

<https://blog.en.erste-am.com/austria-goes-green/>

Austria goes green

Martin Cech



© (c) Unsplash

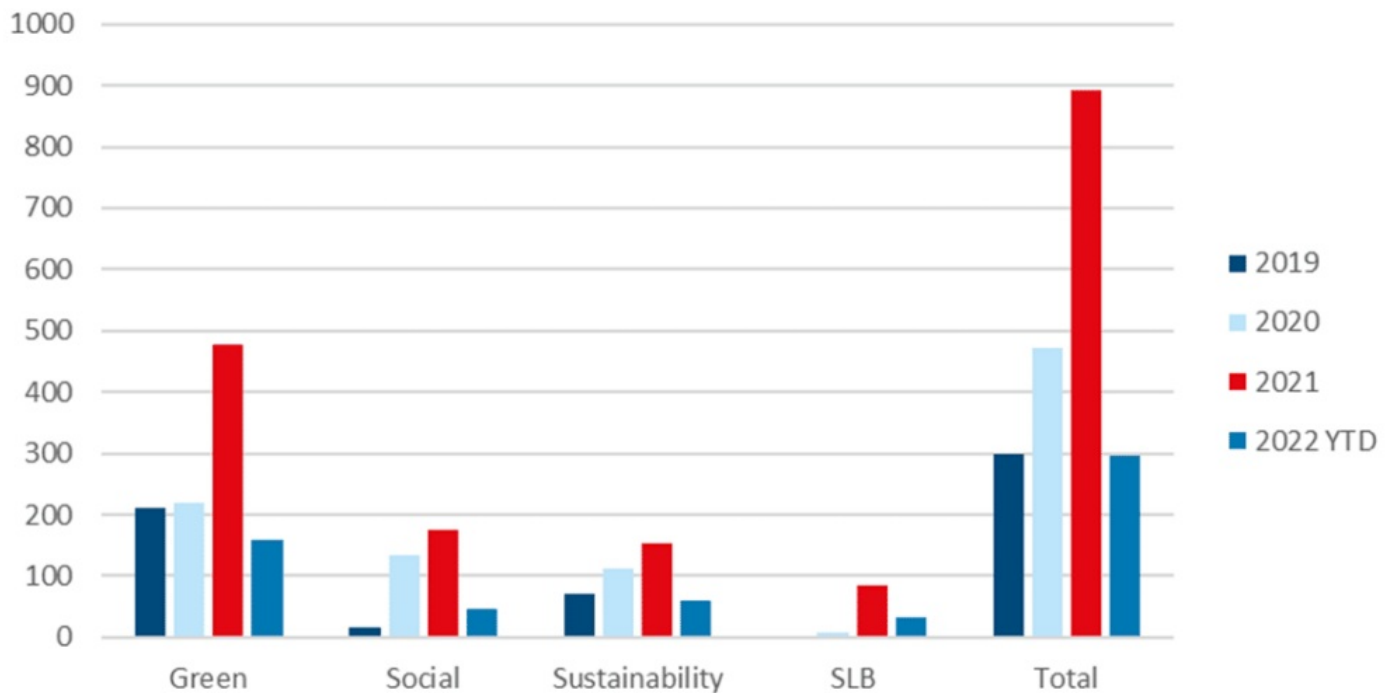
First green bond from the Republic of Austria in high demand

Green bonds have been on the capital market since 2007. Their issue proceeds are used to (re-) finance environmental projects. The European Investment Bank, which calls its bonds "climate awareness bonds", was the pioneering institution in this field. In recent years, the momentum on the green bond market has picked up considerably, both in terms of market depth and market scope. The ranks of supranational issuer were soon joined by utility companies that financed their renewable energy projects with green bonds. They were complemented by regions, cities, and financial service providers that also started issuing their bonds, which led to sharp growth of this young market segment.

States were late to the party

States (i.e. governments) were relatively late in issuing green bonds and funding environmental projects that way. In 2017, France and the Fiji Islands were among the first issuers. At almost EUR 32bn, the French green bond is currently by far the biggest issue. In 2018, Poland and Ireland followed suit. Since 2020, Germany has issued three green bonds as "twins" to conventional bonds (i.e. same maturity and same coupon of 0.0% due to the low interest rates).

Issuance of ESG Bonds



ESG (Environmental, Social, Governance), Source: Bloomberg, data as of end of March 2022

After months of preparatory work, the development of the relevant framework, and obtaining a second party opinion (i.e. the external auditing of the implementation of the market standard, the Green Bond Principles), the Republic of Austria issued its first green bond on 24 May 2022. At an issue volume of EUR 4bn, it joined the top 20 of global green bonds right away. The issue of the bond, which expires in May 2049 and has an annual coupon of 1.85%, was a great success. The underwriting banks recorded total orders of about EUR 25bn. In contrast to many issues in previous years, this bond was not issued at a "greenium" (i.e. at a higher price than existing, conventional bonds), but actually slightly cheaper. The Republic of Austria has been awarded the second-highest rating by the three big rating agencies, i.e. Standard & Poor's, Moody's, and Fitch (AA+ and Aa1, respectively), partially with a positive outlook.

Austria as sustainability leader

Globally speaking, Austria is also a leader in terms of sustainability rating (ISS ESG: 7th; Sustainalytics: 9th) and UN SDGs (Sustainable Development Goals) index (6th). With a share of 1.3% of green investments in terms of annual GDP, Austria is among the global leaders on the basis of the Austrian Green Bond Framework.

Whereas in the case of conventional bonds, the issuer can freely dispose of the proceeds, he has to describe exactly what the funds will be used for in accordance with the Green Bond Principles in the case of green bonds. The allocation has to be confirmed, and the environmental impact of the financed projects has to be reported. Green government bonds such as the ones issued by the Republic of Austria thus support the establishment and development of the market for green state finance.

Republic has to report on the use of the proceeds

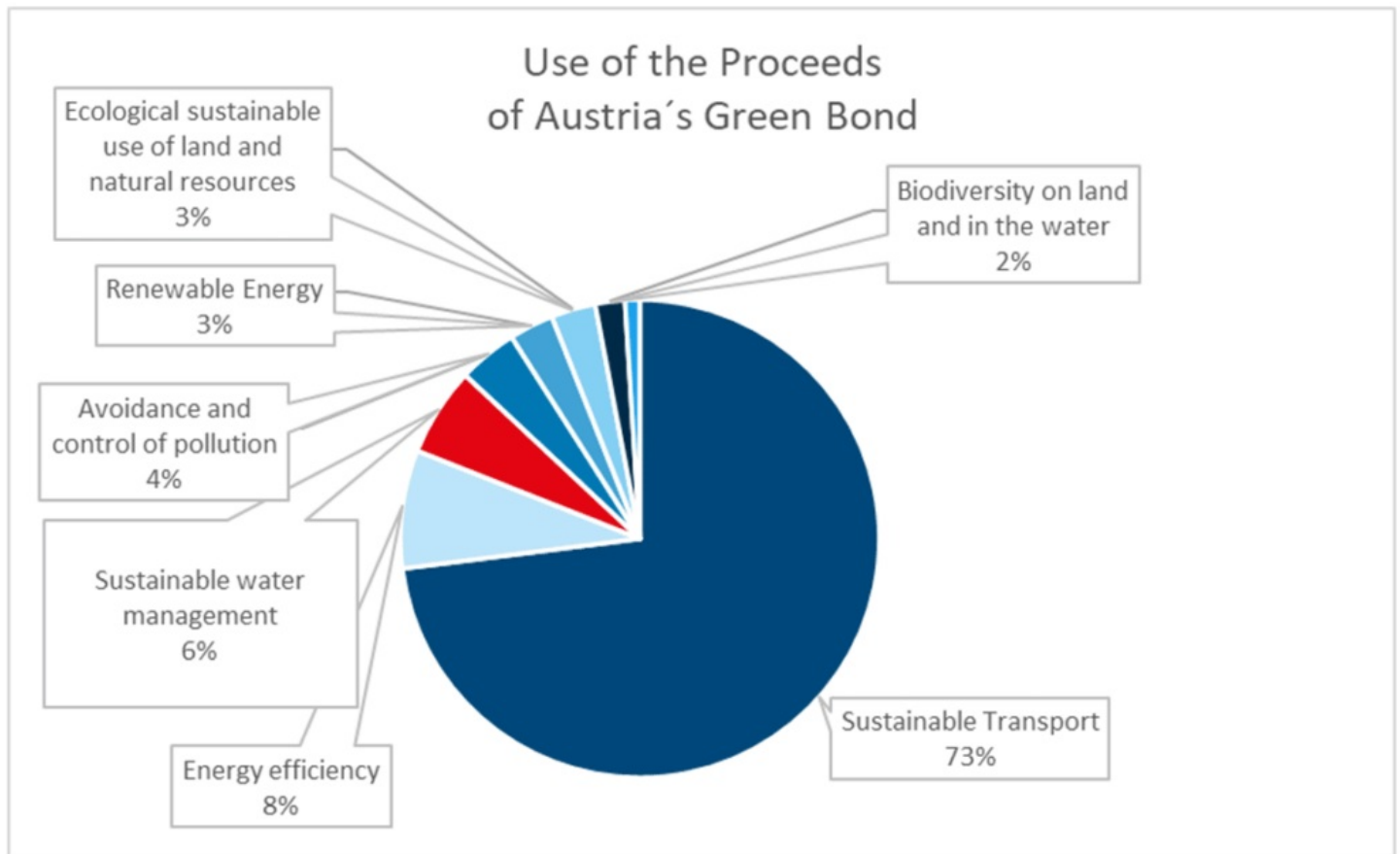
In order to provide investors with the utmost level of transparency and with an overview of the progress made and the positive environmental impact achieved, the Republic of Austria commits to publishing a report on the use of the proceeds from the green bond issue ("allocation report") from the first year after the year of the initial issue and to update it annually.

In addition, the Republic will – subject to the availability of the relevant data – also publish an impact report at least every two years until full allocation of the proceeds, with the first report scheduled for year two after the initial issue.

The majority of the proceeds will go towards clean and sustainable transport, e.g. the expansion of the railway network. The proceeds from the green bond will also fund projects in energy efficiency such as intelligent grids and energy storage, wastewater management, the expansion of renewable energy, sustainable land use, and biodiversity. These projects mainly pursue the following SDGs:

- SDG 6 – Clean Water and Sanitation
- SDG 7 – Affordable and Clean Energy
- SDG 9 – Industry Innovation and Infrastructure
- SDG 11 – Sustainable Cities and Communities
- SDG 13 – Climate Action
- SDG 15 – Life on Land

Use of the Proceeds of Austria's Green Bond



Source: Austrian Treasury, data as of end of March 2022

Throughout the rest of the year, the Austrian Treasury wants to tap the very short end of the yield curve as well. The idea is to offer investors green Treasury bills with maturities of less than a year, which is unlike what many other countries do.

The ERSTE RESPONSIBLE BOND GLOBAL IMPACT fund invested in the green issue

Erste Asset Management subscribed to the issue of the first green Austrian government bond and bought green bonds for the [ERSTE RESPONSIBLE BOND GLOBAL IMPACT](#) fund.

ERSTE RESPONSIBLE BOND GLOBAL IMPACT is a global bond fund that invests in green bonds, climate awareness bonds, and certified social bonds. The focus of the investment decision is on the measurable impact on the environment or on society.

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited.

For further information on the sustainable focus of ERSTE RESPONSIBLE BOND GLOBAL IMPACT as well as on the disclosures in accordance with the Disclosure Regulation (Regulation (EU) 2019/2088) and the Taxonomy Regulation (Regulation (EU) 2020/852), please refer to the current [Prospectus](#), section 12 and the Annex "Sustainability Principles". In deciding to invest in ERSTE RESPONSIBLE BOND GLOBAL IMPACT, consideration should be given to any characteristics or objectives of the ERSTE RESPONSIBLE BOND GLOBAL IMPACT as described in the Fund Documents.

Advantages for the investor

- Investment in selected bonds of sustainable (ethical) issuers.
- Additional external certification of the bonds provides additional security of the sustainable approach – avoid "greenwashing".
- Global diversification of issuers and currencies.
- Price gains possible if interest rates fall.

Risks to be considered

- Rising interest rates can lead to price declines.
- Deterioration in credit ratings can lead to price declines.
- Due to the investment in foreign currencies, the net asset value of the fund can be negatively impacted by currency fluctuations.
- Capital loss is possible.
- Risks that may be significant for the fund are in particular: credit and counterparty risk, liquidity risk, custody risk, derivative risk and operational risk. Comprehensive information on the risks of the fund can be found in the prospectus or the information for investors pursuant to § 21 AIFMG, section II, "Risk information".

For a glossary of technical terms, please visit this link: [Fonds-ABC | Erste Asset Management](#)

Legal disclaimer

This document is an advertisement. Unless indicated otherwise, source: Erste Asset Management GmbH. The language of communication of the sales offices is German and the languages of communication of the Management Company also include English.

The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website www.erste-am.com under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

Please note: Past performance is not a reliable indicator of the future performance of a fund. Investments in securities entail risks in addition to the opportunities presented here. The value of units and their earnings can rise and fall. Changes in exchange rates can also have a positive or negative effect on the value of an investment. For this reason, you may receive less than your originally invested amount when you redeem your units. Persons who are interested in purchasing units in investment funds are advised to read the current fund prospectus(es) and the Information for Investors pursuant to § 21 AIFMG, especially the risk notices they contain, before making an investment decision. If the fund currency is different than the investor's home currency, changes in the relevant exchange rate can positively or negatively influence the value of the investment and the amount of the costs associated with the fund in the home currency.

We are not permitted to directly or indirectly offer, sell, transfer, or deliver this financial product to natural or legal persons whose place of residence or domicile is located in a country where this is legally prohibited. In this case, we may not provide any product information, either.

Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

It is expressly noted that this communication does not provide any investment recommendations, but only expresses our current market assessment. Thus, this communication is not a substitute for investment advice, does not take into account the legal regulations aimed at promoting the independence of financial analyses, and is not subject to a prohibition on trading following the distribution of financial analyses.

This document does not represent a sales activity of the Management Company and therefore may not be construed as an offer for the purchase or sale of financial or investment instruments.

Erste Asset Management GmbH is affiliated with the referring Sparkassen banks and Erste Bank.

Please also read the "Information about us and our securities services" published by your bank.

Subject to misprints and errors.



Martin Cech

Senior Fund Manager, Erste Asset Management