

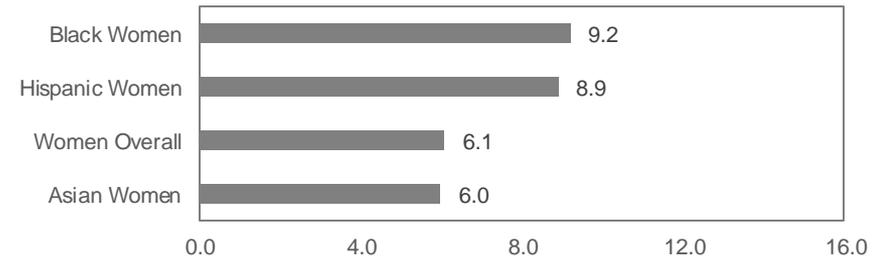
ESG in the Investment Industry

- The Biden administration is clearly focused on climate and social issues.
 - The US has rejoined the Paris Climate Accord, cancelled the Keystone XL Pipeline, and paused new oil and natural gas leasing on public lands and offshore waters.
 - Equity-focused Executive Orders have centered around discrimination, healthcare, voter participation, and fair housing.
- Regulators have also renewed their attention on ESG.
 - The Securities and Exchange Commission (SEC) launched an enforcement task force focused on climate and ESG issues and opened a 90-day comment period on climate-related disclosure.
 - The Commodity Futures Trading Commission (CFTC) also launched a special climate-risk unit.
- Central banks have joined together through the Network for Greening the Financial System and may explore the ability to influence the climate crisis through monetary policy.
 - A recent European Central Bank stress test found climate change to be a major source of systemic risk and discussed the potential to raise capital requirements for banks with high exposure.
- Despite this focus, global emissions are back to pre-pandemic levels.

ESG in Focus: DEI Matters

- Awareness of social injustices has increased, highlighted by the Covid-19 pandemic. Numerous studies show that structural inequity limits economic output.
 - Closing gender and race gaps in education and employment would have generated an estimated \$2.6 trillion more in economic output in 2019, all else equal; cumulative gains from 1990 would have been \$70 trillion in 2019 dollars.
 - 5.3 million women have left the workforce during the pandemic, absorbing the majority of layoffs and assuming the bulk of family responsibilities. The severe impact on women is feared to reverse much of the recent progress, which may influence the ESG and overall credit views of many issuers.
- Black, Asian, and Hispanic women have been disproportionately impacted.

Women's Unemployment Rates¹



- Numerous studies have linked gender diversity with increased profitability and higher ESG scores.
- Companies continue to face pressure to increase female board representation and diversity in leadership roles from numerous stakeholders, including shareholders, employees, and customers.
 - Investors are increasingly incorporating assessment of gender diversity and equity in their analysis.

ESG Headline Events²

- ESG factors influence headlines and can impact credit performance.
 - + Major US banks like Citigroup, Goldman Sachs, and Bank of America, have announced net-zero targets. As some of the biggest financiers of fossil-fuel companies, reaching these pledged goals will require substantial action.
 - Environmental groups have filed a complaint with the Federal Trade Commission, accusing Chevron of misleading consumers about its efforts to reduce greenhouse-gas emissions.

ESG-Labeled Bonds

- While we expect overall 2021 bond issuance to be down year-over-year, ESG-labeled bonds are projected to continue their growth.
- USD Corporate green, social, and sustainability bonds issued in 2020 totaled \$48 billion, with almost \$500 billion issued across currencies.
- USD Corporate ESG-labeled bonds issued year-to-date total \$13.7 billion, with global issuance year-to-date at \$230 billion.
- US Municipals issued almost \$20 billion green bonds in 2020 with the issuance trend expected to continue.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	1.42	1.36	1.38	1.33
Duration	6.31	6.47	6.15	6.03
Spread	34	32	31	26
Convexity	0.27	0.44	0.21	0.14
1-Yr Return (%)	2.06	2.13	2.08	2.06

As of February 26, 2021

Sources: Bloomberg, Bloomberg Barclays, Federal Reserve Bank of San Francisco, Moody's, MSCI, and S&P Global Market Intelligence as of 3/25/2021
¹ Source: Source: Bureau of Labor Statistics as of February 2021. Unemployment rates are not seasonally adjusted.
² This is not a recommendation to purchase or sell any specific security listed above.

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