations**

- Over 60% allocated to companies with minimum 30% of board positions held by women. Remainder allocated to a mix between the other criteria.
- In terms of impact reporting, the companies that have been allocated to the Women in Leadership Bond have observed only a 2% increase in aggregate women on boards of directors.
- 2020 disclosures state that the bond is 99.75% allocated.

| Bell Canada 2.2 28 - Sustainability | $500 million total issue size |
|---|---|

**Guidance**

Energy efficiency, eco-efficient production technologies, pollution prevention, clean transportation, renewable energy, green buildings, climate adaptation, affordable infra, access to essential services, emergency response, and pandemic relief.

**Allocations**

- 50% allocated to green initiatives under "energy efficiency": deployment of fiber to the premise (FTTP) away from energy-intensive copper-based networks.
- 50% allocated to social initiatives under "affordable basic infrastructure": wireless to the premise (WTTP) and FTTP connectivity for communities lacking adequate access to high-speed broadband networks.
- 2022 disclosures state that the bond is 100% allocated.

| Sun Life Financial 2.38 29 – Sustainability | $750 million total issue size |
|---|---|

**Guidance**

Renewable energy, energy efficiency, green buildings, clean transportation, sustainable water management, access to essential services.

**Allocations**

- 40% allocated to investment in LEED Gold Class AAA office tower in a core Canadian market.
- 18% allocated to financing of a medical health center in the U.S. Midwest that provides mental health and substance abuse treatment services for military veterans.
- 17% allocated to financing of a wind farm located near Quebec.
- Remainder is split among smaller projects. None were found to be controversial. Energy-efficiency spending was allocated to a public library and school system.
- 2021 disclosures state that the bond is 100% allocated.

1 Environmental, social, and governance labelled bonds.
2 Climate Bonds Initiative, Sustainable Debt Market Summary H1 2022. https://www.climatebonds.net/resources/reports/sustainable-debt-market-summary-h1-2022
3 Bloomberg, as at March 31, 2022.
4 EIB, Investor Relations, 2022. https://www.eib.org/en/investor-relations/index.htm
5 EDC, Export Development Canada prices its first green bond in Canadian dollars responding to rising global interest in climate financing, August 30, 2017. https://www.edc.ca/en/about-us/newsroom/cad-green-bond.html
6 Bloomberg, as at March 31, 2022. Unless otherwise noted, all references are to Canadian dollar figures.
7 Allied Green Bond Report, December 2021. https://www.edc.ca/en/about-us/newsroom/cad-green-bond.html
8 CIBC Women in Leadership Bond Framework, 2022. https://www.cibc.com/content/dam/about_cibc/investor_relations/pdfs/debt_info/cibc-women-in-leadership-bond-framework-en.pdf
9 BCE, Sustainability Bond Allocation Report, March 2022. https://www.bce.ca/responsibility/key-documents/2021-sustainability-bond-allocation-report.pdf
10 Scope 1 emissions are direct greenhouse gas (GHG) emissions that occur from sources that are controlled or owned by an organization. Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Although scope 2 emissions physically occur at the facility where they are generated, they are accounted for in an organization's GHG inventory because they are a result of the organization's energy use. https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance
11 TELUS details inaugural Sustainability-Linked Bond structure. https://www.telus.com/en/about/news-and-events/media-releases/telus-details-inaugural-sustainability-linked-bond-structure
12 ICMA also produces Sustainability-Linked Bond Principles (SLBP), however, given these instruments are KPI-based and do not require proceeds to be allocated to ESG-friendly activities, we will not focus on these instruments in this section.
13 Bloomberg, as at April 2022.
14 Bloomberg, as at April 2022.
15 Telus announces pricing of inaugural Sustainability-Linked Bond offering, the first of its kind in Canada. https://www.telus.com/en/about/news-and-events/media-releases/telus-announces-pricing-of-inaugural-sustainability-linked-bond-offering. For information purposes only – This information is not and should not be viewed as a recommendation to buy or sell any specific security.
16 For information purposes only – This information is not and should not be viewed as a recommendation to buy or sell any specific security.
17 Data from Scotia Capital as at January 2022.
18 Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain. Scope 3 emissions include all sources not within an organization's scope 1 and 2 boundary. https://www.epa.gov/climateleadership/scope-3-inventory-guidance
19 HSBC Global Research, 2021. https://www.research.hsbc.com/R/20/V6ztlXPwu572
20 Climate Bonds Initiative (CBI) Green Bond Pricing in the Primary Market, June 2021. https://www.climatebonds.net/files/reports/cbi_pricing_h1_2021_03b.pdf
21 Climate Bonds Initiative (CBI) is an international organization working to mobilize global capital for climate action. CBI achieves this through the development of the Climate Bonds Standard and Certification Scheme, Policy Engagement and Market Intelligence work. https://www.climatebonds.net/
22 Enbridge Advances U.S. Gulf Coast Strategy with Acquisition of North America's Premier Crude Export Facility, September 7, 2021. https://www.enbridge.com/media-center/news/details?id=123689&lang=en



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