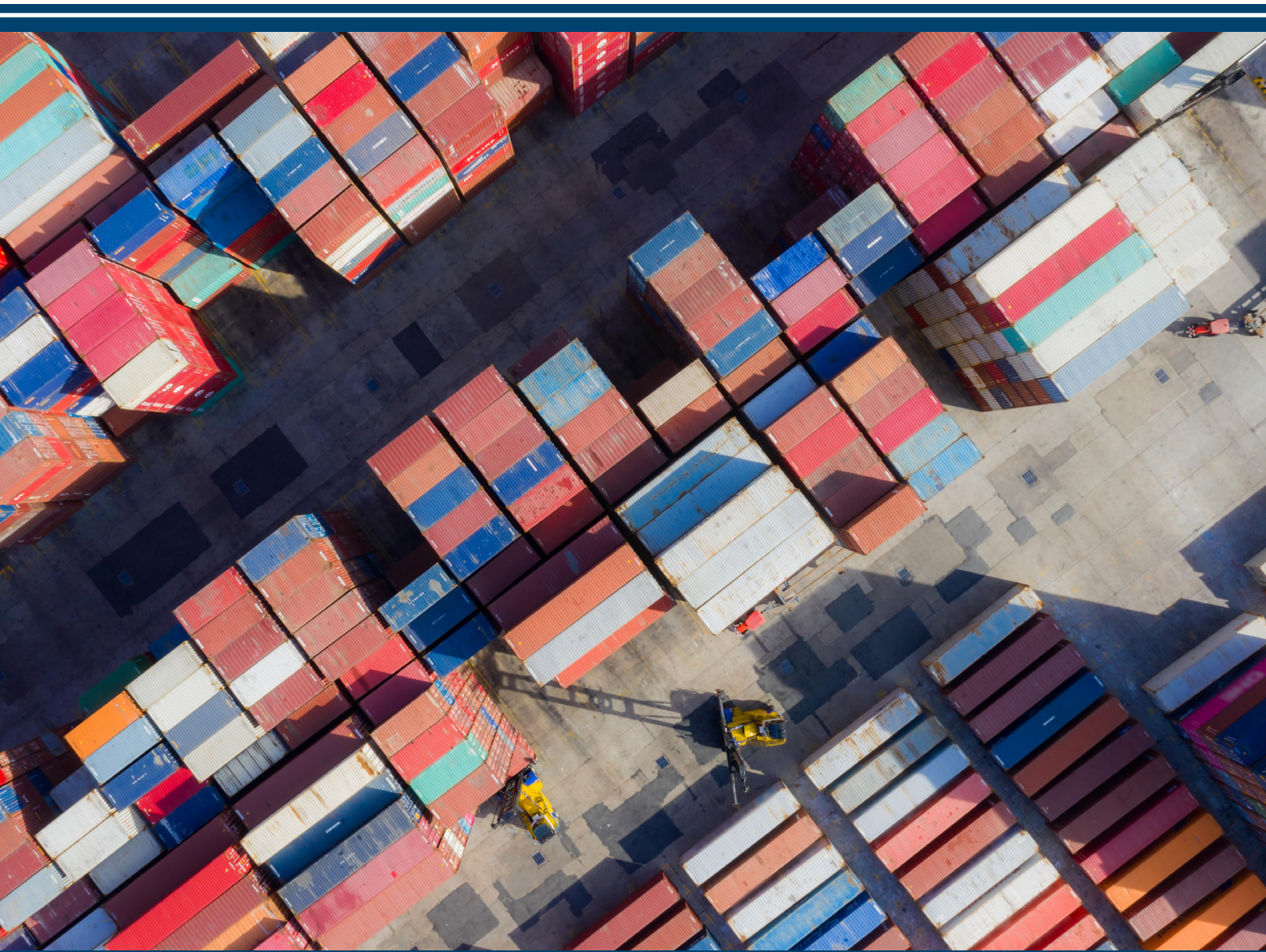


Execution Strategies and Investor Engagement in a Post-Covid World

A GlobalCapital roundtable, September 2021



Sponsor:





Ivan Giacoppo
Atlantia



Rick Gokenbach
General Motors Financial



Luke Hickmore
Aberdeen Standard
Investments



Andrew Menzies
Société Générale



Jérôme Michiels
Wendel



Sverre Serck-Hanssen
Equinor

Cheap money, busy investors: how can companies optimise bond funding?

Interest rates and inflation are dominating conversation in corporate bond markets — along with ESG. But whereas consciousness of environmental, social and governance issues is only going to rise, rates could go either way. They might be at the gates of a new upward road — or 2021 might just be a hiccup in the lower for longer era.

Companies and investors have to navigate these unpredictable seas. *GlobalCapital* held a roundtable discussion in September with prominent corporate bond issuers, investors and an investment bank, to explore how treasurers can make the most of the present market, and what investors would like to see.

The speakers noted the curious correlation between spreads and rates, debated whether issuers should try to give investors well-performing deals, and tackled the pros and cons of cross-currency funding. On all sides of the market, participants are dissatisfied with the present pattern of spreads being tightened a long way from initial price thoughts, which can waste investors' time, but issuers did not jump at one investor's suggestion to just pay a 10bp new issue premium.

Virtual roadshows were hailed as an efficiency breakthrough, but investors still want physical meetings including site visits in selected cases. Two issuers discussed their thinking on future sustainable funding, in a market in which an issuer's transition story is now central to all investor relations.

Participants in the roundtable were:

Hervé Boiral, head of euro credit, Amundi

Ivan Giacoppo, head of finance, Atlantia

Rick Gokenbach, treasurer, General Motors Financial

Luke Hickmore, investment director, Aberdeen Standard Investments

Andrew Menzies, global head of corporate debt capital markets, Société Générale

Jérôme Michiels, chief financial officer, Wendel

Sverre Serck-Hanssen, head of capital markets, Equinor

Jon Hay, corporate finance and sustainability editor, *GlobalCapital* (moderator)

GlobalCapital: Let's start by talking about the markets and interest rates and inflation, which has been such a topic this year. Is this going to be remembered as a turning point, when perhaps even the long bull run for bonds turned a corner and we got into a new chapter?

Luke Hickmore, Aberdeen Standard: I've been in this industry 34 years and can probably count on every single finger and toe how many times people have said this is the end of the bull run for bonds.

Whether it is this time is a bit early to tell. It doesn't feel we're out of the woods from an economic perspective or that we're going to be seeing runaway growth. Inflation may be a bit sticky, but it doesn't feel like central banks are going to let yields run away from themselves and turn a corner.

So I have a sneaking suspicion that we are in a long period with very low yields that may be in a US context 1.5% to 2.5%. While that sounds quite a big move compared with what we've seen, historically that's very low yields still, especially with inflation of 5% or 6% or 6.5% that we may reach in January.

So I don't buy into the turning point of yields at the moment, unless the inflation numbers do turn out to be structurally higher in the US.

In the UK and Europe, actually there are higher

chances of higher yields with higher inflation than in other parts of the world. But again it feels like more of the same for the next five or six years.

Hervé Boiral, Amundi: I quite agree. At least in Europe we know that the European Central Bank is going to stay at the same level for a very long time, maybe four, five years.

It's going to be a bit different in the US but in Europe we have to get used to very low yields for a long time, and this is going to be difficult for the whole industry. With negative yields in money markets it's not very easy to convince people to come to see us.

So there is no big turning point. Maybe in five or 10 years we will have a different thing, but with all the deficits in Europe I don't see the ECB hiking any time soon.

Rick Gokenbach, GM Financial: We break it down into two parts: the interest rate benchmark and the spread. As a consumer lender we try to be agnostic to the way interest rates are going to move. We want to borrow at a certain rate, and lend at a certain rate plus a spread, so we manage that through our asset-liability management project and execute derivatives to try to be as neutral as possible.

Our cost of funds really boils down to the spread

environment, and obviously we've had a tremendous amount of liquidity in the market, a lot of support from governments going through the pandemic, so this is a very spread-competitive environment. That makes it very constructive for us to issue into this market when it's possible.

Sverre Serck-Hanssen, Equinor: We also take the agnostic view on the overall rate level. We are concerned about the spreads, and even though they are fairly low for the time being, we don't see an immediate need for rushing into the market. We are well funded with the recent and sharp increase in oil and gas prices, so have a pretty healthy balance sheet for the time being.

Ivan Giacoppo, Atlantia: As a holding company of infrastructure, our job is not to make predictions on interest rates. Our job is to try to stabilise interest rates, especially as we have predominantly long term debt, in case there is any potential risk of a rise in rates.

You can do this through two different strategies. You can try to refinance the shortest maturities early with long term bond issues which are today priced at very favourable conditions. In this way you lock in both the interest rate and the spread. Or you can put in place derivatives which are forward starting, to pre-hedge.

We apply both strategies in different ways, quite intensively in recent months. Our operating company Autostrade per l'Italia decided to use forward starting derivatives in the long term, while Aéroports de la Côte d'Azur for example preferred to pre-fund the shortest maturity, notwithstanding a slight negative carry.

It also depends how stable are your expected cash-flows. The Atlantia holding company, which is expected to have intense M&A activity, cannot use either of these strategies because it does not have stable, predictable indebtedness.

Jérôme Michiels, Wendel: It's a bit different for us. We are a much smaller, simpler player. We fund investments out of our balance sheet, where we have a pile of cash and a little debt. Our shareholders are very much concerned about the cashflow at the holding level, and interest rates coming down has had a very positive impact on that, quite value-enhancing. Our spread has been consistent since we got back to investment grade territory. We are not too much concerned about the spread because we are talking basis points.

With interest rates, however, between minus 0.5% and 3% there is a huge difference which translates into millions of euros at the holding level.

We function very much as a private equity firm: we make deals and then sell them five, 10 years down the road. For private equity investors like us interest rates have an impact on returns, because your debt funding is suddenly so cheap, both at the portfolio company level and at the holding level.

So in the old days we used to hedge against a rise in interest rates, at both levels. But these days we just did a 10 year bond at 1% and you can fund leveraged loans at portfolio company level below 5%, which is

unheard of.

Money is so cheap on the debt side that it's not a concern any more, it's just about how much you want to get in return on your equity. This has come down as well, because in the old days you were pricing LBOs at 20% or 25% internal rate of return, whereas these days everyone prices between 10% and 15% because



Jérôme Michiels
Wendel

there is the effect of cheap financing.

So it's a dramatic change in the way people are approaching this business. It's not so much about hedging against a 10bp, 50bp rise, nobody really cares about this.

It's much more the working assumption that this world of QE and very low interest rates will continue forever, and until the music stops people are committing funds into private equity deals at 10%

or 15% return max, which is obviously having a very important impact on the price of assets in our category.

GlobalCapital: Andrew, is that variety of views representative of companies you talk to?

Andrew Menzies, Société Générale: A bit of yes, a bit of no, and I'm glad Jérôme provided a slightly contrarian view.

We definitely see some corporates seeking to take advantage of the environment at the moment. In the hybrid space, for example, which is much more developed in Europe than the US, corporates are getting out and refinancing that part of their cap structures much more quickly than the senior. Why? Because they want to derisk the exercise. Is that because of rates or credit? You'd probably argue it's more on the credit because the sub-senior differential is tremendously low.

But then you see people just tapping the long end of the curve, like BP doing more 30 and 40 years. In their case it's probably specific, that they're strategically lengthening their maturity profile, but others are doing it as well — Eli Lilly issuing 30s and 40s in euros, that's never been heard of before. DSV Panalpina, out with a 15 year this week.

We also see a lot of proactive cap structure management. In the US, many corporates are relatively conservative when it comes to interest rate risk management, they just go through the cycle. But you are seeing massive amounts of liability management getting done in the States at the moment. It was big in France through the 2010s, but is now catching more of a global bug. So while often there are specific reasons, there's little doubt people look at this rate opportunity and think it's one to capture.

Hickmore, Aberdeen: There's another point that's quite important. From the buy side, separating rates and credit right now doesn't feel very sensible to do. They are caught up with each other. Whereas we

would normally see a negative correlation between them, credit is where it is because yields are where they are, rather than reflecting the cycle. So I don't think it's as easy as saying 'I'm just looking at the credit spread' any more — that spread is driven completely by where yields are.

GlobalCapital: So if yields are likely to be quite stable, does that mean spreads will be as well?

Hickmore, Aberdeen: Yes I'm afraid so. It's not particularly interesting but the more confidence there is around inflation being temporary, and yields perhaps stabilising and going down a little bit from here, the more we'll see spreads go tighter.

But if we see yields go to the top end of my range of 2.5%, spreads are not going to be 90bp-odd in the US, they'll be 120bp, 130bp, 140bp, quite quickly, as the froth gets blown off. So you could see quite a volatile range for both yields and spreads, but I suspect moving in the same direction.

Boiral, Amundi: I have a question for issuers. When you issue a new bond, just after the break, what kind of behaviour do you like to see? If it's widening do you say 'yes, I've saved 5bp'? Or if the bond is tightening by 20bp do you say 'I paid too much'? What would you like to see, because for us it's quite interesting to know?

Gokenbach, GMF: It's a great question. When we put our name on the screen, we want our investors to have a good idea what that bond's going to look like, what kind of pricing tension we're going to put on it.

Our funding plan is so large that it's really a marathon, not a sprint, so we're not trying to extract every last basis point, because we're going to have to come back.

What I like to see is a little bit of tension. We think about new issue premiums — it varies by market, but in this market today, if you're in the low single digits that looks good.

And if you're tightening a couple of basis points post-pricing, that feels good to us. If you tighten 20bp — we usually don't get that kind of reaction — but if you saw that you would have to raise a question.

And any time we tighten and there's a recommendation to go inside secondaries, we're very cautious. We want to make sure we feel comfortable about the book and the perception, because sometimes there's just so much appetite that there could be technical reasons why you might push inside secondaries.

If it's market reasons that a bond trades a little bit back on the break, that's one thing — if it feels like we did something wrong on the pricing, we obviously want to avoid that.

GlobalCapital: New issue premiums go up and down in waves from week to week and month to month — they change much more quickly than the overall rate and spread environment. So how important is the new issue premium as a guide to whether you've had a good deal and how much is it really just about the spread, and on a day when the new

issue premium has to be 20bp, you're fine to pay that?



Ivan Giacoppo
Atlantia

Giacoppo, Atlantia: We like tightening but we mainly look at the final new issue premium, and we care a lot about the quality of the book, especially for long maturities. We prefer to pay a few basis points more and have a good quality book.

Serck-Hanssen, Equinor: To us it's the spread that matters. The degree of tightening is about where you started and whether you started at the right

level. So to us it is maybe as boring as that: we have a very solid balance sheet so we can live with the base rate, and we're really focused on the spread when issuing.

Michiels, Wendel: When you're a repeat issuer as we are you want the secondary to trade well and you're ready to leave a little bit of money on the table to make it happen. We are not too sensitive — we are talking maybe 5bp, 10bp, it's something we can swallow so that our investors are happy with the credit.

GlobalCapital: Andrew, Rick was talking about how he wants to be seen as an issuer that treats investors fairly. Do you think investors actually notice that issuers have different styles?

Menzies, SG: I often say people have very short memories, but with frequent issuers they definitely remember which ones want their bonds to perform and leave a happy taste in the mouth. It really does matter for issuers that keep coming back to the market.

One thing that is less effective in the market at the moment that I'd like to roll back is this start really wide and jam it in strategy. It's become a self-fulfilling prophecy now, because if you don't do it and you say 'we'll only take it in 10bp' you're going to hang yourself.

We have gone worse and worse down this track and made it harder and harder, so we have to now start 25bp to 30bp wide. Those numbers drift up and down depending on the market environment, but this is the dance we have to go through before we price any deal.

The real question for me is how do you time the market to make sure you get a good deal done. Rick I'm sure you went to the euro and sterling markets early in the quarter a few weeks ago because you know the technicals matter, and as supply builds up premiums back out. But it's also a question of making sure you're ready to have that market access, and that probably means debt investor relations on an ongoing basis. So what are the issuers' main priorities for ensuring they have that ready access?

Gokenbach, GMF: We're pretty up front about communicating our issuance plans, so when we come to market nobody's surprised to see our name. They know we're roughly a quarterly issuer in the US market, we've committed to being in the euro and sterling market at least once per year, sometimes twice per year. If that comes early in the year then people know there's an opportunity for us to come later. Then you navigate through a defined window when you want to issue, and think about timing within the quarter when the technicals are in your favour.

On your point about initial price thoughts I wish we could all just get in a room and reset that game. The US market ballooned out first. As the market's gotten busier and busier you want to grab your share of attention on a particular day. Now the euro market's followed suit and sometimes it might be hard to know if you have the right pricing strategy. We can always look at new issue premiums at the end of the day, but I would love to walk that back. If you guys can find a way for us to do that, I think that would be great.

Hickmore, Aberdeen: I think that's very easy Richard actually, you just come to the market and say 'I'm going to print with a NIP of 10bp — that's the price, it will not change'. And we'd all love it.

Boiral, Amundi: I agree. This tightening of 25bp after the IPT is just transferring the risk from the issuer to the investor. We are taking the risk of being executed somewhere near 50bp inside IPTs. We are taking the risk that if it's not well subscribed we're going to have 80% of our order allocated and if it's quite cheap we're going to have 20%.

More and more the investors are taking the risk, whereas some years ago it was more balanced — the issuer said 'that is my price, that is my size, and let's share both'. We had the same level of information. Today most of the time we don't know the size of the issue because benchmark can be for €500m to €1.5bn. 'Area' used to mean plus or minus 2bp, nowadays it can be 10bp tighter. So there is an imbalance now with the information for investors and I don't think it's very healthy.

Hickmore, Aberdeen: There's another interesting point though Hervé and I'm sure you find this as much as we do — we do a lot of work on every new issue, whether that's the analyst working with DCM and companies, or the PMs putting the tickets up. You walk in to the point where it's at fair value or very close, and then the ticket's cancelled and all that work is blown away into the ether.

As much as 30% to 40% of new issues are coming now to the point where you just walk away and leave it to the people who have to be in it. I'm not sure those are the people issuers really want on the long term. Richard, you're such a frequent issuer, please come with a NIP of 10bp and let the issue size change, we'd love you for it.

Boiral, Amundi: Completely agree.

Gokenbach, GMF: It's great to hear your feedback,



Rick Gokenbach
General Motors Financial

and I think we're all on the same page. We have to figure out what's the right way over time, because given the liquidity in the market and the amount of price discovery, it doesn't really make sense that we should be setting IPTs so wide. But markets are very busy and if the guidance is that you're going to have 10 or 12 deals, if we came out with IPTs back 10bp or 15bp versus 20bp, 25bp, in the back of my mind I'd be worried that I'm not going to get the attention on deal day. I think that's the cycle we're in, and it would be great to find a way out of it.

Giacoppo, Atlantia: As a group we have done around 15 bond issues in the last 18 months, for more than €10bn. The IPT was always pretty wide, but sometimes it also depends on your goal.

When Autostrade per l'Italia made the first issue in December, its return to market after three years, the priority was to maximise the size, so it started very wide. Autostrade tightened a little bit but increased the size.

For Aeroporti di Roma, when it issued a green bond in November it informed the market that the amount could not be increased from €300m, because of the amount of green projects. The deal was oversubscribed by 12 times, much more than is usual, and the issuer reduced the price significantly.

Michiels, Wendel: We issue maybe once a year. We've taken benefit from the very benign interest rate environment and the appetite from investors to make a new issue this year. It was a fixed size deal, the IPT was easy to determine and we were happy even with the wider range.

We used it to make whole one of our bonds to decrease the amount of funding we would incur in the coming years and this was well received by the market. As a French corporate having been a non-investment grade and getting back to investment grade was a very good credit story for our investors. We are very happy with the outcome: it was a smooth execution, very supportive market.

What makes that possible is the environment and the fact that we are meeting bond investors throughout the year. We have non-deal roadshows and having this dialogue with bond investors has been very helpful. People know the credit, the latest news, so when you go out and make a new issue it's fairly straightforward.

GlobalCapital: What are the advantages of funding in different currencies, and is the euro maturing as a funding currency and beginning to rival the dollar?

Serck-Hanssen, Equinor: Fundamentally we run the FX management of Equinor based on the dollar as the base

currency, so we predominantly fund in the US market.

From time to time we fund in the euro market for several reasons. One is to attract a wider investor base and also if there is more competitive pricing at that point in time. The pricing has to be more than just a few basis points better than the dollar, after the swap, for us to go to the euro market.

The spreads are quite volatile, so to be certain that we can lock in a cost saving on a euro issue, we like to see more than a few basis points as an arbitrage.

We normally swap back to dollars, not necessarily immediately, and we consider the currency management at the time, whether we should do it sooner rather than later, depending on the overall exposure of our portfolio in the short to medium term.

Gokenbach, GMF: Our euro and sterling issuance strategy is not exclusively about the basis between the two markets. It really is a diversification play. The goal is to find a window that works. Even if the basis is slightly unfavourable, there will come a time when we'll still access the market because it's important to our global funding plan and maintaining the continuity in the credit curve.

There is a level at which if the basis to dollar funding got too wide maybe you would start shopping a wider issuance window. Then there's an unfavourable basis that's so wide, plus 20bp or something, that you have to seriously consider whether that's the right approach.

But we've maintained engagement with the investor base in Europe and we want to keep doing that.

GlobalCapital: On your deal recently people were telling us it was very keenly priced relative to where you'd have got done in dollars — the sterling was flat to dollars, the euros perhaps 5bp through dollars — is that right and is that unusual?

Gokenbach, GMF: That is about right. Euros is very competitive to dollars right now.

It's not unusual — that six, seven year part of the curve we've been issuing in has been over the last couple of years the most efficient for us versus dollars.

Sterling is a more binary market, it's open or closed. When we're ready to bring a deal, if the sterling market is open, we'd like to certainly do more there.

So yes, I'm very happy with where we priced and the basis, but that's not the only reason we brought that deal to market.

Giacoppo, Atlantia: We have infrastructure companies in Italy, France, Spain, the US and several in Latin America, especially Brazil and Chile.

In an ideal world when you fund in a local currency, your own currency, or in dollars and you swap it, it should be equivalent, but that's never the case of course.

So our companies usually prefer to raise funding in the natural currency of the business to make natural hedging between its revenue and debt. Most of the motorway business is inflation-linked, so it makes sense to match funding with the currency of the revenue.

Also as our companies have long term debt, because this is a very capex-intensive business, they try to keep flexibility to do liability management. That is easier in local currency, be it euros or reals or Chilean pesos, than to do it in dollars and hedge it.

Michiels, Wendel: The dollar bond market is not really open to us, we've looked at it in the past. We could do a private placement. In the past we've swapped some of our maturities into dollars because we have dollar exposure within some of our assets. We've found it uneconomical at some point, so we unwound that this year or last year. The funding was excessive — you end up paying the differential in interest rate and people do not really see the value. We had a very high positive mark to market position on it.

We like to keep things simple, not taking too many derivatives that you don't really understand. Depending on where you are on your position there is a temptation to either sell or increase the position, so it's not very helpful for us.



Andrew Menzies
Société Générale

Menzies, SG: On the arbitrage at the moment, broadly speaking dollars are pretty good at the front end, whereas euros is good in the eight to 10 year space out to 20 and then dollars become effective again in that 30 year space.

Sterling currently has a nice opportunity in that five to seven year bucket and we see good arbitrage there for a few of our clients.

In general though three factors drive issuers to go cross-border. Net investment or cashflow hedging is probably the most fundamental one: matching cashflows with liabilities. The second is price arbitrage, and the third is diversification.

The first two are intrinsically linked, in that when you go through massive QE, you end up with two results — one is a depressed currency, which makes very real the necessity to hedge those cashflows, and the other is it compresses credit spreads. So both those arguments lead back to the same driving force. When the Reverse Yankee phenomenon really started to be talked about was in 2015 and 2016, when the euro was in quite material decline versus the dollar. That's what really made people think we need to hit this euro market.

As to whether the euro is becoming an exciting, deep market, it is in some ways. It's an innovative market is what I see.

It was out there early with hybrid capital, probably the most dynamic liability management strategies have been innovated in the European market, and it has taken the lead in ESG for many different reasons.

The European market is deepening, it's got better at the long end, as the Eli Lilly transaction shows. In high yield, where it's traditionally been rather unreliable,

it's become a deeper pool of liquidity.

That said, if you put it all together dollars is just the largest, most significant market, and the ability to take down huge depth in one day is second to none. The day after Labor Day I think there were 15 corporate deals at the same time.

GlobalCapital: Another aspect of execution is the whole question of how issuers and investors communicate. Covid put a complete stop to travelling, so I'm keen to hear, do you want to go back to physical roadshows, should it be one on one meetings, group lunches?

Hickmore, Aberdeen: It depends on the issuer and the purpose of what they're doing. If it's a regular issuer that's well known by the market, there is really no need for a physical roadshow, probably very little need for one on one or even group discussions.

I tend to find that group discussions break down quite a lot anyway: the quality of the questions can get pretty poor when you've got many asset management houses on the same call. I tend to avoid them.

GlobalCapital: Is that because people don't want to give their ideas away?

Hickmore, Aberdeen:

There's an element of that, there's also people asking questions to make it clear what they know, rather than to find something out.

For a lot of new issues I just prefer a one on one where you've got the management in front of you that know their business inside out and you can get down to the details and the things that you want to know.

If however you've got an issuer like GM which is coming with a bond that wraps their electric vehicle technology, which by the way would be a great plan for you, I would want to get into a one on one with them, never mind that they're a regular issuer. It would be interesting and would spur questions and thought processes for all of our clients. But if it's a normal GM issue we've got no need to see them at all, we're quite happy with a fly-by.

Boiral, Amundi: What we've discovered with all these Zoom meetings is that it saves time for everybody, and that's a great thing. For the most common issuers it is quite helpful. Sometimes when you have specific issues, a new format or large size, it may be interesting to have face to face meetings. It may be easier to talk and you may know more of the situation that way, otherwise it's more of a feeling. So for the time being it seems a good balance for me.



Luke Hickmore
Aberdeen Standard
Investments

Michiels, Wendel: I'm waiting to hear back from investors what they expect. I find virtual meetings very efficient as well — they start on time, you don't have to travel. But obviously there is not a lot of room for outside conversation. I'm ready to do anything which will be required going forward. But as all of us are obviously very conscious about our carbon emissions there is also a downside associated with travelling again to have five two hour meetings in a European capital.

Giacoppo, Atlantia: In the last 18 months during the pandemic we have had a pretty diverse experience. As a group we have issued conventional bonds, green bonds, sustainability-linked bonds, hybrids.

There have been pros and cons of virtual communication — you lose the face to face interaction, which may be more important for non-frequent issuers and smaller companies when you have to build trust.

But you gain a lot in efficiency. When Aeroporti di Roma held its virtual roadshow, in one day they managed to arrange several small group calls, which would have taken days in a physical roadshow. Also in virtual meetings people tend to be more focused on the key questions, given the time constraints.

Virtual roadshows are more flexible, you can change the agenda, have follow-up calls, add participants in a few minutes. It's also easier to involve top management, who cannot be engaged for several days on a physical roadshow.

It also depends on your needs. When Autostrade came back to the market after three years they needed to explain what was happening, so a physical meeting would have been preferable. They could not do that, so they arranged one to one calls. It took a lot of time, but they approached more than 30 investors in three days, which would be impossible physically.

And for Aeroporti di Roma, there was a lot of concern to let the market understand that there was not any risk of greenwashing, that it was a real green bond. So they spent two days and approached 36 investors. For the following bond it took one day only.

So it's not only a matter of physical versus virtual, it's a matter of how you want to engage with each investor.

GlobalCapital: Sverre I'd be interested in your thoughts on it, but also about how ESG is evolving in your investor relations and how important it now is as part of an overall capital markets strategy.

Serck-Hanssen, Equinor: It's of course the number one question, so it's highly relevant. But on communications in general — first of all we do non-deal investor roadshows. Before Covid we did non-deal roadshows as physical meetings only. We did one last autumn as a virtual thing, with a very good experience. We were very happy with the engagement, the efficiency.

Just as Luke said, when we collected the last few investors into one group exercise, they were more muted, less engaged, so we think one on ones provide much more engagement across the table. So that would be our preferred route and what serves the investors best.

On the ESG side, that's a really wide topic. We are observing that some of our peers in the energy sector are providing a sustainable financing framework. We are thinking about what we should be doing but we don't see any need to rush to a conclusion.

We would like to do this right and we don't know what the right is, in addition to what we are doing fundamentally as a group — because at Equinor we have quite a transparent agenda on the energy transition.

We introduced an ESG link to our revolver when we refinanced it earlier this year, so we're testing that and we'll build experience from it.

As a company, we have high ambitions for how much capital to spend on low carbon initiatives and renewables. We also have quite high ambitions on curbing emissions and reducing the carbon footprint of our traditional oil and gas activity.

So we think all this is quite clear and it's more than fancy statements and high ambitions. At least so far we have delivered on what we are saying and thereby also are building credibility about what we say about the future.

We think that is at least as important as providing a very separate or distinct sustainability or ESG-linked financing framework. But we are exploring also in that camp what we need to sharpen, to be a relevant paper for investors also long into the future, with an ever increasing focus on ESG.

Gokenbach, GMF: The ESG issue that started several years ago in Europe has exploded globally and is now a factor in pretty much every investor conversation we have.

It's a fascinating, huge topic that we could unpack in a lot of different ways. It's constantly evolving. We have some pretty aggressive objectives to move to an all electric future. Zero crashes, zero emissions, zero congestion is really the guiding light for what GM is driving towards. So we see at some point a green bond as a matter of when, not if, for us.

But as you get to the latter part of this decade, the majority of GM Financial's assets are going to be green. So will we only do green bonds or will it just be that the company's green?

The other thing you've seen some tension on is what exactly is green? The standards are constantly evolving and changing.

I really enjoy the dialogue we've had with investors, because I like to understand what it means for investors and how it drives decision making.

Is it the company's overall greenness? Is it specifically a green bond? What are the standards being deployed there? We have to learn and evolve together on this and it's really top of mind for most investors.

GlobalCapital: Luke, how do you manage this as a firm, if you've got a lot of corporates coming to market, doing roadshows, and you've now got to analyse ESG as well as credit. Is that difficult to manage? Do you need specialists to be there or are you asking ESG questions a lot more now?

Hickmore, Aberdeen: Yes it makes a big difference. ESG has become part of the core of what our credit

analysts do when analysing a company. If it's a green bond you have a framework to analyse. But the fact that it's a green bond or a brown bond is really irrelevant, it's going to take a lot of work.

Also on the matter of roadshows I would like companies to recognise we need to see them physically, and ideally in where they work, so capital market days back in an Equinor refining facility for example. It is important for the story we give to clients. If we can get back to physical visits and realise these are real assets, not just virtual meetings, I would welcome that enormously.

Boiral, Amundi: I have a question: when you are issuing a green bond, do you expect to have a 5bp or 10bp tighter spread than for classical bonds?

Giacoppo, Atlantia: Not at all. When you do a green bond as Aeroporti di Roma did in November it's not because you want to achieve better pricing or even have better conditions. Actually there can be disadvantages — the size for example. What is important is it is a step, part of a larger strategy.

The experience was very positive, so a few months later in April this year Aeroporti di Roma issued an SLB. Investors I hope understood that the green bond was part of a larger strategy, whereby the green target, the KPI, was incorporated into the corporate mission.

Aeroporti di Roma's SLB is the first issued by an airport in the world, so it was challenging. Usually airports and sustainability are not perceived as good friends, so they had a big job to make clear to the market that they were not bringing the bond to save 10bp.

There was an intense discussion on the KPIs, because as an airport the Scopes 1 and 2 carbon emissions are somehow manageable, but Scope 3 is largely out of your control — you don't have control of the carbon emissions generated by aircraft.

In the end it was decided the best way was to clearly say what the company can and cannot do in the medium term. So it decided to include a Scope 3 KPI excluding aircraft, covering only carbon emissions generated by passengers going to the airport. It is to reduce these emissions by 7% from the 2019 level by 2027, which was perceived as strong not only by Sustainability but also by the market.

But what is important is this is perceived by the market as a step of a much larger strategy. Otherwise it's counterproductive. And it's not for the 10bp or 15bp at all.

GlobalCapital: Andrew, I'm sure you're now telling issuers that getting their sustainability stories straight is a vital part of their bond investor relations, but are they all saying 'yes we know that' or are there some that are still behind?

Menzies, SG: Some are definitely still behind. When we sit down and work on the investor deck at the beginning, the most important thing we say is to make sure you have a transition story embedded within there.

For a conventional bond issue, you have to get this

story right. S&P at the beginning of this year downgraded some of the energy companies because of pressures including the carbon transition.

Lots of funds are placing importance on overall ESG scoring, rather than green bonds or SLBs. They're trying to get their portfolios to a certain level, they want to make sure the investments they make have those right ESG metrics.

One of the big problems is the diversity of ESG scores across the various agencies. It's so important for an issuer to tell their story and give their reasons and what is going on with the group strategy, because that way you lead the investors. If they rely on a host of different ESG scores all sorts of problems could happen.

GlobalCapital: I'll ask one more question, about the role of technology in the new issue market. There are a lot of platforms starting up and people claiming to have clever new techniques and ideas, but do you think there are problems in the new issue market that can be solved by technology?

Boiral, Amundi: Technology may help with the books, with delivering quickly and so on, but I wouldn't say we have huge problems for the time being dealing in the market, so it could help but I don't expect much from it.

Michiels, Wendel: We don't have any problems, we have visibility on the books, it's really efficient. I haven't heard about any breakthrough and I'm not complaining about the way it's going.

Serck-Hanssen, Equinor: To think a bit out of the box you could imagine some sort of blockchain technology or other platform coming into play at some point. Would that exclude the need for people like Andrew? Maybe that's the fundamental idea behind it but we would be concerned that for the sake of saving a few basis points in fees you would risk not coming out right, not attracting the right investor base. So I really don't know.

With today's technology we don't see any issue. There are some dreams on where the future might be heading but we are quite happy with the system that is.

Giacoppo, Atlantia: I tend to agree, I don't perceive it as a priority. I'm pretty sure there will be wonderful developments in the future but for the time being it's not the main concern.

Hickmore, Aberdeen: If I had visibility of the order book in terms of who stays in and who drops at a certain spread level as we walk in from 20bp-25bp IPT to 5bp, it might help investors solve this problem about

starting with wide IPTs that end up coming at very, very low levels.

I'd be definitely into Sverre's idea for a bit of blockchain. A bit of Ethereum in the new issue process could be quite entertaining. I've no idea how it could happen, but right now we don't use an awful lot of technology for new issues. But I can see how it could improve things for issuers and investors.

Gokenbach, GMF: I'm always a fan of progressing from IPTs to launch and pricing and allocations as efficiently as possible, but overall the markets have been extremely efficient.

There's been pretty good price discovery, secondary trading always helps with that as well. I think the blockchain is interesting but the banks play a really key role as intermediators between the issuers and investors and overall we're pretty satisfied.

Menzies, SG: There isn't a week goes past when some tech platform isn't trying to sell us some idea on trying to solve a problem that might not even exist, and it's really interesting to hear everyone's comments that there's not really a strong view that the new issue process has to be improved by technology.

We are working on some apps ourselves. We've launched a service called My Capital Markets, a channel to accompany the issuer through execution. We used it for example on the Adecco transaction a couple of days ago.

The roadshow is live, so investor feedback and indications of interest can be fed to the issuer in real time. What happens at the moment is the syndicate desks gather everything in Excel and then we have an end of day call. That's not efficient.

We have live tracking of the orderbook, and an issue prediction tool, which is AI-based. We can predict, based on sector, maturity, geography, size, currency, what investors are going to do.

That's based on about 1,500 transactions back to 2015 that we've loaded into the tool. We've got about three trillions worth of orders in it.

It's sometimes pretty good, it's not always perfect. It's a quantitative input into what needs to be a qualitative discussion as to who are going to buy the bonds.

To answer Sverre's point about maybe making myself and my team redundant, we need to be defined around the advice we give, not just being flow bankers. Advisory is something the AI tool is never going to give and we do.

On the blockchain, you may have seen that SocGen structured the first public syndicated blockchain deal on Ethereum for the European Investment Bank in spring this year.

It's very early days, and the EIB put a lot of work into this, so it's not going to turn around tomorrow, but in its infancy it's quite cool.

For the issuer it's much faster, with reduced costs and fewer intermediaries, and investors get more transparency. It could ease trading flows in the long run, by identifying asset owners, so I think it's got a lot potentially to give. We'd love to keep exploring this and do more, because in some shape or form it probably is the future.

GC



Sverre Serck-Hanssen
Equinor