

AIIB ASIA CLIMATE BOND PORTFOLIO

ANNUAL IMPACT REPORT 2021

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ASIAN INFRASTRUCTURE
INVESTMENT BANK

This report is produced by Amundi Asset Management (Amundi). Amundi is the Portfolio Manager of AIIB's Asia Climate Bond Portfolio.

All figures reflecting extra-financial characteristics of the portfolio are based on the holdings as of December 31st, 2021. References to portfolio holdings should not be considered as recommendations to buy or sell any security, and investment in securities is subject to different risks.

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Abbreviations and Acronyms

CCIF: Climate Change Investment Framework

EE: Energy Efficiency

EM: Emerging Markets

ESG: Environmental, Social, and Governance

GHGs: Greenhouse Gases

INFRA: Infrastructure

LatAm: Latin America

MW: Megawatts

RE: Renewable Energy

tCO₂e: Tons of Carbon Dioxide equivalent

Introduction

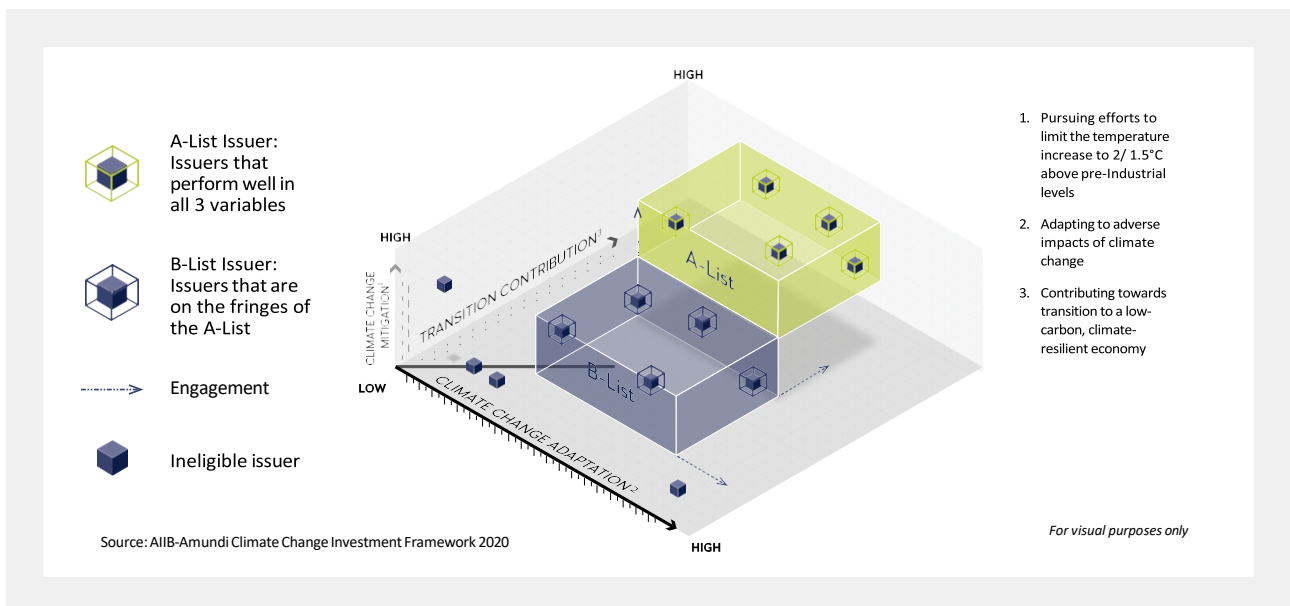
We believe that asset managers should play a critical role in supporting the green transition by developing appropriate climate-related investment solutions. Climate change and climate policies are set to remain a major global challenge over the next decades, affecting all economic actors. The physical climate risks will directly impact companies and states, climate mitigation policies will affect all economic actors, and green leaders would thrive with the widespread support for low-carbon transition. Emerging markets are most vulnerable to the impacts of climate change and lack the resources to devise and implement effective adaptation mechanisms. They also face the unprecedented challenge of balancing decarbonization objectives while pursuing a sustainable economic development.

Endorsed by the Climate Bonds Initiative (CBI), the AIIB-Amundi Climate Change Investment Framework's approach translates the key objectives of the Paris Agreement into fundamental metrics to assess an issuer's level of alignment with climate change mitigation, adaptation, and low-carbon transition objectives. This new benchmark investor tool provides, for the first time, a holistic issuer-level assessment of both climate change risks and opportunities. The Asia Climate Bond Portfolio, as an actively managed fixed income portfolio, will seek outperformance by identifying, analyzing and selecting tomorrow's Climate Champions using this Framework.

Launched in January 2021 with USD300 million in assets under management, the Portfolio aims to achieve four specific objectives:

- Increasing climate finance flows for sustainable infrastructure in Asian emerging markets through the debt capital markets by identifying and investing in Climate Champions.
- Selecting climate bond Issuers that rate high under the proprietary Climate Change Investment Framework (CCIF) to assess climate change investment risk and opportunity and fulfill the objectives of Paris Agreement.
- Catalyzing and mobilizing investment from one or more climate change-focused institutional investors, which will further validate the Climate Change Investment Framework.
- Providing market education and engaging with climate bond issuers to support their transformation to become Climate Champions.

CCIF aims to include as many players vital to the low-carbon economy as possible, reaching all types of issuers and sectors. The Framework translates each Paris Agreement objective, climate change mitigation, adaptation, and low-carbon transition, into a variable relevant to investment decision making. A key part of the engagement is also to focus on improvement – engaging with B-List issuers that are well positioned to transition towards full alignment with the Paris Agreement.



About the Portfolio

As of December 31st, 2021, almost half of the portfolio (46.1%) was comprised of bonds issued with the aim of financing infrastructure programs in sectors including power and renewable electricity, telecommunication services, transportation, gas utilities, and the road and rail sectors. A fourth of our allocation was dedicated to financing projects from other productive sectors, such as automobiles, chemicals, paper and forest products, and semiconductor equipment, totaling an exposure of 25.1%. The portfolio also had a significant exposure to green buildings development projects (18.9%), and a more limited exposure to financial institutions (7.3%).

In terms of geographical allocation, the portfolio majorly focused on Asia. Country allocations in Asia included India, China, Singapore, South Korea, Philippines, Indonesia, and Malaysia. The second and third regions in the allocation were the Middle East and Eastern Europe. In Latin America, the exposure was concentrated in Brazil (8.1%) but diversified at the issuer level. There was a marginal exposure to developed market issuers, mainly through the Netherlands and in France.¹

The 3 A-List issuers, which are defined as high-ranking climate bond issuers under the CCIIF, represent 8.1% of the portfolio and operate in the green building and infrastructure sectors. The 51 B-List issuers, which are defined to be on the fringes of transforming into A-List issuers, made up the remaining part of the bond allocation and operate in various sectors (green building, infrastructure, and other productive sectors).

The 3 A-List issuers were based in Asia (Singapore and China) and Europe (France). As for the B-List issuers, they were based mainly in Asia (China, India, Malaysia, Indonesia, and South Korea), in Eastern Europe, the Middle East or Latin America.

Figure 1.1: Portfolio Sector Allocation

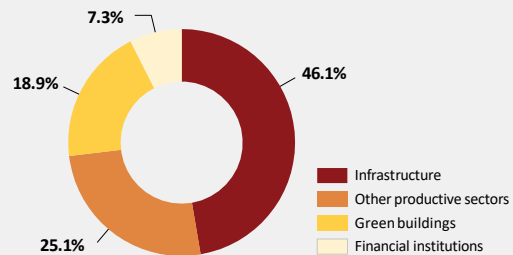


Figure 1.2: Portfolio Geographical allocation

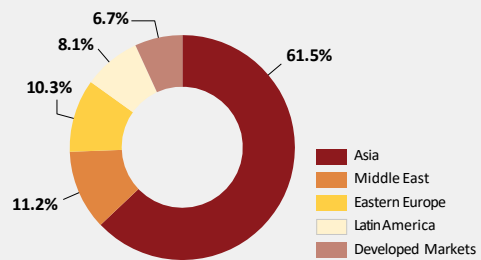
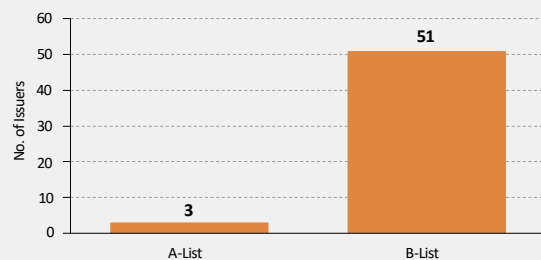


Figure 1.3: A-List and B-List Issuers within Portfolio



Source: Amundi. Data as of December 31st, 2021

1. France and Netherlands are AIIB's non regional members. The two underlying issuers are global players with European headquarters, operating in various countries located across the emerging markets.



Climate Impact Indicators

Paris Agreement Objectives

The Climate Change Investment Framework, jointly defined by AIIB and Amundi, relies on the selection of issuers based on their alignment with the three objectives of the Paris Agreement - Mitigation, Adaptation, and Contribution to the Transition.

A-List issuers (3 issuers, 8.1% of portfolio AUM) usually showed a higher score than the aggregate portfolio on each of the three indicators. While the adaptation score of the two types of issuers (A-List sample size limiting the comparison) was broadly similar, there was usually a significant gap at both the mitigation and transition levels, demonstrating the ability of A-List issuers to better mitigate climate change and transition risk.

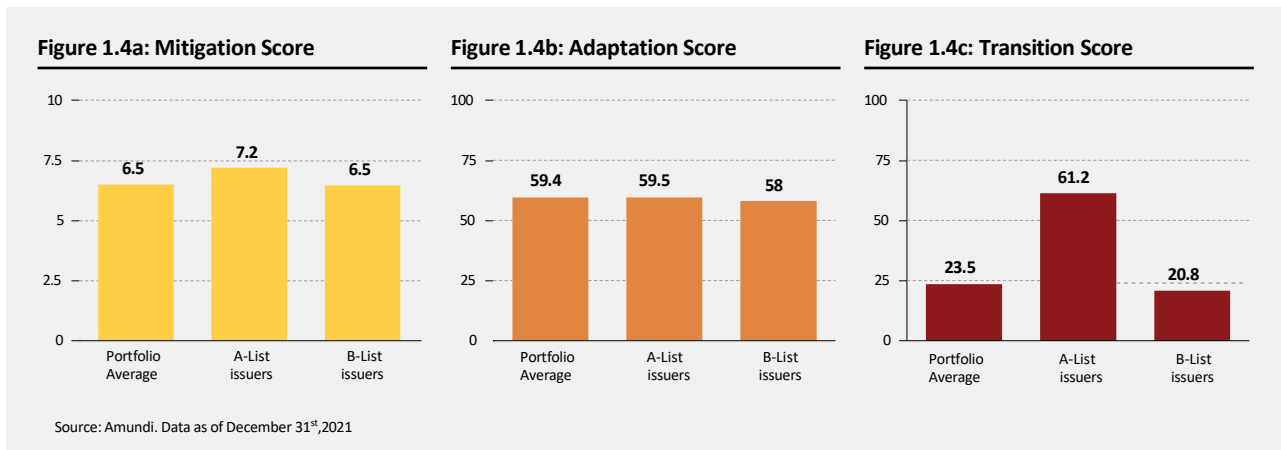


Figure 1.5: Sector- level Scores

Mitigation score	Portfolio	A-List issuers	B-List issuers
Other Productive sectors	6.82		6.82
Financial Institutions	6.57		6.57
Infrastructure	6.36	7.65	6.20
Green Buildings	6.32	6.27	6.33
Adaptation score			
Other Productive sectors	54.79		54.79
Financial Institutions	66.00		66.00
Infrastructure	59.00	54.00	59.67
Green Buildings	63.80	66.00	63.56
Transition score			
Other Productive sectors	39.80		39.80
Financial Institutions	1.57		1.57
Infrastructure	23.22	60.82	18.52
Green Buildings	12.76	61.87	6.62

Source: Amundi. Data as of December 31st, 2021

We observe a slight divergence across allocated sectors and types of issuers for mitigation and adaptation scores. A more significant divergence emerges when focusing on the transition score of A-List issuers involved in infrastructure and green building sectors.

For green buildings (GB), A-List issuers had a mitigation score of 6.3, an adaptation score of 66 and a transition score of 61.9. For B-List issuers, the mitigation score was slightly higher (6.33) while the adaptation score was marginally lower (63.6). As for the transition score, it was far lower (6.6).

For infrastructure (INFRA), A-List issuers had a mitigation score of 7.65, an adaptation score of 54 and a high transition score of 60.8. For B-List issuers, the adaptation score and the transition score were slightly higher (59.7 and 18.52), while the mitigation score (6.2) was lower than portfolio issuers in other allocated sectors.

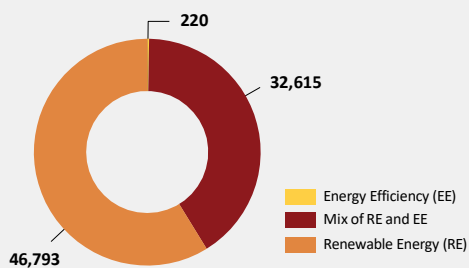
Greenhouse Gas Emissions Avoided

The avoided GHG emissions are reported through annual impact reports following the industry standard for green bond issuers.

As of the end of 2021, the portfolio recorded a total of 79,628 tons of CO₂ equivalent (tCO₂e) emissions avoided, based on data collected across eight issuers that disclosed related information on Scope 1, 2 and 3, representing 20.9% of the portfolio. This was higher than the 2021 set target of avoiding 18,000 gross tCO₂e emissions.

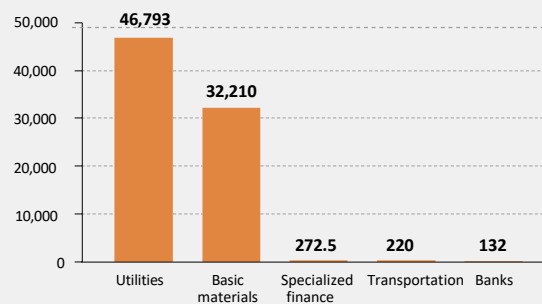
CO₂ equivalent emissions avoided by industry were tilted toward the utilities (46,793 tCO₂e) and basic materials (32,210 tCO₂e) sectors, with the remainder distributed across sectors such as specialized finance, banking and transportation. Renewable energy projects were the main contributors of emissions avoided, followed by projects mixing energy efficiency and renewable energy. Projects with focus only on energy efficiency have so far made a limited contribution to the emissions avoided.

Figure 1.6: tCO₂e Emissions Avoided by Project Type



Source: Amundi. Data as of December 31st, 2021

Figure 1.7: tCO₂e Emissions Avoided by Sector (in 1000s)



Source: Amundi. Data as of December 31st, 2021

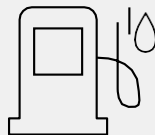
Equivalent to greenhouse gas emissions from:



702,638

miles driven by an average passenger vehicle

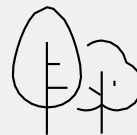
Equivalent to CO₂ emissions from:



31,852

gallons of gasoline consumed

Equivalent to carbon sequestered by:



4.681

tree seedlings grown for 10 years

Source: [United States Environmental Protection Agency](https://www.epa.gov/)²

Greenhouse Gas Emissions Avoided per 1 million USD Invested per Year

As of the end of 2021, the portfolio recorded a total of 283 tons of CO₂ equivalent emissions (tCO₂e) avoided per 1 million USD invested, mainly through projects financing other productive sectors (281 tCO₂e) such as Utilities and Basic Materials. Rebasings the green bonds that have already reported CO₂ emissions, the avoided emissions amount to 1,356 tCO₂e.



Amundi Asset Management, French "Société par Actions Simplifiée"- SAS with a registered capital of € 1 086 262 605 and regulated by the French Securities Regulator (Autorité des Marchés Financiers- AMF) under number GP 04000036 as a portfolio management company.

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