

ESG in the Investment Industry

- The United Nations 26th Conference of Parties (COP26) concluded in November and highlighted the role private finance has in the transition to a low carbon economy. Central to this effort is ensuring professional financial decisions consider climate change, and as a result, many financial firms are contemplating net zero initiatives.
 - Achieving net zero requires incorporating climate-related metrics in portfolios and driving their reductions consistent with a 1.5C future. Some climate-related metrics may include weighted average carbon intensity, or carbon emissions to revenue intensity.
 - COP26's Glasgow Financial Alliance for Net Zero (GFANZ) brings together net-zero finance initiatives into one sector-wide coalition to provide support for financial firms to align their portfolios to a low-carbon global economy.
 - Through GFANZ, over \$130 trillion of private capital, from across 450 firms across 45 countries, has committed to achieving net zero emissions.

| Characteristics | Bloomberg US Aggregate (Agg) & MSCI Focused Sub-Indices | | | |
|-----------------|---|--------------|-------|----------------|
| | Standard | ESG-Weighted | SRI | Sustainability |
| Yield to Worst | 1.69 | 1.65 | 1.64 | 1.62 |
| Duration | 6.78 | 6.90 | 6.63 | 6.57 |
| Spread (bp) | 39 | 40 | 40 | 33 |
| Convexity | 0.42 | 0.60 | 0.60 | 0.33 |
| 1-Yr Return (%) | -1.15 | -1.28 | -1.18 | -1.32 |

As of November 30, 2021

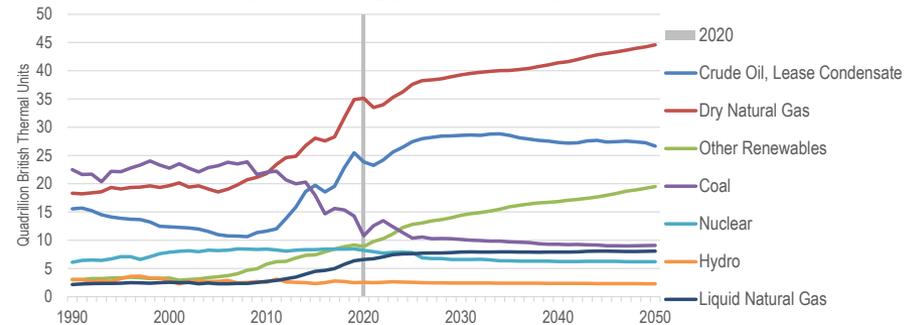
ESG Driving Change

- The Department of Labor (DOL) proposed a new rule that would permit plan fiduciaries to consider any factors that are material to the risk-return analysis, such as climate change, governance, and workplace practices.
- The House passed President Joe Biden's Build Back Better by a 220-213 vote; the bill heads to the Senate.
 - The \$2 trillion social and climate spending package includes \$550 billion to address climate change through incentives and tax breaks, provides for universal pre-K and family leave subsidies, and allows Medicare to negotiate prescription drug prices.

ESG in Focus: Decarbonizing the Power Sector

- The Power sector will play a pivotal role in the United States' transition to a low carbon economy. Sector decarbonization calls for transitioning from fossil fuels to renewable energy sources, requiring fundamental shifts in our energy infrastructure.
- While states and utilities are setting ambitious decarbonization targets, building out new sources of power generation, grid flexibility and transmission infrastructure could require up to \$2.5 trillion by 2035.

Projected Energy Production by Source¹



- Renewable energy sources such as wind, solar and biogas are expected to rise in the coming decades. However, renewable energy fluctuations (intermittency) poses challenges for utility operators to balance the grid.
 - New technologies such as battery storage will need to be deployed to increase grid capacity and deliver power during intermittency.
 - Many consider natural gas a bridge fuel, displacing coal while meeting demand when renewables are unavailable.

ESG Headline Events

- ESG factors influence headlines and can impact credit performance.
 - + Cox Communications (COXENT) broadened its affordability portfolio with a new tier called ConnectAssist. The service is designed for low-income households that participate in government subsidy programs, providing low-cost internet access and modem rental.
 - Telecom Italia (TIIFY) approached its sixth management overhaul in less than nine years after Luigi Gubitosi offered his resignation as CEO. In addition, growing uncertainty over a \$37 billion takeover approach by U.S. fund KKR looms among management upheaval.

Sources: Glasgow Financial Alliance for Net Zero (GFANZ) (as of 12/8/2021), Bloomberg (as of 10/13/2021, 11/19/2021 and 11/30/2021)
¹ U.S. Energy Information Administration (EIA) Annual Energy Outlook 2021 (AEO2021) National Energy Modelling System (as of 2/3/2021)
 This is not a recommendation to purchase or sell any specific security listed above.

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