SCALING UP: CAPITAL MARKET GROWTH MUST SUPPORT INVESTMENT NEEDS IN NEW ZEALAND

Domestic and offshore investor growth is starting to come through in the New Zealand debt capital market. Maximising market functionality will be critical to delivering liquidity to a significant local investment task, covering infrastructure and climate resilience among others. Participants at the annual *KangaNews* women in New Zealand capital market roundtable, which took place in Auckland in March, discussed an ecosystem that is growing and adapting at rapid pace.

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ECONOMIC CHALLENGES

Swiss What is the state of play with economic recovery? It has been a tough run for New Zealand – are things improving and what impact will conflict in Iran have?

WEBB There were signs of economic recovery broadening but it feels fragile, especially in areas away from agriculture and tourism. Business and consumer confidence were improving, orders were rising and the PMI [Performance of Manufacturing Index] had moved back above 50. Then GDP data confirmed the fragility by disappointing. Consumer spending remains patchy and will take time to recover – it depends on job growth and wage increases. Recent international events have taken centre stage so we are in a wait-and-see phase.

HYDE-SMITH Agriculture has been the bright spot, underpinning growth in the regions, but there were also signs that policy was beginning to transmit to the wider economy. This latest external shock represents another headwind to business and consumer confidence.

Unemployment higher than 5 per cent will continue to weigh on sentiment, as will the hit to discretionary income. The transmission of rate cuts is still working through the system and should provide some offsetting support. But ultimately a more durable recovery in household incomes will require evidence of sustained employment growth.

The macro backdrop remains fragile and we are now in a period of renewed uncertainty, while businesses had reported intentions to pass on price increases as growth recovered. Given much of the data is inherently backward-looking, high-frequency indicators and survey data will be critical to gauging real-time momentum. The key question is the extent to which monetary and fiscal policy have the capacity and flexibility to provide support.

DUNLOP Business feedback was mixed even a month ago. There was some optimism, particularly in manufacturing, but retail remained weak and many businesses were still struggling. We were cautiously optimistic, even so – a view supported by regional growth.

There was already a divide between sectors, though, and a clear difference between consumer and business confidence. Business confidence has lagged since the middle of last year. On the consumer side, mortgage originations had increased significantly – which pointed to improved confidence. Buyers and sellers returned to the housing market and time to sell shortened. Auto lending was also picking up, until recently.

However, the auto market has slowed sharply in the past few weeks. Rising fuel costs and wider uncertainty are likely to change consumer behaviour. People are experiencing higher oil and food prices and are likely to keep spending constrained in the near term.

INFRASTRUCTURE INVESTMENT

Swiss Infrastructure remains in focus in New Zealand. A clutch of long-term projects is near completion but there is still a deficit and some concern about the pipeline from here. What comes next?

ARCHER The infrastructure deficit is well recognised, with climate and natural disaster resilience intensifying this challenge. Banks have significant appetite to support infrastructure deals but there is a shortage of fully bankable and deliverable projects. My perspective is that there appears to be a reasonable pipeline across New Zealand. The New Zealand Infrastructure Commission reports that total national infrastructure pipeline value reached NZ$268 billion (US$157 billion) in the December 2025 quarter – one of the higher levels recorded in recent years – driven mainly by transport, water and energy projects.

Beyond new projects, we also need to make New Zealand's infrastructure spend go further. The government is actively using PPPs [public-private partnerships] to accelerate infrastructure delivery and there is optimism in parts of the energy and renewables space, including recent investment announcements from groups such as New Zealand Clean Energy. Market participants remain cautiously optimistic about a new wave of infrastructure investment.

MAHONEY It is a critical period as we are approaching the peak of infrastructure demand over the next decade. Water infrastructure will make up a large part of the demand. Since 2021, councils have faced uncertainty about water-sector reform but there is now more clarity. We expect up to five water CCOs [council-controlled organisations] to be established from July, with the remainder established in the following 12 months.

Significant investment will be required to meet the new water standards and deliver projects that may have been delayed

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> **SARAH WEBB** COMMONWEALTH BANK OF AUSTRALIA

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EMMA CLARKE NEW ZEALAND DEBT MANAGEMENT

due to the uncertainty about water-sector reform, which means the scale of capex required is substantial. Capex forecasts have increased by around 22 per cent in councils' water service delivery plans compared with long-term plans over an average period of 10 years. The water sector is forecast to take on NZ$19.8 billion of new debt by 2034.

The challenge is whether there is capacity to deliver this level of capex. There may be workforce challenges as estimates suggest around 9,000 additional workers may be needed. The sector will need to consider how to attract or retrain labour, while contractors require certainty to scale up capacity. Clear signals to the market will be important. The outlook is positive in the long term but there are near-term challenges.

ARCHER While the operational and financial task of establishing the water CCOs is significant, it provides a structure to improve water outcomes. Moving beyond annual budget cycles, we envisage water CCOs will adopt a longer-term investment approach, supporting sustained renewal and growth capex programmes.

It also presents a major funding opportunity. We have seen this through Watercare's recent funding activity demonstrating strong domestic and international demand. Westpac acted as joint lead manager on its New Zealand and Australian debt capital market issuance, and as joint mandated lead arranger, underwriter and bookrunner on Watercare's NZ$3.4 billion committed bank facilities – the largest corporate debt capital raise in New Zealand.

MAHONEY There is still underspend in capital budgets at council level. It remains unclear whether councils will catch up or adjust plans in light of new constraints such as potential rates capping. We are entering a new planning cycle and we will see how these projects evolve.

WEBB We are confident on the funding side. Watercare's issuance across New Zealand and Australian markets shows strong demand for high-quality infrastructure assets. Meanwhile, New Zealand is attracting more investor attention.

The funding requirement is large. New Zealand Local Government Funding Agency (LGFA) forecasts for the whole forward period increased from NZ$37 billion in 2021 to NZ$54 billion in 2024, which highlights the scale of the task. It makes sense for new entities to fund through LGFA until they establish credit profiles of their own. Over time, they may access capital markets directly – which would create further opportunities for investors.

DOMESTIC CAPACITY

Kane Speaking of the New Zealand capital market and investment drivers, how have New Zealand government bonds (NZGBs) performed recently?

CLARKE Yields have followed global trends, increasing by around 30-40 basis points since late February, though they are only about 15 basis points higher than they were at the end of January. Our funding programme remains on track. Our annual programme has come down to NZ$35 billion this year from around NZ$43 billion in 2024/25. We have no further syndications planned this fiscal year, having already completed three in the first half. Tender demand remains strong, with cover ratios well above the long-run average.

Having said this, we are cautious not to be complacent about the elevated market volatility. We have a strong liquidity position in excess of our NZ$10 billion minimum buffer and flexibility in our short-term borrowings. There are also levers we can pull to support successful tender issuance, such as reducing the size of a tender or tilting toward indicative demand.

Kane Bringing new buyers into the NZGB market has been a priority. How is investor marketing evolving?

CLARKE We have a structured investor engagement programme. We aim to meet global investors every 2-3 years, across in-person and virtual engagement. In-person meetings remain important for relationship building and quality discussions but virtual engagement allows us to reach a wider set of investors more frequently.

We conducted European and Asian roadshows last year, meeting new investors including central banks and private banks. Engagement was very strong – particularly in Asia, where we had not had a major trip since before the pandemic.

WEBB NZDM [New Zealand Debt Management] does an excellent job communicating with offshore investors. It is reliable and methodical in the way it plans roadshows and produces investor material.

There were challenges regarding market size some time ago, but NZGBs are now firmly on the radar for offshore investors. We regularly get enquiries from new central bank investors, for instance. These things take time but there has been a clear change in behaviour.

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> **KATE ARCHER** WESTPAC

Hedge fund investment in New Zealand is also stickier than it used to be. There is more attention on our market because it offers another tool for relative-value trades and regional diversification. Support from hedge funds has also helped NZGB activity remain orderly in secondary as well as primary, which gives market-makers more confidence. This matters in volatile conditions.

We also went through a 12-18 month period of spread widening, which made things attractive in one sense but more difficult for the wider market. This has now retraced. Reduced tender size has been a positive signal, especially after syndications that produced record books and very large transactions that the market absorbed well. Tender demand has remained solid despite rising yields, which is a positive sign.

Another factor we are watching is that cross-market relativities have remained well tethered. This is an important indicator that New Zealand is being taken as seriously as the markets it trades against.

■ **CLARKE** Before COVID-19, we did not meet with many hedge funds on investor trips and we saw very few in our syndication books. This has changed over the last couple of years. Many more hedge funds are showing up in our books and we meet several during offshore engagement trips. Some have even come and visited us in New Zealand.

Many hedge funds are constructive and committed to the NZGB market. Although we are conscious that too much 'fast money' in our investor base and syndications can add volatility, overall we view them as a valuable addition to the investor base.

Swiss This sounds similar to what has played out in Australia. Hedge fund money was once viewed as less reliable but in practice it has been quite sticky and has added value to books.

■ **WEBB** Yes, and these investors are quite good at coming directly to NZDM to say they are serious about the market. They make themselves known and take the opportunity to engage directly.

Kane It sounds like capacity for NZGBs is increasing. Meanwhile, LGFA has ramped up its foreign-currency issuance as its funding programme has grown. Is this a function of limited domestic capacity?

■ **MAHONEY** There are several reasons. LGFA tried to remain in the New Zealand market for as long as possible. But by mid-2023 funding requirements were increasing and we were also anticipating additional borrowing demand from the water CCOs. Crowding out by the government through increased NZGB supply also played its part.

At this point, LGFA decided it was the right time to explore offshore markets. We have moved quickly and 70 per cent of our funding last year came from offshore. There are diversification and current pricing benefits but the main point is that offshore markets will have to play a role as funding needs continue to rise.

■ **HYDE-SMITH** LGFA has navigated this well, in my view. There is a clear understanding within the organisation of the importance of a sustained commitment to the domestic market: building a curve, supporting liquidity and maintaining strong relationships with local investors. This foundation matters because a domestic issuer's ability to rely on its home market can be a key differentiator when conditions deteriorate.

In late 2024 and into 2025, with elevated water infrastructure capex requirements coming into focus, LGFA bonds experienced meaningful spread widening as investors questioned rating stability and domestic market capacity. This ultimately reversed as offshore issuance alleviated pressure on the domestic market to take down supply.

There is a lesson here for other issuers. Domestic support matters but so does having the flexibility to access offshore markets when scale requires it.

■ **WEBB** We did not view LGFA issuing offshore as a function of reduced domestic demand or capacity. It was more about planning for future opportunities. There is a very large borrowing task ahead and offshore pricing is attractive. It is also positive for domestic investors because it helps anchor pricing. Ultimately, the ratepayer benefits – and anything that helps the ratepayer at the moment is positive.

■ **MAHONEY** This has to stay front of mind. Councils still need be able to deliver services and infrastructure for ratepayers, and we need to secure the best pricing possible for the sector. There are a lot of factors to balance.

Kane The domestic securitisation market also seems to be performing well, in the sense that supply is being met by a greater volume of demand. What is driving this?

RETENTION AND *RETURN*

Young, qualified New Zealanders have a long tradition of spending time working overseas – the famous "OE" or overseas experience. Capital market participants say the duration of these experiences has extended, creating new issues when people return to the local employment market with more specialised skills.

KANE This roundtable has often talked about the skill drain in New Zealand. How are things going with attracting and retaining talent in your businesses?

SUTCLIFFE It is a real issue. People are going overseas, whether to Australia, Europe, the UK or, in some sectors, the US. But this has always been the case. What we are getting less of is people coming back. They are staying away longer, and when they do return they are often more specialised and narrower in their experience. This can make it harder to place them in a market like ours. It is definitely a challenge.

SWISS This is interesting, because usually we hear the positive version: that people go overseas, build skills and come back with valuable experience.

SUTCLIFFE This is true to a point. The ideal is someone who goes away for three years, gets strong exposure and comes back with more skills and fresh perspectives. The problem is when they stay away for much longer and become highly specialised in areas that simply do not exist at scale here. They may come back saying they want to slot in at a senior level but the market may not have the right role for them.

It is also harder for people to return because the opportunities here can feel uncertain and the financial gap is so large. People usually come back for family reasons.

DUNLOP I did my OE in what was considered the 'right' way: I went away, but not for so long that I forgot why I wanted to come back. Most of us around this table have probably benefited from working offshore. But we do not come back expecting to do exactly the same job. We come back for different reasons and we have to be willing to broaden out again rather than staying locked into a niche.

We also have a responsibility, when people return, to help them with this re-broadening. Otherwise they get frustrated and think New Zealand has nothing for them, which is not what we want. I agree that the difference now is that people stay away longer. It was easier when they had been away for two or three years. Now it is often five, six or seven.

WEBB This tends to follow the strength of the labour market. After COVID-19, there was more hesitation among younger people about going overseas. At the moment, some younger people are also going back to postgraduate study – because the labour market is weaker.

HYDE-SMITH I agree: it usually tracks the job market. This does not surprise me. I graduated in the early 1990s and it was probably similar. When the labour market is weak, people leave.

WEBB And sometimes they change career entirely.

HYDE-SMITH Yes. But the interesting point is that New Zealanders are used to doing more with less. We become generalists and this 'can-do' quality is valuable.

SUTCLIFFE It also comes down to whether people are planning their careers over the long term. Some people think carefully about what each move means for their trajectory, while others are less deliberate.

DUNLOP We tend to look at people with 2-4 years' experience and have an open conversation with them about it. It is fine to go, but it helps to have a time frame so we can plan for succession.

WEBB Being part of a global organisation helps. We can offer opportunities internationally and high performers are often given the chance to move across markets. This can be a real advantage in attracting and retaining talent.

SUTCLIFFE But people still have to prove their value.

WEBB It also depends on willingness. Not everyone wants these opportunities.

ARCHER I don't believe what we have experienced represents a major structural shift but there is definitely more movement to Australia. Younger people who might have headed to London are now choosing Australia instead, partly because it has become harder to find work in the UK. What was once a short-term overseas experience is increasingly becoming a longer-term move.

MAHONEY I recently spoke to a friend in London who said she is aware of many people who have only been there for a few months before deciding to leave because it is difficult to find work. They either return home or move to Australia. The downside for New Zealand is that many are choosing Australia so they can still have their overseas experience.

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EMMA SUTCLIFFE CHAPMAN TRIPP

DUNLOP Last year felt like a real maturity point. More issuers brought more product to the New Zealand market than at any time I can remember. This is a positive development because it broadens the market and the investor base. We have always had a core group of committed investors. What is changing now is that KiwiSaver asset managers are reaching a scale where

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CAROLINE DUNLOP AVANTI FINANCE

they can devote time and resources to securitisation – to work out where it fits in portfolios. This is very encouraging.

We intend to execute several New Zealand dollar deals across different products this year. The local banks have also provided strong support, helping issuers grow to the point where they can access the capital market. It feels like a virtuous circle.

Kane Are you also getting more interest from international investors?

DUNLOP Not to the same extent as in Australia, but it is starting to happen. Scale matters. We are now at around NZ$3.5 billion of assets under management and expect to reach NZ$5 billion in the next year or 18 months. This kind of size helps an issuer engage more meaningfully with international investors.

For us, investor engagement starts through our Australian subsidiary because the Australian market is well understood and there are more established pockets of demand there. But we are becoming more serious about wider engagement, including offshore. Like LGFA, we appreciate that it is good for everyone to build international reach – but first we need to ensure we have a strong domestic investor base.

HYDE-SMITH One of the key differences between New Zealand and Australia is liquidity. New Zealand is still more of a one-way market in many products, including securitisation, and this is one of the first concerns offshore investors raise about the asset class. There is potential for much more participation if we can solve this problem.

WEBB The Australian securitisation market is highly liquid with multiple traders making markets in these products. New Zealand is developing. If we go back 15 years, there were perhaps two or three interested investors in New Zealand. Now most KiwiSaver funds are looking at New Zealand dollar securitised issuance.

The challenge is that securitised product requires a lot of credit work. Once investors have done the work and bought the paper, it tends to go into portfolios and stay there to maturity – which makes secondary activity more limited. This should improve with scale.

DUNLOP We spend a lot of time with investors during deals, before deals and outside the deal cycle, working through what the product is and how it functions. But we need to build scale to get the liquidity piece through.

Some practical improvements could help, including repo eligibility and systems. Operationally, we have received investor feedback that it can still be difficult to move these securities through the market because of bond factors.

To be fair, part of the additional yield securitisation offers reflects the liquidity premium – and this is valuable to investors. But some near-term improvements could make the market function better.

It is also important for issuers to keep pace with offshore developments, especially in Australia. In 2024, some investors asked about risk retention but it was not really necessary. Now it is effectively a firm requirement for deals in Australia to be risk-retention compliant. We have made the decision that every deal we bring going forward will include risk retention. There are some basic 'hygiene' factors like this, where issuers need to stay current with the market.

EXECUTION PRACTICE

Kane In the credit sector more generally, one thing the New Zealand market is discussing is updating the deal process – including the adoption of IOIs [indications of interest] as part of a push to improve market functionality. What views do market participants have?

WEBB The benefit of adopting the Australian-style IOI approach is that it gives everyone equal access to a deal rather than relying on the views of just a few key investors. Given how many domestic investors now participate in the Australian market, it feels like a natural progression. If New Zealand aligns its processes more closely with Australia, offshore investors will also have more confidence in how New Zealand transactions are run.

HYDE-SMITH It is an interesting question. New Zealand investors have been active in Australia for a long time so we are familiar with how the IOI process functions there. The key distinction is that Australian books tend to open at wide levels with meaningful scope to tighten, whereas New Zealand's institutional investor base remains highly concentrated and anchor investors are typically required to underwrite deal execution from the outset.

The structural challenge is how to preserve this anchoring while simultaneously creating sufficient price discovery and transparency to attract a wider investor set.

Investor concentration continues to shape outcomes in practice. The recent Rabobank transaction, which used an IOI process, is instructive. The book came in at relatively tight levels and moved quickly to price, reflecting the fact that key investors had been pre-sounded and were instrumental in de-risking the trade before it formally launched.

Process improvements are a useful step but are not sufficient on their own. Attracting a broader global investor base requires addressing a range of structural factors simultaneously. Regulatory settings, issuer commitment to regular and consistent programmes, curve development and market stability all matter.

■ **SWISS** This is exactly what happened in Australia years ago. A few large investors used to have a lot of control over how deals developed and priced. It was only once larger pools of international money came in that the process really evolved.

■ **HYDE-SMITH** We can make incremental improvements to market infrastructure and process. But the IOI mechanism alone will not fundamentally transform the market's depth and reach. Buy-side consolidation has likely not helped. The larger investor that commits early can find itself scaled back significantly and forced to look to offshore markets, taking New Zealand issuers with them. This is not easily solved, but facilitating easier issuance while also creating a compelling and consistent experience for investors has got to be helpful.

■ **WEBB** I believe the IOI process is very positive for the medium-sized KiwiSaver funds that are coming through because it gives them a voice. It also allows issuers to see investor intentions and understand who is contributing positively to a transaction structure. Overall, it is good for issuers and investors.

■ **SUTCLIFFE** We expect IOIs to become standard – it is almost surprising it has taken this long. It has also been asked whether this kind of process could extend into retail, and I find it interesting that the implication seems to be at least somewhat negative.

In a product disclosure statement (PDS)-type offer, there are legal and practical issues to navigate including timing of publication and offer-period length. This makes it harder. But these offers are a small proportion of the market. In a same-class offer, for example, I think there are ways to build IOIs into the process. Overall, I was surprised by the negative reaction because there are workable ways to do it.

■ **HYDE-SMITH** Retail is becoming increasingly institutionalised, which has advantages and disadvantages. Reflecting on the global financial crisis, coupon-focused retail investor demand was instrumental in restoring debt capital market function in New Zealand.

■ **SUTCLIFFE** Yes, and back then it might have been a month-long offer period. Now deals are often only open for a few days, and the deal group knows who is lined up to buy.

■ **HYDE-SMITH** This is true. But if we move too far in this direction, there is a risk of leaving behind genuine retail investors – people who still want to own bonds directly through advisers rather than through funds. If this happens, we may also lose pools of liquidity that are valuable for diversification.

■ **SUTCLIFFE** Though this pool may already be shrinking because more of the investors are moving into funds.

■ **HYDE-SMITH** Possibly. But in volatile periods they still play an important role. As more money moves into funds, the market may become more volatile. Direct retail investors also support lower-rated credits.

■ **WEBB** I agree – they have an important role in supporting such credits.

■ **HYDE-SMITH** Again, going back to the financial crisis, some triple-B issuers struggled to fund and retail support was valuable

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> **VICKY HYDE-SMITH** MACQUARIE ASSET MANAGEMENT

in helping restart the market. There are definitely pros and cons to an institutionalised deal process – though probably more pros than cons.

Swiss How significant is the transition of retail cash into institutional funds?

■ **SUTCLIFFE** The change in the trust tax rate is a major driver. New Zealanders use family trusts heavily, and the difference between 39 per cent and 28 per cent is material. It did not used to be such a large gap.

■ **HYDE-SMITH** The positive is that there is also more education and sophistication in the market. At the moment there may be some nostalgia for direct yield products, but as money moves into funds there may also be diversification benefits that support the market.

Swiss Another issue for growing the New Zealand market, in this case with international investors, is the approved issuer levy (AIL). Does this have an impact on transaction viability?

■ **SUTCLIFFE** A little: we tend to think of it as 'sand in the gears'. Is it enough to kill a deal? Probably not – but it does not help. It creates friction through upfront transaction costs and ongoing administration, and it can be challenging for issuers to manage properly over time.

It has also been chipped away over the years. There are now some zero-rating scenarios, for quoted issues for example. The revenue raised for the Crown is also very small. It was NZ$153 million in the year to 30 June 2023, and some of this would have come from government bonds.

The question is whether the friction it creates is really worth it for the revenue. We would support taking another look at it. There may be concerns about what banks would do if it were removed entirely but there would be ways to manage this.

It feels like something that appears on a lot of wish lists. Whether it ever rises to the top is another question. But it seems like a relatively straightforward change that could be helpful.

SUSTAINABLE FINANCE

Swiss Is sustainability losing traction in the New Zealand capital market? A lot of Australian corporates we talk to seem to be saying sustainability is not really an issue in the debt capital market anymore, and to be honest it sometimes feels as though some issuers are quite pleased about this. This came through quite strongly in conversations around the recent US private placement conference in Miami, for instance. How is this playing out in New Zealand?

■ **ARCHER** There is no doubt there are headwinds globally. With the ESG [environmental, social and governance] backlash and the current environment in the US, I am not surprised to hear about the views expressed in Miami. But we should not confuse the passing wave of noise and politics with the inevitable current of the transition. Politics doesn't slow the pace of climate change.

Sustainability remains fundamental to business resilience and we don't see issuers questioning this or believe it is losing traction. Even putting sustainable finance to one side, we are moving further away from the 2030 climate goals we need to meet while the cost of climate resilience and adaptation keeps rising. If anything, the priority is increasing and the financial impacts are becoming clearer.

For many customers, we view it more as an energy transition than just a climate transition. Energy security, independence and price management now matter more than ever – so, regardless of the drivers for each business, the transition is being accelerated simply by virtue of the fuel crisis.

The question is whether issuers still believe there is enough value in using sustainable labelled debt. Some borrowers in New Zealand have repeated issuance in sustainable format, and continue to get deeper engagement with investors and strong demand. In 2025, we also had innovation and greater diversity in new labelled issuance with Auckland Council's sustainability-linked bond (SLB) and Community Housing Funding Agency's social bond.

But the pace of new issuance has slowed – and with a small issuer pool a degree of market saturation was always likely. Borrowers are still considering structures that work for them – but they must add value.

The market has reached a level of maturity and sustainable debt is no longer a niche leadership exercise. Borrowers are thinking more carefully about whether a structure genuinely aligns with corporate strategy and provides the right incentives, and whether it accelerates sustainability and resilience efforts in a meaningful way, while also achieving their funding objectives.

NATURE AND FINANCE SEEK INTERSECTION

The climate crisis is bringing natural capital into focus. Quantifying something that has historically been taken for granted and freely exploited is an enormous challenge but momentum is being driven by the reality of the issues.

SWISS Is nature becoming a bigger theme in New Zealand's sustainable-finance landscape?

■ **ARCHER** Yes, we view nature and natural infrastructure as a strong sustainable growth opportunity. It is definitely a growing priority. Nature clearly qualifies as green under the Green Loan Principles and Green Bond Principles, particularly where investments support emissions reduction, climate adaptation and resilience.

The challenge is more about structures. Nature doesn't always issue invoices, which makes standalone financing difficult for smaller borrowers. The real opportunity is therefore in unlocking bankable pathways rather than funding nature in isolation.

In this context, funding natural capital through sustainable bonds presents a compelling opportunity for many New Zealand issuers, allowing nature-based outcomes to be financed at scale within established capital market frameworks.

The drivers for these investments will come from businesses developing a deeper understanding not only of their impact but also their dependency on nature-based assets. For example, a water entity's ability to deliver clean, reliable water is directly linked to the health of surrounding forestry networks or local aquifers.

This framing can help businesses treat nature as an asset on their balance sheet and therefore something that needs to be actively preserved, maintained and invested in. We are yet to see much labelled debt in this space. This is why Auckland Council's SLB [sustainability-linked bond] was so important: because it was tied to increasing native planting across the Auckland region.

■ **MAHONEY** More conversations on nature are certainly taking place, driven in part by the Taskforce on Nature-related Financial Disclosures (TNFD). There is growing recognition that nature is a key part of the economy and that we need to understand how to support it.

One of the biggest challenges remains data and measurement. If outcomes can't be measured, issuers can't give investors the assurance that what they have said will be delivered is actually being delivered. This is a barrier to wider product development.

Across local government, we are seeing more climate adaptation and resilience projects come through our sustainable lending programmes – largely because the physical impacts of climate change are becoming more severe and more frequent, and councils need to prepare and respond. Programmes that may have been planned for delivery in five years, for example, are being brought forward in response to events that are already unfolding.

We are glad to see a lot of action in this space but not when it reflects worsening physical climate impacts. I believe sustainability-linked products are likely to become more important, particularly for issuers that don't have a large asset base to support use-of-proceeds structures. Hopefully these structures will start to include more nature-related outcomes.

■ **SUTCLIFFE** I wonder whether there is an opportunity here because some of the early adopters are now reaching the end of their original five-year target periods. They are not starting from a blank sheet of paper but it feels like a natural point to consider what the next five years should look like.

■ **ARCHER** Absolutely. A significant volume of sustainability-linked lending was issued around 2021, when there was a rush into the market and some quite ambitious and niche targets were set quickly. Comparatively, there is now a stronger focus on simplification and consolidation of targets to those fully aligned with strategies.

This is a positive development, because the structure should not be driving a separate set of objectives. It should support existing corporate sustainability priorities. It also leverages existing reporting and verification, and simplifies management of sustainable finance by borrowers.

"ACROSS LOCAL GOVERNMENT, WE ARE SEEING MORE CLIMATE ADAPTATION AND RESILIENCE PROJECTS COME THROUGH OUR SUSTAINABLE LENDING PROGRAMMES – LARGELY BECAUSE THE PHYSICAL IMPACTS OF CLIMATE CHANGE ARE BECOMING MORE SEVERE AND MORE FREQUENT, AND COUNCILS NEED TO PREPARE AND RESPOND."

HELEN MAHONEY NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

I think we are at an important point with a shift to quality over quantity. I remain hopeful and conversations with customers give us confidence that innovation, participation and progress will continue. It needs to, given the scale of transition and what needs to be funded.

■ **CLARKE** There is not much to report from a NZDM perspective. Our green-bond pool is around NZ$16 billion. With the 2034 line around NZ$11 billion, we have room to do more issuance. Our main concern with our green-bond line is whether it behaves in a similar way to our other nominal bonds; it is important to ensure it continues to have broad appeal to all investors and not just those with an ESG focus. Largely, it does behave like a vanilla nominal bond even though it is a slightly smaller line than those around it.

There is less overt focus on green bonds on the investor side than there was a few years ago. ESG rarely comes up in investor meetings now unless we are dealing with one of the small number of very sustainability-focused investors. These investors, who closely scrutinise ESG commitments, progress and projects, are still there but the level of broad-based attention is not what it was.

How much of this shift reflects lower interest in sustainability versus how much is due to our programme being more mature and the detail already being available online is difficult to know.

Swiss What do you think the next innovation will be in New Zealand? Could it, for instance, be in transition finance?

■ **ARCHER** There is a lot of excitement globally about transition finance. The Guide to Transition Loans was released by APLMA [the Asia-Pacific Loan Market Association] last year and we are exploring how this could be used in lending, especially to support borrowers in transition sectors with credible transition plans. But the pool of hard-to-abate borrowers in New Zealand is arguably smaller than it is in Australia so we may follow rather than lead there.

Another area is SLBs. Auckland Council's SLB transaction last year was the largest in New Zealand and was also globally novel given its use of a donation structure and nature-base target. The nature-focused donation structure suited the makeup of the council and the ratepayer framework while also appealing to investors. It attracted a lot of global attention and local interest in SLBs.

This is the kind of innovation we are continuing to drive. Beyond climate mitigation, there's a clear need to accelerate funding for natural infrastructure, adaptation and resilience, the blue economy, and affordable housing – to name a few. Whatever label it's under, sustainable finance channels can fund a wider range of priorities.

We are also enthused by regulatory developments that lower barriers to market. In March, the FMA [Financial Markets Authority] granted a new class exemption for green, social, sustainability and sustainability-linked bonds in New Zealand, which we expect to improve market access and issuer participation.

Swiss Given how central agriculture is to the New Zealand economy, there must also be a great deal to fund there.

■ **ARCHER** Absolutely. We've seen this through strong uptake of our Sustainable Farm Loan. Launched less than three years ago, it now represents nearly half of Westpac's agribusiness term lending. It supports farmers to optimise sustainability practices on farm and in turn we believe it builds resilience into Westpac's lending book.

The New Zealand taxonomy for agriculture and forestry was published last month to support voluntary use by market participants. There is a lot of interest in whether this provides enough clarity to support greater funding.

Swiss Is it too optimistic to suggest that sustainable finance was always meant to become business as usual?

■ **MAHONEY** I think this is the case for some products, including green, social and sustainability bonds. Investors have become increasingly comfortable with these products and what they're trying to achieve. I think this is partly reflected in the fact that investors are less likely to bring in specialists to interrogate the detail of these products, which may also be due to better documentation, sustainable bond frameworks and impact reporting. There has been a shift and it should be a positive one as long as the discipline remains.

■ **HYDE-SMITH** Assessing whether a company will remain viable has always been core to credit analysis. A key component is assessing the potential for ESG factors to materially affect a company's cash flows over a full credit cycle. This analysis is embedded in how we think about credit risk, regardless of whether an instrument carries a specific ESG label.

There will always be some degree of overlap between fundamental credit analysis and the impact dimension of ESG-labelled instruments. However, from an investor standpoint, the New Zealand market simply does not yet have sufficient volume or breadth of ESG-labelled supply to support dedicated mandates. •