

ESG Developments

- The US passed the Inflation Reduction Act into law, which aims to address numerous climate issues.
 - The landmark bill provides tax credits and incentives to switch to cleaner energy sources with the goal of reducing GHG emissions.
 - Some critics argue that there are many concessions provided to large energy companies. In addition, the electric vehicle incentives may be effectively eliminated given restrictions on income levels and vehicle prices, along with requirements surrounding assembly in North America and on sourcing battery minerals.
- Europe continues to face an energy crisis as they grapple with the lack of supply coming from Russia, rising energy costs, and the push to use more coal, as we discussed in our recent [blog](#).
- The European Union appears to have shelved the Social Taxonomy, which had been tentatively slated for discussion at the EU Commission by 2024.
- The 27th annual Conference of Parties (COP27) is scheduled for November amid several geo-political crises, including food shortages, global inflation, increased energy costs, and the Russia/Ukraine conflict.

Characteristics	Bloomberg US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	3.96	4.00	3.93	3.91
Duration	6.36	6.41	6.28	6.28
Spread (bp)	50	54	46	44
Convexity	0.63	0.70	0.60	0.59
1-Yr Return (%)	-11.52	-11.67	-11.31	-11.21

As of August 31, 2022

ESG Driving Change

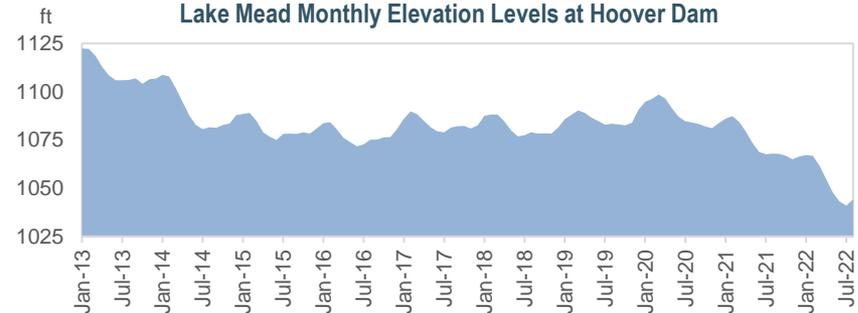
- States across the US are passing regulations directed at ESG issues that are also impacting capital markets, including Maryland's net-zero emissions goals, Connecticut's commitment to clean energy, and Michigan's clean water bill.
 - California passed a rule eliminating sales of GHG-producing vehicles by 2035, with interim targets set in 2026 and 2030.
 - California is the largest auto market in the US, and it is expected that many states will follow California's lead.
 - Florida recently passed a resolution banning pension fund managers from considering ESG within their investments.
 - Texas has banned investments with 10 firms they viewed as "boycotting" the energy sector.

Sources: Bloomberg (as of 9/12/2022) and Bureau of Reclamation (as of 9/1/2022). *This is not a recommendation to purchase or sell any specific security listed above.

ESG in Focus: Water, Water Everywhere?

- Extreme flooding events have not only cost lives but are severely impacting communities and the global economy.
 - Flooding across the globe, including Pakistan, Iran, Australia, Kentucky, and Missouri, has devastated communities and damaged infrastructure. In Pakistan, the damage is particularly severe and the country is bracing for a potential famine.
- Droughts are also affecting crops from California to Iowa to China, distressing global food supply, causing food security concerns, and limiting access to drinkable water.
 - Europe's major rivers, like the Rhine, Danube, and Loire, are at extremely low levels, impacting transportation, energy, and global trade.
 - Lake Mead is the largest reservoir in the US, providing drinking water to millions across a number of southwestern states and parts of Mexico. The water has fallen to its lowest level since it was first flooded in 1935.
- Wildfires continue to burn, with 11 major fires blazing in California alone, consuming thousands of acres, threatening communities, and destroying infrastructure.

Lake Mead Monthly Elevation Levels at Hoover Dam



Issuer Headline Events*

- ESG factors influence headlines and can impact credit performance.
 - + Princeton University announced plans to expand its financial aid to cover tuition costs for students whose parents earn less than \$100,000 per year. Over 25% of the undergraduate student body will be fully covered under the new policy, which takes effect in 2023. Princeton's leadership in college access helps improve its socioeconomic diversity and ultimately leads to better student outcomes, greater student demand, and a more enriching experience.
 - 3M (MMM) is facing a number of significant fines and clean-up costs from multiple lawsuits related to its defective earplugs as well as its manufactured PFAS compounds. 3M has been accused of knowing about the dangers associated with the PFAS chemicals produced and could face over \$30 billion in liabilities according to some estimates.

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