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Chile Issues World's First Sovereign Sustainability-Linked Policy Performance Bond

Patricio Sepúlveda Carmona, Head of Public Debt Office, Ministry of Finance, Chile

Monday, 14 November 2022

FS Club

A Word From Today's Chairman

Professor Michael Mainelli

Chairman

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Today’s Agenda

- 16:00 – 16:05 Chairman’s Introduction
- 16:05 – 16:25 Keynote Presentation – Patricio Sepúlveda Carmona
- 16:25 – 16:45 Question & Answer

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Today's Speaker

Patricio Sepúlveda Carmona

Head of Public Debt Office

Ministry of Finance, Chile

Chile's Experience in the ESG Market

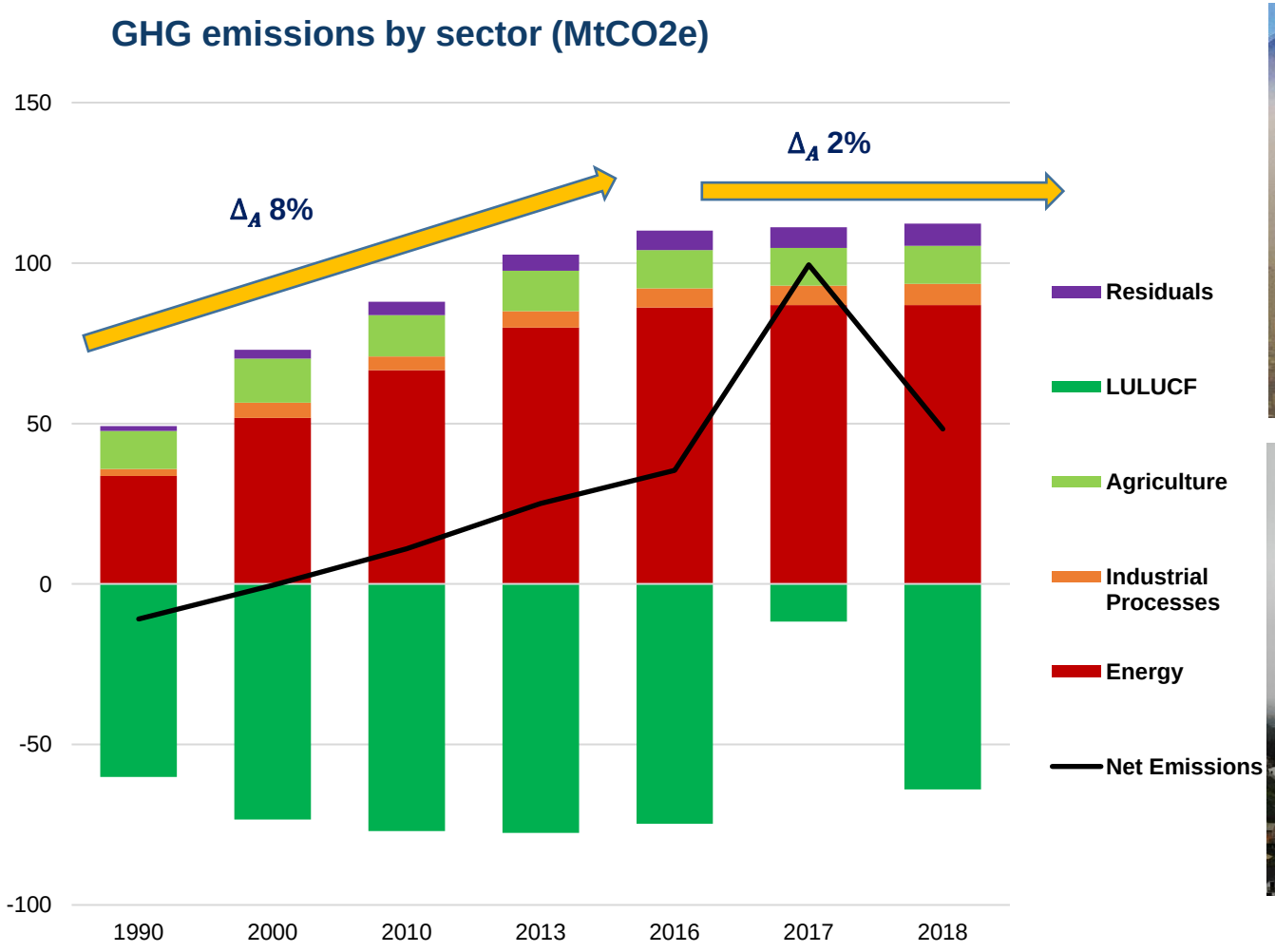
Gobierno de Chile

Ministerio de Hacienda

Public Debt Management Office
Ministry of Finance

November 14th, 2022

Substantial evolution of pollution in Chile has worsened global warming and we are suffering the effects of climate change



Source: Ministry of Environment and Ministry of Energy

Chile is well committed to face Climate Change

Regulatory Framework

- **Law of Climate Change Framework** (Ley Marco de Cambio Climático): targets, institutions and tools
- **Energy Eficiency Law:** industiral, mining and transport sector, with the goal of reducing emissions 2% annually

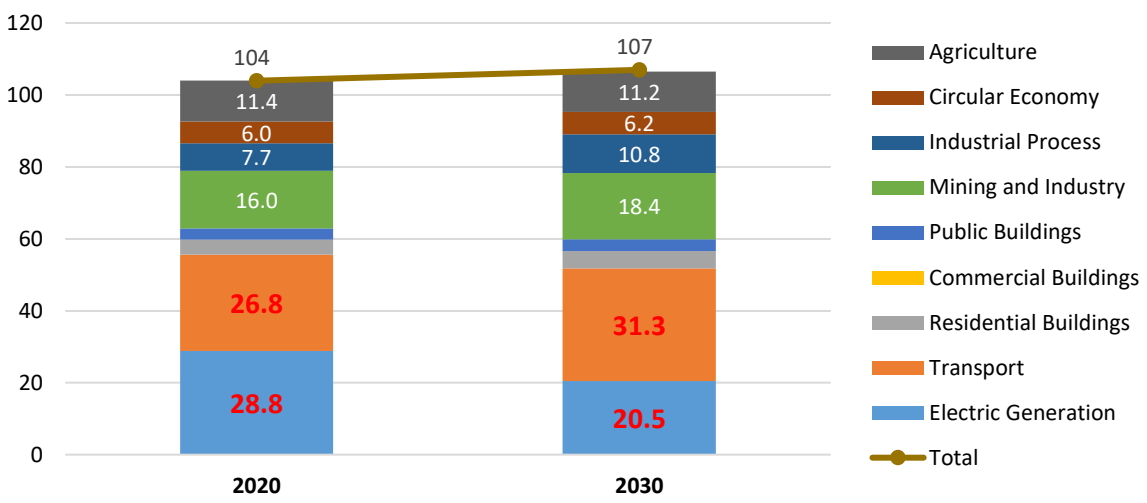
Targets and Goals

- **NDC 2020**
  - Chile is committed to a gross carbon budget not higher than 1,100 MtCo2eq for the 2020-2030 period, reaching a peak in 2025, and a level of 95 MtCO2eq in 2030
  - Others: to reduce at least 25% of carbon emissions by 2030, sustainable management and recovery of 100 thousand native forestry hectares by 2030, to create marine protected areas
- **Long Term Climate Strategy,** with 2050 targets

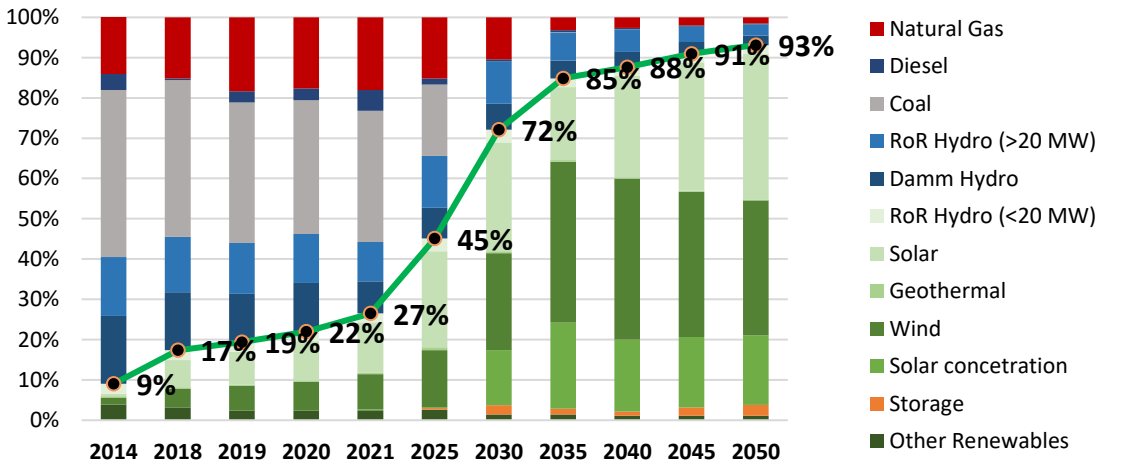
Policy Action

- **Long Term Energy Planification:** Every 5 years, in order to forecast energy scenarios (30 years)
- **National Electromobility Law**
- **Green Hydrogen National Strategy**

Basis Scenario (forecasts) for GHG emissions by 2030



Energy Matrix and NCRE



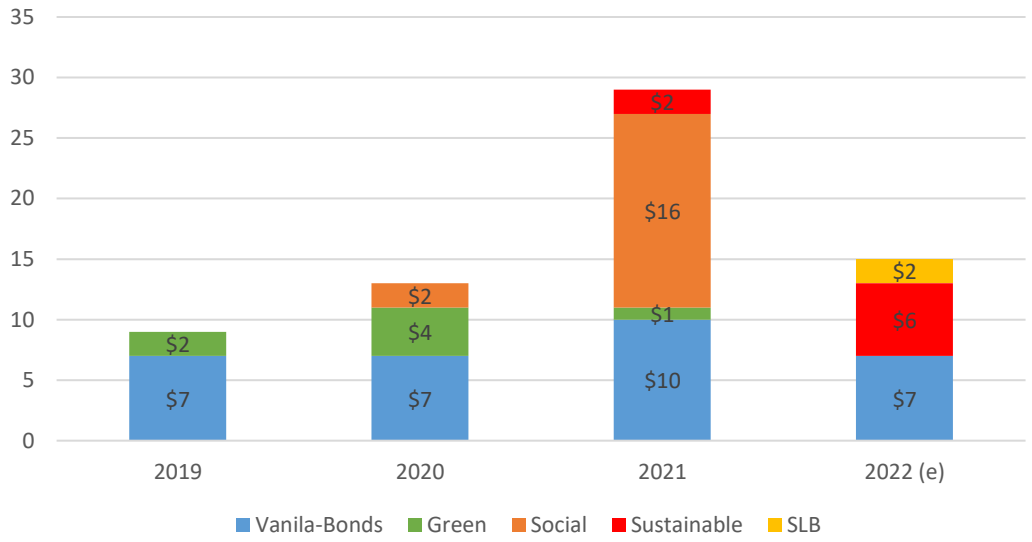
Source: Ministry of Environment and Ministry of Energy

Contribution of the Government's Financing Strategy to Address Climate Change and Sustainable Growth

- Labelled bonds have become fundamental for financing of Chile, and they are totally incorporated into the general strategy of debt management
- Formally, since 2018, Chilean PDMO seeks to promote the development of ESG instruments to attract foreign investment and support the country's sustainable infrastructure needs, while diversifying the investor base
- Chile has taken a leadership in the ESG market:
  - In 2019, being the first country in the Americas to issue Green Bonds
  - In 2022, issuing the first SSLB. This format especially brought increased investor interest, and made the notes the first-ever SLB from a Sovereign issuer anywhere in the world
  - This transaction opens a new path for other countries to link their funding activities in the capital markets with their ESG commitments
  - October 2022, the Republic of Chile issued its first sustainable bond in pesos

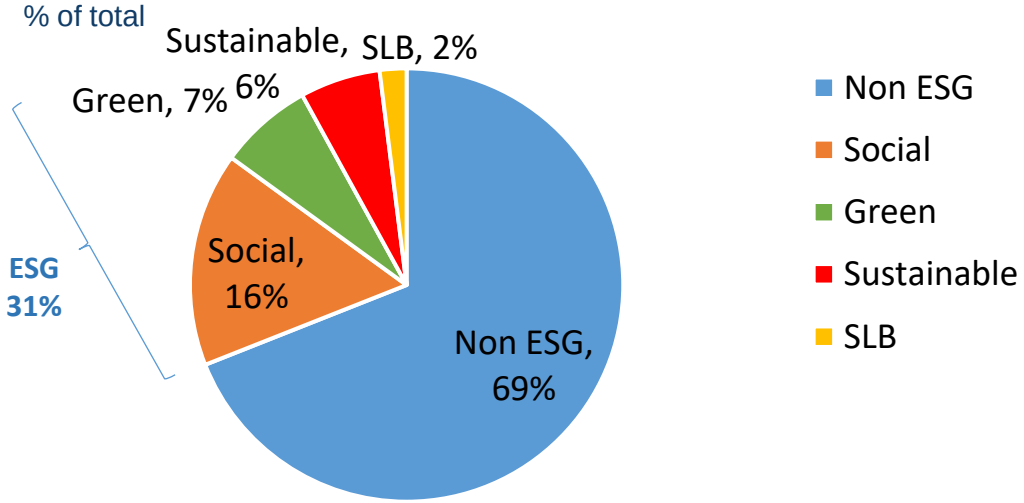
Historical ESG Issuances

Billion of US$



Stock as of October 28, 2022

% of total



Reference Benchmark in ESG Issuances for Countries Around the World

Green Framework
June 2019

Sustainable Framework
December 2020

Sustainability-linked Framework
February 2022

2019

First green issuance
- EUR-2031 €861mn
- USD-2050 USD 1,418mn

2020

Green issuances
- EUR-2031 (R) €694mn
- EUR-2040 €1,269mn
- USD-2032 USD 750mn
- USD-2050 (R) USD 900mn

First social issuance
- BTP-2028 CLP 1,040,000mn
- BTP-2033 CLP 560,000mn

2021

Green issuances
- EUR-2031 (R) €400mn
- USD-2032 (R) USD 750mn

Social issuances
- In CLP: BTP-2024 and BTP-2028, for a total amount of CLP 2,561,000mn
- In euros: EUR-2027, EUR-2029, EUR-2036 and EUR-2051 for a total amount of € 3,918mn
- In dollars: USD-2033, USD-2041, USD-2061 and USD-2071, for a total amount of USD 7,950mn

First sustainable issuance
- Formosa USD-2053 USD 1,500mn

2022

Sustainable issuances
- USD-2027 USD 1,500mn
- USD-2034 USD 1,500mn
- USD-2052 USD 1,000mn

First sustainability-linked issuance
- USD-2042 USD 2,000mn

Chile is the only sovereign in the world to have executed all type of ESG bonds and the first one to have issued a sustainability-linked bond

Source: Ministry of Finance
Notes: (R) denotes reopening issuance

Green and Social projects

Green Projects.

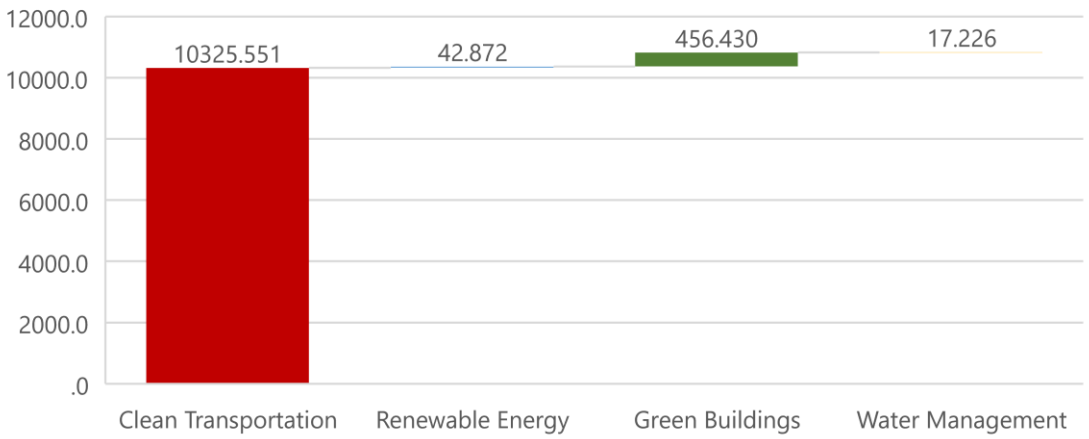
- The green projects are certified by Climate Bond Initiative (CBI), which provides to the market a high degree of confidence
- Since its beginning, Chile has certified US$10.8 billion, mainly in the Clean Transportation sector
- The last certification was performed on February, 2022, which totalized US$ 1.7 billion, mainly in Clean Transportation Sector, but also with other amounts for renewable energy in vulnerable sectors
- Categories are full aligned with Chile's priorities, focused on clean transportation, clean energies and green buildings

Social Projects.

- Social sectors aligned to ICMA recommendations and linked to particular SDGs
- The social sectors included in the framework are:
  - Support for the elderly or people with special needs in vulnerable situation
  - Support for low-income families
  - Access to Affordable Housing
  - Support for the community through job creation
  - Access to education
  - Food security
  - Access to essential health services
  - Social programs designed to prevent and/or alleviate unemployment derived from socioeconomic crisis, including through the potential effect of financing SMEs and micro-finances

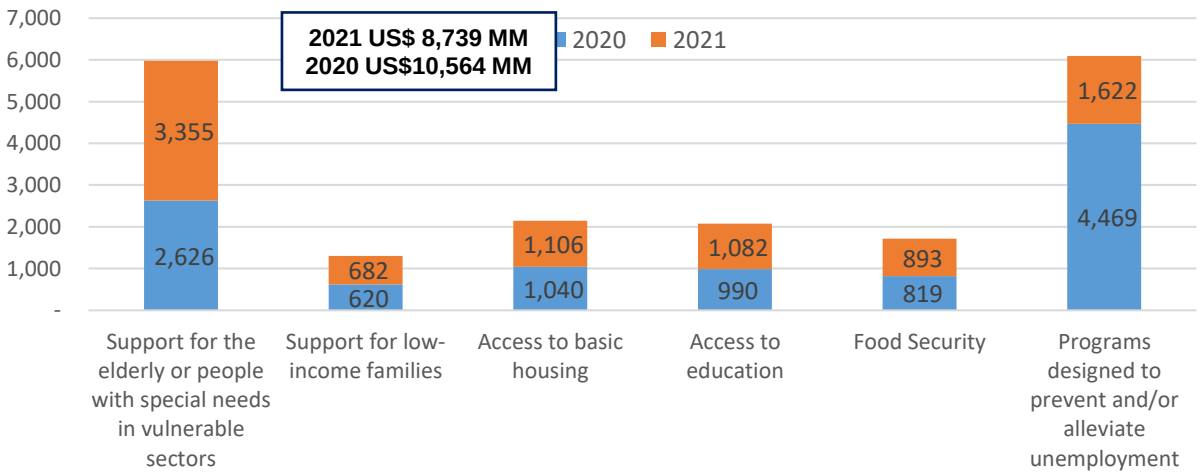
Total CBI Certified Portfolio

Million of US$



2021 Social Portfolio Expenditures

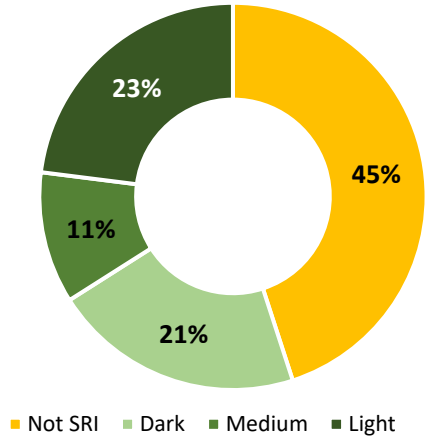
Million of US$



Sustainability-Linked Bonds

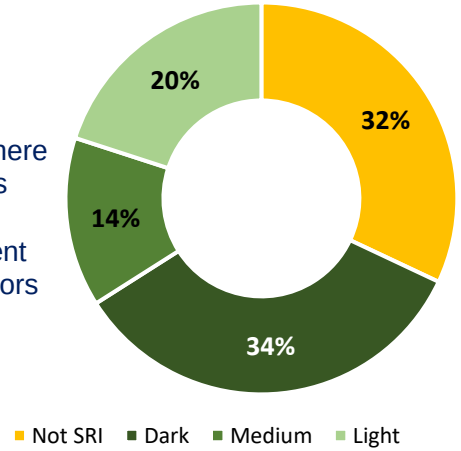
- On February, 2022 Chile published its SLB Framework, which sets the guidelines for the issuance of SLB.
- SLB Framework aligned with the SLB Principles of ICMA.
- **Through this Chile seeks to expand its ESG instruments, including instruments whose financial cost of depends on sustainability performance targets. In short: efforts are aligned to meet goals; if not, there will be a penalty.**
- In its SLB Framework, Chile established targets (SPTs) based on:
  - Achieve annual GHG emissions of 95 MtCO2e by 2030 (SPT1a)
  - Achieve a maximum GHG budget of 1,100 MtCO2e between 2020 and 2030 (SPT1b)
  - Achieve 60% electricity generation derived from non-conventional renewable sources by 2032 (SPT2)
- **On March, 2022 Chile issued its first SLB, US$2 billion dollar denominated with maturity on 2042 (20yrs).**
- Coupon Step-Up: 12.5 or 25 bps if one or two SPTs are not satisfied, respectively (8yrs fully accrued payment; equivalent to potential total penalty of 200 bps)
- IPTs: T+240bp area; Final Spread: T+200bp; New Issue Concession: 15bp; Final Orderbook: $5.75bn

SRI Investors Density by Number of Accounts

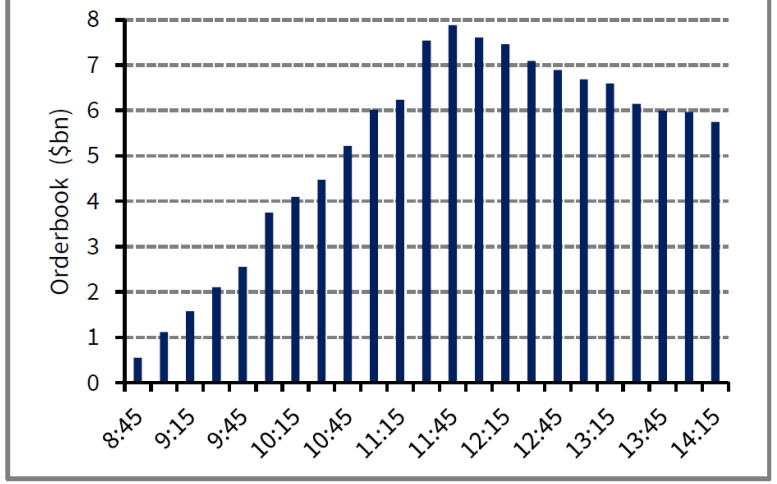


- **55%of accounts** where SRI investors
- **68% of** allocation went to SRI investors

SRI Investors Density of Allocation



Orderbook Over Time



Reporting, Verification & SPO

Reporting

- Chile will publish an annual “SLB Report,” including information on KPI evolution, progress against the SPTs, and other material information for investors regarding KPI progress
  - Information regarding KPI 1 will be produced biennially, in line with current NDC protocol and similar to other countries’ reporting cycles
  - Information regarding KPI 2 will be produced annually

Verification

- As part of the NDC process, KPI 1 performance will be reviewed and verified by the Technical Team of Experts (TTE) of the UN Framework Convention on Climate Change (UNFCCC)
- KPI 2 performance will be reviewed and approved by Chile’s National Electrical Coordinator, an independent technical body
- A report on the verification of KPI 1 and KPI 2 will be publicly available on the Public Debt Office’s website

Second Party Opinion (SPO) - Sustainalytics

- In its SPO, Sustainalytics establishes that “the Sustainability-Linked Bond Framework…is aligned with the five core components of the SLBP”
- Sustainalytics believes that the Framework “is aligned with Chile's climate change and renewable energy policies, commitments and laws”
  - Help to meet carbon neutrality goal
  - “Well-position” the country to issue green instruments

KPI	SPT	Strength of KPI	Ambitiousness of SPT
KPI 1: Absolute GHG Emissions (MtCO2e)	SPT 1a: Achieve annual GHG emissions of 95 MtCO2e by 2030 SPT 1b: A maximum GHG budget of 1,100 MtCO2e between 2020 and 2030	**Very Strong**	**Ambitious**
KPI 2: Share of Non-Conventional Renewable Energy Generation in the National Electric System	SPT 2a: Achieve 50% electricity generation derived from non-conventional renewable sources by 2028 SPT 2b: Achieve 60% electricity generation derived from non-conventional renewable sources by 2032	**Strong**	**Highly Ambitious**

Strong Commitment to Sustainable Practices

Chile's Strategy to Promote Sustainable Growth

Chile's ESG bonds

- **As of August 2022, the Ministry of Finance has issued USD 34.2 billion in labelled bonds**
  - Social: USD 17.8 billion
  - Green: USD 7.7 billion
  - Sustainable (USD): USD 5.5 billion
  - Sustainability-linked: USD 2 billion
  - Sustainable ($): USD 1.2 billion

Chile's ESG highlights

- ✓ **First country** out of LatAm to **issue green bonds**
- ✓ **First country** in the world to issue **sustainability-linked bonds**
- ✓ **Ability to link its funding needs with its ESG commitments**
- ✓ Foster investments in clean transportation, clean energies and green buildings
- ✓ Provide support to vulnerable sectors of the society

ESG-Investor Demand in Chile's Primary Market Issuances

% of total allocation

	2019		2020			2021			2022
	USD	*EUR*	*USD*	*EUR*	*CLP*	*USD*	*EUR*	*CLP*	*USD*
Green	35%	76%	36%	36%		~50%	~80%		
Social					NA	~50%	~80%	NA	
Sustainable						NA			55%
SLB[1]									68%

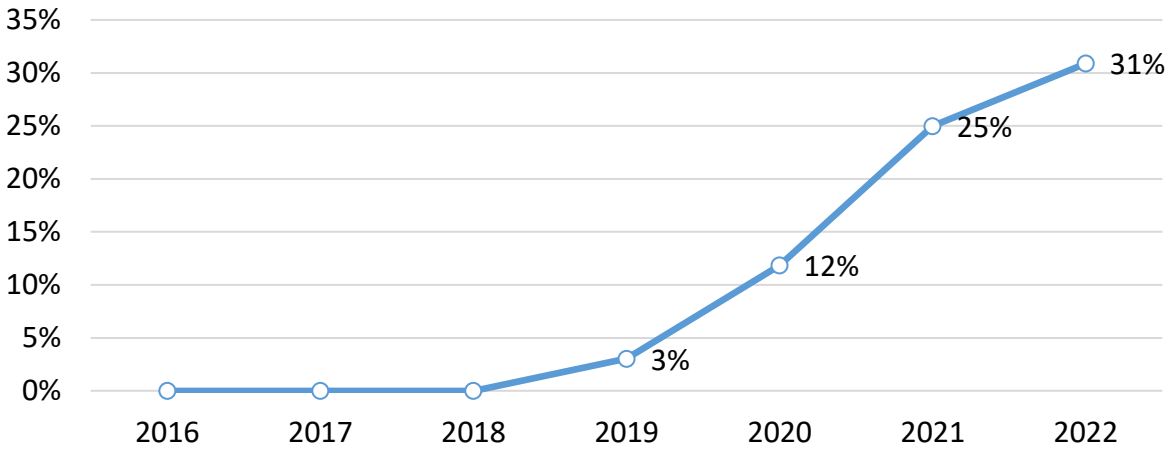
The incorporation of ESG stamps into Chile's bond issuances has fostered the diversification of the Republic's investor base

ESG Public Debt in Chile

- After October issuance of the CLP sustainable bond for US$1.2 billion, the Chilean government's ESG bond issuances has reached US$34.2 billion, becoming the third country with the highest proportion of ESG bond
- Chile ranks third behind Andorra and Hong Kong, when comparing ESG instrument in its public debt
- And when comparing the amount of ESG public debt, Chile also ranks third behind France and Germany, and ahead of others like the UK and Italy
- **We project that in the next four years the share of ESG bonds in the public debt will be close to 50%**

Evolution of ESG Debt Stock over Total Gross Debt of the Central Government

% of total debt



Comparison % ESG Public Debt and Stock ESG Public Debt

Rank	Country	% of Total Debt	Rank	Country	Stock ESG debt (US$ bn)
1	ANDORRA	83%	1	FRANCE	59
2	HONG KONG	80%	2	GERMANY	42
3	CHILE	31%	3	CHILE	34
4	SERBIA	12%	4	UK	25
5	PERU	10%	5	ITALY	22

Chile's Experience in the ESG Market

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November 14th, 2022

Comments, Questions & Answers

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Forthcoming Events

- Tue, 15 Nov (11:00-11:45) — Education In A Time Of Emergency: A Curriculum For The Anthropocene
- Wed, 16 Nov (15:00-15:45) — Why Employee Share Ownership Matters
- Thu, 17 Nov (10:00-10:45) — Luna-Tics & Un-Stable Coins – Forging Effective Regulatory Swords & Shields
- Tue, 22 Nov (09:00-09:45) — Launch Of Smart Centres Index 6

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