

ESG Developments

- The US Department of Labor (DOL) released a new final ruling acknowledging that ESG factors may be given “appropriate consideration” in analyzing the risk and return of plan investments.
 - The ruling does not require ESG factors to be taken into consideration.
 - The ruling replaces the 2020 DOL ruling referencing pecuniary and non-pecuniary factors, but does not remove the primary responsibility of the fiduciary to act in the best financial interest of the plan.
- The 27th annual Conference of Parties (COP27) on global climate change was held in Sham el-Sheikh, Egypt. The conference focused on financing a climate transition and adapting to a warming planet. We outlined our key takeaways in a recent [blog](#) post.
- A recent report from The Global Carbon Project showed that carbon dioxide emissions are projected to hit a record high in 2022, led by India and the United States, despite a drop in China’s emissions.
 - Current climate pledges from nations globally will fall far short of the goal of maintaining a global temperature rise to 1.5 degrees Celsius.

Characteristics	Bloomberg US Aggregate (Agg) & MSCI Focused Sub-Indices			
	Standard	ESG-Weighted	SRI	Sustainability
Yield to Worst	4.56	4.59	4.53	4.52
Duration	6.25	6.29	6.16	6.18
Spread (bp)	53	56	50	48
Convexity	0.63	0.69	0.60	0.60
1-Yr Return (%)	-12.84	-12.88	-12.66	-12.55

As of November 30, 2022

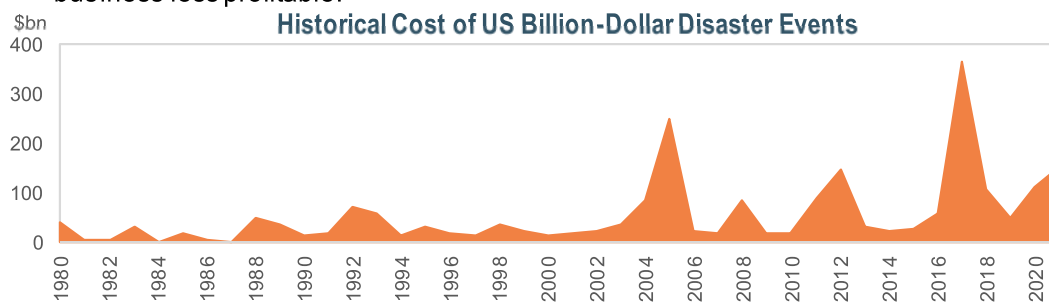
ESG Pushback

- ESG pushback continues. In response to the perceived threat of ESG investing, some US states have responded via new legislation banning the consideration of ESG factors within the investment process.
- The UN Race to Zero initiative eliminated its “no new coal” language from its guidelines at the recent UN general assembly meeting.
- The Glasgow Financial Alliance for Net Zero (“GFANZ”) dropped its rigorous UN Race to Zero requirements, seemingly in the hopes of maintaining membership.
 - Net Zero groups in general are seeing membership decline, as asset owners, asset managers, and investment consultants reevaluate the criteria and respond to criticism. Companies’ net zero target timelines are being pushed out, with fewer companies on track to meet goals.

Source: Bloomberg as of December 9, 2022
 *This is not a recommendation to purchase or sell any specific security listed above.

ESG in Focus: Widespread Impacts of Extreme Storms

- Hurricane Ian hit Florida as a Category 4 storm in late September, killing over 100 people. Homes and businesses were damaged or destroyed, thousands were left without power, and infrastructure damage left roads and bridges unpassable.
- The increase in the frequency and severity of storms have been felt across public and private sectors, including insurers, municipalities, the real estate industry, and local businesses, among others.
- Hurricane Ian could be one of the costliest storms to date in Florida, with record numbers of properties destroyed. Many homeowners did not have flood insurance and may struggle to rebuild their homes. Looking ahead, the need for flood insurance is expected to increase but the availability and affordability may be in question.
- More generally, insurers may look to adjust their underwriting with the potential for insurance policies to become more expensive, if they are available at all. The State of Florida’s property insurance acts as insurance of last resort when private market insurance is unavailable; the potential cost increases may put a strain on the system.
- Reinsurance has typically been a useful tool in spreading the risk, but this model has come into question in areas like Florida where increasing costs of storms makes the business less profitable.



Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2022). <https://www.ncei.noaa.gov/access/billions/>, DOI: 10.25921/skw-7w73

Issuer Headline Events*

- ESG factors influence headlines and can impact credit performance.
 - + Glencore announced that they will accelerate twelve coal mine closures, an improvement from previous indications that they would remain in operation until the end of their useful lives. The company also settled a number of fines, in line with expectations and provided some closure on recent corruption claims.
 - TC Energy’s Keystone Pipeline, running from Alberta to Texas, was shut down after crude oil leaked into Mill Creek in Kansas. This is the seventh leak event since the pipeline began operations in 2010. The Keystone Pipeline now tops the list of most-leaked crude oil pipelines in the US since it began operations.

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