

Case Study: Republic of Chile Green Bonds

Ministry of Finance
Government of Chile

July 17, 2019
Last update November 26, 2019

Republic of Chile's Green Bonds - dual tranche USD & EUR (3.53% USD1,431 million long 30-year and 0.83% €861 million 12-year)



Chile demonstrated its firm commitment to climate action and leading role in international green financing by becoming the first country in the Americas to issue green bonds. Chile also became the first sovereign to issue green bonds sequentially in a dual-tranche structure (USD and EUR)

Transaction Summary

Issuer	:	Republic of Chile "Chile"
Issuer Ratings	:	A1 / A+ / A Moody's / S&P / Fitch, all stable
Ranking / Distribution	:	Senior, Unsecured / SEC Registered
Listing / Law	:	London Stock Exchange & Luxembourg Stock Exchange / New York Law
Use of Proceeds	:	Pay the purchase price for the old notes that are validly tendered and accepted in the offer to purchase (only for USD tranche), and the balance for general governmental purposes

In addition, Chile has the intention of investing an amount equal to the proceeds from the sale of the notes into projects that may qualify as "eligible green expenditures", as described in its Green Bond Framework

Proceeds Intentions
Language

Tranche	:	USD	EUR
Size	:	USD1.418 billion (NM 0.523 and LM 0.895)	€861 million
Pricing Date (T)	:	June 17, 2019	June 25, 2019
Settlement Date	:	June 25, 2019 (T+6)	July 2, 2019 (T+6)
Maturity Date	:	January 25, 2050	July 2, 2031
Coupon / Yield	:	3.500% / 3.530%	0.830% / 0.830%
Issue Price	:	99.439%	100.00%
Spread	:	T + 95 bps	MS + 50 bps

NM: New Money; LM: Liabilities Management

Distribution and Book Building

USD Tranche

- Despite geopolitical risks (US-China trade), constructive market fundamentals (EM fund inflows, low supply, UST30yr and 12yr Mid Swap rate, respectively unchanged on day) allowed for a 25bps tightening from IPTs

- On Monday June 17th, 2019, Chile announced a new long USD 30-year Benchmark Green bond offering

- IPT of "T+120bps area" to launch at T+95bps – tight end of guidance of T+100bps (+/- 5bps)

- New Issue Premium: -5bps**

- At its peak, the order book showed oversubscription of ~13x (vs. new money) composed of global high-quality asset managers (FM, Ins, PF)

- Alongside, Chile launched a Switch Tender offer targeting its USD 20s, 21s, 22s, 25s, 26s, 42s and 47s (all USD bonds except 28s; USD5.1bn outstanding; all previous Tender targets except the 47s)

- USD523mn of net new money was in line with targets and approvals - the bond was also composed of Switch Participation of USD540mn and Cash Tenders of USD311mn (notional amounts)

BY TYPE	TOTAL
FM	67%
PF / Ins	25%
Others	8%

EUR Tranche

- On Tuesday June 25th, 2019, Chile announced a new 12-year EUR Benchmark Green bond offering

- IPT of "MS+75bps area" to launch at MS+50bps – tight end of guidance MS+50-55bp

- New Issue Premium: -10bps**

- At its peak, the order book showed oversubscription of ~4.7x (vs. new money) composed of global high-quality asset managers (FM, Ins, PF), underpinned by European accounts (including State/Sovereign pension funds)

BY TYPE	TOTAL
FM	58%
PF / Ins	15%
Others	27%

Chile's Green Bonds - A critical tool to meet climate targets

Chile achieved several financial milestones, including the lowest yields obtained ever in both currencies, low spreads, record demand from global markets, and a broadening of its investor base towards institutional investors with green mandates

Innovation Highlights

- The development of the Green Bond Framework was led by the Ministry of Finance via a joint effort of several ministries with the valuable guidance of the IADB
- USD4.4bn worth of eligible green bond projects were selected in the following categories: Clean Transportation / Renewable Energy / Water Management and Green Buildings
- This portfolio (guiding future applicable issuances) obtained the certification from the Climate Bonds Initiative

Green Bond Components

USE OF PROCEEDS	<ul style="list-style-type: none"> • Clean Transportation, Energy Efficiency, Renewable Energy, Living Natural Resources, Land Use and Marine Protected Areas, Water Management, Green Buildings
SELECTION & EVALUATION	<ul style="list-style-type: none"> • Selection of eligible green projects through a decision-making process by the Ministry of Finance • Green Bond Committee, led by the Ministry of Finance with the support of the main ministries in charge of the execution of the public budget, to review and validate the selection of eligible green projects
MANAGEMENT OF PROCEEDS	<ul style="list-style-type: none"> • Net proceeds to be transferred to the general account of Chile and each specific green bond issuance to be linked to a specific pool of eligible projects • Total value of eligible projects to be higher than the amount of issuance, to avoid the necessity to include new projects in event of projects no longer eligible, and includes previous year and current year expenditures and, if necessary, future expenditures • Until full allocation, unallocated proceeds managed in line with the liquidity management policy
REPORTING	<ul style="list-style-type: none"> • Annual reporting on: <ul style="list-style-type: none"> • Proceeds allocation (per category) • Output (e.g. km of train lines; installed capacity in MW) and impact indicators (e.g. CO2 avoided, energy saved)
EXTERNAL REVIEW	<ul style="list-style-type: none"> • Second Party Opinion from Vigeo Eiris on the Framework • CBI certification • Annual Assurance Report by an external auditor on the allocation report and its conformity with the Framework

Ground-breaking qualities of Deal

- Lowest yields obtained ever in both currencies (3.53% for the USD and 0.83% for EUR bonds), low spreads, record demand from global markets (12.8 times the amount offered for USD bonds, and 4.7 times for the EUR bonds), and an important broadening of Chile's investor base towards institutional investors with green mandates
- Perfect marketing timing. The convergence of a stable market backdrop on the day, a return of inflows into EM bond funds, and ongoing supply/demand imbalance provided a solid backdrop
- First Green Bonds in the Americas and the first Sovereign Green Bond issuance in Euros issued by a non-European sovereign. USD Bond was the longest tenor debut green bond

Non-deal Roadshow and Investor Participation



- In 1H2019, Chile embarked non-deal roadshows in the US, Europe, and Asia. Recurring dialogue with key investors while identifying Green Bond portfolios was a key execution strategy

USD BOND BY REGION	TOTAL
USA	48%
EU / UK	36%
Others	16%

EUR BOND BY REGION	TOTAL
EU / UK	85%
Others	15%

Key Contacts at Issuer and Arrangers



Investor Relations Office –
Ministry of Finance

Contacto: iro@hacienda.cl

Case Study prepared by:



Green aspects of
issuances were developed
with the support of:



Bookrunner banks from
USD tranche:



Bookrunner banks from
EUR tranche:



J.P.Morgan

