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# Environmental, Social and Governance Products in Housing Finance

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Pioneering — Bahrain — Construction — Public sector — Energy — Real estate — London — Tax — IT — Dubai — Manchester — Connecting — Knowledge — Pragmatic — Malaysia — Exeter — Thought leadership — Housing — Agile — Creative — Connecting — Private equity — Local government — Manchester — Environment — Focused — Islamic finance — Projects — Abu Dhabi — Corporate finance — Passionate — Team work — Employment — Regulation — Procurement — Expertise — Specialist — Planning — Investment — Committed — Delivery — IT — Governance — IP — Corporate — Infrastructure — Value — Development — Private wealth — Oman — Governance — Birmingham — Corporate finance — Dynamic — Pensions — Dispute resolution — Insight — Banking and finance — Arbitration — Diverse — Regeneration — Care — Communication

# Introduction

- What is ESG?
- Why do funders care about it?
- Why ESG is a natural fit for social housing
- Different types of ESG financial products
- ESG Metrics & Data
- ESG – core of your financial strategy

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# What is ESG?

- Environmental
- Social
- Governance

Companies are judged on how well they mitigate risks to people and the planet of their business activities in these three areas

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# Environmental

Risks created by business activities which have negative impact on air, land, water, ecosystems and human health.

- Preventing pollution
- Reducing emissions
- Energy efficiency of buildings
- Sources of heat – solar/battery storage
- Reducing carbon footprint
- Waste water management

# Social

Social risks refer to the impact that companies can have on society

- Placemaking
- Biodiversity
- Social mobility
- Employee wellbeing
- Community outreach
- Health and Safety

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# Governance

Governance risks concern the way companies are run.

- Diversity and inclusion
- Board demographics
- Gender pay gap
- Conflicts of Interest

# Why do funders care about ESG?

- Stewardship Code (launched October 2019)
  - Pension trustees/asset managers to consider ESG factors when making investment decisions
- Investor interest in ethical investments
- Huge market growth
- ESG products have weathered COVID downturn

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- Sustainability – now key priority to investors
- Banks need to report on their ESG credentials to their investors
- Fund managers need to be able to account to investors on ESG performance of portfolios
- Both need to be comfortable lending to companies who integrate ESG metrics into their businesses
- Sustainable finance – seen as a huge commercial opportunity



# ESG & Social Housing

- ESG – natural fit for the social housing sector
- Core social purpose- provide housing to those who need it
- Housing providers – have been doing ESG activities for years
- Time for RPs to start articulating their ESG credentials

# Green Loans

- LMA green loan principles
- 4 key criteria
  - Use of proceeds – green project
  - Process of project evaluation/selection
  - Proceeds must be kept in a dedicated account
  - Reporting – agree a series of performance indicators
- Requires 3<sup>rd</sup> party verification

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# Sustainability Linked Loans

- Sustainability linked loan principles (SLLs)
- Proceeds – can be used for any purpose
- Margin – linked to ESG metrics set by the borrower
- Metrics are met - margin reduces. If not margin increases
- Example metrics:
  - Reducing the median gender pay gap
  - Improving energy efficiency of stock
  - Helping tenants find employment
- Post signing third party verification required

# Green/Social Bond Frameworks

- In accordance with ICMA Guidelines
- Green bonds – same principles as green loans
- Social bonds - proceeds used for a positive social outcome
- Sustainability/Social Bond Frameworks
  - Contains ESG principles governing issue of bonds
- All require third party verification and on-going monitoring/reporting requirements

# Green Private Placements

- Recent innovation in the sector
- Believe Housing Limited
  - 1<sup>st</sup> sustainability linked PP in the sector
  - Pricing of the notes linked to energy efficiency
- Origin Housing Limited
  - Green framework in line with LMA Green Loan Principles
  - proceeds from PP used for financing and refinancing of energy efficient buildings at EPC ratings A or B.

# ESG Metrics & Data

- Investors need clear, comparable and transparent set of metrics
- Metrics have to be meaningful – avoid greenwashing
- Targets must be meaningful to the company and aspirational
- Data is vital – do borrowers have the data collection/monitoring systems they need?

# Sustainability Reporting Frameworks

- United Nations Sustainable Development Goals (SDGs)
- Global Reporting Initiative (GRI)
- Global ESG Benchmark for Real Assets (GRESB)
- Dow Jones Sustainability Indexes (publicly listed companies)
- EU Taxonomy
- Sustainability Reporting Standard for UK Social Housing

# Sustainability Reporting Standard for UK Social Housing

- Set of standard criteria for ESG reporting for use by RPs
- Intended for all sizes of association
- Covers 12 core themes & 48 criteria (core & enhanced)
- Themes cover:
  - Building Safety
  - Resident Voice
  - Placemaking
  - Waste Management
- 32 investors & 43 RPs signed up for the first year



# Task Force for Climate Related Financial Disclosure (TCFD)

- climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders.
- Aimed at increasing the amount of reliable information on financial institutions' exposure to climate-related risks
- Under consultation in UK at present
- Proposal is all listed companies and large asset owners should disclose in line with TCFD recommendations by 2022 – this is likely to capture large RPs

# ESG & your corporate strategy

- ESG – no longer “a nice to have”
- RPs who have adopted sustainability /social frameworks have all indicated it made them more attractive to investors/good value for money
- Rating agencies have indicated may start to look at ESG credentials
- ESG should be at the heart of your corporate strategy

## Contact



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