

ESG in the Investment Industry

- The Paris Climate Agreement celebrated its fifth anniversary just weeks after the United States officially withdrew from the accord.
  - President-elect Biden has promised to reenter the agreement, which would become effective 30 days after submitting the official paperwork.
  - Biden has appointed John Kerry as the presidential envoy for climate, further highlighting the incoming administration's commitment to combating climate change.
- The Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) announced plans to merge and form the Value Reporting Foundation in an attempt to harmonize global ESG reporting standards.
- The PRI is launching a new Investor Reporting Framework in 2021. The Core (mandatory) and Plus (voluntary) models consist of questions focused on processes and outcomes. The new questions and recalibrated scoring methodology have been designed to make assessment more challenging.

Characteristics	Bloomberg Barclays US Aggregate (Agg) and MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst (%)	1.15	1.07	1.10	1.04
Duration	6.23	6.48	6.05	5.91
Spread	48	42	44	39
Convexity	0.40	0.56	0.33	0.28
1-Yr Return (%)	7.28	7.63	7.19	7.14

As of November 30, 2020

The Fed's Focus on ESG

- Several Federal Reserve Governors have spoken out about climate change and the risks it poses to the system.
- In recent comments, Fed Chair Jerome Powell discussed the importance of accounting for climate change.
- For the first time, the Fed included climate change in its November 2020 Financial Stability Report and articulated their commitment to monitoring and assessing climate change implications.
- The Federal Reserve also announced its membership in the Network of Central Banks and Supervisors for Greening the Financial System after participating in discussions and activities for more than a year.

2021 Outlook: Moving Forward

- ESG continued to gain momentum in 2020, even as – or perhaps accelerated by – the world's focus on the COVID-19 pandemic, civil unrest, and a contentious election in the United States. We expect the momentum to continue into 2021, spurred by increased regulations and investor demand.
- Europe had led the way with green regulation, but we anticipate additional regulatory actions across the globe. Many of the proposed regulations are scheduled to go into effect in 2021.
- The US is expected to increase its emphasis on green regulation, particularly given the change in administration. Recent rules and regulations, like the Department of Labor's ruling that may make it harder to include ESG funds in ERISA retirement plans, could be reversed. In fact, more ESG investment and disclosure may be required.
- As the market looks to create a more standardized approach to ESG, we believe there will be a sustained focus on social issues but expect environmental issues to continue to dominate.
- Green, social, and sustainability bond issuance is expected to continue to grow, albeit at a slower pace.

Current & Upcoming Global Regulation<sup>1</sup>

United States	EU & UK	Asia
- SEC's Shareholder Proposal Rule	+ EU Taxonomy	+ China's 2060 carbon neutrality pledge
- DOL's Financial Factors in Selecting Plan Investments	+ EU Sustainable Finance Disclosure Regulation (SDFR)	+ Japan's 2050 net zero goal
- DOL's Fiduciary Duties Regarding Proxy Voting and Shareholder Rights	+ EU Green Deal	
+ Biden's Green Energy and Infrastructure Plan	+ UK Clean Energy and Infrastructure Growth Package	

ESG Headline Events<sup>2</sup>

- ESG factors influence headlines and can impact credit performance. These factors continue their prevalence in the media.
  - + Many companies, such as Alphabet, Apple, and Walmart, are pledging carbon neutral policies. Deutsche Bank announced that top executives' pay will be tied to its sustainability goals beginning in 2021.
  - Disclosure of payment by FirstEnergy to a government official directly involved in regulating the Ohio electric utility along with a \$2 billion draw down on its credit facilities, potentially a sign of additional governance issues, was followed by a credit rating downgrade by S&P and Moody's.

Sources: Bloomberg, Bloomberg Barclays, and S&P Global Market Intelligence as of 12/15/2020

<sup>1</sup> The below chart lists regulations IR+M deems to be most meaningful as of 12/15/20 and is not a complete list of current and upcoming global regulation.

<sup>2</sup> This is not a recommendation to purchase or sell any specific security listed above.

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