
Project Summary Information (PSI)

Project Name	AIIB Asia ESG Enhanced Credit Managed Portfolio
Region	Asia
Sector	Multi-Sector
Project No	000152
Borrower	N/A
Implementation Agency	N/A
Environmental and Social	N/A – Usage of an Environmental, Social and Governance (ESG) Framework
Date of PSI preparation or update	March 29, 2019
Date of Concept Approval	Aug. 31, 2018
Date of Appraisal Approval	Nov. 12, 2018
Date of Financing Approval	Dec. 18, 2018

I. Introduction

Institutional investors are a key part of the solution to finance Asia's infrastructure investment needs over the coming decades. Additionally, integrating Environmental, Social and Governance (ESG) standards into capital markets in Emerging Asia will be important to achieving long-term sustainable development goals. This Project aims to develop debt capital markets for infrastructure in Emerging Asia with a strong ESG rationale. Upon approval, an external asset manager will be appointed to work with AIIB.

The Project consists of two components:

- (i) Development of an Asia ESG Enhanced Credit Managed Portfolio of USD500 million that comprises corporate bonds in Asian infrastructure and other productive sectors; and
- (ii) Launch of an ESG Markets Initiative in partnership with the appointed asset manager to catalyze ESG investing strategies and build capacity with market participants in Emerging Asia.

II. Project Objective and Expected Results

The objectives of setting up a credit portfolio are to:

- (i) Unlock the greatest potential to mobilize private capital for infrastructure from institutional investors, by developing infrastructure as an asset class and deepening the sustainable debt capital market in Asia;

- (ii) Catalyze ESG investment strategies in Emerging Asia by developing the AIIB ESG Framework and launching an ESG Markets Initiative to build capacity amongst market participants; and
- (iii) Provide financing to infrastructure-related issuers via subscriptions to primary issuances.

III. Project Description

The following table summarizes the types of investments that will be considered under the credit portfolio:

	Sovereign Bonds	Quasi-Sovereign Bonds (e.g. SOEs)	Corporate Bonds	Green Bonds	Project Bonds	ABS, CLO¹
Eligibility	No	Yes	Yes	Yes	No	No

The focus of the credit portfolio is to develop the Asian debt capital market with a specific focus on infrastructure-related bonds as an asset class. To maximize impact, the Project focuses on corporate bonds issued by infrastructure-related issuers (including quasi-sovereign) and green bonds, where proceeds are directed to sustainable infrastructure and other productive sector projects. At this initial phase of debt capital market development, project bonds and other infrastructure-related fixed income securities are not the focus of this credit portfolio.

The corporate issuers must fulfil the criteria below:

(i) Doing businesses in AIIB members; AND	The Asset Manager will evaluate the issuer's "country of risk." The issuer's "country of risk" is defined by Bloomberg and is based on several criteria, including its country of domicile, the primary stock exchange on which it trades, the location from which the majority of its revenue comes, and its reporting currency. This is in line with the market practice.
(ii) Primarily doing business in infrastructure and other productive sectors; OR	The sector classification of an issuer will follow an (or a combination of) international standards widely agreed and adopted by the market: <ul style="list-style-type: none"> - ISIC (International Standard Industrial Classification of All Economic Activities); - NAICS (North American Industry Classification System); - SIC (Standard Industrial Classification); - GICS (Global Industry Classification Standard); - Bloomberg Industry Classification; - Bank of America Industry Classification; and - JPMorgan Industry Classification.

¹ ABS: Asset-Backed Securities; CLO: Collateralized Loan Obligations.

<p>(iii) Not primarily doing business in infrastructure and other productive sectors, but the use of proceeds can be identified as being used for infrastructure and other productive sectors.</p>	<p>Classified as a Green Bond and comply with the Green Bond Principles. The Principles ensure transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders on the following:</p> <ul style="list-style-type: none"> (i) Use of proceeds; (ii) Process for project evaluation and selection; (iii) Management of proceeds; and (iv) Reporting.
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To achieve the ESG market building objective, the Project includes a proposed partnership with the asset manager to implement the following activities: (i) produce research on ESG investing that disseminates the knowledge gained from applying the AIIB ESG Framework; (ii) engage with market participants, including corporates and data providers, to improve disclosure and expand ESG rating coverage in Emerging Asia; and (iii) convene events for all market participants (i.e. issuers, investors, rating agencies, stock exchanges) to build capacity around ESG investing in Emerging Asia.

IV. Environmental and Social

A key objective of the Project is to catalyze ESG strategies throughout the debt capital market, and the most effective way to do this is through demonstration of an AIIB ESG Framework that is consistent with the spirit and vision of the AIIB's Environmental and Social Framework. The Project Team will seek a derogation from AIIB's Board of Directors of AIIB's Environmental and Social Policy, and in its place, proposes to use a best-in-class ESG framework that is more suitable for capital markets investment.

AIIB will work with the asset manager to develop an investment policy and ESG framework that ensures the Project can achieve its development objectives. The investment policy will incorporate the following:

- Positive and negative screening criteria;
- Exclusion of enterprises knowingly engaged in activities excluded under AIIB's Environmental and Social Exclusion List;
- Eligible sectors, geographies, etc.;
- Prioritization of specific sustainability themes;
- Minimum ESG standards for issuers;
- Approach to engaging with issuers;
- Monitoring of ESG performance at the issuer level; and
- Reporting on ESG performance at the portfolio level.

To ensure alignment with international norms, companies will be excluded if they have been implicated in controversies related to resettlement, impacts on critical habitat, impacts on Indigenous Peoples, or impacts on cultural heritage.

Following the mandating of the asset manager, the investment policy and ESG framework will be disclosed on the AIIB website.

V. Estimated Project Cost and Financing Source (USD million)

The AIIB Asia ESG Enhanced Credit Managed Portfolio initially will have USD500 million assets under management.

VI. Implementation

To select the asset manager, a competitive process has been conducted with due consideration for economy and efficiency in accordance with AIIB's Procurement Policy.

Furthermore, in line with AIIB's Policy on Prohibited Practices, the selected asset manager may not engage in any of the following prohibited practices: (i) coercive practice; (ii) collusive practice; (iii) corrupt practice; (iv) fraudulent practice; (v) misuse of resources; (vi) obstructive practice; and (vii) theft. The selected asset manager will also ensure that securities from issuers identified in AIIB's Debarment List are not included in the portfolio.

Moreover, all portfolio securities will be subject to the selected asset manager adhering to a thorough research and monitoring process.

Contact Point

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