

Private equity
investment
engagement and
carbon footprinting:
A real-time case
study

Dr. Ulf Erlandsson 8 Dec 2020



State Bank of India and the potential Carmichael loan: General background

A current controversy has arisen around State Bank of India potentially giving a significant loan to Adani Enterprises and the Carmichael coal mine build.

How could private equity investors inadvertently be exposed to this loan and eventually the development of "the world most insane energy project"?

Articles on divestments:

"Blackrock, Storebrand Pressure Indian Bank Over Coal Mining Loan", Bloomberg Green, 4 Dec 2020

"Amundi threatens to divest State Bank of India's green bonds over coal project" Environmental Finance, 27 Nov 2020.

"An open letter to HSBC: You owe it to the green bond market to engage with SBI over Carmichael", Responsible Investor, 2 Dec 2020.

"Should SBI Green Bond Investors be Suspicious?", NordSIP, 20 Nov 2020.

Anthropocene Fixed Income Institute publication on the topic:

"How green bond markets are (not) supposed to work." AFII, 25Nov 2020. "SBI (potential) Carmichael loan: Key financing transaction parties" AFII, 23 Nov 2020.

"State Bank of India + Coal Mega-Mine? Not so fast please" AFII, 18 Nov 2020. "Global investors and the Carmichael mega-mine" AFII, 1 Sep 2020.







BlackRock, Storebrand Pressure Indian Bank Over Coal Mining Loan

The State Bank of India is in talks with Adani Enterprises to extend a loan that would bein fund the Carmichael coal mine in Australia





Categories: Environmental > Climate change | Debt > Green Bonds | Banking | Thought leadership

FREE An open letter to HSBC: You owe it to green bond investors to engage with the State Bank of India over Carmichael

HSBC helped SBI raise a green bond. It must not stay silent as it considers lending to a coal mega mine, argues Ulf Erlandsson





State Bank of India and the potential Carmichael loan: Background for private equity/debt investors

- State Bank of India (SBI) is deciding to provide a USD650mn loan to Adani Enterprises in order to fund the Carmichael mine project.
- SBI is government controlled so equity investors are not able to get direct results with the company through the voting route (Table I.).
- SBI has issued around USD3.5bn in hard-currency bonds, of which there is a USD650mn green bond outstanding. There is another 4.3bn of USD loans outstanding, for a total of USD8.3bn of funding (II.). USD funding is front-loaded: USD4.6bn matures between 2020-22. (IV.)
- The funding operation (the USD670mn loan) comes in the light of:
 - Adami Abbot Point, the key infrastructure operator for Carmichael, failed to refinance in February and has not come back to market.
 - Adani Ports issued a USD750mn bond end July, but this was scaled back from an original planned USD1.25bn due to low demand. We have been informed that investors have since divested due to ADSEZ high exposure to the Carmichael mine.
- We believe it is likely that Adani Group would fund Adani Enterprises/Carmichael on its own balance sheet or proxy entities if that was possible without tainting those funding vehicles.
- A number of large investors have publicly declared that they view SBI's potential involvement with Carmichael lending as negative (earlier references).
- The biggest (from publicly available sources) bond lender/investor in SBI is Athene Insurance, (III.)
- Question: Do direct and indirect USD lenders to SBI now have a fiduciary duty to engage, if they are against the Carmichael project and associated greenhouse gas emissions?
- Assuming that Athene is not engaging independently, how could asset owners engage in order to make them do so? Do asset owners have indirect exposure? Note that Athene has a dominant owner, Apollo Management, the world's third largest private equity firm (see next slide).

I. SBI equity holding. Market capitalization USD32bn.

Type of holder	%
Government	57.11
Close parties	16.06
Domestic parties	5.27
International asset managers	10.69
Smaller shareholders	10.87

II. SBI debt outstanding (USDmn). Loans and bonds.



III. SBI bond holders in USD. (USDmn)

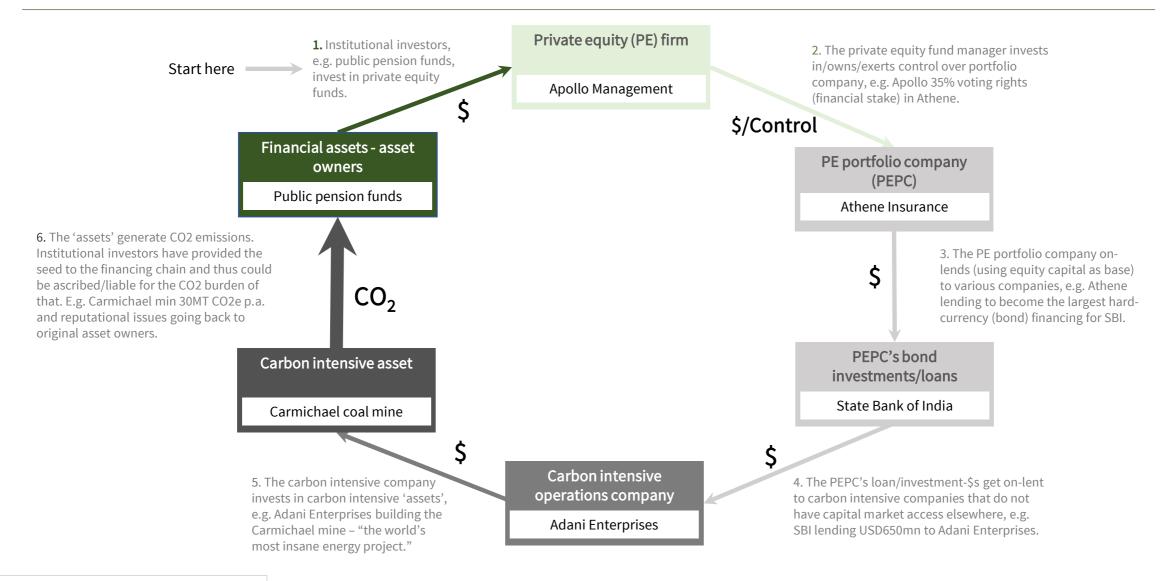
Total investments	Amount
Athene	50.0
Jupiter	31.3
TIAA	30.1
Amundi	27.2
Sun Life	17.7
Allianz	16.5
BlackRock	14.0
HSBC	13.3
Invesco	13.0
Standard Life	10.4
RGA	8.5
RBC	6.6
Intesa	5.0
Prudential	4.0
J safra	3.5
Prudential	3.5
Generali 3.5	3.5
NNIP	2.8
Swiss Life	2.0

IV. SBI USD bond/loan redemptions/maturities. (USDmn)





Engagement and carbon foot-printing in private equity investments: A real-time case study



Assorted references:

[&]quot;Apollo: how a private equity giant is navigating the crisis" FT The Big Read, 29 Apr 2020.

[&]quot;Apollo cuts voting stake in Athene after criticism" FT, 28 Oct 2019.

AF<u>II articles</u>

"So long. Farewell. Auf Wiedersehn. Adieu.", Nov 2020. Link

"How green bond markets are (not) supposed to work.", Nov 2020. Link

"SBI (potential) Carmichael loan: Key financing transaction parties", Nov 2020. Link

"State Bank of India + Coal Mega-Mine? Not so fast please", Nov 2020. <u>Link</u>

"Your AMs/PMs want to buy new Saudi Aramco bonds? Have them consider alternatives", Nov 2020. <u>Link</u>

"Final port of coal? The Brookfield Dalrymple IPO", Nov 2020.

"The bond market and the climate transition", joint with Stockholm Sustainable Finance Centre, Nov 2020. <u>Link</u>

"The ECB and Alberta's oil production tax holiday", Oct 2020. <u>Link</u>

"Reef Credit: An Indulgence", Oct 2020. Link

"Technical note: An ECB Rapid Decarbonization Plan", Oct 2020. Link

"Low carbon credit performance: A 2002Q3 Update", Oct 2020. Link

"Dalrymple of Queensland and the Mighty Greenwash", Sep 2020. Link

"Global investors and the Carmichael mega-mine", Sep 2020. Link

"Hard coal auction", Aug 2020. Link

"ESG in CDS indices: A practitioner approach", Aug 2020. Link

"Top coal, top ESG?", Aug 2020. Link

Academic/technical papers

"The Green Bond Risk Premium: A Twin-Bond ULFP Approach", SSRN working paper, Jul 2020. Link.

"Credit alpha and CO2 reduction: A portfolio manager approach", SSRN working paper, May 2017. <u>Link.</u>

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