

ESG in the Investment Industry

- Members of Congress are urging the Department of Labor to reevaluate the previous administration’s ESG ruling and allow ERISA plan fiduciaries to consider ESG factors when evaluating plan investments.
- The bipartisan infrastructure bill passed in the House, leading the way for a Senate vote. The bill provides funding towards climate programs, including \$21.5 billion to create a new Office of Clean Energy Demonstrations, with an additional \$16 billion to spend on energy efficiency and renewable energy.
- There have been significant delays in the 2021 UN PRI reporting cycle, as signatories now expect to see preliminary results in October 2021. Delays were caused by a new navigation and reporting framework, which included mandatory climate-related disclosures.
- Climate Week NYC returns this September, with a focus on increasing commitments made by both the public and private sectors. The UN Climate Change Conference (COP26) will follow in November, with countries bringing their updated climate plans as outlined in the Paris Agreement.

Characteristics	Bloomberg US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	1.42	1.37	1.39	1.35
Duration	6.54	6.65	6.41	6.30
Spread (bp)	35	35	33	30
Convexity	0.27	0.48	0.21	0.16
1-Yr Return (%)	-0.27	-0.46	-0.41	-0.64

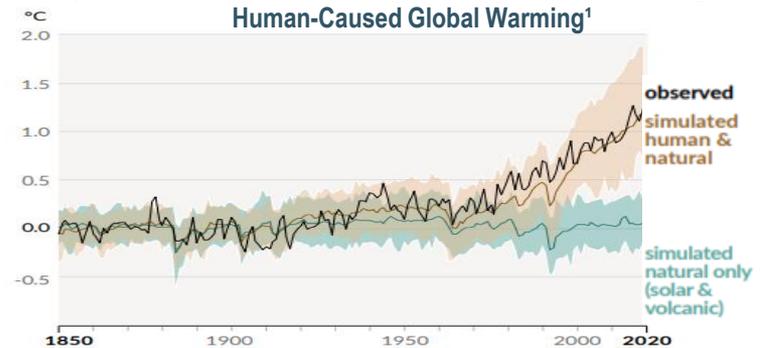
As of August 31, 2021

ESG Driving Change

- As a result of Engine No. 1 activism, three of the four candidates for the Exxon Board have been confirmed. Engine No. 1 success has been attributed to gaining support from major asset owners such as CalPERS.
- European sustainable investing assets shrank by \$2 trillion USD after new EU regulations took into effect, as asset managers reclassified funds based on the new EU Sustainable Finance Taxonomy.
 - The Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory ESG disclosures for asset managers and other financial markets participants, aiming to block greenwashing and provide more consistent and standardized data.

ESG in Focus: “Code Red for Humanity”

- The UN’s Intergovernmental Panel on Climate Change (IPCC) released its Sixth Assessment Report, confirming for the first time that human activity is “unequivocally” responsible for global warming.
- The combined effects of human activity have already increased the global average temperature by about 1.1° C, above the late 19th-century average. UN secretary-general Antonio Guterres said the report is a “code red for humanity,” giving us an opportunity to avoid even more catastrophic impacts of climate change.



- Humanity has a 50% probability of staying below 1.5° C warming if CO₂ emissions from 2020 onwards remain below 500 billion tons. This ‘carbon budget’ would be used up in 13 years at our current rate of emissions.
- Companies have set public goals to become ‘net zero’ which means balancing GHG emissions with GHG removal. However, within the corporate context, actions to become net zero are less clear. Industry groups and nonprofits aim to develop standardized frameworks to aid corporates in the achieving true net zero operations.

ESG Headline Events

- ESG factors influence headlines and can impact credit performance.
 - + Moody’s Corporation (MCO) acquired RMS, a leading provider of climate and natural disaster risk modeling serving the global property and casualty (P&C) insurance and reinsurance industries. The acquisition further signals the importance of climate analytics capabilities in the investment industry.
 - Hurricane Ida made landfall as a Category 4 hurricane, causing extensive transmission damage to the Entergy’s (ETR) service territory. One third of Entergy’s total electric customers lost power and estimated restoration costs could make Ida one of the costliest hurricane to hit the U.S.

Sources: MSCI (as of 8/31/2021), Bloomberg (as of 7/13/21, 7/18/21, 7/27/2021 and 8/9/21), UN PRI (as of 8/2/2021).
 1 IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [Masson-Delmotte, V., P. Zhai, A. Pirani, S. L. Connors, C. Péan, S. Berger, N. Caud, Y. Chen, L. Goldfarb, M. I. Gomis, M. Huang, K. Leitzell, E. Lonnoy, J.B.R. Matthews, T. K. Maycock, T. Waterfield, O. Yelekçi, R. Yu and B. Zhou (eds.)]. Cambridge University Press. In Press.
 This is not a recommendation to purchase or sell any specific security listed above.

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