

August 2020

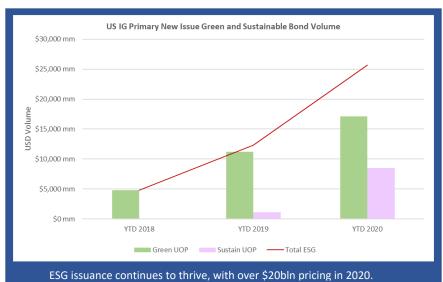
While 2020 is still far from complete, it's clear that US Corporate Green, Social, and Sustainability (GSS) Bond issuance has experienced a marked increase from last year. Year-to-date, US IG Green & Sustainability new issue debt is over double 2019's volume, with sustainability-themed debt showing the greatest growth.

This trend is the framework through which we examine the ESG strategies issuers are taking and the diversity participation in some of 2020's notable sustainable bond transactions, including Alphabet, Pfizer, and Sysco in this month's ESG report.

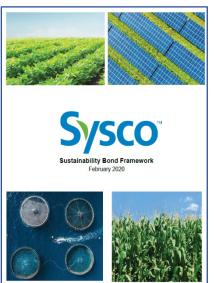
The Sustainability Bond Framework...

Like many financial filings, these frameworks follow a similar structure recognized by the International Capital Markets Association (ICMA). The framework provides guidance to investors and stakeholders regarding how an issuer intends to allocate & manage proceeds, often including:

- Summary of the Company and its ESG Initiatives
- Approach to Sustainability/ESG
- Use of Proceeds/Eligible Criteria
- Project Evaluation
- Management of Proceeds
- Reporting



2020's US IG Corporate Sustainability Bonds So Far...



Sysco's Framework: February 2020 Size & Tenor: \$500,000,000 10YR Diversity & Inclusion: Yes (1)

Approach to ESG: Sysco approaches ESG through the lens set out in its long-term goals in 2018 aligned to three focus areas: "people, products, and the planet." These focus areas include goals designed to increase spending on minority and veteran owned suppliers, responsible sourcing commitments, and reducing Sysco's carbon footprint, among others.

Use of Proceeds: Eligible criteria for UoP include alternative energy and efficiency projects (water, truck fleet, and CO2). More unique to Sysco was how it is focusing on living natural resources and land use by funding practices related to protecting sensitive areas and eco-system improvements, as well as purchasing more organic products (this excludes terrestrial meat), and its work with sustainable fisheries. Given the "people component", Sysco is committed to use more qualified MWBE suppliers.

Project Evaluation: This process is supervised by a committee comprised of Sysco's corporate affairs, sustainability and legal team with final approval residing with their VP of Corporate Affairs.

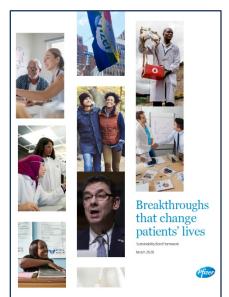
Mgmt of Proceeds: Proceeds are tracked separately by Sysco's treasury department in accordance to policy. Repayment is not associated with KPIs.

Reporting: Sysco will report annually with an audit and verification of amounts allocated, projects, and case studies.

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Pfizer Framework: March 2020 Size & Tenor: \$1,250,000,000 10YR Diversity & Inclusion: Yes (3)

Approach to ESG: Pfizer's strategy and goals revolve around two core themes; managing environmental impact and patient access. The environmental impact theme aims to reduce Pfizer's energy consumption, waste, and water. Its patient access goals aim to enhance quality healthcare in low-mid income countries through its partnerships and investments.

Use of Proceeds: "Green" investments and expenses related to building efficiency, environmental performance of manufacturing, and pollution prevention controls (waste & water) were all included. It's what Pfizer intends to be doing on the patient access front that is really interesting. For instance, expansion of essential services, and more spending to support expansion of manufacturing capacity of products procured by health agencies and strengthening health systems & access—one example was a medical supply drone delivery program in Ghana!

Project Evaluation: Project evaluation is coordinated by a multi-disciplinary team that includes treasury, who can finance eligible projects up to 3 years prior.

Mgmt of Proceeds: Proceeds are to be tracked by the same multidisciplinary team.

Reporting: Reporting will be annual accompanied by management assertion and may also include KPI's and other metrics

Alphabet Framework: August 2020

Size & Tenor: \$5,750,000,000 5YR, 10YR, & 30YR

Diversity & Inclusion: Yes (15)

Approach to ESG: Alphabet has a 5-year strategy to accelerate a transition to a carbon-free circular economy, empower users with technology, and benefit the people and places it operates.

Use of Proceeds: Like Pfizer & Sysco, Alphabet has standard nuts & bolts energy/efficiency related initiatives and programs it intends to finance. What's more unique are its plans to make equity investments in renewable energy projects, as well as bike-sharing. Eligible criteria also include affordable housing investment funds and cost of rezoning Alphabet-owned land to be developed into affordable housing. Expenses related to advancing economic opportunity and equity for underrepresented communities—specifically black communities—were included as well.

Project Evaluation: A combination of Alphabet's sustainability, treasury, and finance

teams will meet on an annual basis to review projects with the final approval residing with Alphabet's Sustainability Officer.

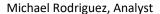
Mgmt of Proceeds: The proceeds are to be tracked (like Pfizer & Sysco) and not knowingly invested in funds or projects that are Green House Gas intensive.

Reporting: Until full allocation, there will be an annual sustainable bond report documenting net proceeds allocated, list of projects, and the outstanding amount yet to be allocated. It also provides a list a metrics it intends to measure itself by, with SPO.

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Honorable Mentions...

Other notable bonds include USAA Capital Corporation, who issued \$400mm 10YR & \$400MM 3YR sustainability bonds meant to finance/refinance eligible investments in affordable housing, clean transport, COVID-19 relief, and renewable energy. However, no accessible public framework is available. Additionally, while not quite a sustainability bond, Bank of America brought a \$1bln COVID-19 bond in May, whose proceeds were to be allocated to its Global Commercial Lending (healthcare lending)—specifically for not-for profit hospitals, skilled nursing facilities, and healthcare equipment supplier/manufacturers.

Sustainability in Q4...

For an issuer in an industry that might not have as drastic of an environmental impact, or is more materially affected by the social component of ESG, then the sustainability bond framework provides a good opportunity to capture financing on related projects that might not be included in a traditional "Green" bond structure. Given this (as well as investor interest in ESG), and historic low all-in-yields, we expect to see more Sustainable bond issuance in Q4. Simultaneously, we see a further focus on diversity and inclusion as issuers look to include more minority and veteran owned banks in senior roles on capital markets transactions.

Further Resources

ICMA Green, Social and Sustainability Bonds: https://www.icmagroup.org/green-social-and-sustainability-bonds/

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