CORPORATE AUSTRALIA MAKES HAY IN GLOBAL MARKETS

In November, Crédit Agricole CIB and *KangaNews* arranged a roundtable discussion for some of Australia's leading corporate issuers. At the back end of a phenomenal year for local and global credit issuance, participants discussed demand, funding and execution strategy, the growing prominence of the euro and Australian dollar markets, and the changing manner in which investors are addressing sustainability. Separately, *KangaNews* spoke to key buy-side accounts in Asia and Europe to hear their perspective on Australian credit.

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MARKETS AND MARKET SELECTION

Davison What has been driving the positive issuance conditions of 2024? Tighter monetary conditions clearly haven't reduced liquidity, while higher outright yield also does not seem to have curtailed investor willingness to extend tenor.

CROASDELL There have been significant inflows into European credit funds throughout 2024. Overall, euro corporate bond yields remain above dividend yields and the corporate world has demonstrated greater resilience to wider

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ALASTAIR GRAHAM UNITED ENERGY *AND* VICTORIA POWER NETWORKS

volatility. Overall, we continue to see strong liquidity in our asset class.

This has driven performance and also supported a strong primary market throughout the year. Syndicate bankers are the same as corporate treasurers in the sense that we think about mitigating risk and prefer to make the most of a receptive market. On this basis, 2024 was expected to be front-loaded into the first half of the year – but supply has continued all year.

This is despite some pretty significant geopolitical and economic news flow. Time after time, there have been fairly significant events yet we were printing new euro deals within a couple of days.

Davison One of these events was the US election, of course. The surprise here seems to be not that the market was open for business fairly quickly – it was always a possibility that the election process would be orderly, as has proved to be the case – but that issuers still had 2024 funding needs to bring to market in November after all the talk of front-loading. Is this new supply largely opportunistic?

■ **CROASDELL** There are two elements. Certain sectors and names had found the primary market challenging. A few of these are now taking an opportunistic look at a market that seems much more stable and constructive.

There is also an element of taking a bit of risk off the table for 2025 by executing some pre-funding. The reality is 2025 is a large redemption year in the euro market especially – a lot of the COVID-19 financing from 2020 is rolling off, and there is also a big capex pipeline and, maybe, M&A coming back when rates allow. These dynamics have definitely helped support supply since [northern hemishpere] summer and we have also been kept busier post US election than most had expected.

Davison Did these positive conditions give issuers more ability to take a measured approach to market – for instance settling on a target currency well in advance of execution, with reasonable confidence that the market would not move away?

■ **TRIGONA** We managed to execute our funding strategy to our original plan in 2024, which is unusual. The markets have been very resilient this year.

■ **GRAHAM** Our funding need in 2024 wasn't in the same quantum as NBN Co but it was a significant one in the context of our business – and our experience was pretty similar. Given it was a relatively large funding task for us, executive management wanted a good understanding of our indicative funding strategy early on, including when and where we planned to issue. By and large, we were able to execute very close to the original funding plan – within a week or two and perhaps A$50 million (US$33.4 million) up or down in volume per transaction.

■ **MCHUGH** Navigating the volume of issuance in the market has been more of a challenge. Thinking back to February-March, a lot of corporates were issuing more or less on top of each other, and in this context being nimble was more about slotting into a window that worked for the issuer and trying to avoid too much competition – particularly in euros.

Our plan going forward is to stay on top of our nondeal marketing so we have flexibility to move quickly. One of the really positive things about the euro market is that issuers can get in and out quickly – and, I hope, the same is increasingly true about the Australian dollar market.

■ **VAN DER GEEST** Europe in September has a lot of competing supply thanks to favourable conditions that many wanted to take advantage of. Deliberate, focused execution was key to getting ahead of pipeline. We completed an in-and-out strategy, launching and pricing on the same night. It was a busy night

"My feeling is that, as an issuer, we have to do deals to prove that markets work. The domestic market has matured. There is strength from domestic investors, and dynamics look strong and here to stay. I believe the Australian market is set up well."

ALICE VAN DER GEEST TELSTRA

INSIDE GLOBAL MARKETS IN 2024

The Crédit Agricole CIB-*KangaNews* roundtable featured many of Australia's most active global borrowers. Their perspectives on market conditions in 2024 span the globe, including all its main credit investor bases.

DAVISON It would be interesting to hear issuers' experiences of market conditions and their funding activity in 2024.

■ **MOMDJIAN** Our annual funding need totaled A$3.5 billion (US$2.3 billion). We printed A$2.5 billion across two deals in the first half to take advantage of favourable conditions while minimising refinancing and funding risk.

We issued an A$850 million 10-year domestic bond with 23 basis points tightening to IPTs [initial price thoughts] and a €1 billion (US$1.1 billion) eight- and 12-year bond with 40 basis points tightening to IPTs across both tranches.

We followed up these deals by printing a A$1 billion equivalent US private placement (USPP) 11-, 13-, 15- and 20-year bond in the second half, across a record Australian combination of nine tranches and five currencies.

All three deals individually underscored the strength of global credit markets in 2024 and the solid appetite for our credit across Australia, Asia, Europe and the US – such that we didn't have to compromise on tenor.

■ **MCHUGH** Melbourne Airport had about A$1.5 billion to do in 2024. We are quite conservative and the experience over the last two years has taught us to access markets when things are good – we prefer to de-risk our financing task and access markets earlier while balancing cost of carry. We did our larger euro transaction in the first half of the year for this reason.

We considered bringing our second deal forward but we seek to match our financing with our capex plans, we were quietly confident about conditions in the run-up to the US election and we have the benefit of having access to multiple markets. Conditions remained very strong in the weeks leading up to the US election, which is when we accessed the domestic market.

■ **WATERS** We had about A$2.5 billion to do over this 12-month period, and one of the main drivers was an October maturity of A$1.2 billion. This was one of the first transactions Ausgrid did when it was privatised so replacing it was the source of a little concern when we started looking at it 12 months out.

It's fair to say the banks and syndicate desks weren't as confident about how the market would pan out at that juncture, especially with the US election in the second half.

On this basis, we started pre-funding the 2024 maturities in 2023, split between the bank market and the domestic bond market. As conditions improved over the year, we did another Australian dollar transaction in Q2. When we went to market, conditions in the lead up to the transaction were much stronger than we had anticipated. This enabled us to bring a bit of funding forward by upsizing the deal.

Since then, we have been surprised at the strength of the Australian market. We have subsequently had a lot of reverse enquiry interest and we have tapped the newest bond line three times in response to this interest.

■ **SHEDDEN** I am new to the job but I can discuss what Endeavour Energy has done in the past year. The business accessed the domestic market in 2023 for what was, at the time, its largest domestic deal.

After exploring markets in 2024, Endeavour started in USPP format, which at the time provided the most competitive cost of funds back to Australian dollars and best matched our funding objectives on volume, maturity and pricing.

With strong investor appetite, Endeavour was the first Australian issuer to use the multicurrency tranche offering, which enabled us to take advantage of favourable swap pricing conditions and target a new and diverse global investor base. This resulted in upsizing from the initial US$400 million to close at about US$715 million equivalent.

This started the year well, with more volume and longer tenor than originally planned.

The follow-up transaction in H2 was in the Asian term loan (ATL) market, refinancing Endeavour's first ATL that was issued in 2017 and due to mature in 2025. The business wanted to retain this investor base, and pricing was looking extremely favourable.

The new deal launched at A$500 million but, again, the depth of demand was so strong that it upsized to close to A$1 billion, across seven and 10 years. We understand the pricing was the tightest of any ATL in 2024 on a tenor-adjusted basis, while achieving 30 per cent of volume taken up by investors that are new to Endeavour.

■ **GRAHAM** I am also relatively new to the role – I started in February. VPN [Victoria Power Networks] and UE [United Energy] had about A$2 billion to raise combined, with a weighting toward VPN as our larger borrower.

A key focus of our 2024 funding strategy was to re-engage our core markets with new supply and refresh our secondary curve domestically as it had become relatively stale. VPN hadn't issued a public benchmark domestic deal for three years and it had been around five years since VPN and UE last issued in the USPP market.

As for bringing our issuance plans forward, this happened at the margin but not significantly. The domestic market was pretty strong and did a pretty good transaction for VPN straight out of the gate in Q1 2024. In May, we priced USPP transactions concurrently for VPN and UE. The UE one was brought with nine other transactions in market. For us, being known to the market, we could execute without material transaction marketing.

Davison In circumstances like those of 2024 – where all markets are working well – do the characteristics of individual markets have a greater impact on where borrowers choose to issue? We often hear that it is quite costly and time consuming to do deals in the US, for instance.

■ **VAN DER GEEST** Definitely. Unless an issuer has a GMTN programme in place, the cost of issuing in the US is quite prohibitive. It is also quite restrictive, with less flexibility forward a little given it was refinancing a large maturity later in the year. We thought there was a strong rationale for pricing both deals together.

Since we priced the USPP transactions, in May, the swapped-back pricing for Australian dollar funders bringing back US dollars has moved significantly wider – around 15-20 basis points – which further justifies the decision to price the two trades together.

■ **VAN DER GEEST** Telstra had bank debt and bond refinancing to be completed in the year: we were working on a requirement of A$3 billion for 2024. A key for us was to highlight that the domestic market is our home market, with desired preference for volume.

We completed a dual-tranche transaction, in seven and 10 years but weighted to the long end. We targeted marketing through Asia, updating on the business and providing clarity on our funding objectives. Asian demand was strong and provided momentum – it was a stronghold in that transaction.

The trend in the second half was acceleration ahead of the election cycle in the US, to close out our funding needs. We took a slightly different strategy, issuing a longer-dated – 12-year – deal in Europe and then a shorter-dated, smaller Australian transaction.

■ **TRIGONA** We raised A$5.5 billion in 2024 and it was a strong environment for accessing funds. We issued a six- and 10-year euro transaction in March, for which the demand was incredible. There was a book of A$10 billion equivalent at peak.

The bonds were well supported by European investors given the green-bond format but there was demand from across the globe – even from central banks and sovereign wealth funds.

Following our financial year update, we went back to the Australian dollar market to raise A$1.75 billion in seven years and a three-year floating-rate note. We contemplated issuing a 10-year transaction and we were certainly conscious of the success of issuers like Telstra at this tenor. But we decided on the seven-year because we had strong investor interest at this tenor and we thought it would drop out at 10 years.

We completed our issuance for the year in late September with another transaction in the US market – again, trying to get in before the US election. We raised US$1 billion in two tranches, and we were very particular about capping the transaction at US$500 million in each. The strategy was to tighten our spreads and we told investors the deals would be capped.

Central bank participation, again, was very high: 25 per cent of the five-year orders. The other notable outcome of the US transaction is that we received some very significant orders from key asset managers. The investor base understands our story and large tickets are now coming into our transactions.

on tenor and narrow issuance windows. Its major benefit is execution certainty and volume. For Telstra, the US market has significant prominence from US-based telcos so differentiation may be a challenge. Meanwhile, the cross-currency swap has been expensive relative to euros for a while.

It becomes a question of how many core markets an issuer needs for its size of debt book. We are able to get funding diversity in various fashions and, overall, this means we enter the US market less frequently.

■ **MOMDJIAN** We are a little different. Given the size of our balance sheet and funding objectives that cover diversification of funding sources and maintaining capacity for future issuance, we proactively prepare documentation for the US 144A market as standard procedure in providing ultimate issuance flexibility – despite the associated cost and time commitment.

While prevailing swap dynamics often steer us toward a particular market from a relative pricing perspective, our decisions to access individual markets are typically not pre-determined. We were spoiled for choice in 2024, with all markets performing well across standard and nonstandard tenors. The US 144A market is a core funding market for us, alongside euros, US private placements and the domestic market. At any point in time one market may be more attractive than another from a cost and risk-management perspective.

Printing three deals across seven tenors and six currencies over 2024 allowed us to effectively survey the swap pricing landscape. I was amazed at the swap credit and execution charges we received from most of our banks.

■ **TRIGONA** Our US dollar deal was similar – I was pleased with the execution of the swap. The 144A market forms part of our strategy due to our funding requirements.

Our funding task won't be as high in 2025 and our expectation is that we will consider all the markets we access but potentially for smaller volume in each. This should also support our goal of tightening spreads, while maintaining our presence in all markets.

■ **CROASDELL** Managing frequency of interaction is certainly a consideration. We are constantly asked by euro investors when certain issuers will be returning to our market. Australian names have been in demand in secondary and more frequent issuance would be very well received by the investor community.

■ **DELA CRUZ** We recently roadshowed Export Finance Australia and the overwhelming feedback was that investors preferred frequency over size. They would rather see an issuer access the market regularly and have liquid bonds than much larger size less frequently.

■ **MOMDJIAN** We typically issue A$1-2 billion or more a year so it makes sense for us to be active across multiple capital markets. The domestic market is now a core funding option with the emergence of strong demand at longer tenor.

Theoretically, issuing benchmark-sized deals across multiple markets in any given year is an effective way to address funding needs while generating strong price tension for those with larger balance sheets. This may be slightly different in practice, with upsized deals often doubling down on successful outcomes achieved and particular markets swapping back to comparatively stronger levels versus others at times. This can limit diversification opportunities.

■ **GRAHAM** There used to be a rule of thumb that when an issuer got to a certain size it needed the 144A market. But with

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ED WATERS AUSGRID

the Australian dollar and euro markets being strong, I'm not sure if the same thing still applies – particularly if there isn't a need for natural US dollar funding. There is certainly a view currently among many borrowers that it isn't necessary to pay up 20-30 basis points or more to access 144A.

■ **MOMDJIAN** I agree with this. We have experienced many a situation where the US 144A market was pricing 30-plus basis points above our other core funding options, after swap costs, noting we typically target the delivery of a balanced mix of cost and risk-management outcomes when it comes to market selection.

Notwithstanding the size of our balance sheet – it is close to A$13 billion equivalent – and while diversification of funding sources is important to us, we are not forced to spread ourselves too thinly across multiple markets.

Shedden It has obviously been a stellar year for Australian dollar market conditions. But in the past the market has been patchy and unpredictable. What I'm hearing is that it could be a core market and it is clearly delivering for issuers – but how confident are corporates that liquidity and competitive pricing are here to stay? What informs this view?

■ **VAN DER GEEST** I certainly agree that a lot of market participants have had this view historically. My feeling is that, as an issuer, we have to do deals to prove that markets work. The domestic market has matured. There is strength from domestic investors, and dynamics look strong and here to stay. I believe the Australian market is set up well.

Shedden How much of the growth in Asian demand has been a pivot of money that would have gone into China? If there was further development on that front, might it swing back?

■ **DELA CRUZ** In 2021, APAC G3 issuance added up to roughly US$500 billion. This was a record year that included a lot of high-yield supply. The last three years have been more like US$250-290 billion.

Money has flowed into Australia as investors are comfortable with the risk: it is a triple-A country with investment-grade, well-run and transparent businesses and industries. Yields are still very attractive since the Reserve Bank of Australia has delayed rate cuts to next year.

■ **WATERS** One thing I would note is that the Asian response to Australian credits is not homogenous. A-band credits price very well and the airports also price well inside global levels, because their credit stories are fantastic. But there is actually much less interest in triple-B balance sheets.

It means a different mix of investors. Asia has stayed at 20-25 per cent of our books over the years, regardless of deal size or market conditions. There have also been distinct price breaks for larger volumes done by triple-B names in Australia – of A$500 million through to A$1 billion.

RELIABLE EXECUTION

Davison Can issuers count on the same reliability of execution even in more challenging conditions without the US 144A option?

■ **CROASDELL** The US market was the one that was always open – there might be a price for accessing it, but it was always there. The euro market can now lay the same claim, giving corporate treasurers even greater comfort that this is the right spot for them, come rain or shine.

Davison How far is the Australian dollar market from being able to make a similar claim?

■ **WATERS** While the domestic market has been very good we still need to acknowledge the fundamental pieces that are missing, or at least lagging. One of the reasons why the US 144A market is always open is that there is a massive amount of secondary trading. In Australia, there are perhaps 10-15 core intermediary banks and only three of them have a reliable secondary market capability that investors rate.

When conditions are good and investors are not adjusting portfolios – and therefore do not require a lot of secondary liquidity – this issue falls into the shadows somewhat. But it is still one of the things that makes it difficult to be confident that the market will be consistent over time.

■ **TRIGONA** Investors have provided us with feedback that we should be careful with the selection of the joint lead manager group in our domestic deals, to ensure the banks selected can make secondary prices in our bonds. We now ask all our banks to provide us with their turnover statistics in our bonds.

■ **VAN DER GEEST** We all have a role to play in talking to every bank about its relative performance in secondaries, to ensure appropriate investment in their teams.

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FIONA TRIGONA NBN CO

■ **WATERS** This is a really good point – it's very important.
■ **TRIGONA** The banks' sales forces are selling our stories to investors – we must ensure they know our story.
■ **CROASDELL** Transparency helps drive confidence in the market. Europe now has trade reporting obligations – APA data – so we can actually see what is traded in the secondary market. This is similar to what the US has with TRACE. This enables us to assess the liquidity in any name or bond and also means we see our own market share in any sector, name and bond.
■ **TRIGONA** This also helps us choose which banks we put on offshore primary deals. We ask banks if they are trading our bonds in secondary – if they aren't, how can they sell us in primary?

ESG FOCUS

Davison Has the nature or degree of focus on environmental, social and governance (ESG) factors changed of late – on the issuer or investor side?

■ **TRIGONA** It may be different for other issuers, but NBN has A$7 billion equivalent outstanding in green-bond format and it has been very important for us, especially in the euro market. The European investor base did not know us when we first went there and we knew we had to offer it something that differentiated us from other issuers – including other Australians. This was green bonds.

We did a lot of work with some significant European investors around our most recent deal. They hadn't participated in our transactions previously, but they loved what we do on ESG and understood our assets, so they put in significant orders – in one case of €150 million (US$163.1 million) or more. This was an investor that we knew was putting the bonds into its flagship green fund. It really helped the deal – including our ability to drive spreads tighter.

The last time we went to the US market, by contrast, we had one question about green bonds – and this was from a European-based investor. We are not considering issuing green bonds in the US market.

In Australia, we did a dual-tranche deal in 2024 that included a three-year vanilla note and a seven-year green bond. There was good interest from green funds. It is not critical to issue green bonds in the Australian market but they do well when we offer them.

■ **MOMDJIAN** We previously printed a sustainability-linked loan and a sustainability-linked bond, where we delivered improvements across the entire ESG spectrum. While there was previously a more balanced focus on all three components of ESG, we have definitely experienced an increasing focus on environmental factors on the issuer and investor side, specifically in relation to carbon emission reductions – whether or not they are under our operational control.
■ **TRIGONA** I have heard from my peers that more boards are pushing back on target setting. While I believe green bonds are here to stay I think sustainability-linked instruments have their challenges.
■ **GRAHAM** We are devoting a lot of capital to the transition to renewables in our networks as we move to a new regulatory reset period, so we would be pretty comfortable attaching our

GLOBAL INVESTOR FOCUS: DWS

Bernhard Birkhäuser, portfolio manager at DWS in Frankfurt, shares a European perspective on the value proposition offered by Australian corporate credit, including its performance and liquidity.

DAVISON Can you position DWS as an investment firm and put its interest in Australian-origin credit in context?

■ **BIRKHÄUSER** DWS is a global asset management firm with German roots. We have colleagues based in Asia Pacific, Europe and the Americas. Notwithstanding this, the core of our business remains rooted in Germany and neighbouring European countries.

Here in Frankfurt, our primary focus is on euro markets. While we have teams in the US covering US dollar markets and others here working on global corporates, my team – comprising about 13 people – specialises in euro investment-grade corporate bonds.

Within this specialisation, Australian issuers have always been significant for us. Thanks to our global setup, we are able to leverage local expertise to bring unique investment ideas to clients beyond the core European region. For example, I cover some Australian infrastructure names, while a colleague in Mumbai conducts in-depth research in the space, given the timezone proximity.

I often maintain an overweight position to Australian issuers. We view this segment as somewhat under-covered by our peers, which means there can be opportunities for additional yield. It is not that there is always a pick-up, but we certainly focus on identifying value in this area.

On the fund management side, I work with institutional clients and retail strategies, many of which emphasise sustainability. These include the ESG Euro Corporate Bond Fund, the Low Carbon Corporate Bond Fund and my personal favourite – the Green Bond Fund.

DAVISON Can you share some areas where you have tended to find outright or relative value in Australian issuance?

■ **BIRKHÄUSER** We realised that Australian airports, for instance, held even greater importance than many of their counterparts in continental Europe due to a lack of alternatives. This systemic importance created strong investment opportunities.

With airports, we have often observed spreads offering an additional 40-60 basis points compared with assets with similar credit quality in other markets. While this spread has tightened over the past 4-5 quarters – particularly toward the end of 2023 and early 2024 – it has historically presented attractive opportunities. Many of these spread differences seemed to lack fundamental justification, making them all the more compelling.

Similarly, toll roads like Transurban have been a consistent part of our portfolio. These proved to be excellent investments during and after COVID-19. While there was a temporary dip in traffic during the pandemic, we were confident in the critical role these assets played in the regional economy and their ability to recover quickly. As a result, we invested significant time and effort into these infrastructure names.

DAVISON Does less coverage of Australian names mean an expectation of less liquidity in their euro bonds?

■ **BIRKHÄUSER** Liquidity is there although it can vary. For example, with Transurban, we were early investors and initially noticed somewhat lower liquidity compared with French names. However, this presented opportunities to enter trades and, over time, liquidity improved as demand increased and the market recognised the quality of the assets.

Also, liquidity is a two-sided issue. Australian infrastructure issuers' peers are often French or Italian names, which are heavily held by institutions like the ECB [European Central

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BERNHARD BIRKHÄUSER DWS

name to the green-bond format given the linkage with use of proceeds and our asset base.

Our shareholders have a strong focus on ESG and are typically supportive of these initiatives, too. With this context, we could realistically consider green bonds in a market where this format makes sense in the future – one of which is euros.

■ **WATERS** My sense is that the market has refocused – there is more emphasis on governance now, whereas for a long time it was just about environmental and social. This has the effect of slowing everything down. The reality is ASRS [Australian sustainability reporting standards] are coming and we all want to know how these will work and how we are positioned. We don't want to trip up on governance, and this is giving us all a reason to slow down and be more cautious.

■ **MCHUGH** ESG is definitely a focus in Europe and I have been in lots of investor meetings where an ESG analyst has come along. But I agree that they are more focused on strategy than specific data points or detailed questions.

There seems to be an acknowledgement that as long as issuers keep pushing forward in ESG strategy it is okay not to have green issuance. Specifically, though the airport is a leader in how it is managing its scope-one and scope-two emissions, scope-three is a significant challenge for the aviation industry. This makes it challenging to issue in labelled format.

Bank] or French investors and thus have limited free float. By contrast, Australian issuers often offer relatively larger free floats and we have never encountered significant difficulties trading these names – even with private placement bonds.

When I look at the screen, there are fewer quotes and slightly less visible liquidity for Australian issuers. However, in practice, I have never had issues executing trades – and it hasn't been more expensive.

Davison A growing number of Australian issuers have built euro curves. Does having multiple bonds on issue matter?

■ **BIRKHÄUSER** Yes, but it is not so much about liquidity. For us – and I assume others with similar models – we assign a responsible analyst to every name we invest in. If there is just a single bond, and it doesn't stand out as an attractive diversifier, we are quite likely to pass on taking it up.

For larger players like us, having a broader curve of outstanding bonds is essential. It clearly becomes a significant part of the investable universe. Once we commit to covering it, it's easier to stay involved and maintain the trade.

DAVISON All else being equal, do you have more demand for green bonds than you would have for vanilla issuance from the same names?

■ **BIRKHÄUSER** We follow a two-step approach: assessing whether an investment qualifies as a green bond and then evaluating its broader sustainability credentials. We are particularly eager for green bonds, and not only within the dedicated green-bond strategy.

Also, under European regulations there is a defined requirement for a sustainable revenue share – a minimum threshold that funds must meet. We refer to this as a "minimum floor" of sustainable revenue share and, while the specific percentage depends on the fund, it's always a defined number. Green bonds, provided they meet certain criteria, contribute 100 per cent toward this sustainable revenue share.

As a result, demand for green bonds isn't limited to my dedicated strategy – almost all my colleagues have a need for them in their portfolios as well. That's why, whenever I meet Australian corporates, I always ask if they have the capacity to issue green bonds.

In Europe, even airports issue green bonds, for example, when they renovate buildings or undertake sustainability-related projects. I always try to advocate for such opportunities. While we have seen some green-bond issuance from banks, there's very little overall.

■ **SHEDDEN** The recent ATL Endeavour did was sustainability-linked, and it had some innovative aspects in the sense that the business was in the process of resetting targets. The loan incorporated the existing targets, which are a couple of years old and which Endeavour is meeting – so there was an immediate margin reduction – but it also has a period in which to agree new targets.

And it goes beyond this, too. The loan has a 10-year tranche, which means targets agreed in the next 12 months also aren't going to be enough for the full life of the facility. So there is also a mechanism for agreeing further future targets. This is something we will explore across other transactions.

Davison Going back to the investor aspect, what is the advice for issuers when it comes to satisfying buy-side expectations on ESG?

■ **DELA CRUZ** There is definitely a move toward investors considering the overall ESG DNA of borrowers as opposed to overly focusing on specific targets or disclosures. They want to know that a borrower is doing the right thing more holistically.

■ **WATERS** To be clear, ESG strategies are certainly very important.

■ **CROASDELL** We have data to back this up. We studied all our primary orders in Europe over the last few years, and one in six of the asset managers and insurers identify as dark green. One might say 16 per cent is still a relatively small number but those investors make up more than 50 per cent of the orders by notional volume. We also have many cornerstone accounts with clear ESG alignment.

Our data suggest orders from insurance and pension funds with this ESG alignment are one-and-a-half times larger for 'dark green' labelled instruments.

The most important thing remains, as Daniel mentioned, a holistic view of the issuer. Investors want to know what ESG strategies issuers have and whether they have targets in place. This isn't just for the most tightly managed Article 9 funds – it determines whether an investor can fit an issuer into all the various pockets it manages.

On the other hand, market conditions in 2024 have had an impact. Markets have been so conducive that it's hard to argue there has been much of a greenium available in 2024 – everything has gone well, effectively. If the market starts to become more fragmented in future, we believe ESG will again become a stronger differentiator on cost for our issuers.

■ **VAN DER GEEST** I think it's very positive that investors expect issuers to be able to answer questions on ESG strategy. It keeps everyone engaged and promotes the overall transition.

INVESTOR ENGAGEMENT

Davison We have discussed the increasing importance of Asian investors in 2024, across markets but perhaps most significantly in Australian dollars. Are issuers doing anything in particular that is new to cultivate this investor base?

■ **MCHUGH** We did a nondeal roadshow in Asia in July because we had had plans to access the Australian market. I believe this paid good dividends and was time well spent. We did one day in Singapore and one in Hong Kong.

Across markets in 2024 – and Asia is no different – the take-up of physical meetings was really strong. We had more one-on-one meetings on the nondeal roadshow than we did when we were marketing the deal.

Our deal was strongly supported by Asia – at around 40 per cent of the book – and the quality of the book impressed me, including strong representation from long-hold Japanese life

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>
> **SHONA SHEDDEN** ENDEAVOUR ENERGY

insurance investors. We are happy with this sort of distribution profile as long as the quality is there.

Momentum is building in our programme as our global presence increases. For instance, since we became more active in euros we see the same investors supporting our domestic deals.

■ **TRIGONA** When we marketed our US 144A deal in 2024, we first went to Singapore and Hong Kong. We were selling a US deal, but we were also selling a potential Australian dollar deal. Our meetings were with accounts that could invest in both. We hadn't been to Asia for face-to-face meetings before – or at least not outside Japan. It was a good opportunity to combine, effectively, a deal and a nondeal roadshow.

■ **MOMDJIAN** We also travelled to Singapore and Hong Kong as part of our domestic deal roadshow, particularly as we hadn't printed a domestic deal since 2011 and hadn't passed through Asia since our last US 144A deal, in 2016.

Approximately 45 per cent of the peak orderbook for our recent domestic deal came from Asia, with strong price leadership also demonstrated. This highlights the importance of the region.

■ **VAN DER GEEST** The marketing we did in 2024 was focused on Asia and on building relationships across the regional investor base. We were very well supported in both our Australian dollar deals – about 40 per cent of demand came from Asia across the two.

Engagement remains very important but how regular this should be depends on the frequency of the issuer. To be market ready, my sense is that perhaps a nondeal update every 18 months is appropriate.

Format can be tailored: we have found the roundtable format works quite well when we are in Singapore as the investors are quite engaged and willing to talk. Japan is better suited to one-on-one engagement.

■ **GRAHAM** Asia is a really important investor base for us – it is an important bid in any public Australian dollar deal. It is also worth noting that about 20 per cent of VPN's debt book is issued in private placement format and the vast majority of this is sourced out of Asia.

Our major shareholder is Hong Kong-based and is really well supported there, and we have quite a few Hong Kong private placements in our debt book due to this connection. We are committed to meeting Asian investors – in fact, we are doing nondeal work in the region in mid-November.

Davison Is Asia becoming a broader investor base geographically? At times in the past there has been demand out of Korea and from Taiwanese life companies as well as the main centres we have discussed.

■ **MOMDJIAN** Reverse enquiry demand presented to us from complementary Asian jurisdictions, including Korea and Taiwan, is less prevalent than it was perhaps five years ago.

■ **CROASDELL** Korean investors were indeed more active in US dollars and euros a number of years ago. But I sense the available liquidity and indeed the hedging costs back to won have made them more marginal players in recent years.

■ **DELA CRUZ** Taiwanese insurance investors are still licking their wounds from the sudden rise in interest rates. My sense is they are still on the sidelines. However, we have seen the resurgence of the US dollar Formosa floating-rate note market, which is mainly driven by Taiwanese banks.

■ **CROASDELL** From my perspective, the net has actually shrunk in the sense of which geographies the key Asian corporate buyers come from. But the places that are active have become more granular, with more plentiful investor numbers in each of the centres. Japan is a great example. It was historically dominated by a handful of big accounts but there is now a

> "The US market was the one that was always open – there might be a price for accessing it, but it was always there. The euro market can now lay the same claim, giving corporate treasurers even greater comfort that this is the right spot for them, come rain or shine."
>
> **TOBY CROASDELL** CRÉDIT AGRICOLE CIB

"While there was previously a more balanced focus on all three components of ESG, we have definitely experienced an increasing focus on environmental factors on the issuer and investor side, specifically in relation to carbon emission reductions – whether or not they are under our operational control."

MICHAEL MOMDJIAN SYDNEY AIRPORT

much broader cohort of investors in Japan that will look at offshore credit assets.

■ **WATERS** In Australia, we tend to talk about 'Asia' as if it is a homogenous market. But it is actually a very large place made up of very different investor groups. As we all focus more globally, I think Asia will become even more important – and not just as a source of Australian dollars. Our interest will also be on a country-by-country basis, because they have very different specific ways to support deals.

EXECUTION PRACTICE

Davison A development in the first half of 2024 was the Australian dollar corporate market appearing to adopt a practice that is well established in European deals, in other words transactions opening for indications of interest (IOI) with a pricing concession then, when possible, tightening quite significantly during marketing. But this became less prevalent later in the year. Is there a deliberate attempt to adopt the euro convention, and if so do issuers regard it as a positive?

■ **WATERS** There is clear precedence around the world for markets to operate in this way – to start the transaction process with wide pricing. It's important to remember what the purpose is: it is an efficient way to find a clearing price.

We have followed the European convention of starting wide with a desire to generate momentum in the book. The challenge here is that there seems to be a reluctance on the banks' part to go back and revisit the price more than once, and sometimes not by more than 10 basis points. This takes away the efficiency of price discovery aspect – which ought to be the purpose of doing it.

This pushes all our efforts back to the pre-deal or IOI process – trying to get the right number into the market at this stage. It's quite difficult to manage.

To answer the question, I think it would be a positive development if we adopted the whole process in Australia. We would be able to go to our boards and, if necessary, say we tested tighter pricing but too many investors started to fall away so we now know what the clearing price is.

■ **MCHUGH** We have done quite a few euro deals so we are used to the process there, and it is all very transparent. The conversation we had earlier on secondary pricing is relevant here: there is high confidence about where pricing is going to end up because we have good visibility of secondaries.

It isn't the same in Australia. There is less secondary activity and the main thing we achieved from the IOI process is a sense of what the Asian bid is going to be – there is limited visibility of domestic demand.

On price revision, we were able to revise three times in our domestic deal given the strong demand. It helps to have a cap on volume. It is less transparent than the euro market for issuers – investors in Europe are more forthcoming with pricing feedback.

■ **TRIGONA** Execution in the domestic market is still reasonably conservative. The investor base, however, has grown – which improves execution and increases the capacity to tighten spreads.

Davison Did the euro market take time to reach the level of transparency in the execution process that is being discussed here?

■ **CROASDELL** It has been like this really ever since the ECB [European Central Bank] intervention, which is quite a long time ago now. We adopted the practice of having more elevated IPTs [initial price thoughts] and it has remained the norm.

"Momentum is building in our programme as our global presence increases. For instance, since we became more active in euros we see the same investors supporting our domestic deals."

TARA MCHUGH MELBOURNE AIRPORT

GLOBAL INVESTOR FOCUS: EASTSPRING

Clement Chong, director and credit manager at Eastspring Investments in Singapore, shares a perspective on the growing participation in Australian corporate issuance by his firm and the reason why these credits appeal to investors in the Asian region. Allocation to Australia appears to sit somewhere between structural and cyclical.

DAVISON Can you position Eastspring and put its interest in Australian-origin credit in context? Have you been involved in the Australian market for a long time or is it a new strategy?

■ **CHONG** We manage funds that track Asian indices such as the JACI Index [J.P. Morgan Asia Credit Index]. Australian credits are off-benchmark, tactical exposures for us. But there are reasons to like Australian credits, especially investment-grade corporate.

We believe Australian investment-grade corporate credits offer good relative value over their Asian counterparts. Their credit qualities are well supported by their strong competitive positions, and they have better corporate governance and disclosures.

Our interest in Australian credits is likely to remain in the near term given their attractive relative value, coupled with the expectation that the Asian US dollar bond market is unlikely to grow in the near term. Consequently, we are compelled to look for alternative investment opportunities from markets such as Australia or Japan.

We are open to looking at US dollar or Australian dollar-denominated issues by Australian corporates, but the latter may be hedged back to our funds' base currency – which may be either US dollars or Singapore dollars.

DAVISON One of the narratives about increased Asian demand in 2024 has been that there is a new version of the JACI that includes Australia and Japan, which has brought these markets into the benchmark for fund managers. But you suggested this doesn't apply for Eastspring.

■ **CHONG** We have not changed the benchmark of our JACI-based funds to the JACI APAC index given the administrative hurdles involved in making such a change. But the lack of adoption of the new index has not hindered Asian demand for Australian credits.

As I mentioned, the attractive relative value of Australian credits, sound credit qualities – especially in the investment-grade space – and shrinkage in the Asian US dollar bond universe have prompted Asian investors to look for investment opportunities in other markets including Australia and also Japan.

DAVISON On this basis, would you say your increased exposure to Australian credit is still a cyclical rather than a fundamental one?

■ **CHONG** It is hard to say. Given the benchmark situation, our allocation to Australia is fundamentally a tactical one. But in the near term – say the next year or two – a more uncertain US interest-rate outlook coupled with flush liquidity in many Asian onshore markets mean supply in the Asian US dollar bond market may not grow substantially in the near term. Against this backdrop, our funds' allocation to Australian credits may be more persistent than before.

Furthermore, growing familiarity with Australian credits means we, like other Asian investors, will feel comfortable about allocating – on a sustained basis – a part of our portfolio into Australian credits.

DAVISON How does Australian-origin issuance stack up when it comes to the allocations you receive in new deals and the quality of liquidity available in the secondary market?

■ **CHONG** Historically, allocation for Australian primary deals had favoured US investors since they have had longer involvement in this space. However, allocation of primary deals to Asian investors has increased given rising interest.

For their parts, issuers have broadened their investor base rather than relying on US investors. We now see a lot more Australian corporates doing roadshows with investors in Asia, whereas Asia was not a priority for them in the past.

Secondary market trading liquidity of Australian credits has improved in recent times as more banks are trading Australian credits in the Asian time zone, in response to higher participation by Asian investors.

"WE HAVE NOT CHANGED THE BENCHMARK OF OUR JACI-BASED FUNDS TO THE JACI APAC INDEX GIVEN THE ADMINISTRATIVE HURDLES INVOLVED IN MAKING SUCH A CHANGE. BUT THE LACK OF ADOPTION OF THE NEW INDEX HAS NOT HINDERED THE ASIAN DEMAND FOR AUSTRALIAN CREDITS."

CLEMENT CHONG EASTSPRING INVESTMENTS

I agree that the market is mature and participants are very familiar with the processes used to ensure best execution. For borrowers that are new to this more recent market process, it understandably takes time to explain why we start with an IPT this far above where we are aiming to land.

But the investors closely follow all recent primary trades and starting too close to expected landing levels can be off-putting for them. They are nervous that the regular market tightening of 30-35 basis points would take deals to a level that is too low for them to participate.

"There is a material difference between the feedback received on deal and nondeal roadshows in Europe. In the former, investors are more engaged – they are happy to provide information and preliminary IOIs where they see relative value."

DANIEL DELA CRUZ CRÉDIT AGRICOLE CIB

Starting at wider IPTs facilitates the 'drive-by execution' style we have already discussed. But even this accelerated intraday process doesn't prevent more sizeable moves from IPT – it is all still on the table.

■ **GRAHAM** It can be reasonably stressful. For instance, with VPN's March 2024 AMTN we had to manage internal messaging on the IOI price we were going on screen with, given this was not where we expected the deal to land – and historically in this market we don't typically get as much price progression from IOIs as, say, euros. Fortunately, we managed to move pricing to where we wanted to be. But it isn't always an easy position to navigate.

■ **DELA CRUZ** There is a material difference between the feedback received on deal and nondeal roadshows in Europe. In the former, investors are more engaged – they are happy to provide information and preliminary IOIs where they see relative value.

2025 OUTLOOK

Davison Will 2025 be able to maintain the positive environment that characterised most of 2024?

■ **TRIGONA** I think it will still be a strong market and I am positive we will be able to execute our funding needs. In fact, I think the market has developed significantly in 2024.

■ **VAN DER GEEST** Subject to risk events, I agree that the outlook should remain for a strong, liquid market in 2025.

■ **SHEDDEN** It is worth noting that we had a lot of geopolitical events in 2024 and the market always reopened, and indeed became very active very quickly afterwards. It feels pretty buoyant, and markets have been able to absorb and roll with most of the shocks.

■ **WATERS** I believe the market will continue to be strong but the volume printed by Australian corporates domestically will be less than in 2024. There is a limit on issuance based on the size of Australian corporate balance sheets and a good proportion of large corporates have issued sizeable transactions in 2024. A lot of the names that need to issue will likely look offshore.

■ **TRIGONA** The Australian dollar investor base is building as well, though – more offshore investors are participating in Australian deals. There was always a perception that what could be issued in this market was capped, but it's not just Australians buying Australian dollar bonds anymore – it is a much broader investor base.

■ **DELA CRUZ** Globally, I think it's worth circling back to a point Toby made earlier: a significant portion of the funding raised in 2020, the onset of COVID-19, is coming up for refinancing in 2025-26. Redemption flows are going to be massive.

■ **CROASDELL** We expect further growth in euro corporate issuance in 2025: €410 billion is forecast by our research team. Credit fundamentals may well face further headwinds as we turn through the cycle, but market technicals should remain very supportive.

The lower level of rates combined with current spreads should make funding attractive for issuers and may well spur some further interest in the M&A arena. We are expecting a fast start and look forward to another busy year on the corporate front in 2025. •