

ESG in the Investment Industry

- The SEC is seeking comments to guard against the misleading use of ESG.
- The SEC posed numerous questions on how and under what circumstances the “names rule” should apply to investments marketed as ESG or Sustainable.
- MSCI highlighted the expected escalation of regulating ESG investing in its annual *ESG Trends to Watch* report.
- Climate change and a focus on sustainable, diverse, and inclusive workplaces were among the central topics at the 2020 World Economic Forum meeting in Davos.
- US utilities increasingly emphasized their growing clean energy portfolios and greenhouse gas (GHG) emission reductions to appease investors.
- Numerous companies across multiple sectors pledged lofty carbon-neutral goals.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	1.59	1.46	1.50	1.35
Duration	5.69	6.00	5.53	5.43
Spread	95	83	87	72
Convexity	0.41	0.56	0.37	0.34
1-Yr Return (%)	11.68	11.94	11.39	11.13

As of March 31, 2020

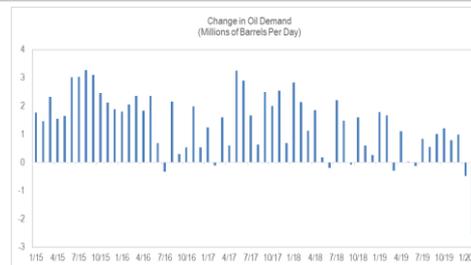
The Renewed Social Focus

- As the world deals with market turbulence and the global health crisis, the situation has begun to shed light on how companies treat their stakeholders.
- The social aspect of ESG has come to the forefront, and a company’s reaction today could have major impacts on both its long-term image and the speed of the eventual economic recovery.
- Many companies have been forced to reevaluate policies impacting human capital, such as paid sick leave, executive compensation, and health care benefits.
- The well-being and safety of employees, particularly in the health care sector, delivery services, and grocery stores, is a major focus during the pandemic.
- Some employees are threatening a “sick-out” to protest the lack of protections offered.

Sources: Bloomberg, Bloomberg Barclays, FactSet, Financial Times, MSCI, and S&P Global Market Intelligence as of 3/31/2020
 1 This abstract from the [Financial Times](#) was produced by IR+M

Keeping Sight of ESG

- While it is hard to see past current market conditions, we acknowledge that ESG factors will continue to be a key element of sound fundamental credit analysis.
- Recent headlines emphasizing the positive environmental impacts from the reduced GHG emissions due to the pandemic don’t always tell the full story.
 - The consumption of oil dropped significantly late in the quarter as much of the workforce shifted to working remotely or lost their jobs altogether. While fewer are driving, reduced oil prices provide consumers temporary relief at the pumps.
 - Although temporary, reduced demand should lead to improved air quality and reduced emissions but will most likely not lead to a sustainable decrease in pollution.
 - Significant increase in both household and medical waste is expected throughout the pandemic, offsetting or even surpassing any benefits from the reduction in GHG.
 - Lower oil prices could test the longer-term viability of some high-cost renewable energy projects as companies struggle to maintain their core operations.
 - The EPA has temporarily suspended enforcement of federally mandated public health and environmental protections.
- The expected stimulus for recovery could be an opportunity for the government and private companies to utilize green investments and focus on more efficient solutions.



- Oil demand is estimated to have fallen as much as 20% globally since last year.
- Demand is expected to remain down as the world battles the spread of the coronavirus.

ESG Headline Events

- ESG factors influence headlines and can impact credit performance. Social factors have been prevalent in the media recently.
 - + Cox Communications, the largest private telecom serving six million homes and businesses, upgraded internet speeds for residential customers and is providing additional support and relief as many transition to work and learning from home.
 - = Following negative backlash in the media, Gilead Sciences waived all benefits that accompany the ‘orphan status’ of its antiviral drug Remdesivir, which has potential to treat COVID-19 patients, allowing generic drug makers to produce a low-cost version¹.

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