

ESG in the Investment Industry

- The Biden administration has released executive orders spanning assessments of climate-related financial risk by regulators and suspending drilling leases in the arctic.
- SEC Commissioner (then Acting Chair) Allison Herron Lee issued an invitation for public comment regarding climate change disclosure guidance.
  - This is an extension of the SEC’s 2010 Climate Change Guidance, which states the potential need for climate disclosure and analysis. The fifteen questions for comment relate to the efficacy of reporting frameworks, standardization in the market, and data transparency.
- The Sustainable Investment Policies Act was reintroduced in the House, proposing to ultimately amend ERISA and require investment advisors and retirement plan fiduciaries to establish a sustainable investing policy.
- The International Energy Agency (IEA) released a new report proposing a 90% and 75% drop in coal and oil demand respectively, in order to achieve net zero by 2050, although the findings are being contested by members<sup>1</sup>.

Characteristics	Bloomberg Barclays US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	1.50	1.44	1.46	1.42
Duration	6.49	6.63	6.37	6.27
Spread	30	29	27	24
Convexity	0.26	0.45	0.21	0.16
1-Yr Return (%)	-0.40	-0.77	-0.59	-1.04

As of May 31, 2021

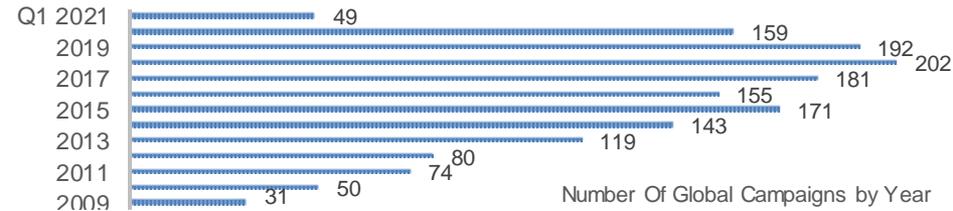
ESG Driving Change

- After facing criticism from numerous stakeholders, Barclays pulled out of underwriting a \$634 million municipal bond deal for private prison and detention center company CoreCivic Inc.
- Year-to-date, only \$6.6 billion of bonds and loans have been extended to coal companies, down from \$19.3 billion in the same period a year ago.
- Tesla CEO Elon Musk tweeted that they will no longer accept bitcoin as payment, citing the carbon intensity of bitcoin mining.
  - Estimated annual energy consumption of bitcoin mining is upwards of 115 terawatt-hours – larger than the annual energy consumption of some major countries like The Netherlands.

ESG in Focus: Activist Campaigns and Shareholder Action

- Although the oil and gas industry has historically been subject to criticism from a wide variety of stakeholders, there has been little change. However, stakeholder activist campaigns have recently grown and increasingly influence shareholder action.
  - Many of the social and environmental upheavals highlighted in 2020 are expected to gain further traction through shareholder action and can impact the credit.

Global Activist Campaigns<sup>2</sup>



- Activist campaigns led by non-profits Friends of the Earth and Follow This drove swift shareholder and regulatory action for Shell and Chevron.
  - The Hague District Court ruled that Royal Dutch Shell must cut its CO<sub>2</sub> emissions in the Netherlands by 45% by 2030.
  - A shareholder majority supported a proposal mandating Chevron to cut its total GHG emissions, including Scope 3 emissions.
- Investment firm Engine No. 1, supported by the three largest US pension funds and key asset managers, campaigned to replace four Exxon Mobil board members.
  - ‘Reenergize Exxon’ successfully won at least two board seats at Exxon Mobil’s annual meeting.

ESG Headline Events

- ESG factors influence headlines and can impact credit performance.
  - + Many utilities are looking to increase their renewable energy sources and move away from coal. Duke Energy announced a plan to increase their renewable power output as they continue to retire coal plants while NextEra Energy, the leading producer of wind and solar energy, announced a new landfill renewable natural gas (RNG) production facility. Public Service Enterprise Group closed its last coal-fired power plant as they push to reduce emissions.
  - Capital One Financial Corp. CEO Richard Fairbank’s pay soared 161%, the biggest jump among the largest U.S. banks. Executive pay compensation amid the pandemic, as well as overdraft fees, are being criticized by some lawmakers.

Sources: MSCI, Bloomberg (as of 4/19/21, 5/25/21 and 5/26/21), Cambridge Centre for Alternative Finance - Cambridge Bitcoin Electricity Consumption Index (as of 6/7/21), UN PRI (as of 5/28/21)

<sup>1</sup> This abstract from the [Financial Times](#) was produced by IR+M

<sup>2</sup> Source: Boston Consulting Group (BCG) (as of 04/28/21)

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

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