IFR ASIA

INTERNATIONAL FINANCING REVIEW ASIA ROUNDTABLE

JUNE 2019

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Sponsored by: ANZ, CGIF Credit Guarantee & Investment Facility An Asian Bond Markets Initiative, CLIFFORD CAPITAL

ASIAN DEVELOPMENT BANK

Mobilising markets for sustainable infrastructure

MOBILISING ASEAN'S SAVINGS

CGIF connects companies and investors in the ASEAN Bond Markets through the provision of credit guarantees

"With CGIF and Kasikorn Bank co-guarantee, Boonthavorn can add liquidity to its business, access to institutional investors and raise long term funding. Boonthavorn is delighted to partner with CGIF and Kasikorn Bank in developing a new dimension of financing solutions for Thai investors."

Mr. Sitthisak Tayanuwat, Vice President of Boonthavorn Ceramic 2000 Co. Ltd.

"We are delighted to partner with CGIF on the first bond issuance out of the healthcare industry in Vietnam. This issuance enables us to tap the capital markets for fixed-rate long-term funding, which better suits the nature of our business."

Mr. Huynh Le Duc, Group Chief Executive Officer of Hoan My Medical Corporation

"This is a true ASEAN-wide collaboration. We see a Singapore-listed, Myanmar-focused company, raising bonds in Thailand which has been guaranteed by CGIF, an institution created to boost long-term investment in the region. Myanmar is one of the few countries in Asia without a sovereign rating, which makes our AAA issue rating a significant milestone for Yoma Strategic as well as for the economy more broadly."

Mr. Melvyn Pun, Chief Executive Officer of Yoma Strategic Holdings Ltd.

CGIF Credit Guarantee & Investment Facility

An Asian Bond Markets Initiative

www.cgif-abmi.org

FOREWORD

Sustainable infrastructure was high on the agenda at this year's Asian Development Bank annual meetings in Fiji, where climate change and ocean health have a pronounced impact on everyday life. The capital markets are also showing a growing interest in sustainable development, but Asia is still a long way from harnessing the market's full potential.

IFR's latest in a series of knowledge-sharing seminars with the ADB set out to look at the role of the capital markets in providing long-term financing for Asian infrastructure. Across the region, the vast majority of infrastructure projects are funded by local banks and local governments, leaving the growing pool of institutional capital untapped.

Efforts to connect institutional investors with long-term investment opportunities have led to a number of recent landmark financings, including project-related bond issues in US dollars and local currencies and Asia's first securitisation of project finance loans.

Demand, however, still exceeds supply – by some distance. And with a growing range of institutional investors now looking for sustainable and socially responsible investments, the shortage of opportunities in Asia is set to continue.

The Climate Bonds Initiative, the main NGO tracking green capital markets, put the global green bond market at a size of US$521bn at the end of 2018. Asia was the fastest-growing market for issuance last year, rising 35% in 2018, with the ADB itself now among the world's biggest green borrowers.

Asia's capital markets are also growing. The ADB's figures show total outstanding local currency bonds in ASEAN plus China and Korea have now reached US$12.7trn, on par with the entire euro market.

These dynamics give Asian infrastructure developers – in both the public and private sector – an opportunity to use the capital markets to match their long-term assets with long-term, fixed-rate funding. Creating structures that appeal to capital market investors, however, has been a challenge.

The panel discussed several initiatives to bring more infrastructure-related assets into the local and international bond markets. Notably, CGIF, the multilateral credit enhancement vehicle focusing on South-East Asia, is leading the development of a new facility specifically to support infrastructure financings in local currencies. The Infrastructure Investors Partnership also aims to raise part of its funding in Japan's capital markets, giving investors there some sought-after regional exposure.

Singapore-based Clifford Capital is also looking to follow up last year's groundbreaking project finance securitisation with a second deal, with future enhancements such as a warehousing facility in the works to give banks an easy way to recycle their capital.

ANZ is deeply involved in a push to develop sustainable finance across the region and especially in its home markets of Australia and New Zealand, where appetite for responsible investments is surging. The Australian market, in particular, is nearing the point where companies could soon be at risk of losing access to capital if they cannot demonstrate their commitment to a sustainable future.

Infrastructure financing – particularly for sustainable, climate-resilient assets – sits at the crossroads between the conventional capital markets and development finance. A smoother connection between the two would have an enormous impact.

COVER
Rehabilitated roads under the Emergency Flood Recovery Project and Flood Rehabilitation Project in Fiji. The projects are helping build damaged infrastructure and revive economic activity in rural areas that were badly affected by floods in January 2009.
Asian Development Bank

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CLIVE KERNER
Clifford Capital
Clive Kerner has been CEO of Clifford Capital since its inception in 2012. He has over 30 years of experience in infrastructure finance in investment banking and as a CEO. Clifford Capital is a specialist provider of structured finance solutions for Singapore-based companies in support of their overseas investments as experts in the infrastructure and maritime sectors. Clifford Capital also supports Singapore as an infrastructure financing hub and in 2018 completed Asia's first securitization of project finance loans.

KIYOSHI NISHIMURA
CGIF
Kiyoshi Nishimura is the CEO of Credit Guarantee and Investment Facility, better known as CGIF, a multilateral guarantee facility established by ASEAN+3 countries and the Asian Development Bank to promote local currency bond markets in ASEAN countries. He previously worked at the European Bank for Reconstruction and Development as acting director of its Financial Institutions Business Group, and held senior positions at the Japan Bank for International Cooperation, Export-Import Bank of Japan and the International Monetary Fund.

KATHARINE TAPLEY
ANZ
Katharine Tapley is head of sustainable finance at ANZ, overseeing debt financings involving climate-aligned projects and sustainable finance, including green bonds. She joined ANZ in 2001 and has undertaken various roles in markets, transaction banking and specialised lending across commodities, structured trade, project and export finance, and green financing. She has been a member of ANZ's sustainable finance solutions team since its formation in 2014, and has headed the unit since 2016.

STEVE GARTON
Editor, IFR Asia (Moderator)

IFR ASIA: WELCOME EVERYONE. I'M GOING TO ASK KATHARINE TO FRAME THIS DISCUSSION FOR US AT THE START. WHY IS FINANCING SUSTAINABLE INFRASTRUCTURE SO RELEVANT TO THIS PART OF THE WORLD?

KATHARINE TAPLEY, ANZ: When you think about the already existing effects of climate change, particularly in the Pacific region, then the need to fund long-term infrastructure is vital. There really is no choice in my view as to what needs to happen, and I think the sustainable finance markets have a very significant role to play.

We're seeing significant appetite from investors for so-called green assets, but there is a broader concept around sustainability and sustainable development. There is an absolute wall of capital there waiting to be deployed into infrastructure that helps economies – such as Fiji, for example – and the broader region sustain their economies for the long term.

IFR ASIA: THANK YOU. NISHIMURA-SAN, WHAT'S THE ROLE OF THE LOCAL CAPITAL MARKETS?

KYOSHI NISHIMURA, CGIF: So today we are talking about financing for infrastructure projects, especially sustainable infrastructure projects. Sustainable infrastructure projects are projects which are sustainable in terms of their climate or environment or social impact. How these assets are financed is also important to their sustainability. Infrastructure projects need long-term funds because of their long-term payback period. Many projects rely on revenues that come only after they are completed. These revenues are generated in the local currency, so if you borrow in foreign currency that creates a mismatch problem for the project. So if an infrastructure project is really going to be sustainable, it should really be financed by long-term local currency funds.

The good news is, if you look at emerging Asia – and it may be different from elsewhere – most infrastructure projects are already financed by the domestic financial system in their local currency. According to World Bank and ADB data 70%–80% of PPP-type projects are financed domestically in the local currency. That is good news. It is better than before the Asian financial crisis, when many projects were borrowing short-term, foreign currency loans.

The problem here is that when we talk about finance in the domestic financial system, it still means in most Asian countries we are talking about the banking system. The financiers are local banks, which may still create a problem in asset/liability mismatches in the banking system, because banks basically rely on short-term deposits to finance these long-term assets.

So that is the reason why the ASEAN+3 governments are trying to develop a bond market to create a more balanced domestic financial system. Long-term infrastructure projects – especially sustainable infrastructure projects – should be really financed with long-term, local currency funds in the bond market.

At this moment some infrastructure projects in emerging Asia are already financed through the bond market, but they're usually from companies issuing general corporate bonds. We aim to promote more project bonds, which are issued at the individual project level on a project finance basis, just like a project finance loan from the banks. You can issue project bonds which match the cashflows from a project at a longer tenor than a general corporate bond.

"There is an absolute wall of capital there waiting to be deployed into infrastructure that helps economies – such as Fiji, for example – and the broader region sustain their economies for the long term."

In emerging Asia, you don't really see many project bonds. Malaysia is the only country in Asia that has successfully developed a project bond market, where most projects – even greenfield projects – are funded through project bonds or Islamic sukuk.

There is also good news about green bonds. As Steve mentioned, growth last year in emerging Asia was 35%. Actually it's the fastest growing green bond market in the world and has become already the global leader in the green bond market.

IFR ASIA: LOTS TO TALK ABOUT THERE! CLIVE, WHERE DOES STRUCTURED FINANCE FIT IN THIS PICTURE?

CLIVE KERNER, CLIFFORD CAPITAL: I think there is an increasing role for structured finance in terms of facilitating the transfer of project finance loans from bank balance sheets into the capital markets and thereby crowding in institutional debt. That's one of the principal functions that we play in Clifford Capital, and the rationale is that we're helping banks to recycle their balance sheets, which is increasingly important because of tighter capital and liquidity constraints due to increased regulation under Basel III.

At the moment in Asia, as most people in the room know, there's very little institutional debt invested in the infrastructure space. Therefore there really is a need to crowd in that asset class, particularly given the huge demand for infrastructure in the region that will require private sector financing.

Nishimura-san has already touched on capital market issuance for single assets. I think there's certainly a role for that, and there's more being done, but one of the challenges is that you need to achieve a benchmark issuance size in order to create liquidity and investor demand. Institutional investors are typically also looking for investment-grade ratings, which in the context of Asia – in particular in some of the more emerging markets – is quite difficult to achieve.

So that's where securitisation can play a role. The transaction that we concluded last year was Asia's first project finance loan securitisation. We managed to come to market with a portfolio of 37 loans, of which quite a number were related to projects in deep emerging markets that otherwise would not have been able to achieve capital markets treatment.

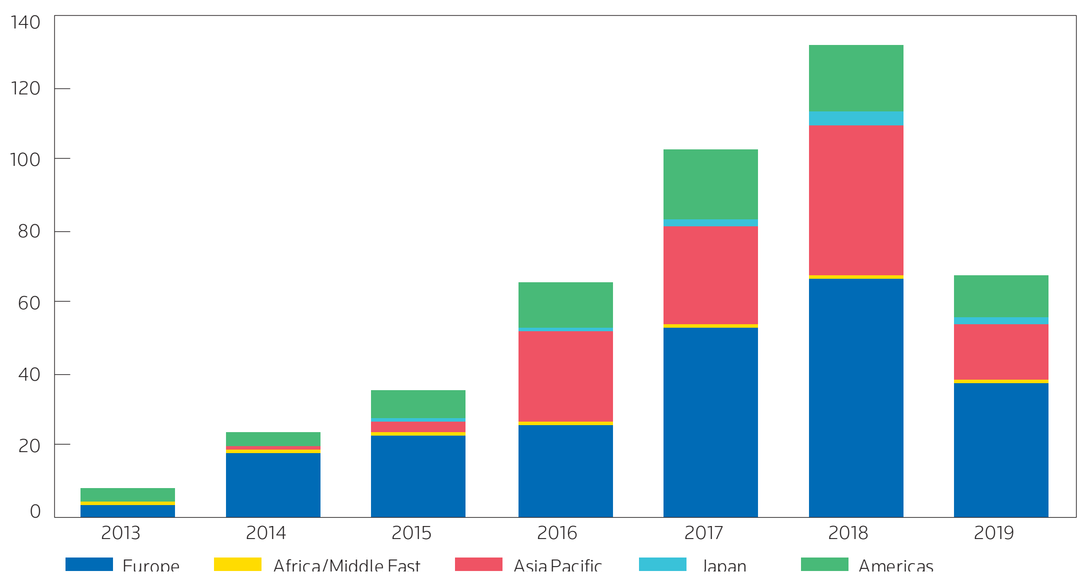
Notwithstanding that, because of the diversification in the portfolio, the impact of the subordination in the capital structure and the fact that all the underlying projects were operational or close to operational (and therefore de-risked), it was possible to structure the transaction so that the senior notes offered to investors – which represented 70% of the capital stack – were rated AAA by Moody's. Therefore what we're doing is offering institutional investors high-quality paper and at the same time giving them access to a high quality diversified Asian infrastructure credit portfolio. I think this is one of the key benefits of the securitisation approach.

IFR ASIA: KATHARINE, WE MENTIONED A LITTLE BIT ABOUT GREEN BONDS AND GREEN FINANCE. CAN YOU GIVE US A LITTLE BIT MORE OF AN UPDATE ON RECENT DEVELOPMENTS THERE?

KATHARINE TAPLEY, ANZ: Yes. Our experience is that every time we go out on a roadshow – whether it's for ANZ or for a client in New Zealand, Australia, or anywhere in Asia – there are always more investors wanting access to green, social or sustainability bonds. We're certainly seeing an increase in appetite, and a change in the way that these portfolios are

GREEN GROWTH

ASIA PACIFIC ISSUANCE OF GREEN BONDS IS GROWING FAST (US$BN)



2019 data to May 28

Source: Refinitiv. SDC code GR01

being made up. There is a significant slant towards sustainability and sustainable development, and within that towards green assets in particular.

For me that's a real trend and I think that's only going to go one way. With the growth of the millennial generation, as they come into a significant part of global wealth over the next 10 or so years, that will continue to be a very strong force as investors become very picky about where they want their money to go.

The other trend and interesting development that we see is the broadening of asset classes to which these transactions can be applied. Initially the green bond market was dominated by renewable energy – solar farms, wind farms, for example. We've seen a broadening of that into transportation, in particular, and sustainable land use. There's a lot of potential in the agriculture sector. Energy efficiency is also a theme. Significant amounts of investment dollars are being spent on upgrading lighting, and demand management for power, solar installations, etc. One very recent transaction we did in Australia was with Woolworths, which is a well-known supermarket brand in Australia and New Zealand. Over a relatively sustained period of three or four years, Woolworths has been consistently investing in upgrading the efficiency of its supermarket properties. We were able to construct a baseline with the Climate Bonds Initiative for measuring the emissions intensity of their properties and constructed a green bond off the back of that. It's a really significant transaction because it shows that the green capital markets are available to companies outside the renewable energy sectors. That's really exciting.

IFR ASIA: SO DOES THAT MEAN THAT ANYBODY CAN ISSUE A GREEN BOND?

KATHARINE TAPLEY, ANZ: It's not quite that simple. Under the Green Bond Principles, you do need a green or definable asset base for a start, so that can present challenges. For us – as an arranger and certainly also as an issuer – it's really important that there is an agenda and a strategy around sustainability. That's really important when we're choosing our partners with whom we do these transactions.

IFR ASIA: NISHIMURA-SAN, I UNDERSTAND GREEN BONDS ARE A GROWING FOCUS FOR YOU AT CGIF. IS THAT RIGHT?

KYOSHI NISHIMURA, CGIF: Yes. We supported the first green bond in Philippine pesos, together with the ADB, three years ago, and we have a number of potential green bonds in the pipeline. Actually this is really my favourite subject. To see where we are going, we need to really understand the context of green bonds in developing and more developed countries.

"In emerging Asia, you don't really see many project bonds. Malaysia is the only country in Asia that has successfully developed a project bond market, where most projects are funded through project bonds or Islamic sukuk."

Green bonds started in the developed markets in Europe and North America and have grown quite significantly, and their growth was market-driven, because there are dedicated investors for green or socially responsible bonds..

However, if you look at the development of green bonds in emerging Asia, the situation is different. The typical case is China. China now has become the second largest green bond market globally within a few years, but it was not created by a market-driven or bottom-up approach. Basically domestic bond investors don't really differentiate between green bonds or normal conventional bonds. It was policy-driven, because regulators introduced guidelines and encouraged issuers to sell green bonds.

Green bonds have also grown quite substantially in other Asian emerging markets, like the ASEAN countries. At this moment six of the 10 ASEAN member countries have active domestic bond markets, and you see green bond issuance in all six. Having said that, most of these markets – probably Singapore is a little bit different – do not have a strong domestic investor base for green bonds. It's really policy-driven. ASEAN countries have introduced a regional green bond standard and some incentive schemes to try to encourage green bond issuers.

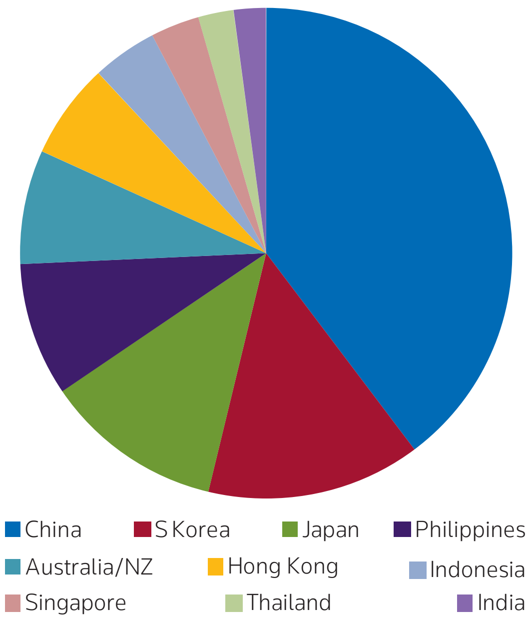
Multilateral development banks are also supporting the creation of the green bond market. Some green bonds have been bought solely by multilateral development banks, rather than local investors.

So the challenge for developing countries is, if you want to really grow the green bond market to a sustainable level, you need to create a domestic bond investor base which is really dedicated to investing in green bonds.

That means first of all it's very important to raise awareness of why green bonds are important, and the impact of ESG on investment decisions. There may be some regulatory ways to incentivise investors to invest in the green bond. Otherwise it's going to continue to be policy-driven, so it may not be really sustainable in the long term.

CHINA FIRST

APAC GREEN BOND ISSUANCE HAS REACHED US$17.6BN SO FAR IN 2019



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IFR ASIA: IF THERE'S NO DEDICATED INVESTOR BASE, WHAT'S THE ADVANTAGE TO AN ISSUER FROM MAKING YOUR FINANCING GREEN?

KATHARINE TAPLEY, ANZ: Typically with these transactions, we tend to see more investors coming in and in much greater volume. So you are tapping into brand new money, as well as new funds within existing investors that you didn't previously have access to. That diversity and granularity has to be an advantage to a borrower, and that's a trend that we're seeing right across our region.

The other piece that often gets underestimated when a borrower goes into a transaction is the strengthening of the relationship with their investor base. Typically fixed income investors haven't had a great deal of dialogue with the companies that they're funding. There tends to be minimal interaction between transactions.

The key difference with the green bond market is that a well-structured green or sustainability bond comes with a whole lot of transparency and reporting. That's an advantage both to the issuer and the investor, because they get this dialogue that wasn't otherwise there.

The fixed income investor base has an opportunity to help steward this change. I think that's incredibly powerful in the bigger picture around mobilising large amounts of capital in order to ensure that we have a sustainably developed world.

IFR ASIA: CLIVE, YOU ARE A REGULAR ISSUER IN THE CAPITAL MARKETS. HAVE YOU CONSIDERED MAKING ANY OF THESE DEALS GREEN?

CLIVE KERNER, CLIFFORD CAPITAL: We have and we'd love to do more, but I think when you're talking about securitisation you need to focus on what is already available out there in the market. One of the key criteria for successfully executing our securitisation is that institutional investors don't like greenfield risk. You need to work with brownfield projects or assets that are close to completion. Over time, certainly there'll be more green assets coming through as the stock of completed projects increases.

IFR ASIA: CAN YOU TELL US A BIT ABOUT THE DEMAND THAT YOU SEE FROM INVESTORS?

CLIVE KERNER, CLIFFORD CAPITAL: The view we formed – and it's looking at the other end of the spectrum in the power sector – is that we don't think we could include any coal assets in a future securitisation. The market is increasingly gravitating away from coal

and towards renewables.

So as we structure these transactions we need to be very conscious about what institutional investors are looking for. This shift in the negative attitude to coal on the investor side has continued since we did the first deal last year, so I think that will also help to drive more sustainable and green projects coming to the market.

IFR ASIA: WAS IT DIFFICULT TO FIND THE ASSETS TO PUT INTO THAT SECURITISATION? WE HEAR A LOT ABOUT A LACK OF BANKABLE PROJECTS, BUT YOU MANAGED TO FIND 37 OF THEM TO PUT INTO A DEAL.

CLIVE KERNER, CLIFFORD CAPITAL: We did. Individual banks have tried to do this for a long time and they've struggled, because one of the challenges they find is that they don't have enough loan diversification on their own balance sheets. We're not a bank and, because we have support from the Singapore government, our project was heavily sponsored by the MAS. I think that helped us to get access to banks who were willing to open their books and have a discussion with us around what types of assets they were willing to transfer. I think that was a key success factor. The banks we ended up dealing with were our three shareholder banks – Standard Chartered, SMBC and DBS – and also two others, HSBC and MUFG. I think the banks also view us as a neutral player rather than necessarily being a competitor.

In terms of identifying the assets we looked at just over 50. We set out some fairly clear criteria with the banks in terms of the assets we thought that would work for the structure. We ended up with 37, so a few fell along the wayside but that was a fairly okay process. However, it was quite time-consuming, in the sense that we needed to undertake a detailed credit evaluation on each of the assets. Also Moody's produced what they call a Credit Estimate, which is like an informal rating on each of the assets. So the process took a number of months. The bigger challenge was selling the CLO structure to investors, because it was the first of its type. That took about six months but we eventually got there with a good outcome.

IFR ASIA: THE DEAL WE'VE JUST BEEN TALKING ABOUT FROM CLIFFORD CAPITAL WAS IN US DOLLARS. IF YOU TRY TO BRING PROJECT FINANCINGS TO THE LOCAL CAPITAL MARKETS, WHO ARE THE INVESTORS THERE? WHERE DOES THE MONEY COME FROM?

KYOSHI NISHIMURA, CGIF: As I said earlier, project bonds are not so common in developing countries or ASEAN bond markets, except for Malaysia. However, in the last few years actually we have also seen some good examples of project bonds in other ASEAN countries. In Indonesia there have been a number of project bonds issued in the rupiah bond market. We did the project bond transaction I mentioned in

"There is an increasing role for structured finance in terms of facilitating the transfer of project finance loans from bank balance sheets into the capital markets and thereby crowding in institutional debt."

Philippine pesos, and that was followed by a project bond for a hydro power company. Also in Thailand we see a number of project bonds, so it's coming but still limited.

I think Clive made a very good point about single asset project bonds. If you look at the global project bond market, the total size even including developed markets is about US$40bn–$50bn per year. That means, of all the projects financed in the world, only 10%–15% are done by project bonds and 85%–90% are by banks. This ratio hasn't really changed in many years. One reason is that you cannot expect normal bond investors to become project finance experts; they don't have the internal capability to analyse project finance risk and manage these risks.

Some global institutional investors, insurance companies or big pension funds have set up special teams for project finance, hiring project finance bankers from commercial banks, but those are very limited examples. If you look at the range of investments these institutions manage, you cannot really expect them to become project finance bankers.

The portfolio approach that Clive has explained really takes project finance risk and structures it in a way that a wider group of institutional investors can invest in infrastructure projects. I think it makes a lot of sense. This may also be applicable in emerging bond markets, where institutional investors may not be as experienced or – I don't want to use this word – sophisticated as bond investors in more developed markets.

We've also seen some ASEAN infrastructure companies issue normal corporate bonds, after their projects are completed. If the project is stable and their rating is high enough, local institutional investors can invest in normal corporate bonds issued by project companies, sometimes even on an unsecured basis. The two major toll road companies in the Philippines are good examples. We also this year saw a very similar example in Thailand, where power projects of B Grimm also issued normal corporate bonds after originally using project finance from the bank market. So that's maybe another way to develop the capital markets for infrastructure.

IFR ASIA: QUESTION TO YOU ON THAT, KATHARINE: IF I'M AN INVESTOR, HOW DO I KNOW THAT MY MONEY IS GOING TOWARDS SUSTAINABLE DEVELOPMENT, AND NOT A COMPANY'S NEXT COAL PLANT?

KATHARINE TAPLEY, ANZ: That's a good question, because money is fungible, so it does all go into one pot. The principles around green and sustainability bonds are very clear in making a very strong recommendation to provide regular reporting and transparency on how the money has been used. Certainly our experience is that investors are pretty demanding on this. Investors are not just sitting back and getting themselves into green bonds and then not following up on the reporting.

They will want to see reporting at least annually, sometimes twice a year, not on just how proceeds have been used but also what the impact of that money has been. The concept of understanding the impact of their investment is gaining a lot of currency.

Actually the sustainable development goals are increasingly becoming a framework, if you like, through which investors are actually measuring that impact. So you've seen a rise in bond issuance aligned to the SDGs. A borrower might choose a collection of the SDGs that best match their business and demonstrate how their borrowing matches that. That really does give investors the ability, to some degree, to measure the impact of what it is that they're investing in.

IFR ASIA: IF YOU ARE ISSUING GREEN BONDS, AS A COMPANY DO YOU NEED TO BE PROVING HOW MUCH YOU'RE SAVING FROM YOUR EMISSIONS OVER THE COURSE OF THAT DEAL?

KATHARINE TAPLEY, ANZ: That's one measure of impact. It goes back to what I was saying before, when you asked me if anyone can issue green bonds. An issuer really does need to have an agenda around this. Often if you're dealing with an organisation that has a really strong agenda, they're probably already reporting those kinds of impacts anyway.

Maybe to bring this to light with an example, we issued a green bond and we produced our first impact report about 18 months ago. We looked at a number of impacts around that. Obviously carbon emissions reduction was one because we're talking about a portfolio of wind farms and solar farms. We also looked at the equivalence of households powered by renewable energy as a measure as well. Jobs created is another one that's a co-benefit coming off the back of these deals. It just gives some flavour to the kinds of impact metrics that you can pull out of transactions.

NEW ASSET CLASS

CLIFFORD CAPITAL'S 2018 SECURITISATION OF PROJECT FINANCE LOANS

Class	Amount (US$m)	Rating (Moody's)	Subordination	Spread (6m Libor)	Weighted average life	Expected maturity	Legal Maturity
A	320.6	Aaa (sf)	30.00%	145bp	3.7	7.4	11 Jan 2038
B	72.6	Aa3 (sf)	14.15%	195bp	8.6	9.4	11 Jan 2038
C	19.0	Baa3 (sf)	10.00%	315bp	9.8	10.4	11 Jan 2038
Subordinated	45.8	Not rated	N/A	Retained			11 Jan 2038
Total	**458.0**						

Source: Clifford Capital, IFR

IFR ASIA: WHAT MORE CAN BE DONE TO STIMULATE SUSTAINABLE FINANCING? WHAT KIND OF INCENTIVES HAVE BEEN EFFECTIVE IN THIS PART OF THE WORLD?

KATHARINE TAPLEY, ANZ: We are seeing some incentivisation in Asian markets, so both Singapore and Hong Kong regulators have now put in place programmes whereby they will help pay the costs for issuers wanting to sell bonds out of Hong Kong or Singapore and list them on those stock exchanges. That's very helpful to stimulate interest at least, even though it's a little bit of a myth that these transactions come with extra costs. The costs are pretty minimal in terms of structuring – and I genuinely say that as an issuer as well as someone who is marketing these transactions to my client base. They tend to be very small when you amortise that over the life of the transaction and all the benefits that we've already talked about.

On the investor side, as I said before, I'm not sure they need a whole lot of incentivisation to come into these transactions. There is just not enough supply in the market. As I said earlier, appetite for sustainable or green investments is increasing, and fund managers are under pressure themselves to demonstrate their commitment there. I only see that going one way. That also creates an incentive on the borrower's side because if you're not playing in these sustainable finance markets then you may be putting yourself at risk of losing access to the capital markets in the long term.

IFR ASIA: CLIVE, IS THAT SOMETHING THAT YOU'VE SEEN AS WELL, THAT THERE'S BASICALLY A LOT OF MONEY CHASING ASSETS AT THE MOMENT?

CLIVE KERNER, CLIFFORD CAPITAL: This is something that everyone talks about and it's absolutely the case in Asia. There's still too much liquidity chasing too few projects.

I think where it all really starts is that host governments need to do more to work out which projects are commercially viable and therefore can be offered to the private sector, and which are not and therefore should stay with the public sector. There are still occasions when some governments think it should be the other way round. I know the MDBs are spending a huge amount of time pushing this. People talk about US$6trn of demand for infrastructure in Asia. Clearly governments can't fund all of that, so there's a clear role for the private sector. That's a really important initiative.

Coming back to the earlier question, I think there's a big push factor as well that's encouraging more sustainable development. You've got a situation now where the majority of banks are out of financing coal, and that in turn is going to encourage sponsors to turn their attention much more towards gas and renewables as well.

"The sustainable development goals are increasingly becoming a framework, if you like, through which investors are actually measuring that impact. So you've seen a rise in bond issuance aligned to the SDGs."

Renewable energy is now reaching grid parity in certain segments.

IFR ASIA: WHAT ABOUT THE LOCAL MARKETS? NISHIMURA-SAN, WHAT'S NEXT FOR CGIF IN HELPING SOME OF THESE INFRASTRUCTURE ASSETS COME INTO THE CAPITAL MARKET?

KYOSHI NISHIMURA, CGIF: CGIF's original role has been to support the development of domestic bond markets by providing guarantees to corporate and project bonds. We didn't have any particular industry focus on infrastructure, but that is the sector where long-term local currency funding is most needed.

Two days ago here in Fiji there was a meeting of ASEAN+3 finance ministers and central bank governors, where they agreed to a new medium-term roadmap for the Asian Bond Markets Initiative, ABMI, for the next four years. One of the new initiatives under this roadmap is what we call an Infrastructure Investors Partnership, or IIP. It is a very innovative facility to promote local currency finance for infrastructure projects, mainly in ASEAN countries, by mobilising institutional investors in both developed economies, like Japan, and in ASEAN countries.

Basically IIP aims to tackle two important policy issues. First is the need for long-term local currency funds for infrastructure investment. One of the reasons holding back long-term local currency funding is that the risk-taking ability of domestic financial players – pension funds, local insurance companies, local banks – is still limited. IIP will provide credit enhancement for local currency financing so that these domestic financial players can provide long-term funding for the infrastructure project.

Unlike CGIF, IIP will support only infrastructure projects, and it can also support local currency loans provided by banks to finance infrastructure projects, especially greenfield projects, where bank loans are probably a more suitable financing method compared to bond finance. IIP guarantees can be structured to encourage those greenfield project loans to be refinanced by long-tenor bonds after the construction is complete.

The second policy issue is the challenge facing institutional investors in developed economies when they look to invest in infrastructure in developing countries. They are very interested, because infrastructure is a long-term asset and because they can also benefit from the future growth of these developing countries.

However there are two hurdles. One, Clive mentioned already, is the rating. The credit ratings of most ASEAN countries are not so high, so project ratings in these countries are not acceptable for the institutional investors in developed countries, like Japan.

The second issue is the currency. As I said, many projects need funding in ASEAN currencies, but the Japanese pension funds don't want to lend money in Indonesian rupiah or Vietnamese dong. So the IIP aims to tackle these two hurdles in an innovative way. In addition to the capital contributed by the governments, IIP will issue mezzanine bonds in developed bond markets, say in Japanese yen, with a credit rating at a level which is acceptable to Japanese institutional investors.

We have done a feasibility study and this concept seems to work. Hopefully we can start operations next year, because we still have to work on the details. We haven't really decided about the size, but hopefully the pilot phase of IIP is going to be same as CGIF. Before the capital increase, CGIF's total guarantee capacity was slightly less than US$2bn. We are looking at a similar capacity for the initial phase of the IIP.

AUDIENCE: YOU ALL MENTIONED THAT THERE IS TOO MUCH LIQUIDITY CHASING TOO FEW ASSETS, AND IT SEEMS LIKE GREEN BONDS WOULD REALLY BENEFIT FROM THAT. WHAT HAPPENS WHEN THE MARKET CHANGES OR INTEREST RATES GO UP, HOW WILL GREEN BONDS WORK THEN?

KATHARINE TAPLEY, ANZ: We haven't really seen yet a lot of stress where these bonds have been tested. Our view is that – and we have seen some evidence already – they do tend to perform better than existing vanilla bonds in a tough market. I think that speaks to the quality and the structure of the transactions, as well as the underlying nature of what the proceeds have been used for. I think it speaks to what investors want to be holding in their portfolios as well.

CLIVE KERNER, CLIFFORD CAPITAL: If you're looking at assets that are already in portfolios, one tends to find for infrastructure assets – including renewables – that investors will buy these instruments on a hold-to-maturity basis.

IFR ASIA: WOULD SOMETHING LIKE YOUR SECURITISATION PLATFORM STILL BE VIABLE AT A HIGHER INTEREST IN THE FUTURE?

CLIVE KERNER, CLIFFORD CAPITAL: Yes, good point. Our CLO structure actually is all floating rate. This could change in the future, but the way we structured the first deal was that all the loans coming into the platform were floating-rate loans, which tends to be the case for infrastructure financing, so they were either linked to three-month or six-month Libor.

What we sold to investors was a floating-rate portfolio. So that does provide protection of course against interest rate fluctuations.

AUDIENCE: HAVING LIVED IN MALAYSIA IN THE 1990S, I AM INTERESTED IN WHAT WE CAN LEARN FROM INFRASTRUCTURE FINANCING THERE. HERE IN FIJI, I FEEL LIKE IT'S VASTLY UNDERDEVELOPED. WHAT ARE THE FACTORS WE COULD OVERCOME TO CAPITALISE ON THAT?

KYOSHI NISHIMURA, CGIF: That's a good question. I think broadly the reason why Malaysia has been

successful in developing an infrastructure bond market is first of all that they started early. They started to create a national pension system in '50s but in late '80s, or early '90s, the pension system was expanded and when you have a large national pension system you need a bond market to invest these pension assets. They have had a very holistic, comprehensive bond market development plan since the early '90s.

Developing a bond market involves many government agencies and regulators, the central bank, securities and exchange commission and the ministry of finance. It's also about creating local currency savings and how to manage these assets. You need a very comprehensive long-term plan, which Malaysia has done very well.

Sometimes people think the bond market is a technical issue, but it's not. Even developing countries also need to think about how to create local savings, how to set up the pension system and the insurance industry. There has to be a coordinated effort. In the case of Malaysia, they set up the National Bond Market Committee, which involved very high-ranking officials in ministries. They're all involved. This kind of holistic blueprint is needed first of all to develop bond markets.

AUDIENCE: IT WAS INTERESTING TO HEAR ABOUT THIS NEW IIP VEHICLE THAT YOU HAVE IN MIND. ISSUING MEZZANINE BONDS IS QUITE EXPENSIVE. HOW DOES THE BUSINESS PLAN WORK? HOW ARE YOU GOING TO GENERATE SUFFICIENT RETURNS?

KYOSHI NISHIMURA, CGIF: Yes, that's another good question. It's part of the feasibility study to look at whether it's economically viable. It really depends on what kind of leverage you can create. Altogether this capital, consisting of the first-loss piece from the public sector and the mezzanine bonds, is going to be leveraged to issue a higher amount of guarantees. Can the guarantee fees from the portfolio provide sufficient income to pay an expensive mezzanine bond? The economics will depend on what kind of pricing level is needed for the mezzanine bond, which is also linked to what kind of rating this bond will get, and to what extent you can leverage this capital.

We have done the initial feasibility study, and it seems to work. We believe it may especially work in the current Japanese context, but may or may not be in other markets, depending on market conditions at the time.

AUDIENCE: ARE THERE ATTEMPTS TO DEVELOP A CLEAR GREEN TAXONOMY, ACTUALLY WHAT IS CONSIDERED GREEN? AND HOW DO YOU DEAL WITH DIFFERENT SHADES OF GREEN WHEN YOU ISSUE A BOND? THANK YOU VERY MUCH.

KATHARINE TAPLEY, ANZ: That's a good question. In the European Union, as you may be aware, green taxonomy has been legislated, to provide definitions around what that means. That's come out of the high level expert group that's been advising the European Commission about its sustainable finance action plan. You're seeing those kinds of groups pop up in different jurisdictions around the world. The UK has a similar vehicle, the Canadians do, the Japanese do now and we're seeing it in Australia and New Zealand as well. ANZ is involved in the Australian and New Zealand initiatives, and in both cases there will be a conversation around a taxonomy to give some definition and guidance to the market.

I think we have to be very careful about definitions. There's a really fine line between too much definition and not enough, because you don't want to create a situation where you suddenly close the market for some transactions because you've been too prescriptive. The other thing is that what's green or sustainable in one jurisdiction – Germany, for instance – is very different to what's green in a jurisdiction like Vietnam.

I actually think that thus far the market has done a really good job of self-regulating, with the help of the green and social bond principles. As I've said a couple of times previously a well-structured transaction will be aligned to those principles, with an independent opinion and regular and transparent reporting around how proceeds have been used.

Those principles have given really good guidance to the market place. Looking at the issuance that has been brought to the market this year – and we're towards US$200bn or so already – there are very few deals that don't have that level of integrity and robustness. It's also still early days, in terms of where this market's going and where it could project to.

IFR ASIA: WE'VE MENTIONED THE BANK MARKET SEVERAL TIMES. IS THE CHANGING APPETITE THERE ALSO GOING TO BE A DRIVING FORCE IN THIS PART OF THE WORLD, DO YOU THINK?

KATHARINE TAPLEY, ANZ: I think so, absolutely. Clive's already touched on this move away from, or increasing inability to lend to, the coal sector. With that is coming more scrutiny from regulators around what sits on balance sheets. You've also got the Task Force on Climate-related Financial Disclosures, which has become a very big driver of how banks are shaping their balance sheets. We're all under pressure in terms of what our balance sheets need to look like to contribute to a sustainable future. That is definitely driving banks into the sustainable finance markets to find these transactions and to effectively replace and create and reshape their balance sheets. Certainly that's a driver at ANZ. We have also been thinking more around our organisational purpose and we have some streams of work around environmental sustainability, housing and financial wellbeing. Those two things together are driving how we are shaping our balance sheet.

The bank loan market in this space is really exciting, because not everyone can actually issue bonds. We've touched on some of the hurdles around projects, but generally speaking most companies need to borrow money. Similar to the green bond market, there is now a framework for green loans, and the concept of incentive-based lending linked to an organisation's sustainability performance is really interesting. That actually allows banks to play a really critical role in catalysing their clients' transition and change. It's about the banks actually taking a little bit of skin in the game.

At the moment there isn't any capital relief from regulators around that, but you can probably foresee that that might come in the future. Again, that'll catalyse even more bank balance sheet activity.

IFR ASIA: I'M JUST GOING TO FINISH ON A BIT OF A FORWARD-LOOKING SPIN HERE. CLIVE, HOW BIG CAN YOUR PROGRAMME GET, AND WHAT DO YOU HOPE TO DO IN THE FUTURE?

CLIVE KERNER, CLIFFORD CAPITAL: We concluded the first deal last year, but it was never intended to be a one-off. What we're looking to do is create a new asset class and to build a programme over time. We have a number of things that we want to do to achieve that. The first one is to address the timing issue around how you identify and evaluate these assets, and we're looking to to put in place a warehousing facility and a balance sheet that will enable us to identify assets and bring them on to the platform when they're available. Then, when market conditions permit and there is sufficient critical mass, you can then do a series of securitisations off that balance sheet.

The second point is the importance of diversification to make a securitisation successful. We're now engaged with the broader banking market to ascertain the extent of supply. We discussed earlier the longer-term issues around more projects needing to come to market, but in the short to medium term there's a significant volume of assets already on bank balance sheets that the banks are willing to securitise to help them recycle their project finance loan portfolios. We're in the process of developing an eligibility framework with banks so that when they close these transactions they'll know which ones will be eligible to come on to the platform in due course.

Over time there also needs to be more pricing benchmarks for this asset class. We found with our pilot scheme last year that, because it was the first of its kind, investors didn't really know how to benchmark it and they ended up pricing it against US corporate CLOs – which is clearly not an appropriate reference point. It led to, we think, pricing levels that were too high and of course there was a new issuance premium that we had to pay.

There needs to be more liquidity to facilitate trading, which, of course, you can only get with more issuance volume. Also in time there needs to be research. That's more of a medium-term target.

The next point I would make is more around loan documentation, from the perspective of making it easier for loans to get transferred from bank balance sheets into a capital market structure. The two key challenges we found were first of all obtaining consents for transfers. We found that none of the export credit agencies that were providing support for some of the loans in the portfolio were willing to give their consent. While these institutions are comfortable for loans to be transferred among banks, they still are not ready to approve loans being transferred into a capital market structure. The way we got around that on the first one was to effect the transfers as sub-participations.

Allied to that, investors want more transparency. They want to understand more about the underlying projects..

The other idea we are assessing is expanding the investor outreach. The first deal we did was on a Reg S basis and we are considering the benefits of 144A issuance format in the future which would enable us to tap the US CLO investor base which is the world's largest and most sophisticated.

IFR ASIA: LADIES AND GENTLEMEN, THANK YOU VERY MUCH FOR YOUR ATTENTION.

CLIFFORD CAPITAL

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IXOM Acquisition	MODEC Libra FPSO	Myingyan IPP	BW Gas JuJu LNG	PSA Panama
IXOM Keppel Infrastructure Trust	MODEC	sembcorp	Marubeni	PSA Panama
A$532,400,000	US$995,400, 000	*PFI Asia-Pacific Power Deal of 2017*	US$684,500,000	Confidential Amount
Senior Secured Syndicated Term Loan Facility	Senior Secured Multi-Tranche Facility	Confidential Amount Multi-Tranche Financing	Senior Secured Term Loan Facility	Senior Secured Term Loan Facility
Mandated Lead Arranger March 2019	Mandated Lead Arranger July 2018	Initial MLA Documentation Bank May 2017	Mandated Lead Arranger December 2016	Sole Structuring MLA May 2016

Bayfront Infrastructure Capital (Take-Out Facility)

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US$458,000,000
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- IFR Best Structured Finance Issue of 2018
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- The Asset Best Cross-Border Securitisation of 2018
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