

ESG and Sustainability Linked Loans Workshop

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Workshop Overview

- Housing Viewpoint
- Advisor & Market Viewpoint
- Questions and Discussion

Housing View Point



Housing Viewpoint

- The ESG Journey
- Sustainability Linked Loans
- Reporting on ESG
- Lessons Learnt so far

Advisor & Market View



What do we mean by ESG and Sustainability?

Similar Focus, Different Approach / Expectations

Proceeds Based

Sustainable - Vague, use of proceeds framework, pricing tighter on execution

Green Bond / Loans

Social Bond / Loans



Sustainability Bond / Loans

- Green + Social
- Based on UN Sustainability Goals

Behaviour Based

Sustainability Linked - Specific, pricing reduced if organisation hits KPIs

KPI's set under three headings

- Environmental
- Social
- Governance

Sustainability Reporting Standard reports 48 KPIs under these headings

How to demonstrate?

What are Lenders/Investors looking for?

- Broad ESG credentials &/or
- Specific Debt instrument linked credentials/KPIs

What form can this take?

- Specific KPI targets, reported in annual accounts or separate document
- Accreditation through an ESG label - (example – Clarion / Ritterwald Certified Sustainable Housing Label)
- Framework review (example – MORhomes / framework accreditation from Sustainalytics)
- Second Party Opinions (example - Clarion / from imug)
- Adoption of the new Sustainability Reporting Standard for Social Housing

ESG Themes

Sustainability Reporting Standard has 48 criteria against 12 themes

ESG Area	Themes	Description
Social	Affordability and Security	Provides affordable and secure housing
	Building Safety and Quality	Resident safety and building quality are well managed
	Resident Voice	Listens to residents' voice
	Resident Support	Supports residents, and the local community
	Placemaking	Supports residents and the wider local community through placemaking
Environmental	Climate Change	Prevents and mitigates the risk of climate change
	Ecology	Promotes ecological sustainability
	Resource Management	Sustainable management of natural resources
Governance	Structure and Governance	Legal structure of the organisation and its approach to Governance
	Board & Trustees	High quality board of trustees
	Staff Wellbeing	Supports employees
	Supply Chain	Procures responsibly

Sustainability Financing Framework

Framework should align with ICMA's four principles

Use of Proceeds

- Eligible green/social projects identified
- Should provide a clear positive environmental / social impact
- Impact to be measured / quantified by the RSL
- Eligible projects can be both new and existing

Asset Evaluation and Selection

- RSL outlines the process used to determine how projects qualify as Green / Social
- Objectives from the projects are clear
- RSL encouraged to position this within the context of overarching sustainability strategy



The structure of a Sustainability Financing Framework

Management of Proceeds

- Proceeds should be segregated, or otherwise clearly tracked
- Allocation can be over time
- Pending allocation, net proceeds from funding can be held in cash / equivalents

Reporting

- The RSL should report annually on the:
 - Allocations of proceeds
 - The impact / benefits
- Can be published in a standalone document or within a sustainability/annual report.

Why align your financing with your sustainability goals?

Benefits

- Pricing benefit
- Increased investor base
- Reputational benefit / stakeholders
- Funders will ask about it whether or not you get a benefit!

What do Stakeholders Want

- Clear communication of ESG credentials
- Transparent / consistent reporting
- ESG: ambitious and stretching targets
- Sustainable: suitable use of proceeds / framework
- Potentially independent (2nd party) opinions

Lenders and Investors will be examining your ESG credentials

NEWS

Institutions back new UK social housing ESG reporting standard

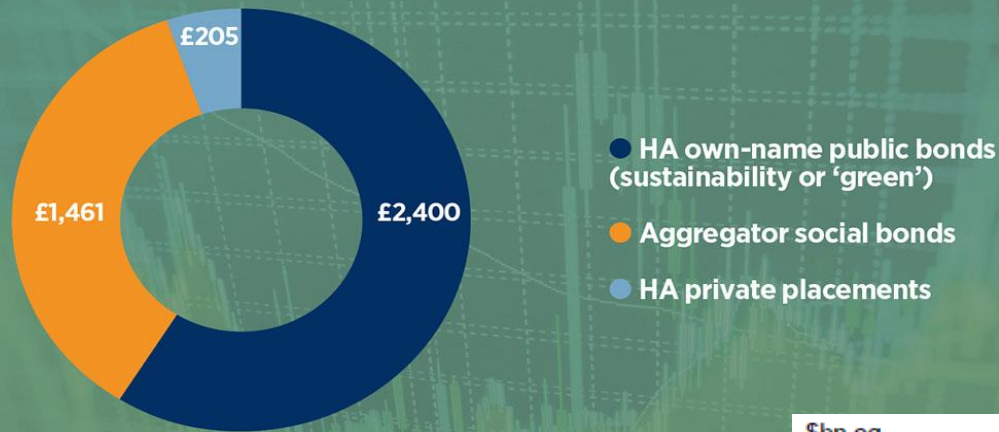
Lloyds: at least a third of £1.5bn social housing funding in 2021 to be ESG-linked

Major social housing investor mulls ringfencing debt funding for specific ESG purposes

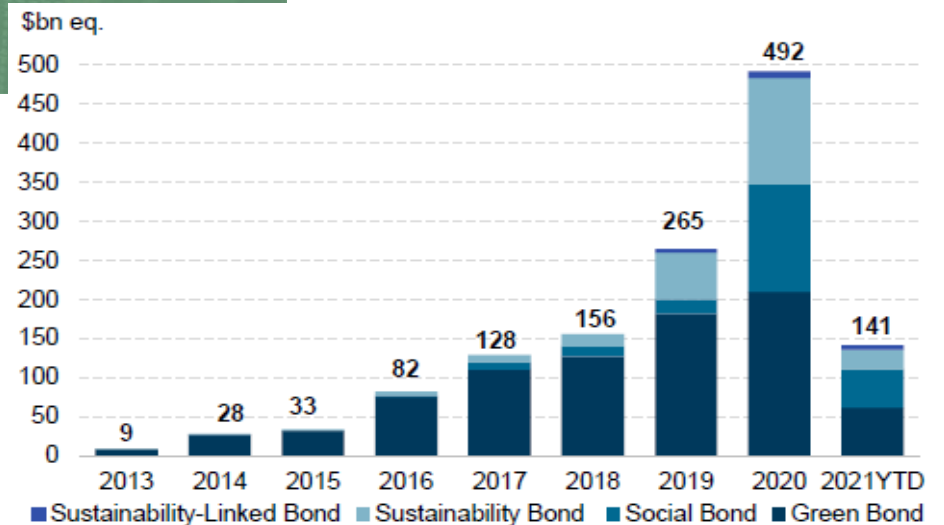
Market View | Why is ESG / Sustainability Important?

The sustainable market is growing quickly – and likely to build momentum

DCM: social, green and sustainability deals to date (millions)



Source: Social Housing



An explosion of new Funding transactions

Sustainability increasingly prevalent in 2021, with Centrus advising on and/or arranging many transactions



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Questions

