

GlobalCapital

Swiss Franc Roundtable

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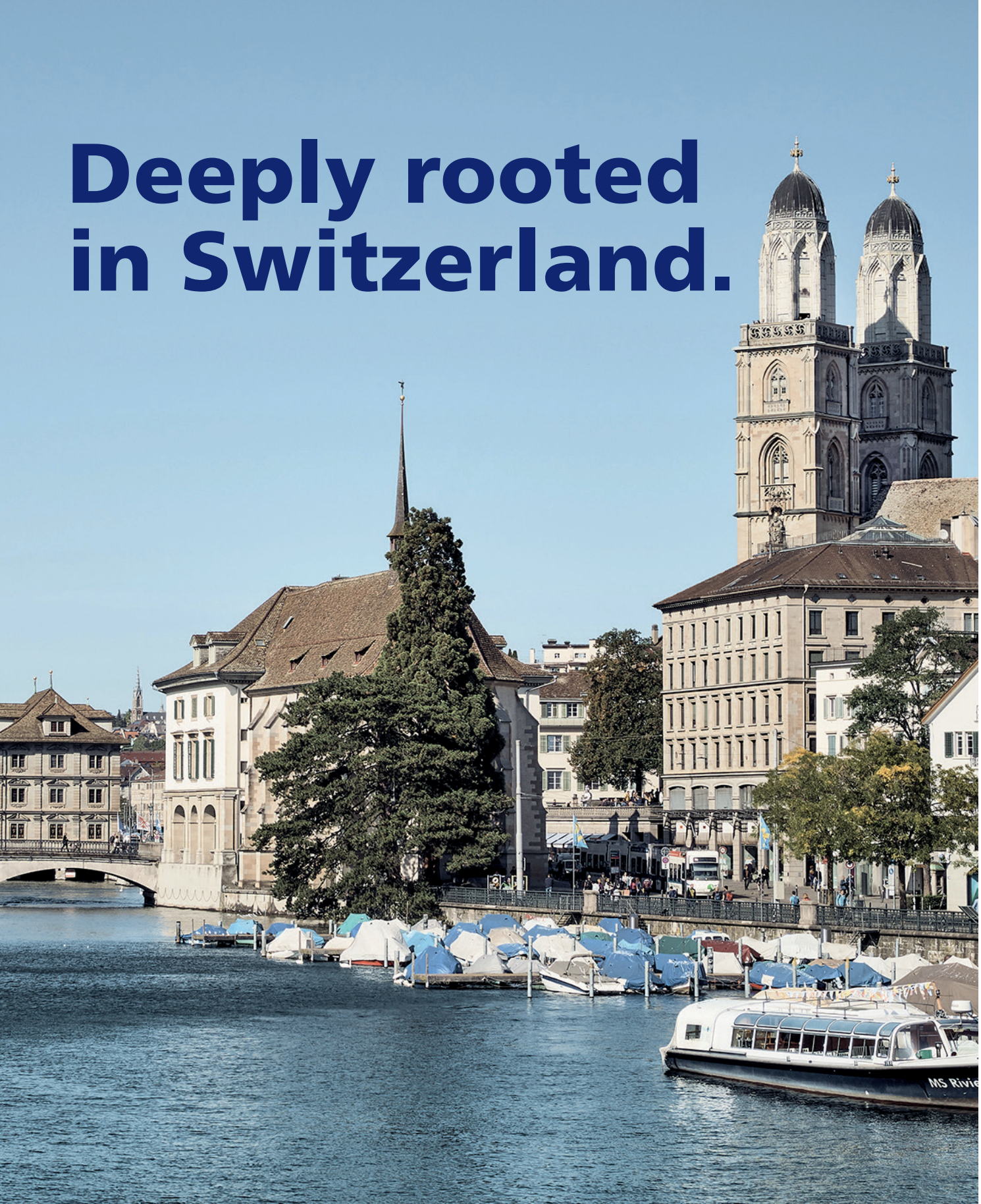


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Swiss francs

Optimism abounds for 2024

The Swiss franc bond market has seen an impressive return to form over the last 18 months. It produced a bumper crop of deals in 2023, with Sfr66bn issued, surpassing the Sfr60bn of 2022. As interest rates have risen, offering investors positive yields, spreads remained tight, making the market attractive to issuers from all corners. Falling interest rates and widening spreads may stifle enthusiasm but hopes remain high that there will be similar volumes in 2024.

Against this backdrop, *GlobalCapital* gathered a group of borrowers, investors and bankers in Zurich at the end of 2023 to share their views on the revival and what the future holds for the Swiss franc bond market.



Roundtable participants



Rosario Clemente, head of debt capital markets Switzerland, Deutsche Bank

Sven Ost, manager debt capital markets, Mercedes-Benz

Paolo Bortolin, deputy CFO, City of Lugano

Clemens Rich, head of Swiss franc fixed income, UBS AM

Yannick Linck, head of medium and long term funding / derivatives officer, SNCF

Sophie Astles, head of awards and research, niche currency reporter, *GlobalCapital* (moderator)

Ralph Sinclair, London bureau chief, *GlobalCapital* (moderator)

Benjamin Heck, debt capital markets origination, Zürcher Kantonalbank (ZKB)

Sven Bucher, director, Pfandbriefzentrale

Jens Hellerup, head of funding and investor relations, Nordic Investment Bank (NIB) (joining via video link)

GlobalCapital: The Swiss franc bond market has had a revival, especially as far as international issuers are concerned, over the last year or two. What have been the main drivers of that, and how long will they last and keep this revival going?

Benjamin Heck, ZKB: There's a number of factors. One is that quantitative easing internationally has abated. That means that Switzerland became competitive again for non-Swiss borrowers who were looking to get arbitrage and diversify their funding. That's one of the main reasons. Then, since two years ago, rates have finally been positive again. Last but not least — and I think this was what was driving SSA issuance — while we had very deeply negative rates, particularly on the government bonds, investors decided to under allocate to Swiss govies. As soon as yields turned positive, they changed their behaviour and bought more govies than in the past, which led to them becoming very expensive versus swaps. So even though you had a deeply negative spread versus Swissie swaps, you were still offering above average returns compared to the spread to govies and that was driving the market. That has abated to some extent and yields have come back quite heavily since the beginning of Q4.

GlobalCapital: From the investor's point of view, does that tally with your experience?

Clemens Rich, UBS AM: Yes, with our investor base, as an asset manager, we see a lot of institutional investors in our funds and mandates — predominantly pension funds, which are a little more benchmark agnostic, sticking to whatever is included in the benchmark. What we've seen is that other investors have come back to the market. We've seen private investors coming back, and with the rise in yields, those investors went into some shorter-dated bond solutions. Money market funds have come back as an investment tool. Maturities up to five years have also become a lot more attractive for investors to include again as a tool to get positive returns.

GlobalCapital: What about the longevity of this revival, if we can call it that? Do you, and the other institutions you speak to, see this lasting another two years or even longer?

Rich, UBS AM: In the last few weeks, especially now that rates have gone down again, there has been a fear of missing out of locking in the higher yields. So some investors have come back to the market trying to get engaged and invest in those maturities. In the case that we see yields dropping down further in

Switzerland — already 75 basis points of cuts are priced in towards the end of the year — if that is going to happen, then I would expect longer maturities to come back to the market, especially Sovereign, Supranational, Agency issuers or also some Swiss municipalities, cantons; they probably need to issue in longer maturities again.

Rosario Clemente, Deutsche Bank: We've seen very strong growth in issuance over the last two years. We've gone from a market volume of Sfr50bn in 2021 to Sfr60bn in 2022 and now we are almost at Sfr70bn. The supply had to be absorbed. That was only possible because money that had gone into other asset classes, mostly real estate, in the last 10 years, especially from insurance and pension fund had seen some reversal. It's not that there has been a reallocation of assets, but inflows that had to be invested were heavily skewed towards fixed income and so that made it possible.

GlobalCapital: For the domestic issuers, what has your experience been of this revival of interest in Swiss franc bonds? Has it made it easier for you to issue? Has it given you more funding options?

Paolo Bortolin, City of Lugano: I'm also the former treasurer of the Canton of Ticino. I spent nine years

there, and I have issued probably almost Sfr2bn in the last 10 or 11 years. From the City point of view, and also from the Canton point of view, we have never had problems in issuing bonds locally. There are many cantons who have no debt, so they don't need bonds.

There are a few cities like Lugano. Lugano has very high debt level — we have Sfr900mn outstanding — so when we go out, in an hour we can sell everything. Normally in the past, even for the Canton, it was never announced beforehand that it was going out at 10am. We send out an email to our partners, saying we are going out for the 100 or 200 million bucks. We give until 10am for the offers and then at 10.30 am we give the mandate, and we open the book then, and we close it at noon.

It has always worked like this in the last 12 years, even when the rates were so low — I remember Lugano issued a 50 year bond at 0.15%. Who's going to buy this? But we sold this very fast. The same for the Canton — for investors, the rate was never the issue, the issue was more where to place the capital safely.

From the international point of view, I don't know because I don't think Lugano or the Canton of Ticino sells outside of Switzerland so we don't see the influence of this. But I can understand the revival because Switzerland is really stable. The Swiss franc is getting strong; inflation is really low compared to Italy, France, Spain, etc. So there is a reason to come to Switzerland and issue bonds here because it's safe, it's really stable. Sure, you have to swap bonds back to the home currency, but at the end of the day, I understand. So, I think this will continue, despite the fact that rates have gone up and now are down again. But they will stabilise I think at around 1% for five years.

Sven Bucher, Pfandbriefzentrale: Yes, I would agree. For us, it's a bit special because we are a frequent issuer. We regularly go to the market and have a predetermined issuing calendar. We usually tap the market 10 to 12 times a year. We have issued approximately Sfr8.5 billion this year, so for us it's a normal market situation.

We had a divided situation this year. The first eight months were quite good and we had a high investor demand. We were able to print more than Sfr1bn three times. Then the last quarter was more

demanding. There was an over-supply, not only from foreign issuers, but also from Swiss issuers — on the corporate side, you had quite a lot of issues — so towards the end of the year, it was more difficult to print a huge ticket.

GlobalCapital: For the international issuers, let's start with you Jens, because you came back this year for the first time since 2009. What brought you back and what will keep you coming back to the Swiss market?

Jens Hellerup, NIB: We have a funding programme for €8 billion to €9.5 billion and we are committed to doing our dollar benchmark and our green euros (NIB Environmental Bond), but that's about €3 billion, so we still have €5 billion to fund and diversification is very important. Of course, we are maybe not the biggest of the international borrowers in the world, so we also need to look into price. When we look at foreign markets, there are three things which need to work.

Yields, naturally, have to be attractive for the investors and Swiss franc rates have gone up.

Then of course, the relative value: how a supranational price compares to peers and to the government is very important. There were some swap spread moves in 2022 which meant that there was value in supras. Investors are looking at us compared to covered bonds and to the cantons and so on, so that relative value needs to make sense for the investors too. And then finally the basis swap is very important because we cannot keep the proceeds in Swiss francs and that has been pretty stable.

The main thing here is the relative value and how the swap spread develops in the Swiss market. I guess that's the same in global markets; the swap spread is very important for us and we are following that closely in all markets. Price needs to make sense, but we still need to fund outside our euro and dollar markets. We don't mind paying for arbitrage, but of course there is a limit on how much we can offer for diversifications. If the market makes sense compared to the euros and dollar market, then we are very happy to come back to the Swiss market to get that diversification. I know some of the Swiss investors are also buyers in euros and dollars, but it's for another portfolio, so it is good diversification to come to the Swiss franc market.

Sven Ost, Mercedes-Benz: It's the same story here. Arbitrage is something that we are looking at. Diversification is something we've been looking at. The last transaction from our side was pre-Covid. Covid changed everything, then we had the spin-off of our truck business in 2021, so that's why we've been absent from the Swiss market for some years. But whenever an opportunity comes up, we are eager to diversify because that takes some pressure off our euro spreads. We have a Swiss portfolio, but we are spread funders so we are looking at relative value and if the basis swap works in our favour and if we are paying up for funding in Swissies or not — it should be at least even with euros in the end. Then we are more than happy to diversify and to come back, as long as the investors have interest.

"What we've seen is that other investors have come back to the market. We've seen private investors coming back, and with the rise in yields, those investors went into some shorter-dated bond solutions. Money market funds have come back as an investment tool. Maturities up to five years have also become a lot more attractive for investors to include again as a tool to get positive returns."

Clemens Rich, UBS AM

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Sven Bucher, Pfandbriefzentrale



Yannick Linck, SNCF: Yes, same story here. We've been a regular issuer since 2000 in Swiss francs because it offers good diversification, and it is a good complement to our overall funding strategy. We are focused on euros, but Swiss francs can allow us to reach the public transaction market in relative small size so it's a good complement for us. For sure diversification is a factor, because you can reach dedicated portfolios in Swiss franc. And as we are operating trains in Switzerland, it makes sense for us to be present in that market.

We regularly issued bonds until 2011, but because of the floor on the FX that was put in place, we stopped issuing. It didn't make sense for us in terms of arbitrage, etc. But as soon as the market reopened, we contemplated it as a good solution as a complement to our funding strategy.

In terms of arbitrage, for example, we issued a benchmark in 2020 and the arbitrage was in our favour if we compare with our euro curve. But the one that we issued this year was not as much in our favour, not by 10bp, but 3bp or 4bp.

We have a huge gross debt of something like €60bn, so it's key to have a good, really diversified investor base.

GlobalCapital: We've heard already, especially towards the last quarter of 2023, that it felt like there was over-supply in the market and then indigestion. Has the market been so successful that this is now a problem? What was your feeling about the final quarter, Clemens? Did you feel we were being bombarded with too many deals?

Rich, UBS AM: It was a combination of factors that led to

some volatility in the Swiss market. So yes, you had a lot of new issuance but, especially if they were a foreign issuer or a new issuer in the Swiss market, that was welcome because it increases diversification in the market. It was the combination of heavy supply with general outflows in the fixed income Swiss franc market, led by the rebalancing of pension funds. There was also some small, specific account selling, especially in the short end of the market.

That combination, along with a lack of large balance sheets from investment banks in the Swiss market, really led to that heavy pressure on the Swiss franc market where credit spreads widened quite a bit compared to the euro and dollar market. So, it was a combination of oversupply, the lack of the ability of brokers and investment banks to increase their balance sheet, and a lot of pressure coming from the investor side of selling short-dated bonds.

GlobalCapital: What challenges does that present dealers? Do you have to have a much more organised list of issuers coming to market?

Clemente, Deutsche Bank: The Swiss franc market wasn't insulated. This widening was also driven by other markets. In terms of domestic dealers and the ability to provide secondary market liquidity, there are maybe less players now, but there are also new entrants so it gives an opportunity to existing houses and new entrants to gain market share. In terms of the number of issuers, I don't think it really stands out, but the average issue size has definitely gone up. Also the composition has changed; it's been more international issuers and the public sector has been issuing

less in 2023 in the Swiss domestic market. The change has been that sometimes there were weeks where everybody wanted to issue and the question was how to manage that. My experience is that this potential congestion is solved by itself. Can you, as an issuer, wait a week, or are you willing to wait if there has been a small spread widening, or if you just say 'No, I need to go into the market imminently for a reason'.

Bucher, Pfandbriefzentrale: For us, it's different because we have already published our issuing calendar until the first quarter of 2025. Theoretically we have the right to amend or adjust this issuing calendar but in practice we usually stick to it.

Heck, ZKB: Pipeline management has always been a theme in the Swiss market. Q4 2023, I agree with you, Clemens, it got a bit crowded, but then it usually sorts itself out. Eventually you have to push and shove a bit because liquidity in terms of new cash that had to be invested was less than what you would usually have in Q1. If you look back over the last two months, which were extremely busy, with elevated spreads or new issue premium. But with the drop in yields, particularly in the domestic segment, if you're a fixed rate funder, it was actually not a bad moment to issue.

Even on the investor side, if you look at what happened to actual bond prices, it's not that they dropped off a cliff because we've seen some wider spreads, because the yield move was even more exacerbated. So, in essence, spreads widened, call it 20bp, but if yields are lower 40bp, actually your cash price is up. So, your performance, if you are looking at absolute cash prices and not on a relative basis, was not bad either. But we got into the situation where you would build a plan A on Monday morning of how you organise the pipeline and half an hour later you resort to plan B, shortly before plan C becomes relevant. But that's capital markets. Everyone in the room knows how that happens.

GlobalCapital: For the domestic issuers, have you felt the impact of more competition from other issuers?

Bucher, Pfandbriefzentrale: It's difficult to say. Our main target group is Swiss investors and we have a long

capital market history and are such a well-known name in Switzerland that I'm not sure if there was strong competition from new issuers.

Heck, ZKB: Diversification is key in this market. Every new name that's of half decent quality is very welcome. We saw this with some really big trades, but also with smaller trades, particularly in a more difficult market environment, you still get more focus for these names. You saw the problem with spread widening, but new names offer something which you scarcely get. In the domestic segment, you get between two and seven new names per annum, tops, and then other mega spinoffs like Sandoz. It's a rare occurrence that you have someone out there who can really raise a big size — usually it's smaller issuers.

The public sector is also fairly limited and very stable. There are no new issuers really coming to the market, maybe new formats but that's really where the market lands.

Bucher, Pfandbriefzentrale: We are somewhat protected because we are a AAA-rated issuer. There was not so much issuance from the Swiss public sector and so I would say this helped us.

Rich, UBS AM: What we've seen is a relative trade of foreign covered bonds relative to the Swiss entities. It's not purely the same, but we still had the argument a few weeks and months back that foreign covered bonds were a lot more attractive compared to the Swiss Pfandbriefbank and Pfandbriefzentrale, and so we clearly aimed to get exposure to foreign covered bonds. And then we saw the relative trade going in our direction when Swiss covered bonds widened by approximately 20bp to 30bp and now these two market segment trade at similar levels.

So that's something we look at as investors, comparing similar risk profiles in the foreign and domestic market. And I would argue heavier competition is clearly good for the market overall.

Bortolin, City of Lugano: My last experience was in January, we did a digital bond, which is completely another story, so I cannot compare this with the other bonds. But the change in the type of issuance, speaking about the digital bonds, will probably change the approach of the

investors at some point. So the public sector should be aware that this new type of issuance can bring different investors. Maybe we can switch from the normal base of investor — we have to have new investors and the public sector should activate to speak to the investors and try to attract a new type of investors.

GlobalCapital: From the international perspective, do you have an eye on the pipeline and issuance by others in the Swiss market?

Ost, Mercedes-Benz: It has to fit into our overall funding programme. Typically, we do some frontloading to take out some risks, that's when we tackle the euro and US dollar markets. Then in the second half of the year, we try to accomplish the rest of our funding programme.

Then it's just a question of opportunities and this is where we rely on our banking partners. There are really only a few who can help us in the Swiss market because it's our policy to only execute transactions with banks which are on our banking panel. Therefore, this was a very welcome opportunity. And yes, we do this in several currencies — sterling is also an example where we act in a similar fashion. If it is close to our euro levels and we see the diversification possibility, then we're going to pick that.

Linck, SNCF: We have an opportunistic view here — if the target is good and the cross-currency basis swap is too, as this can be a problem when you want to go to the Swiss market. If you have seen

some international issuers, especially euro issuers, coming before you with two or three benchmark deals, then it could be an issue to come on the same tenor because of the cross-currency basis swap. But apart from that, if you combine the level, the timing, the return in an absolute euro level, it could be a good deal, even in a tapped format or with a public transaction, a new benchmark — it can make sense for us.

GlobalCapital: In terms of investor relations and accessing Swiss investors; Jens, what preparation did you have to do coming back to the market after such a long time away?

Hellerup, NIB: On this deal we did not do a roadshow, but we have it in the plan to come back and see investors. The market is becoming more receptive to the AAA supranational segment and there are opportunities, maybe not tomorrow but during the coming year, so it is important that the investors know our name.

On the deal we did, because of the institution we are, it's taking our rating reports, and you see we are a AAA-rated supranational, in line with the World Bank and EIB. Investors can get a line on us pretty quickly if they want, but of course it's important to be in front of the investor to tell the story, both of what we are doing but also the credit story, and the whole ESG story. That is attractive and we need to go out and tell that story.

So the plan in the coming year is to come and see the Swiss franc investors. We were there three years



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Jens Hellerup, Nordic Investment Bank (NIB)

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Sven Ost, Mercedes-Benz



ago but that was mainly to sell euros and dollars into Swiss investors. Our plan is to be a bit more in front of the Swiss franc investors.

GlobalCapital: Mercedes-Benz and SNCF have also done specific marketing exercises in Switzerland recently. Can you tell us a little bit about them and what investors told you they wanted from your issuance?

Linck, SNCF: We do that pretty regularly. We are on the road almost all year. We did a roadshow back in 2019, specifically in Switzerland. It was a two-day roadshow – one day, breakfast in Geneva, then we moved to Basel, then we moved to Zurich the second day.

It's pretty convenient for us because we are located in France and we can take the train so it's pretty easy. We get a good reception with the investors so it's still interesting for us to meet people. I may be old-fashioned, but I still enjoy shaking hands, discussing directly with a person because you share more than on a Teams meeting. The moment between the end of the meeting and the elevator is where you get the flavour. That is definitely something that we will continue to work on.

We were in Switzerland in April 2023, so we continue to engage with the investors. What we have experienced in the last couple of meetings with Swiss investors is the increase of interest in terms of ESG. This is not something that we felt back in 2019, but now it's a topic that comes up all the time, which is good for us because we are green

bond issuer. For example, in 2020 our benchmark was a conventional one, whereas in 2023 it was a green bond because we felt that it was a good moment to issue a green bond. It was our first public transaction in a foreign currency. The meetings that we had with the investors gave us some flavour of their appetite in terms of ESG.

Ost, Mercedes-Benz: In 2019, we did our last roadshow here in Switzerland. Covid and the spinoff changed things so that's why we have not been on the road in Switzerland since then. But going forward, it is certainly key to talk to investors, to get a flavour of what's going on in the market, and what their needs are. And we also have a pretty interesting story to tell.

Obviously ESG is becoming a focus and the transportation sector is in the epicentre there, so that's why it's key to go on a roadshow again. It's not a secret that we are running a big portfolio. There was an arbitrage there definitely, but we are also happy to take a bit more in terms of Swissies into our portfolio to diversify. Our average funding need in euros is between €5bn to €6bn, but if you can issue Sfr500m in Swissies then that's nearly 10% of our annual euro funding needs — it's a substantial chunk and that's what we really appreciate, so I think you should say thanks to the investor base and cater to their needs.

GlobalCapital: Clemens, have you noticed more issuers coming by your office and requesting meetings? What are you hearing

from them? And what are you telling them in response as to what you want?

Rich, UBS AM: As a relatively large asset manager, we have the luxury of our own buy-side credit research so the main exchange is between our credit research and investor relations. We have the sector specialists, for example, a specialist here in Zurich who covers automobiles. There will be a frequent exchange of information. He does that coverage on a global level, so he does cover euros, dollars, Swissie issuances and that's my primary source of information.

When it comes to specifics about pricing, and about topics like ESG, that's something where, as a portfolio manager, I would be involved. That's the primary exchange and I definitely appreciate it if there is an open discussion with the issuer, but also with the syndicate banks. What's important for me is having foreign issuers who are frequent market participants, so who are willing to build a curve in this way. We have two very good examples here in the room who have been in the market for a long time and who have clearly said that they are willing to issue frequently and having a global research coverage is a big benefit for us.

In many instances with domestic issuers, we have limitations of how much exposure we can take in terms of the overall debt. We usually have a limit of 10% of the total issuance or debt. With global issuers who are larger companies, that's less of an issue compared to a domestic issuer who has one or two bonds outstanding.

ESG topics have also become a lot more important in recent years, so that's also something we get involved with, showing companies what we are looking at, what's important for us. I would definitely say the dialogue is ongoing.

GlobalCapital: Rosario, are you finding that you have more issuers approaching you, or are you having to go out and market to issuers? What would your recommendations be for international issuers?

Clemente, Deutsche Bank: The one key differentiation in the Swiss franc market is that issuers still cannot see the order books,

so if you want to get a flavour of investors and real feedback, you need to come to Switzerland, and have the dialogue. I strongly recommend they come to Switzerland and do that.

The frequency of visits should be correlated with how much you issue. The more you issue, the more investors are interested in seeing you directly and having a dialogue so you can increase the frequency. If you're a regular issuer and come every year then you probably should come here on average every 18 months because as you build a curve and your investor base in Switzerland increases, you have to tick some boxes.

We also don't recommend doing all four or five big cities in one go. Do two on one trip, three on the other and also diversify your marketing a bit.

Post-Covid, issuers are engaging more with investors directly. Before, it was more over calls and Teams meetings, and now it's physical meetings again. As the market is becoming more relevant and opening up to other issuer classes — the growth area has been SSAs and international corporates — those are the ones that also say 'Okay, how do we go about investor marketing?'

Heck, ZKB: I couldn't agree more. One of the few positive things about Covid was that we've become more virtual. Before that, having virtual roadshows was very difficult in Switzerland as people were not ready to attend. Now you have the option to do a virtual meeting, but what it has also brought is that the value of physically sitting next to each other, shaking hands, has increased.

We probably have gone through periods where we had too many roadshows in one week and we could hardly get anyone in the room, but we are going back to having the right number of roadshows, where investors really appreciate the exchange and where they can ask questions and on the other side, the issuer gets a feel of the market — as we're not allowed to share books, that's still the case.

Having your feet on the ground and meeting the issuer is still a relevant decision factor. You can read reports and do your desk research certainly, but looking someone in the eye and making the decision as to whether you want to engage is certainly something that's still very relevant in a market that

has seen a surge in issuance again, which is good and hopefully stays at these higher levels.

GlobalCapital: From an investor perspective, Clemens, how does ESG rank in your list of priorities?

Rich, UBS AM: It is becoming a lot more relevant. I expect that ESG criteria will become more or less the standard in the market. If I look at the assets that we manage within our active book of business, the largest funds and client mandates already have ESG criteria. They either have exclusion lists — some sectors are excluded like tobacco, nuclear generation, etc. We also look at certain ESG scores from agencies such as MSCI and Sustainalytics. We want to have a better overall profile of our portfolio relative to the benchmark. We always have a preference for high ESG rated companies and if we have companies in the market who have a low ESG score, as an investor I will clearly ask for a certain ESG premium. If we have an issuer with a low score, I clearly say, we need to be compensated for that weak ESG profile.

In the passive space, and in the Swiss franc market, about 40% of assets are invested passively, we've seen a growth in the main benchmark provider which is SIX SBI that has launched an ESG benchmark. We can discuss how good that ESG scoring is, but overall it becomes more relevant for investors. That's something that all market participants need to be aware of. These are the major trends. As an investor, having more green, sustainability-linked, social bonds in the markets is also something I clearly have a preference for.

GlobalCapital: Does that tally with your experience Yannick, when you issued your green bond in 2023?

Linck, SNCF: We are a natural player in the ESG sector for sure because we operate trains, which are a low carbon footprint mode of transport. But the trend is here and we have seen especially in the Swiss market that the interest coming from the investors for ESG, and especially for green bonds, is really important now. It's not only a nice-to-have, so it's really important for us to be able to address that.

To give you some figures and details, when we issued our 10-year green bond in euros, the level of "dark" investors, was something like 43%. And on the Swissie 10-year green bond that we issued the same year, it was something like 29%. So it's not that bad, given the fact that back in 2020 there was no real interest coming from investors, or pressure from them to issue in green bonds. It's a nice trend for us because we will be a 100% green bond issuer by 2025, so it will be a natural element in our funding strategy. We see a pressure to be able to deliver ESG bonds to the Swiss investors.

GlobalCapital: Ben, how about from a bank perspective?

Heck, ZKB: It's certainly a topic of relevance. One thing to note is that in Switzerland, on the domestic side, it's very often buildings that are being financed. About two-thirds of all domestic issuance is ultimately backed by investments in buildings. If you look at the economic structure, it's not like we have a lot of heavy industry in this country, so it's not so easy to transform. We're pretty shy on SLBs I would say, but again probably for the same reason.

"[...] the average issue size has definitely gone up. Also the composition has changed; it's been more international issuers and the public sector has been issuing less in 2023 in the Swiss domestic market."

Rosario Clemente, Deutsche Bank



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Benjamin Heck, Zürcher Kantonalbank (ZKB)



There are only two SLB transactions. There appears to be a clear preference for outright green bonds backed by use-of-proceeds language rather than SLB; it depends a bit on the yield levels etc, but the premium of 25bp running if and when you don't hit your SLB target is not that massive, even though rates are coming back down.

Our experience from our involvement in a number of green bonds from new issuers in 2023 is that it is certainly a hot topic, not only on the investor side, but also the issuer side. While you probably can't financially quantify it, what we've seen recently, and also in the distant past, is that for large borrowers particularly, if you offer green bonds, investors will make more lines available. If they're at the limit, they actually try to really squeeze out the last bit of limits they have. If you're a less frequent borrower, it probably has a limited impact.

Clemente, Deutsche Bank: The development has been amazing since the first issue in 2014, and also the percentage of green or ESG issuance compared to the overall issuance volume in the Swiss franc market. It's also interesting for me to see how Swiss investors rank compared to other markets. I would always put them just behind the euro investors. They are very sophisticated, but ahead of other markets like dollars or to some extent even sterling. For a niche market that has developed so quickly, it's impressive.

The other thing which Clemens also mentioned is the SBI ESG index, which the more it's tracked, the more the market is looking for ESG paper, so it's interesting to see. When we first issued the first ESG or green bonds, we got a lot of feedback that it was okay but only nice to have. And then a few years later it was really a drive that came from the investor side, requesting this format. That is also when we have seen issuers reacting to it and the production of green bonds in the Swiss franc market increasing substantially, exponentially.

Heck, ZKB: We tried to push it back in the day, but that didn't work. And then all, of a sudden, it turned around and the train has really left the station now.

Clemente, Deutsche Bank: For Pfandbriefzentrale, I would be keen to hear how you go about this as a frequent issuer.

Bucher, Pfandbriefzentrale: The ESG topic is quite demanding to be honest. It's not that we don't want to do it, but if ever possible we would like to focus on measures with impact. However, this is not always easy due to the legal situation. The Pfandbriefe are tightly regulated by Swiss law. There is special law in Switzerland covering the Pfandbriefe, so issuing a green bond, for example, is not straightforward. It wouldn't be easily possible because we have to

have one coverage pool and we couldn't simply separate one for the green bonds and one for normal bonds. That's quite a challenge for us. Some investors understand this problem, but with some we have intensive discussions about why we don't do that and 'couldn't you really change the regulation?' In Switzerland, changing the law takes several years. It's a law which was implemented more than 90 years ago, and it has been more or less stable for 90 years.

There's also the problem that worldwide there are really only two funding vehicles: us for the Swiss Cantonalbanks and the Pfandbriefbank for all the other banks in Switzerland. In addition, contrary to, for example, German Pfandbriefe, which are issued by the banks themselves, we have no influence, for example, on the mortgage strategy of our member banks, eg whether or not they are promoting or incentivising green mortgages or not.

And in the end, it's also the decision of the customer — the real estate owner. In Switzerland those are mostly private persons and we can't influence them, whether or not to renovate their building or to install photovoltaic panels.

Another challenge we are faced with is the methodology of the ESG rating agencies. They use the same template for us as for normal corporates or normal banks, but we are definitely not a normal bank as we have no end customers and are only a refinancing vehicle for our member banks. For example, those templates require you to have a customer protection hotline but without any end-customers that doesn't make any sense.

My customers are the 24 CEOs or treasurers of the Cantonalbanks. I can call them, or they can call me, any time it is necessary, so there is no problem. But with this 'tick the box approach: Oh, they don't have a customer protection hotline,' so I get a minus or a deduction from my score, and that's a problem, especially as we have several such examples. Cumulatively, this has a significant negative impact on the scoring and thus on the rating.

We try to explain the special features of the Swiss Pfandbrief market to the agencies. But as we are a niche player — from their point of view — their interest remains limited.

Heck, ZKB: Clemens, how is that for you to deal with if you go with the big rating agencies but then you have these domestic issuers that are probably pretty fair in terms of ESG, but don't fit into these criteria? Is that very difficult for you to deal with as a large investor?

Rich, UBS AM: That's a bit of a tricky situation for us as well. We know about the shortcomings, for example, for the Pfandbrief entities in the Swiss market in terms of the ESG ratings from the large ESG providers. But to a degree, I need to stick to our ESG framework and we take the consensus score of these international ESG rating agencies.

So if I look at my portfolio, Pfandbriefbank and Pfandbriefzentrale have a score of three and four on a scale from one to 10. If I compare that to a Canadian covered bond that typically has a rating of eight or nine, I just have a preference for higher-rated foreign covered bond relative to the Swiss entities. We have a certain leeway for still being invested in these lower-rated companies.

The second thing that we do, and we've started to do this quite aggressively, is go back to the agencies and say "Please look at this, please reach out to the companies to discuss these situations" and that's something we started about six months ago because it's not in the interest of us as investors, and then also of our investors, to have no exposure to good quality in the portfolio because of certain reasons assessing the low ESG scores.

So it's something we are addressing, but we are probably one of the few who can actually get the attention of these agencies and most of the other Swiss investors are, on a global scale, small investors who don't really care and just need to have these ESG scores taken as they are.

GlobalCapital: NIB has a big ESG story to tell. Was that a factor when you bought your deal in 2023?

Hellerup, NIB: We do green bonds and we have done so since 2011. Part of our mandate is to finance environmental projects, so a large part could be financed by green bonds, but we have chosen to only take the best of our environmental loans and finance them with green

bonds. That means we only issue about 10% to 15% of our funding in green bonds. We do our euro green bonds, so that leaves us with about €500 million elsewhere. When we go on roadshows and speak with investors, everybody would like to have a green bond, so it's up to us to find where do we issue them.

The market has changed over the 12 years since we began issuing green bonds. In the beginning, the investor was very much focused on the framework for green bonds, what's in it, how does it work, the use of proceeds, the process, all based on what you have in the green bond principle. But that dialogue has changed because now it's not only about the green bond and the framework, it's about NIB and what we do with the whole portfolio.

In all meetings we speak about ESG and what we do with the whole portfolio. This is built on the environmental mandate, but also about the exclusion list and what we do on the sustainability policy when we get a project into the bank. That dialogue is very important. We have five ratings from these ESG rating agencies. It's with mixed feelings sometimes that we speak about them because they are very unequal, so you can have a very good score from one and very low from another. It's done by a field study by the agencies, so we get it on an unsolicited basis and we spend a lot of time going back to them to tell them there was something they've misunderstood, they didn't find the right information and we try to have that dialogue.

We have a Treasury portfolio, €15 billion also, and we have now signed up to the Principles for Responsible Investments where we're using two

of the rating agencies and they are very different — you can get a good rating and a low rating. If there is too large a difference between the scores we look into it and create our own opinion. To a large extent, it's up to investors to look into these ESG rating agencies and see what is it that you're looking for. I know not everybody is as big as UBS Asset Management and can have their own ESG analyst, so maybe they need to rely a lot on the ESG ratings agencies, but I'm just saying that you need to look into them a bit because they are very different.

The cantonal banks and the supranationals are not banks and sometimes they try to put a framework on us as a supranational. We are called a bank, but we are not a normal bank either, so you need to look into these ESG rating agencies. We are spending a lot of time with the rating agencies to discuss with them and see. However, ESG is very important and a more and more important topic to discuss with investors.

Bortolin, City of Lugano: From the city point of view, ESG is a very important topic. I'm not speaking for the other cities naturally, but my impression is that today we do a lot on ESG topics but it is not organised, there is not a clear strategy based on ESG. What we are doing in Lugano right now is collecting all the ESG activities that we do, the ESG investment etc, building a report and we will start from there. We want to create a separate balance sheet of the social and ESG factors. It takes a lot of time to do that, but it will be separate from the financial reporting. This is very important. It won't



"[...] that's something we look at as investors, comparing similar risk profiles in the foreign and domestic market. And I would argue heavier competition is clearly good for the market overall."

Clemens Rich, UBS AM

"[...] we have seen especially in the Swissie market that the interest coming from the investors for ESG, and especially for green bonds, is really important now. It's not only a nice-to-have, so it's really important for us to be able to address that."

Yannick Linck, SNCF



have an impact on the number of investors that I can attract because it's very easy today, but who knows in the future? If I can make my investors happier because we have this element, then why not? In 2022, we got an official rating from Moody's. From last year, they integrated ESG factors into their rating. So inside of the rating explanation, you can find two or three pages talking about the ESG factors for Lugano and that's for the other clients too. This is something that is coming up very fast and we are willing to deliver an appropriate report in the future.

GlobalCapital: Is ESG a factor in Mercedes-Benz's priorities too?

Ost, Mercedes-Benz: We have a sustainable business strategy. Our business strategy itself is sustainable because there's a clear pathway to be electric-only in the future. But as of today, our portfolio also includes combustion engines for the major part. With the green bond we issued in the euro market, we had a really great experience, because some investors were not aware of our Ambition 2039 strategy at that point. The backdrop of that green bond was great. It was a book of €9.5bn at one point for a €1bn bond. There were quite some revisions there, and we priced 20bp inside our conventional curve. It was a huge success, and then what came into play was like a halo effect on our conventional bonds, which also tightened, and we were able to close the gap to our competitors. Therefore, green bonds are a major pillar of our funding strategy.

The major part of our portfolio

today are combustion engine vehicles so you cannot finance everything in a green format. But part of our strategy is to emphasise the green aspect; this is a major pillar and we will continue to do that and, of course, we will use the assets in the markets where it's most efficient to do so.

So, if you receive a greenium in one market and you do not receive it in another market, you will certainly use the market where you get a greenium and where you can use your assets most efficiently. The concept, especially with the use of proceeds, is what we will do going forward.

With the SLB, I'm a bit sceptical because in our sector it's based on the customers' acceptance. Whatever is bought by the investors comes into your KPIs then, and that's not the ideal thing for an automotive company. The change happens on the asset side, not on the liability side, but nevertheless it underpins our general business strategy.

GlobalCapital: Looking to the future and digital bonds, Lugano was the first public sector borrower to issue a digital bond in January 2023, and a couple of the cantons have followed recently. What was your motivation for doing that, Paolo?

Bortolin, City of Lugano: The motivation was very clear. In Lugano, we have had a plan for the adoption of the blockchain and crypto payments for some years. During the pandemic in 2020, we issued our first stablecoin. It's a stablecoin which is used and recognised inside of the territory of

Lugano. Then we are talking about blockchain and we are doing a lot of blockchain projects. So when I realised that the SIX stock exchange in Switzerland had just built up a fully regulated stock exchange based on blockchain technology, to me it was obvious to do my next bond there. That's exactly what we have done, and ZKB was the lead manager. We put together this interesting and incredible project which has gone around the world. And this is a little bit of the future of bond issuance. It is still at the beginning but now you have three, right? Me and then the Cantons of Basel and Zurich who issued a couple weeks ago. This is something that we had to test, though it was not a test because it was a real issuance of Sfr100m. It was not a large amount, but this is the size of Lugano. We'll go up to Sfr150m when we need a lot, but this time it was Sfr100m. But still, it was very interesting because it was completely different from what we had done in the past.

GlobalCapital: And Clemens, as an investor, is digital something that you're interested in?

Rich, UBS AM: For me as an investor, whether it's traditional or digital, it's probably not a huge factor in selecting bonds. I see that settlements may be something that could benefit from a digital bond. The start of the whole digitalisation of bonds was a bit of a bumpy road. The first issuance wasn't that successful, and then with another corporate issuing and then some of the cantons and cities, it has become established as a tool. The important part is that the secondary market is still functioning the same as with a traditional bond and if there are benefits for settlement, then I'm more than happy to be involved there as well.

GlobalCapital: Is it the future?

Heck, ZKB: It happened very recently in the Swiss market, project Helvetia 3, which meant that we could settle the first bonds against wholesale CBDC. This project involved the Swiss National Bank as well, and that's the gap that had to be closed because settling versus a tokenised form of cash had inherent risks. That's not against SDX, it was the issuer of the coin but ultimately

it's a normal counterparty, not the central bank.

This project will show that, if we can close this gap, we should probably get more drive behind it. The difference to investors and probably even issuers alike, given that the change is happening on the settlement side and between banks — given that the cash bonds business was already very well automated, probably not on blockchain but the ledger was still very easily accessible and we could transfer so we hardly ever had settlement failures — so whether this use case is the easiest to explain or to use to underpin why we should have DLT based exchanges or settlement systems is questionable, maybe.

But now, with this step, we get to a stage where we probably have to think that the transition really could happen into full DLT-based CSDs and eventually trading venues. We also have to be very clear that secondary trading is still 200% happening in the conventional way. And given that settlement never really was an issue, the instant settlement that you have with a blockchain is theoretically very neat, but in practice not a necessity.

So it's going to take some time, but eventually we'll get there that at least the whole settlement system will move. The element of a DLT, for example, which helps you is that, instead of having five servers spread across Switzerland, having nodes by various counterparts is already in itself a benefit.

Bortolin, City of Lugano: Maybe we have to mention that this bond is dual-listed. It's on the digital side, but also in the normal, traditional stock exchange. So, this creates an internal liquidity for the secondary market because honestly, on the digital side, there are few or no transactions.

And actually our bonds are not often exchanged in the secondary market. Investors buy them and they keep them so we don't see it often in the secondary market, but the fact that it is dual listed means that it's very easy for the investor. For the digital bond I thought that for the investors, the issue was to buy or not to buy the bond, but in the end they bought it without any problem. We did an investor call the day before and that was the very first contact with the investors I've had. We've never done roadshows as a City. I

don't have information about other cities doing roadshows, but this time we decided to do an investor call just to explain why we were doing it this way.

I explained that it was included in our blockchain and crypto project, and I asked them to, "Please go ahead and buy it because we are making history here".

We have to start at some point, and they reacted well. In an hour and a half, we sold everything. So we were really relaxed in the end, but that was the very first time I was stressed about the quantity and the market — am I going to sell everything? If not, then it's a big problem, right? But it happened and this dual-listing future is something very interesting.

So we should take the traditional bond market, tokenise all of them and bring in the digital side and then just use the digital platform because this could reduce a lot of the costs in the future. This is what I'm expecting from the banks: when I issue a new bond in the future, all my costs should be reduced.

Today they are not because this first partially manual issuance is costly for the banks; you have to set up the infrastructure and the volume is low, but in the future if all the bonds happen there, then I'm expecting a reduction in the costs of issuance. This is the value that blockchain can bring, beyond the fact that it's digital, etc.

Heck, ZKB: What we have now is that the two settlement systems

are fully integrated, so the intra-operability of the two systems is now a given. We have wholesale CBDC, at least in a project phase on certain days, so we have the right ingredients to take another step, but it's probably not going to be the middle of [2024] when we go full digital.

Because creating the full ecosystem, all DLT-based, is a quantum leap and it takes more than a year or two to create it because, as a trader for example, you want to be able to borrow bonds. If you have instant settlement and you have to have the assets, that basically means that you show your cards. If you offer bonds and your counterpart knows that you're long the bonds, otherwise it couldn't make the offer, by definition it's putting you into a worse situation than if you do conventional trading — you could in essence short the bond by borrowing it at some stage, which is not currently possible.

Clemente, Deutsche Bank: It's a different field but if you compare it to the development of the green bond market, it only really took off when investors started to ask for it and we are not seeing this yet. And Switzerland is ahead of the curve because regulation is already in place. We have a regulated exchange, and now even wholesale CBDC is there. In a way, it's good to get a niche market like Switzerland that is testing it and probably other markets can learn from that. You first need to have a law that allows you to issue

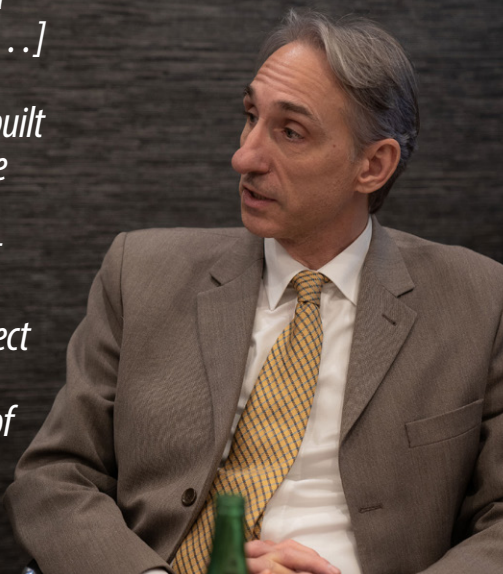
"Our experience from our involvement in a number of green bonds from new issuers in 2023 is that it is certainly a hot topic, not only on the investor side, but also the issuer side. While you probably can't financially quantify it, what we've seen recently, and also in the distant past, is that for large borrowers particularly, if you offer green bonds, investors will make more lines available. If they're at the limit, they actually try to really squeeze out the last bit of limits they have."

Benjamin Heck, Zürcher Kantonalbank (ZKB)



"In Lugano, we have had a plan for the adoption of the blockchain and crypto payments for some years. [...] when I realised that the SIX stock exchange in Switzerland had just built up a fully regulated stock exchange based on blockchain technology, to me it was obvious to do my next bond there. [...] We put together this interesting and incredible project which has gone around the world. And this is a little bit of the future of bond issuance."

Paolo Bortolin, City of Lugano



digital bonds and then you need to have a digital exchange which is regulated. We'll see how it goes and how far Switzerland as a test market can go but it will, I agree, take time. And on secondary market liquidity, hopefully everybody agrees that if we go fully digital, it should improve, not worsen.

Ost, Mercedes-Benz: But do you see any cost advantage for the issuers?

Clemente, Deutsche Bank: We can safely say not yet.

Heck, ZKB: We have two systems so it's actually more costly, possibly, to operate two infrastructures at the moment. I'm not going say anything about the future and how it can become cheaper, but that's not the driver behind it at the moment. It's really about getting it set up, but then if you have two infrastructures, if you can switch off one of the two, we assume it's not the digital, DLT-based one, but the conventional one, then eventually yes. But that's going to be a long and probably a bumpy road to get there.

It's also interesting, it's an adventure as well. To completely flip over a whole market is a bit of a feat, it takes time because there's so many participants, you don't want to leave anyone behind.

Ost, Mercedes-Benz: As an issuer, we tried out the DLT technology.

But where is the benefit? I'm not aware of any settlement problems, so we never experienced those. If I have a T plus 3, or T plus 1, or T plus 5, if I did not trust the banks, yes, that would really help tremendously. But I'm always asking myself, who is driving that process and who has the biggest interest in digitising those bonds? If there's not a monetary benefit for ourselves... digitisation is always a key topic and where you can become more efficient, but from an issuer side, where is the efficiency?

Bortolin, City of Lugano: I have my own idea. We are really at the beginning; this is just a big test and we are trying and we're making mistakes etc. But in 10, 20 years, imagine that we have a retail CBDC, we have a digital wallet for each citizen, we have a blockchain-based stock exchange and then I have to issue Sfr100m for the City of Lugano.

So probably my bond, the first Sfr50m, Sfr60m are bought by four or five investors, so they set the spread there. But imagine if I could collect Sfr100m issuing Sfr100 stakes to 1 million citizens? Then I decide the spread and here comes the financial advantage of issuing on the blockchain.

Today, it's impossible with the financial markets structure we have. But in reality it's already feasible today, the technology is there, it's working very well. So why not to do that? Banks will still be there,

but with another function, and then I can directly sell bonds. We would probably have to change some part of the law, but then I could really issue directly and settle immediately since we are using a CBDC, or any other recognised Swiss franc stablecoin. Using this technology, I can set the price. So my seven point spread from the last bond can go to zero, or minus X — why not? So 7bp on the Sfr100m for 10 years, you work it out. It's a lot of money.

That's a big advantage of the technology: decentralisation, thanks to the blockchain. This is for the future, but you have to start from somewhere. Banks will evolve on this and be part of this anyway, since you probably cannot do this directly. That's my point of view.

Heck, ZKB: It's about execution and processes probably more than about advisory, and that's why we hope we still have a future. We see it on platforms now which, in Switzerland, I wouldn't say died out, but only one is left out of many who attempted to have funding platforms.

The role currently of the bank is to intermediate and to give execution certainty — that's still working and it's important. Eventually, if you have everyone on the blockchain, then settlement becomes easier. Corporate actions become easier. You pay the coupon through the chain. Banks, in essence, are hardly involved. But again, that's probably in the distant future. The advice, how a market operates etc, I guess that will still be relevant because you have by nature opposing interests of an investor and an issuer. Ultimately everyone is probably happy if someone can invest and someone gets the investment, but balancing the powers is currently one of the important roles, and that's probably a role that's still going to be around in the future as well.

Linck, SNCF: Plus maybe the fact that using the blockchain or digitalisation of the bonds, you can include elements such as ESG targets for SLBs, for example. So you can include those elements inside the blockchain and have the direct connection with the bondholder, which is interesting because at the moment that is not the case. We rely on the communication of the issuer

itself on the targets etc. So that's a good feature of the blockchain technologies or digital bonds.

Bortolin, City of Lugano: Imagine if I could add some NFTs to each bond, each part of the bond I issue and then the NFTs represent a certificate and you can use it in your ESG balance sheet. The technology allows you to invent everything you want. Not everything is intelligent — probably today 90% of the blockchain projects are just not useful, but 10% yes.

Remember the internet in 1995, 1996? Many were against the Internet or did not see any advantages or potentials. At that time somebody asked me, "Who is going to buy a book on the internet?". I said "Well, wait."

Today, I probably do 80% of my spending on the Internet and the evolution took 25 years. This will be the same. We are at the start of the revolution.

Hellerup, NIB: Like you said, a lot of the things with the internet and new technology have happened over the last 25 years. But looking at funding, basically the way we're doing it has not changed over the last 20 years and you can ask why is that? The process works quite well. Bond settlements are not failing, but I agree that there are probably some processes within the whole funding process, which could be done better.

You spoke about ESG, the SLB, the SLL, new technology could definitely help. I know in Switzerland you don't have a public orderbook, but in euros and dollars it's an orderbook that has developed a lot over the last few years. Some of the main developments that we see now are related to post trade, where a few companies are involved — NowCM, Agora and Origin. We are still sending emails around between the banks to get the documentation done and that can be done much better and a lot of work has been done on that one already.

Of course, the final step is digitisation. Where are the big benefits? I can see your point, you can sell to investors directly. But still for issuers, a big role for banks is also to do the KYCs because we don't do it on the investors and there we need the banks to be between us.

Of course, that could be outsourced to a third party. I still think that it will be a little while

before we have the whole market on a blockchain but technology can definitely help in the process, which we already see now with some of these providers.

GlobalCapital: Looking to 2024, where is the market going? Sven, I know Pfandbriefzentrale has all its trades lined up. What do you think 2024 is going to look like?

Bucher, Pfandbriefzentrale: It's quite difficult to answer because we really only do the refinancing for our member banks, so we have no targets of what we want to do. But the big question will be where are interest rates going? And the spreads. But that's what we have seen now; some member banks, they said, 'Oh, spreads in the past we had single digit spreads of the Pfandbriefzentrale and the Pfandbriefbank. Sometimes also minus and now we are somewhere in the 20s'.

And they say, 'Oh no, that's now too expensive for us'.

That's the big question for us: what will happen to the yield and also to the spreads.

GlobalCapital: Do you think SNCF and Mercedes will be back in the Swiss market in 2024?

Linck, SNCF: Overall, we will have some funding to do so we will be in the markets definitely. The main issue is the rate cuts and their timing. Being able to address the market and to do the funding — there is still one way or another to do it, but it's true that if you want to be as opportunistic as possible and you want to take good advantage of the market, you have to make sure that the conditions are

there. Definitely the rate cuts and the timing are the main issues at the moment.

We are pretty confident about executing the €2n euro equivalent funding programme that we have to do for 2024, potentially in Swiss franc as a part. But timing will be the main issue.

Ost, Mercedes-Benz: Timing is key. The current situation is as good as it could be. If somebody would have told me that by the end of October we would find ourselves in a spot like we are in today — looking at more the European and US market, but obviously this market is not isolated from that.

Credit indices are still on quite low levels with the rate cuts we have seen, so let's see if those were overdone. Central bankers will tell us pretty soon. That sets us up at least for early January with probably an executable window and with not the worst conditions for issuers. Some of the investors might also want to participate as they also do not know for sure where interest rates are heading.

Locking in some longer-dated funds might also be of interest for them. Therefore, and we have always done it like this in the past, we select the windows carefully, to not get in a spot where you are cornered, where you say, "Okay, we have to use this funding window" because that doesn't make sense.

But in general, I'm looking optimistically at 2024, even though there are a lot of geopolitical topics, which create uncertainty. We have huge elections in the US and also in the UK, which might spoil the party a bit. But let's see. Let's not be too pessimistic. I think 2024 will provide good windows for us again, even



"The main issue is the rate cuts and their timing. Being able to address the market and to do the funding — there is still one way or another to do it, but it's true that if you want to be as opportunistic as possible and you want to take good advantage of the market, you have to make sure that the conditions are there."

Yannick Linck, SNCF

"Together with the re-emergence of bank treasuries as an investor class and a level playing field for the Swiss franc market given there's no skew from quantitative easing anymore, it all should be very positive for the market."

Rosario Clemente, Deutsche Bank



though out of the automotive space, you can expect some elevated supply if I'm looking at all the maturity profiles of all of the OEMs [original equipment manufacturers]. But with our rating and the development we are seeing for Mercedes, I'm looking quite optimistically at that.

GlobalCapital: Clemens, is the rates question on your mind?

Rich, UBS AM: Yes, definitely. That's probably the core of our work to have a view on rates and also spreads, which direction they're heading. With that massive rally in rates, we've been slightly long duration; that played into our hands. The question is what is going to happen in 2024? Is that going to continue or are we going to see a bit of a re-elevation of rates?

In terms of credit exposure, we've been reducing our overall exposure to corporates, and that's something we're going to continue to do so our appetite for especially more risky corporate issuers will be probably relatively low. I continue to have a preference for the financial subordinated part of the market, but less so for some expensive corporate bonds. Mercedes is an example of that. It is something where we are likely to be a bit more defensive. Instead, I would have a higher preference for the high grade part of the market.

The good news, if I look at the overall Swiss bank market, I expect it to continue to grow in size because there is wealth growing in Switzerland and that will get natural demand from pension funds and insurance companies. But whether the anticipated higher supply will match with enough demand is the

big question and will create an extremely interesting 2024, and hopefully we will continue to have the right views on the market.

Bortolin, City of Lugano: From the public sector point of view, what I see is a strong increase on the cost structure of the cantons and cities. It is seriously strong, in a time where everybody's trying to work on the tax side, reducing taxes, making the cities and the cantons more attractive. So the gap is widening. Probably an issuer that has not been in the market for years can come up at some point with Sfr100m or Sfr200m to temporarily close this gap. Definitely the Canton of Ticino has to do it and the City of Lugano is working a lot on the costs side. But we probably won't come with a new bond issue out of necessity, but we have to cover next year bonds. So that's my opinion for Switzerland. Probably some cantons will come up too.

Hellerup, NIB: I definitely hope it won't be as long before we issue again. I'm positive mainly for two reasons. Over the last six or seven years, central banks around the world, maybe except for the Swiss National Bank, have done a lot of QE and they have been very important investors. Now that has stopped, it's a level playing field for the central banks around the world. So it's good that they're not a big buyer anymore, the central banks. I think that that's positive for the Swiss market.

Secondly, when you have negative yields, for banks, putting money into the central banks was a good investment for them. Now it's a better investment to buy the high grade bonds. So maybe the bank market or

the bank treasuries for the regulations, for the liquidity portfolio, would also be active. I don't think they have been so much recently. So that's the main two reasons; it's a positive outlook and we will be very keen to be back to the market.

Heck, ZKB: Rates is the big question. We've already seen a substantial drop, but what that could bring out is retail-targeted issuance. 2023 has not seen what we would call retail targeted issuance, because buying a three to five year corporate bond already yielded fair enough for the private banking customer and probably excluded the non-investment grade space quite a bit, so that could be a big resurgence if rates continue to go lower.

Otherwise, I'm very optimistic. Q4 was a bit weak in terms of spread set. The pipeline is building already now and the Swiss investor base and the liquidity will be there Q1 and we shall see a strong start to the year, which seasonally has been the case since I've been in the market, which is about 20 years.

Clemente, Deutsche Bank: I'm also positive on 2024. If you look at historic levels, the last 12 or 13 years, the international segment, issuance has declined and it's only starting to pick up again now.

Traditionally, there was actually more issuance from international issuers than domestic issuers. And now it's still two-thirds domestic and one-third international issuer, but international issuance is likely to go up to 40% and more. If you look at the outstanding bonds at the moment, over 70% are domestic. As Clemens said, investors are very keen to look at international issuers because of the current concentration risk. Currently any region is underrepresented. If you look at all bonds from EMEA, they account for only 16% of the total outstandings is Swiss franc, APAC is 3%, LatAm is 1%, North America is 6%, so there are plenty of credit lines available.

To recap: together with the re-emergence of bank treasuries as an investor class and a level playing field for the Swiss franc market given there's no skew from quantitative easing anymore, it all should be very positive for the market. So we're very, very keen to see what the new composition of the market will look like, but we should all be positive. **GC**

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