

ESG Developments

- The Intergovernmental Panel on Climate Change (IPCC) released its most recent report focused on climate change mitigation. The report concluded that unprecedented, immediate, and bold climate action on a global scale is needed to keep temperatures from rising beyond 1.5 degrees Celsius.
  - The report warned that current targets and actions are not sufficient.
- IFRS Foundation's International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB) announced that the two boards will work together to build and incorporate the Value Reporting Foundation's Integrated Reporting Framework into their standard setting projects and requirements, aiming to standardize ESG reporting.
- The EU Commission announced the adoption of the regulatory technical standards (RTS) to be used when disclosing information under SFDR. It is expected that the RTS will apply as of January 2023; however, the EU Commission mandated the European Supervisory Authorities (ESAs) to review and propose amendments.
  - The ESA's comments were submitted in May and are awaiting the response of the EU Commission.

Characteristics	Bloomberg US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	3.38	3.39	3.33	3.31
Duration	6.51	6.54	6.41	6.40
Spread (bp)	46	50	42	40
Convexity	0.63	0.71	0.60	0.59
1-Yr Return (%)	<b>-8.22</b>	<b>-8.29</b>	<b>-8.09</b>	<b>-8.04</b>

As of May 31, 2022

ESG Driving Change

- The securitized market is ramping up its involvement with ESG; industry groups such as the Structured Finance Association are leading task forces to propose potential ESG Frameworks and Reporting Standards.
- Recent securitized issuance has utilized some new structures focused on environmental projects and outcomes.
  - A large electric utility issued its second securitized deal used to finance the decommissioning of a coal plant, along with other services aimed at enhancing grid reliability. This was issued as part of the utility's plan to cut total carbon output by 50% by 2028.

ESG in Focus: Here Comes the SEC

- The SEC has intensified its focus on ESG, following the lead of the EU and aiming to address greenwashing concerns.
- In April 2021, the SEC issued a Risk Alert that provided observations of both weak and effective practices and internal controls related to ESG.
- In March 2022, the SEC proposed rule amendments that would require public companies to disclose material climate-related risks as well as calculate and report their greenhouse gas emissions.
- In May 2022, the SEC released two new proposed rule amendments.
  - Additional disclosures would be required for funds and registered investment advisers considering ESG factors in the investment process.
    - The proposal differentiates Integration Funds, ESG-Focused Funds, and Impact Funds.
  - The proposed "Names Rule" amendment would require funds with certain names to adopt a policy to invest 80% of their assets in investments suggested by that name, including those indicating the fund's investment decisions incorporate one or more ESG factor.

Number of ESG Funds



Issuer Headline Events

- ESG factors influence headlines and can impact credit performance.
  - + Pfizer (PFE) announced plans to sell its entire current and future patent-protected medicines at cost in many lower-income countries. This is one of the most comprehensive drug-access programs announced.
  - Abbott Laboratories (ABT) was aware of allegations regarding the problems at their infant formula plant in Michigan months earlier than previously communicated. A complaint filed with the Occupational Safety and Health Administration (OSHA) by a former Abbott employee purported problems at the plant, which was later shut down and has been a major contributor to the baby formula shortage in the US.

Sources: Bloomberg (as of 05/31/2022), Intergovernmental Panel on Climate Change (IPCC) (as of 05/31/2022), IFRS Foundation (as of 5/31/2022), The U.S. Securities and Exchange Commission (SEC) (as of 06/13/2022). The bar chart includes any active/closed open-end fund or exchange traded product that lists ESG as a general attribute as of 6/10/2022. The date is based on the inception date of the fund. Other includes fund asset class focus of alternative, commodity, real estate, private equity, specialty or N.A.

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