“The Sheet”

PRACTICAL TACTICS FOR
NORTH STAR SUSTAINABILITY

VEERLESS

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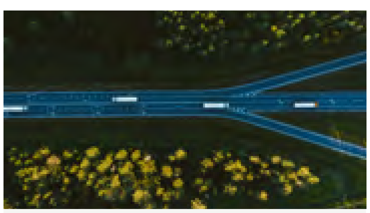
MAKING DOLLARS AND SENSE OF SUSTAINABILITY DEBT MECHANISMS

“The secret of change is to focus all of your energy not on fighting the old, but on building the new.”
-Socrates

No matter a company’s size or structure, growth and transformation require strategic investment whether through equity (selling interest in your company) or debt (borrowing money). In recent years, the rise of sustainable investing and interest in ESG (environmental, social and governance) initiatives globally has given rise to a multiple types of sustainability-linked debt mechanisms. Recently, many Veerless clients are asking whether sustainable debt is right for their company’s growth strategy.

In this edition of “The Sheet,” we’re breaking down sustainability-Linked debt mechanisms and the ways companies can use them to meet both sustainability and ESG goals as well as general business growth and transformation targets.

KEY ENABLERS FOR SUSTAINABLE DEBT SUCCESS



Clear Use of Funds

Use and Management of Proceeds

Unlike many other corporate debt instruments, sustainability-linked debt is “purpose built.” Companies must have clear processes for tracking funds use and ensuring funds remain dedicated only to the named project(s).

Reporting

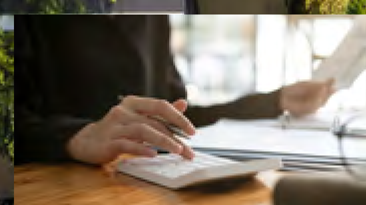
Open Investor Communication

Before debt is issued, the company should make clear the location and frequency of reporting to investors and the scope and granularity that will be provided. The company must also commit to a post-issuance assurance report.

KPI Driven Results

Throughout the Project

The company must define clear key performance indicators (KPIs) for the project(s) that guide the measurement of success and baseline points in the project to determine concerns, recalculations or pivots necessary for the project(s).



External Review

Second-Party Opinion (SPOs)

Companies issuing sustainability-related debt should work with an unbiased external reviewer or SPO to verify the outcomes of their debt offering align with globally accepted principles for sustianable debt.

INVESTMENT IN NATURE-BASED ASSETS

COMMERIAL CONSTRUCTION AND INFRASTRUCTURE

ENERGY, WATER AND OTHER RESOURCE MANAGEMENT

Green Financing Funds Projects Including

THE POWER OF THE SUSTAINABILITY BOND MARKET IN TODAY'S SUSTAINABILITY LANDSCAPE

Two major types of bonds dominate the sustainability bond market today. 1) a "Green Bond" to fund an environmentally linked project and 2) a sustainability-linked bond (SLB) utilized for corporate purposes but with a specific sustainability performance target.

GREEN BONDS

A green bond is a financial instrument where the capital raised by the bond is directly attributed to environmentally-focused projects, often targeting key reductions for a company including greenhouse gas emissions, energy, waste, or water usage. Green bonds concentrate exclusively on the environmental component of the ESG criteria. They operate similarly to traditional bonds but with a key difference: the funds raised are specifically reserved for projects that enhance energy efficiency, support renewable energy, or drive other sustainable efforts.

SUSTAINABILITY-LINKED BONDS (SLBs)

Sustainability-Linked Bonds (SLBs) are designed to promote corporate sustainability. The funds raised can be used for general corporate purposes, but the bond's terms are linked to the issuer achieving specific sustainability performance targets (SPTs). This approach allows a wider range of companies to access sustainable financing, even if they don't have substantial green projects, as long as they commit to measurable sustainability improvements.

OTHER EMERGING BOND TYPES

CLIMATE BONDS

A subset of Green Bonds focused entirely on meeting science-based climate targets

BLUE BONDS

Focused on funding capital projects providing specific benefits for marine life and ocean health

SOCIAL BONDS

Proceeds exclusively fund projects that deliver a specific positive outcome for social issues

> "If you would know the value of money, try to borrow some."
>
> -Benjamin Franklin

ICMA

International Capital Market Association Sustainability Guidelines

For 50+ years, ICMA has developed the rules, principles and recommendations that allow global capital and securities markets to operate ethically and with standard global guidelines. They have become the leading global voice on sustainable finance norms and rules including:

- Overseeing the Secretariat for Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability-Linked Bond Principles (SLBP).
- Alongisde the Loan Market Association (LMA) oversees the Sustainability-Linked Loan Principles.
- Maintaines a set of principles, committees and supports regulatory and market efforts to provide Codes of Conduct for ESG Ratings.