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Q3 2019

@ESG Snapshot

Key Themes

- The recent UN summit has led to a number of new initiatives / policy commitments in the climate space
- New tools are being made available to assess portfolio risks in respect of climate change
- Banks continue to support new initiatives around climate and ESG disclosure and behaviour
- Climate change takes to the international stage, with the G20 summit putting it back in the limelight.
- There are increasingly innovative ideas about how to address ESG matters, with the launch of a "rhino bond."

Climate

G20 Osaka Leaders' Declaration—Osaka, Japan, June 29, 2019—Climate change

In its official declaration in a meeting in Osaka, Japan, the G20 leaders covered a wide range of topics related to climate change, including the following excerpt; "… we strive to foster inclusive finance for sustainable development, including public and private financing mobilization and alignment between them, as well as innovation in a wide range of areas for low emissions and resilient development. Climate actions at all levels with broad participation, including by non-state actors, will be the key to realizing such a paradigm shift. *G20*, June 29, 2019. Click here for full article

Summit delivers major step up in national ambition and private sector action on pathway to key 2020 climate deadline

At the United Nations Climate Action Summit, there were major announcements by government and private sector leaders to boost climate action momentum, demonstrating a growing recognition that the pace of climate action must be rapidly accelerated. 65 countries and major sub-national economies such as California committed to cut greenhouse gas emissions to net zero by 2050, while 70 countries announced they will either boost their national action plans by 2020 or have started the process of doing so. Over 100 business leaders delivered concrete actions to align with the Paris Agreement targets, and speed up

the transition from the grey to green economy, including asset-owners holding over $2 trillion in assets and leading companies with combined value also over $2 trillion. *UN*, 23 September.
Click here for full article

Report states financial markets have not adequately priced-in the likely near-term policy response to climate change

A report from advocacy group Principles for Responsible Investment (PRI) says that government action to tackle climate change has so far been highly insufficient to achieve the commitments made under the Paris Agreement, and the market's default assumption appears to be that no further climate-related policies are coming in the near-term. Yet as the realities of climate change become increasingly apparent, it is inevitable that governments will be forced to act more decisively than they have so far *PRI*, September 2019.
Click here for full article

Asset owners step up to take unprecedented action on climate change

In an op-ed by Fiona Reynolds, CEO of Principles for Responsible Investment (PRI), she says that by committing to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050, asset owners are significantly raising the bar for other investors, industry associations and, importantly, the global economy. *PRI*, 24 September 2019. Click here for full article

Banks Are Finally Starting to Account for Climate Change Risk

Bloomberg news reports on the trends that show that behind the scenes at some of the world's biggest banks, small teams of employees are busy trying to calculate what might prove to be one of the most important numbers any financial institution will ever disclose: how much the assets on their balance sheet are contributing to global warming. *Bloomberg*, 12 September 2019.
Click here for full article

Investor group pleads with G-20 on global warming to meet the 2015 Paris Agreement's goals

Paulina Pielichate of Pensions & Investments reports that, "Nearly 500 investors have urged governments to phase out thermal coal power worldwide by 2020. The investors want the Paris goals to be implemented into all policy frameworks and energy transition programs, as well as end fossil fuel subsidies. They also want to see governments commit to implement the Task Force on Climate-Related Financial Disclosures' recommendations in their jurisdictions by 2020 and request international standard bodies to incorporate the recommendations into their global guidelines. Implementation of the Paris Agreement and the regulation of emissions on a clear timeline would help businesses know what the interim targets are and the timeline for their action. Pensions & *Investments*, June 26, 2019.
Click here for full article

Climate change could cost $69 trillion by 2100 if we reach the two-degree threshold

Steven Mufson reports on consulting firm *Moody's Analytics* report on climate change. Mufson reports that rising temperatures will universally hurt worker health and productivity, and more frequent extreme weather events will increasingly disrupt and damage critical infrastructure and property. Emerging economies will be the hardest hit—particularly India, whose GDP will grow 2.5 percent more slowly than it would have without climate change. Demand for oil and gas is predicted to fall, dealing a blow to oil-exporting countries—particularly to Saudi Arabia, whose GDP is forecasted to drop by more than 10 percent by 2048. Most scientists have set a threshold of 1.5 degrees Celsius to avoid dire climate change; however, reaching this model will be extremely challenging: almost all coal will need to be eradicated by 2050. Although many leading European insurance companies have already cut off insurance for coal companies, US firms are yet to follow. *The Washington Post*, July 8, 2019. Click here for full article

How to erase 100 years of carbon emissions? Plant trees—lots of them.

Stephen Leahy reports that a study by Science has found that the world's forest cover could be increased by one-third, an area equivalent to the size of the United States, without affecting existing cities or agriculture. This would cut atmospheric carbon dioxide by 25 percent and erase 100 years of carbon emissions. Forest restoration is proven to be the most effective solution to climate change and to mass extinction. However, the amount of suitable land area diminishes as global temperatures rise. Additionally, new forests would take decades to mature, thus protecting existing forests and phasing out fossil fuels remains vitally important. National Geographic, July 4, 2019. [Click here for full article]

Construction is identified as responsible for 11 percent of global carbon emissions

Sixty percent of a building's emissions come from the extraction, transport and on-site use of cement, steel and rubber materials that are used in construction. Reed Landberg and Jeremy Hodges report that "Transforming iron ore into steel requires both energy and chemical reactions that release carbon dioxide." Similarly, carbon dioxide is produced when making a clinker, a key ingredient for cement. Markus Berensson, research manager at the C40s cities program says, "In Southeast Asia, India and Africa, most buildings that will exist in 2050 haven't been built yet, so this is a critical opportunity for cities and nations to consider how to balance pollution from building materials with population growth." Bloomberg, June 20, 2019. [Click here for full article]

Sustainable Finance

Hong Kong Green Finance Association issues its Green Bonds Guide and EIA Guidance

At its Annual Forum on September 23, the Hong Kong Green Finance Association (HKGFA) published its [Green Bonds Guide]. Supported by Hong Kong Exchanges and Clearing Limited, the guide sets out the core principles for green bonds, how to facilitate the Hong Kong green bond market and guidance on listing green bonds in the city. HKGFA also issued the [Environmental Impact Assessment Guidance], which was written together with the Hong Kong Quality Assurance Agency (HKQAA), to provide guidance to bond issuers or parties involved in bond issuances on how to conduct impact assessments for green bonds.

Equator Principles consultation ends

The recent external stakeholder consultation on the draft text of the fourth iteration of the Equator Principles has been completed and recommendations are with the Equator Principles Association for consideration. The Equator Principles (EPs) is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making. *Equator Principles Association*, 20 September 2019. [Click here for full article]

United Nations General Assembly produces Principles for Responsible Banking

At the annual United Nations General Assembly on September 22-23, 130 banks from 49 countries, representing more than USD47 trillion in assets, issued the Principles for Responsible Banking, a framework for a sustainable banking system, created to help the industry demonstrate how to make a positive contribution to society. *Principles for Responsible Banking*, September 2019. [Click here for the full article]

ESG factors are playing an increasingly important role in rating analysis

Given the complexities of these factors, it is important to understand how ESG impacts rating and the expected evolution of this analysis. S&P Global Ratings (S&P) provides a helpful explanation of their analysis, which breaks down ESG credit factors by sector and type of financing. *S&P*, September 2019. [Click here for the full article]

Rhinos come to the bond market, and other species may follow

Antony Sguazzin reports that "The planned sale of a rhino impact bond, aimed at growing the population of the endangered black rhino, is seen by its backers as a test for the creation of a conservation debt market that could be used for everything from protecting species facing extinction to preserving wildlife areas. The sale next year of the $50 million bond, the first financial instrument for species conservation, is being run by the Zoological Society of London and Conservation Capital." *Bloomberg*, July 18, 2019. Click here for full article

EC publishes guidelines on reporting climate-related information

Deloitte reports that "The European Commission (EC) has published new guidelines on reporting climate-related information supplementing its non-binding guidelines on non-financial reporting published in July 2017. The new guidelines on reporting climate-related information integrate the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) of the Financial Stability Board (FSB). In short, the new guidelines accompany and are consistent with the EU Non-Financial Reporting Directive published in November 2014; supplement the general guidelines on non-financial reporting published in July 2017, which are still applicable; are based on proposals from Technical Expert Group (TEG) on Sustainable Finance published in January 2019; integrate the recommendations of the TCFD published in June 2017; and are not legally binding." *Deloitte*, June 19, 2019. Click here for full article

Banks are cautiously optimistic about EU's sustainability framework

Jimmie Franklin reports that banks are positive about the European Union's recently announced sustainability framework, welcoming the prospect of common guidance and definitions of what is perceived to be green. By offering formal interpretation of sustainability activities for financial stakeholders, the framework aims to reduce doubt or differing views, creating a more efficient market. *International Financial Law Review*, July 2, 2019. Click here for full article

UK's pensions regulator clarifies new ESG reporting requirements for DC plans

Pensions & Investments reports that Defined Contribution (DC) trustees will now be expected to include in the plan's statement of investment principles how factors such as climate change are being taken into consideration, how the plan is exercising its ownership rights and how participants' views are being taken into consideration. Trustees will have to publish their policy on the plan's website and report on achieving these objectives. *Pensions & Investments*, June 27, 2019. Click here for full article

Why data itself is a critical ESG factor

In an op-ed by Grant Thornton LLP consultants Kate Drew and Svetla Marinova discuss both the difficulties of obtaining adequate data on companies' exposure to ESG factors and how the data itself is a governance issue. Data breaches not only cause reputational risk but also negatively affect financial and stock performance. Artificial intelligence (AI) can be useful in catching loose data privacy policies; however, AI must be used responsibly, particularly by entering the right data sets to avoid bias. While data privacy regulation is increasing, the companies which are proactive in implementing data privacy and security into their strategies are those most likely to succeed. *Pensions & Investments*, June 19, 2019. Click here for full article

IOSCO: Sustainable finance in emerging markets and the role of securities regulators

The increasingly intense focus on global sustainability issues has been accompanied by growth in innovative sustainability-themed capital market products, such as green bonds, social-impact bonds, renewable energy investments and sustainable funds. This report explores the issues and challenges that affect the development of sustainable finance in capital markets, focusing on sustainable assets in emerging markets and measures to facilitate market development in this area. The report emphasizes the need for appropriate transparency and disclosures in this area and sets forth a set of 10 recommendations that should be considered when issuing regulations or guidance regarding sustainable instruments and additional disclosure requirements of ESG-specific risks. *International Organization of Securities Commissions*, June 2019. Click here for full article

Global

Green bond issuance is low in Latin America, but there is significant growth potential across the region

The *Climate Bonds Initiative* issued its Green finance state of the market 2019 report. its first comprehensive review of the LAC region's green bond markets, issuance from local climate-aligned issuers and public sector entities in climate-aligned sectors such as public transport. It also highlights developments in sustainable agriculture finance and blue bonds. *Climate Bonds Initiative*, September 2019. Click here for full article

Dubai's stock exchange eyes Middle East sustainability crown

According to *Minerva Analytics*, an ESG advisor to investors, the Dubai Financial Market has launched a blueprint to promote environmental, social and governance (ESG) issues among listed firms, pledging to become the region's leading sustainable financial market by 2025. The Sustainability Strategic Plan 2025, which underpins the Dubai exchange's efforts to promote ESG best practice among PLCs and other stakeholders, comprises four main pillars – Sustainability Reporting and Disclosures; Sustainable Investment Education; Green Products and Listings and lastly, Gender Balance and Empowering People. *Minerva Analytics*, August 2019. Click here for the full article

Mayer Brown article on considerations for asset owners and investors in Asia

ESG principles have become integral to the investment strategy of asset managers and investors alike. In the PE industry, the desire to embrace sustainability has led to an increase in PE firms and funds coming to the market that are dedicated to addressing the environmental or social aspects of sustainable development in their investment processes. In an article by Mark Uhrynuk (Partner), Alexander Burdulia (Associate) and Norah Mugambi (Knowledge Manager) we outline key considerations for those PE firms and funds, as well as exploring the evolution of ESG in Asia, which continues to pick up pace in Asia, albeit at much slower rate than in Western Europe or North America, as well as some of the barriers o the adoption of ESG issues in investment decisions in the region. Click here for the full article

Recent appointments underline growing importance of ESG in Asia

An increasing number of investments banks and PE firms have stepped up their ESG capabilities by making high level appointments in ESG and sustainability roles. In September, ANZ Bank expanded its ESG team with the appointment of Stella Saris as head of sustainable finance, who will be based in Singapore, and Aberdeen Standard Investments announced the appointment of a new ESG investment director, who will support the integration of ESG factors into investment decision-making in Australia and Asia-Pacific. In the same month Credit Suisse also announced the appointment of James Gifford in Singapore as head of impact advisory – a newly created role to "*drive Credit Suisse's impact thought leadership as well as impact industry development initiative*" in the region. This followed the announcement of a management shake-up by Schroders which saw the appointment of Charles Prideaux as global head of investment who will also oversee ESG team. The trend to invest in ESG and sustainability has also been echoed by other industry players such as Index provider MSCI which earlier in the year appointed a new head of ESG for Asia Pacific. *Mayer Brown*, September 2019, based on various articles *[Please ask for links to underlying articles if required]*

HK plans green finance market

According to *The Asset*, the Hong Kong Green Finance Association (HKGFA) in collaboration with the Guangzhou Green Finance Committee, Shenzhen Green Finance Committee and Macau Association of Banks announced the plan to establish the Green Finance Alliance to facilitate the greening of the Greater Bay Area. The platform is intended to host research projects and incubate some green investment projects in four key areas, namely greening the supply chain, major waste treatment facilities, standardized water risk analysis, and green building initiatives, that will benefit the Greater Bay Area. This supports Hong Kong's plans to develop a green finance market in the Greater Bay Area. *The Asset ESG Forum*, 24 September 2019. Click here for full article

ESG issues in Latin America can lead to better performance

In an article in IPE, a European publication for institutional investors and those running pension funds, the authors discuss how investors focusing on ESG in Latin American companies should be wary of corporate corruption in the region, but be award how scandals and corruption have led to significant changes to companies' governance structure, strict compliance monitoring and increased transparency. These developments, along with new legislation designed to monitor corporate behaviour, may set the stage for significant ESG opportunities in Latin America in the future. *IPE*, September 2019. Click here for the full article

Investors' role in ensuring the integrity of ESG investments has come under scrutiny following devastating fires in the Amazon

A report by Friends of the Earth US, Amazon Watch and Profundo notes that BlackRock's ESG funds that were "unsuccessful at screening out companies with deforestation risk." The report further links BlackRock's funds to land rights conflicts as well as child and forced labour. In contrast, the Norwegian Government Pension Fund and CalPERS have policies in place that either blacklist many of the companies in BlackRock's portfolio, or commit to deforestation as a "material investment risk". *AJ Imapct*, August 2019. Click here for the full article

ESG concerns play a crucial role in many investment decisions, especially in Europe

ESG factors are of increasing importance to institutional investors in the real estate sector, according to the PERE ESG Investor Survey 2019. The survey, sponsored by LaSalle Investment Management, shows that environmental credentials and governance are key considerations, especially throughout the due diligence process. There are, though, clear regional differences in ESG attitudes. Eight charts showcase findings from the study and offer a closer look at investor sentiment. *LaSalle Investment Management*, July– August, 2019. Click here for full article

Investors call for APAC companies to agree to a common ESG standard

Joe McGrath reports that "Companies in the Asia Pacific region need to agree a common reporting standard on ESG to improve investors' ability to scrutinise and compare sustainability data. That was the headline finding in a survey by the CFA Institute and Principles for Responsible Investment (PRI) following the analysis of responses at 23 workshops held between October 2017 and April 2018, and a survey of 1,100 financial professionals between September 2017 and July 2018. The report entitled 'ESG integration in Asia Pacific markets, practices and data' found that many investors are 'concerned with the quality, accuracy and comparability of the ESG data they are using in their analysis.'" *ESG Clarity*, June 7, 2019. Click here for full article

Are the ESG stars aligning across Asia?

This article comprises interviews with Ben Sheehan (senior investment specialist – Asia-Pacific equities, Aberdeen Standard Investments), Benjamin Colton (head of Asia-Pacific asset stewardship, State Street Global Advisors), Michael Cheng (head of corporate governance – APAC, MSCI), Karine Hirn (partner and chief sustainability officer, East Capital) and Gabriel Wilson-Otto (head of stewardship – Asia, BNP Paribas Asset Management). They discuss driving higher ESG asset allocation in Asia, growing calls to address the global climate crisis and the importance of governance. *Funds Global Asia*, July 2019. Click here for full article

Market Information

How is ESG affecting the investment landscape?

JP Morgan Asset Managers professionals Karen Ward and Jennifer Wu outline ways in which investors can include ESG factors in their investment decisions. *J.P.Morgan*, September 2019. Click here for full article

Deutsche Bank Wealth Management accelerates ESG strategy: "Adding purpose to performance"

The wealth management business of Deutsche Bank is adopting ESG ratings from MSCI, a leading provider of critical decision support tools and services for the global investment community, to give clients valuable standardised information on non-financial risks and opportunities when making investment decisions. *Deutsche Bank*, September 2019. Click here for full article

Band Of America: These are the top 10 reasons investors and companies should care about ESG investing

In an article by *Business Insider*, analysts from BAML's Global Wealth and Investment Management group list the top 10 reasons investors and companies should care about ESG investing. *Marketsinsider*, September 2019. Click here for full article

Sustainability-linked loans from Commonwealth Bank and Westpac are the first of their kind to be taken out by an Australian airport

In a press release by Gold Coast Airport, it is noted that the Queensland Airports Limited (QAL) has secured financing for the Gold Coast Airport redevelopment, with $100 million of the funds in the form of sustainability-linked loans. The loans from Commonwealth Bank and Westpac – based on carbon accreditation through the Airports Council International program and a reduction in carbon emissions –are the first of their kind to be taken out by an Australian airport. QAL CFO Amelia Evans said the business was committed to strengthening its performance in the area of Environment, Social and Governance (ESG)—and obtaining sustainability-linked loans was another step towards that. *Gold Coast Airport*, July 16, 2019. Click here for full article

World's best bank for sustainable finance 2019: HSBC

Euromoney reports that "The bank dominates in green bonds and green loans; and as the trusted bank in the sector, HSBC nearly always appears with firsts. Among its deal highlights last year it had the inaugural Hong Kong sovereign $1 billion green bond, Ireland's first green bond, the first green bond for protected agriculture in Mexico, the first green bond for a telecoms company (Telefonica) and the first green sukuk in the Middle East. The bank was also the sole lead manager on the World Bank's €200 million blue bond." *Euromoney*, July 10, 2019. Click here for full article