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SUSTAINABLE INVESTING HIGHLIGHTS

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JULY 2021



## Proxy Voting and Shareholder Engagement in 2021

2021 will go down in history as a record-breaking year for shareholder engagement initiatives.<sup>1</sup> As the proxy season started, shareholders were excited to communicate their dissatisfaction with companies whose business activities do not address sustainability issues.<sup>2</sup>

A statement by Proxy Preview cites that “to date, there have been 34 majority votes for ESG proposals, shattering last year’s record of 21. More are likely by year’s end. Last year, only two votes broke 70%, while this year 17 did. Eight were in the 80s and six saw more than 90% support. Four of the six that received more than 90% were supported by management — a first for U.S. environmental and social resolutions. More importantly, other high-scoring proposals were opposed by management but still earned huge support.”<sup>3</sup>

Momentum around proxy voting is increasing at a time when shareholder activism is gaining ground, pushing publicly traded companies toward a more inclusive and sustainable approach that takes into account key stakeholders.<sup>4</sup> Recently, Engine No. 1 was able to stage a coup of sorts against ExxonMobil through shareholder engagement and proxy voting, resulting in a shareholders’ revolt that unseated three members of the oil company’s board of directors. The unseated directors were replaced with more climate-concerned candidates.<sup>5</sup> Heidi Welsh, Executive Director of the Sustainable Investments Institute (Si2) and co-author of Proxy Preview, said, “the slew of majority votes suggests investors at large see ESG as material.”<sup>6</sup>



## UAE Considers Becoming First OPEC Member to Set Net-Zero Goal while Ikea and Rockefeller Foundation Pledge \$1 Billion Towards Clean Energy

The United Arab Emirates is set to become the first Organization of the Petroleum Exporting Countries (“OPEC”) member country to set a Net-Zero goal.<sup>7</sup> A strong move aimed at aligning UAE’s long-term energy plan with the “global push to keep temperatures from rising more than 1.5 degrees Celsius from pre-industrial levels.”<sup>8</sup>

If the UAE decides to establish a 2050 objective, it will be the first big petroleum state to do so.<sup>9</sup> Emissions from burning fossil fuels after they've been exported overseas aren't included in such country-level objectives, so the UAE could theoretically achieve net zero while continuing to invest billions in oil production.<sup>10</sup>

The United Arab Emirates has been a target of U.S. pressure for tougher environmental obligations.<sup>11</sup> It is one of just a handful of countries that has hosted Special Climate Envoy John Kerry twice since his appointment earlier this year.<sup>12</sup> Kerry has stated that one of his aims is to persuade other countries to cut emissions more rapidly over the next decade to keep the world on pace to achieve net zero emissions by 2050.<sup>13</sup>

The International Energy Agency (“IEA”) recently called for a halt to all new coal mines, coal mine expansions, new oil and gas field development, and new unabated coal plants very immediately.<sup>14</sup> Fatih Birol, Executive Director of IEA, in a statement noted, “the road to carbon neutrality in 2050 is ‘narrow’ but still ‘achievable.’ The IEA anticipates that, although the adoption of its recommendations would result in a decline in oil production, the share of oil production controlled by OPEC would increase, from 37% today to 52% in 2050.”<sup>15</sup>

Meanwhile, Ikea Foundation and Rockefeller Foundation have both pledged \$1 billion dollars towards the development of clean energy.<sup>16</sup> Both Foundations would donate \$500 million to support the distribution of renewable energy with the goal of addressing energy poverty in developing countries.<sup>17</sup> According to the United Nations, around 2.8 billion people worldwide do not have access to dependable electricity, but the two philanthropies predict that investments in renewable energy will provide electricity to a billion of them over the next decade.<sup>18</sup> The collaboration between the Ikea Foundation and Rockefeller Foundation will target areas that would otherwise rely on fossil fuels for electricity generation, either now or in the future. The combined donation is expected to cut carbon emissions by a billion metric tons.<sup>19</sup>



## Recent Heat waves and Droughts Have Made Headlines, as the Effects of Climate Change are Re-Shaping Norms Across the Planet.

Many new national heat records were recorded around the world, often breaking records that held for over a century. Nordic countries hit near-record temperatures at the end of June, with Finland's meteorological institute recording the hottest temperature since they began keeping records in 1844.<sup>20</sup> On June 29th, Canada broke a national heat record when temperatures in British Columbia hit a staggering 121.1 degrees.<sup>21</sup> In the Pacific Northwest, a four-day period had high temperatures well over 100 degrees, setting dozens of new heat records, while the land surface temperature above the Arctic Circle in Siberia peaked at 118 degrees.<sup>22</sup>

Heat waves are deadly events, often underestimated because their death tolls are not immediately obvious. They lack the visibility of other meteorological events, such as hurricanes or snowstorms.<sup>23</sup> Recent research concludes that hundreds of people died in the Pacific Northwest heat wave based on a preliminary estimate, and this total is expected to rise after mortality data is analyzed.<sup>24</sup> Climate change has certainly exacerbated the intensity and frequency of heat waves, according to numerous scientific reports over the past few years.<sup>25</sup> A team of international climate researchers recently concluded that the Pacific Northwest heat wave would have been “virtually impossible” without the warming effects of climate change, proving that we are already living through the ramifications of our failures to curb emissions.<sup>26</sup>

Droughts are also worsened through our changing climate, putting many in the United States and around the world in a dangerous position. Mami Mizutori, the U.N.'s special representative for disaster risk reduction, stated that “drought is on the verge of becoming the next pandemic and there is no vaccine to cure it,” meaning that these droughts will have deadly implications across a wide geographic range.<sup>27</sup> Even those who are not experiencing droughts will feel their effects, as droughts will create further food insecurity and a rise in food prices.<sup>28</sup> These are present dangers, as evidenced by a recent catastrophic drought in Madagascar, which threatened more than 1.14 million people with food insecurity, with tens of thousands of people on the brink of starvation.<sup>29</sup> Madagascar's drought is also an example of the disproportionate impacts of climate change – while those in Madagascar contribute virtually nothing to worsen climate change, they are paying a great price.<sup>30</sup> Many scientists and political leaders have noted that absent drastic action in the coming years, the world may suffer extreme damage from climate change that is beyond repair.<sup>31</sup>



## SEC Chair Zeros in on ESG Investing Issues – Human Capital Disclosure

Gary Gensler, Chairman of the Securities and Exchange Commission, is fleshing out his ideas on climate risk and workplace concerns.<sup>32</sup> The SEC recently concluded its public comment on increasing corporate climate disclosure. It has also formed a task group on climate and ESG enforcement.<sup>33</sup>

In a lecture during London City Week on Wednesday, Gensler stated that the SEC had received over 400 distinct comment letters on environmental, social, and governance issues that investors care about.<sup>34</sup> On the environment, Gensler has asked his staff to “consider potential requirements for companies that have made forward-looking climate commitments, or that have significant operations in jurisdictions with national requirements to achieve specific, climate-related targets.”<sup>35</sup>

While on social metrics, Gensler is particularly interested in learning more about human capital disclosure or how businesses engage with their employees.<sup>36</sup> According to Gensler, “This builds on past agency work and could include a number of metrics, such as workforce turnover, skills and development training, compensation, benefits, workforce demographics including diversity, and health and safety, [...] disclosure helps companies raise money. It helps the efficient allocation of capital across the market. And it helps investors place their money in the companies that fit their investing needs.”



## Sovereign Green Bonds Have Raised More than \$100 Billion

According to research conducted by the law firm Linklaters, almost 100 billion pounds (\$138 billion) have been raised internationally through sovereign green bonds, with European nations accounting for 90 percent of the issuance.<sup>37</sup> Green bonds are a type of fixed-income security that raises funds for initiatives that help the environment, such as renewable energy or low-carbon transportation.<sup>38</sup>

The United Kingdom is expected to soon issue its first green bond and is anticipated to raise at least 15 billion pounds (\$21 billion).<sup>39</sup> The South Korean government is exploring selling green bonds abroad, the latest transaction from a country that has emerged as one of the world's most active issuers in the realm of sustainable finance.<sup>40</sup>

A South Korean government offering would come at a time when sovereign issuers ranging from France to Indonesia and Chile are increasing their offerings to satisfy environmental targets.<sup>41</sup> The motivation in South Korea is President Moon Jae-in's goal of making the country carbon neutral by 2050, which has pushed issuers such as Hyundai Motor Co. and SK Hynix Inc. to offer green debt.<sup>42</sup>

Meanwhile, according to Fitch Ratings, if legislation in the United States mandates that public corporations publish certain environmental, social, and governance indicators, the issuance of green bonds, sustainability bonds, and sustainability-linked bonds/loans in the United States might accelerate.<sup>43</sup> A standardized disclosure approach would aid ESG investors in adhering to investing rules by improving openness and comparability across issuers.<sup>44</sup> As assets devoted to sustainable investment continue to rise, it would also increase access to finance for issuers with exposure to greenhouse gas emissions.<sup>45</sup>

Regulation might benefit both issuers and investors. ESG bond issuers are currently required to track, monitor, and report on the use of proceeds and progress toward sustainable goals, and there is a rising need for third-party verifications; thus, uniform reporting would increase trust with ESG investors.<sup>46</sup> Green bonds are used to fund specific climate-related or environmental initiatives, whereas sustainability bonds are used to finance or refinance a mix of green and social projects or activities.<sup>47</sup> Sustainability-linked bonds/loans are often issued for ordinary business purposes but may include a coupon step-up or tiered pricing structure dependent on fulfilling sustainability objectives.<sup>48</sup>



## About the SDGs, Targets, and Indicators

### **The SDGs**

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals ("SDGs"), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go together with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.<sup>49</sup>

### **Targets**

The SDGs targets are set to be achieved by 2030. There are approximately 169 targets covering a broad range of sustainable development issues.<sup>50</sup>

### **Indicators**

The SDGs indicators are used to measure progress made by the United Nations member states towards the achievement of SDGs targets. There are approximately 232 indicators set by the United Nations to measure SDGs progress.<sup>51</sup>

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