

ESG in the Investment Industry

- The US Department of Labor (DOL) proposed a rule that ERISA fiduciaries may not invest in ESG vehicles for the purpose of non-financial objectives.
 - The DOL sent enforcement letters to those plan sponsors with ESG funds in their plan lineups, requesting documentation ahead of the possible change.
 - The proposed rule sparked a heated reaction, with 95% of responders opposing the change, according to analysis led by US SIF¹.
- Hurricane Laura was the seventh named storm to make landfall in the US this year, a new record over the same time period. Studies have shown that storm intensity and water temperature are likely correlated.
 - The remaining 2020 Atlantic hurricane season is expected to be very active, which may result in increased economic damage.
- The US House of Representatives passed the Moving Forward Act, aiming to revitalize federal infrastructure while achieving net-zero emissions goals. The ambitious green bill is expected to face opposition in the Senate.

The Complexities of ESG

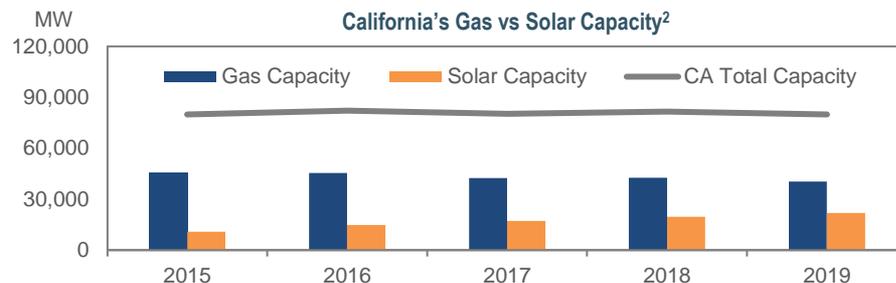
- California has led the US in Clean Energy Policy and targets 100% renewables and zero carbon by 2045. The recent rolling blackouts, the first since 2001, impacted thousands of California residents and highlight the complexities that these programs can face. Despite recent setbacks, California remains dedicated to their advancement of renewables, reduction of carbon, and other green projects.
- During record-setting heatwaves, California grid operators shut down electrical power as demand exceeded available power supply. Magnified by the extreme heat and wildfires, the pandemic has changed how people and businesses use electricity, making it harder for grid operators to forecast.
- To make progress towards their aggressive zero carbon policy, California has retired 10 gas-fired plants since 2010. As a result, there is less available gas supply at peak hours coinciding with the lack of available solar power after sundown. Recent power blackouts highlight the challenge of balancing electric reliability with carbon reduction goals as more renewable energy storage is needed.
- As a leader in Clean Energy Policy, many states will look to California's response to this challenging situation. The far-reaching implications of the regulatory environment is a key consideration in our fundamental research.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	1.15	1.07	1.10	1.03
Duration	6.09	6.36	5.91	5.76
Spread	57	50	53	46
Convexity	0.46	0.61	0.40	0.35
1-Yr Return (%)	6.47	6.79	6.50	6.52

As of August 31, 2020

The Connection Between E and S

- Throughout the pandemic, the focus on racial inequality has also highlighted climate injustice, and the connection between the environment and many social issues, which may directly impact certain related credits.
 - Evidence indicates that communities of color are disproportionately impacted by climate change, since some of these communities may live and attend school near polluting facilities.
 - Polluting facilities may impact the surrounding community's health while also resulting in residents missing school or work. Communities' proximity to these facilities could contribute to lower property values and under-funded schools, perpetuating the poverty cycle.



ESG Headline Events³

- ESG factors influence headlines and can impact credit performance. Social factors continue their prevalence in the media.
 - + Glencore and Tesla have backed a new alliance in the Democratic Republic of Congo in an effort to eradicate child labor and improve working conditions at cobalt mines. The DRC supplies 60% of the world's cobalt, which is a key input for batteries.
 - Employees at Premium Point Investments were charged with inflating asset values, allowing them to collect higher fees and attract investors. Many of these prime jumbo RMBS assets continue to trade on the secondary market.

Sources: Bloomberg, Bloomberg Barclays, and S&P Global Market Intelligence as of 9/8/2020

¹ The Forum for Sustainable and Responsible Investment.

² Data from Bloomberg Barclays and DOE.

³ This is not a recommendation to purchase or sell any specific security listed above.

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