

# Sustainable Finance Insights

**The UniCredit View – Edition April 2021**

Dear readers,

We are very pleased to share with you an excerpt of our third edition of the **Sustainable Finance Insights**, which highlights relevant information about:

- Sustainable Transition Finance
- Investing with a sustainable angle

We hope you will find the **Sustainable Finance Insights** inspiring and valuable and we very much welcome your feedback on this and future editions. Please click [here](#) to share your view.

Thank you and we encourage you to get in touch with your personal contact in the bank for more information on ESG and how we can support you.



Banking that matters.



# The view from Sustainable Finance Advisory

## SUSTAINABLE TRANSITION FINANCE

Ambitions to mitigate climate change, as outlined in the 2015 Paris Agreement, require **decarbonisation of whole societies and economies globally by year 2050**. The agreed objectives are to keep the global temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The EU Action Plan on Financing Sustainable Growth considers finance a critical enabler of transformative improvements. However, while green finance has experienced tremendous growth since its outset in 2007, it has been focusing on harvesting the low hanging fruits, i.e. activities which are already green such as wind farms and photovoltaic parks. If the aspiring climate change mitigation targets are to be reached, the industry will have to broaden its perspective and seriously attend to financing activities which are hard-to-abate. **High-carbon sectors such as steel, aluminium, cement and natural gas, but also shipping and aviation will have to change** dramatically in order to switch to the Paris trajectory. The OECD estimates that EUR 6.35 tr/year are required to meet mitigation goals by 2030 alone and public sector resources will not be adequate to meet this challenge.



To help facilitate the flow of investment to the climate transition process, the International Capital Markets Association (ICMA) published the first guidance for issuers called “**Climate Transition Finance Handbook**” in December 2020. The handbook does not provide definitions of transition projects, but it clarifies the issuer-level disclosures which are recommended to credibly position the issuance to finance the transition. In other words, no new sustainable finance instrument is created, but **each of the existing sustainable finance instruments can be used and structured in a way which supports transition**. Additional credibility can be sought by issuers and borrowers by obtaining a climate “**transition label**” by referencing the guidance.

A framework published by the Climate Bonds Initiative provides an additional view of identifying credible Paris-aligned transitions. The so-called “**White paper**” defines **five principles** which in our opinion have the potential to be the **goalposts of transition finance going forward**: all goals and pathways need to be aligned with the 1.5°C trajectory and established by science, offsets don’t count, technological viability trumps economic competitiveness and it is action that is required, not pledges. The transition concept is applicable for both whole entities and all of their activities. While general corporate purpose sustainable finance instruments are the means to finance entities, use-of-proceeds instruments are used to finance activities. With the exception of activities which already are at or near net-zero emissions, like wind power generation, all other activities, including those which are not yet on a pathway to zero or even stranded, can in principle and selectively be financed under a transition label.



**Stephan Mussong**

Sustainable Finance Advisor

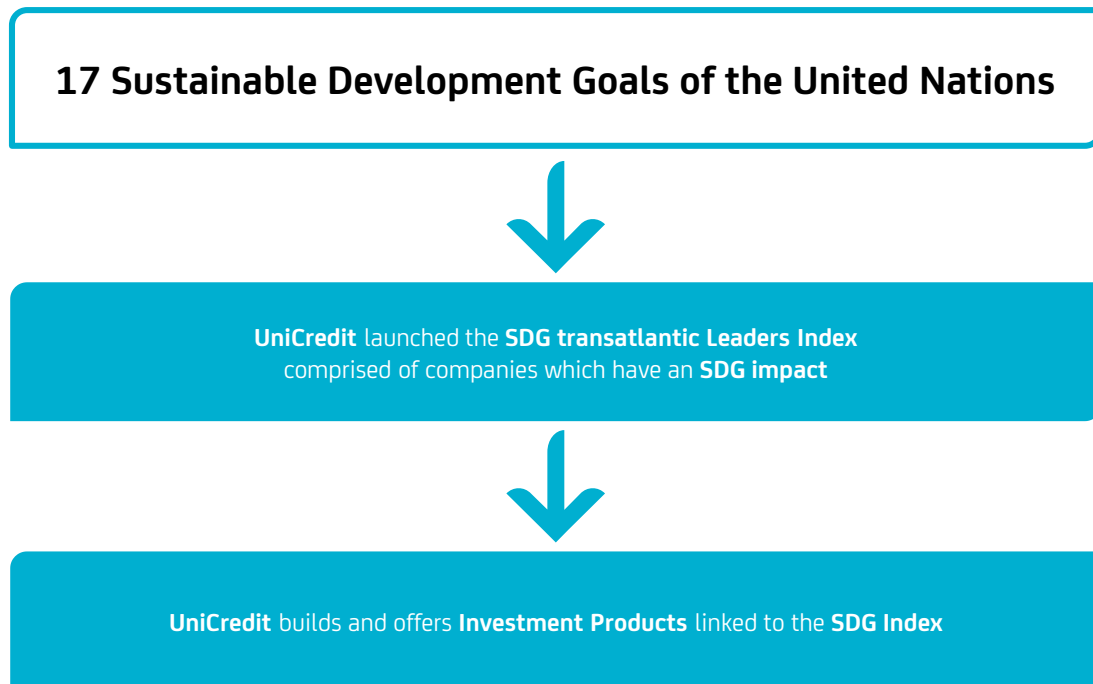
# New: Investing with a sustainable angle

## UNICREDIT LAUNCHES NEW SUSTAINABLE DEVELOPMENT INVESTMENTS

UniCredit has launched the **SDG Transatlantic Leaders Index**, the first of its kind, enabling our clients to invest into companies that significantly contribute to **Sustainable Development Goals**. The Index universe is composed of European and US companies.

The **17 SDG of the United Nations**<sup>1</sup> provide the foundation for this sustainability index which has been developed in close collaboration with **ISS ESG** (our Environmental, Social and Corporate Governance data partner).

UniCredit has built a **range of Investment Products** linked to this new Index which are currently under subscription offer in our **German Networks**. The roll-out to other countries and to **external distributors** is planned over the coming months.



## HOW THE INDEX WORKS

To ensure effective diversification of the 1,100 largest US and EU companies up to 55 companies from 11 different sectors are selected with an individual weight cap of 5% on a quarterly basis.

Amongst the top positions of the **SDG Transatlantic Leaders Index**, are the following prominent companies as of 15.03.2021:

1. **Astra Zeneca** – strong contribution to SDG 3 (“Good Health and Well Being”)
2. **Unilever** – strong contribution to SDG 13 (“Climate Action”)
3. **Salesforce** – strong contribution to SDG 11 (“Sustainable Cities and Communities”)
4. **American Water Works** – strong contribution to SDG 6 (“Clean Water and Sanitation”)
5. **HP** – strong contribution to SDG 8 (“Decent Work and Economic Growth”)

UniCredit considers this new index an important achievement to support our clients in the ESG space.

<sup>1</sup><https://www.unicreditgroup.eu/en/a-sustainable-bank/social-and-relationship-capital/contribution-towards-sdgs.html>