

SHAREHOLDERS AND ASSET MANAGERS DEMAND ESG TRANSPARENCY; REPORTING SCRUTINIZED

Hong Kong considers stewardship code; UK may see first lawsuit regarding fiduciary duty

In Q1 we reported that shareholders and asset managers are demanding more disclosure around ESG, especially GHG emissions. Meanwhile, asset owners in Norway, Australia and the UK, are examining their sustainability risks and issuing guidelines. We also reported on transparency in the green bond market, the negative economic consequences of divestment incites controversy, and a groundbreaking lawsuit is expected to challenge the meaning of fiduciary duty. Lastly, we discuss Hong Kong Securities and Futures Commission's non-binding principles.

SHAREHOLDER DEMANDS

More than 50 shareholder investors representing USD 237bn have co-filed shareholder resolutions for the annual meetings of several oil majors. The resolutions ask a number of questions of the firms, including how they are addressing low-carbon research and development as well as emissions management.

The resolution—which is named “Strategic resilience for 2035 and beyond”—favors engagement over divestment. It calls for “routine

annual reporting from 2016 to include further information about ongoing operational emissions management; asset portfolio resilience to the International Energy Agency's scenarios; low-carbon energy research and development and investment strategies; relevant strategic key performance indicators and executive incentives; and public policy positions relating to climate change.” ([Sustainable Insights: Edition 76](#))

Meanwhile, asset managers are demanding disclosure too. 42% of UK asset managers surveyed disclosed policies on how they include environmental and social factors in their investment decisions, despite many more signing on to codes of conduct on responsible investing. ([Sustainable Insights: Edition 78](#))

ASSET OWNERS

Nordea, the largest Nordic fund manager with USD 228bn in assets, will identify companies to exclude from its investable universe that have “large and sustained exposure to thermal coal mining”, because coal is the “most environmentally compromising fossil-fuel resource,” said Sasja Beslik, head of corporate governance at the group. ([Sustainable Insights: Edition 76](#)).

The world's richest sovereign wealth fund, Norway's USD 85bn Government Pension Fund Global released its first RI report this quarter. As part of its risk management approach it revealed that it will analyze ESG risk, expect companies to protect children's rights, have a clear strategy for water management and analyze climate change exposure. ([Sustainable Insights: Edition 78](#)).

Meanwhile, Australian Super, one of the country's largest investors, has asked the chairmen of the nation's biggest banks how they are responding to carbon exposure risk. ([Sustainable Insights: Edition 74](#)).



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The \$188bn California State Teachers' Retirement System (CalSTRS) announced this quarter that it will support any shareholder proposal that allows shareholder groups owning 3% of company stock for three years ("three-and-three") to make board director nominations and try to persuade other shareholders to join it in withholding their votes from directors who try to exclude or preempt such proposals (*subscription required for link*). ([Sustainable Insights: Edition 79](#)).

Meanwhile, the UK's pension trustee body, The Association of Member Nominated Trustees (AMNT), announced that it will implement a "red line" voting initiative for their fund managers regarding ESG voting at companies. "For each red line there will be a proposed voting action (short of divestment) in relation to a company crossing them," the trustees explained.

Earlier this year several pensions in the UK released the [Guide to Responsible Investment Reporting in Public Equity](#), which also includes guidance on reporting. AMNT is a not-for-profit organization which launched in 2010. It supports member-nominated trustees, member-nominated directors and employee representatives at private and public sector pension funds. ([Sustainable Insights: Edition 83](#)).

TRANSPARENCY IN GREEN BOND MARKET

We reported [this](#) quarter that the green bond market hit a record USD 36.6B in 2014. With this growth, there has also been an increased demand for [transparency](#) in the green bond market. Any debt issuers can label a bond "green", because it is currently an unregulated designation. With a market that is expected to expand at [50 percent](#) per year, we're keeping on eye on how standards are developed and enforced.

"The market is at a critical juncture, and it is important that certain standards and certain definitions are maintained," said Manuel Lewin, head of responsible investment at Zurich Insurance Group. ([Sustainable Insights: Edition 77](#))

ANTI FOSSIL FUEL DIVESTMENT

A new study [Fossil Fuel Divestment: A Costly and Ineffective Investment Strategy](#) written by a professor emeritus and a former dean of the University of Chicago law, Daniel Fischel, pushes back against the divestment movement. In the study, Fischel cites economic evidence that fossil fuel divestment could significantly harm a portfolio.

The study, which was funded by The Independent Petroleum Association of America (IPAA), found that divestment could cost university endowments as much as \$3bn annually. Fischel wrote an [opinion piece](#) in the WSJ this quarter outlining his main points. [In response](#), Yossi Cadan, a senior campaign manager with [350.org](#) notes, "this oil-industry-funded study cherry-picks data to arrive at the exact opposite conclusion of most financial experts." (*subscription required for WSJ link*).

Ahead of the Global Divestment Days others are coming forward to argue against divestment. [An op-ed in Forbes](#) brings forward the link between fossil fuels and the rise of modern society, upward mobility and increased life expectancy. ([Sustainable Insights: Edition 79](#)).

FAIR TAX MARK

The Fair Tax Mark, which launched this quarter, will use a set of metrics to assess companies on tax and transparency. This comes at a time when large multinationals are coming under intense scrutiny for taking advantage of tax loopholes. ([Sustainable Insights: Edition 78](#))

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CHALLENGING FIDUCIARY DUTY

A UK pension fund could be facing a legal test case alleging that it is a breach of fiduciary duty to not consider the potential impacts of climate change on its investments.

A group of lawyers, NGOs, climate specialists and public relations firms met in London this quarter to finalize details of the test case. [Client Earth](#), the London-based environmental law firm, will lead it. The name of the pension fund is not known. Specifically, the lawsuit will challenge asset owners to respond to issues such as potentially stranded fossil fuel assets and long-term climate damage across their portfolio holdings.

The global institutional investment community is watching this closely, anticipating that this may lead to similar cases internationally. [\(Sustainable Insights: Edition 81\).](#)

[READ MORE](#) *(subscription required)*

HONG KONG EXAMINING NON-BINDING PRINCIPLES

Hong Kong is considering comply-or-explain requirements for listed companies on Hong Kong's Securities and Futures Commission (SFC). It will be similar to [UK's stewardship code](#) and follow in the footsteps of regional rivals Malaysia and Japan.

"Whilst the primary responsibility for a company's success rests with the company's board, investors in a company also play a significant role by holding the board to account," said SFC Chief Executive Ashley Alder.

THE SEVEN PRINCIPLES OF RESPONSIBLE OWNERSHIP:

- Establish and report to stakeholders policies on ownership responsibilities;
- Monitor and engage investee companies;
- Establish clear policies on escalating engagement;
- Clear voting policies;
- Willingness to act collectively with other investors;
- Report to stakeholders how ownership; responsibilities discharged;
- Have policies on managing conflicts of interests.

[\(Sustainable Insights: Edition 82\)](#)

[READ MORE](#) *(subscription required)*

SPOTLIGHT ON: GENDER EQUALITY

WOMEN IN THE BOARDROOM

Women make up only one-fifth of boards of S&P 500 but the trends are promising. A study released this quarter by [Catalyst Inc.](#), a New York-based organization that advocates for more women in the workplace, finds that women make up less than [one-fifth of board members](#) of the S&P 500 and that Japan lags other countries in terms of percentage of [women on the board](#). Norway led the pack, with 36 percent representation, with Finland and France following with 30 percent.

The trends are promising. Companies with no women on their boards dropped to 18 from 25 a year earlier, a sign that more companies may be seeking female board members. Additionally, the [30 Percent Coalition](#), which advocates for about one-third female representation across U.S. public company boards by the end of this year has some prominent supporters. ([Sustainable Insights: Edition 75](#))

EDUCATION

Recent attacks have been aimed at students, teachers advocating for gender equality in education. [The Women's Human Rights and Gender section](#) of the Human Rights Council of the United Nations reported this quarter that the number of attacks against girls attending school or seeking education has increased since 2009. Attacks on schools have occurred in at least 70 countries between 2009-2014. The report also noted that "many more girls around the world routinely experience gender-related violence and other forms of discrimination that limit or prohibit the free exercise of their right to education." ([Sustainable Insights: Edition 79](#))

INTERNATIONAL WOMEN'S DAY

This quarter we celebrated International Women's Day. We reported that more women are advancing to senior management roles, but slowly and there is still a lack of women on boards. Hillary Clinton, a democratic candidate for U.S. president in 2016, recalled a keynote speech she gave at a UN conference in 1995 this quarter during an introduction to a [new report](#) entitled "No Ceilings". The report concludes: "There has never been a better time to be born female... But change has been far too slow when it comes to women's security, economic opportunity and leadership."

Meanwhile, Glass Lewis recently published "[Mind the Gap: Board Diversity in 2014](#)" finding that while women are advancing to executive positions at top corporations, there is still a lack of women on boards.

Case in point: it does not appear that the UK will hit its target of women holding a quarter of FTSE 100 [board directorships](#) before May's election. In early March, women accounted for 23.5 percent of board memberships in the UK's largest listed companies. ([Sustainable Insights: Edition 83](#))

THE POLITICS OF CLIMATE CHANGE

US and India fail to come to an agreement; Pope Francis urges Catholics to show concern for the environment

In Q4 2014 we [reported](#) that the EU was urging member states to move toward a low-carbon economy, but businesses were at odds about carbon allowances. In November 2014, China and US announced a commitment to curb Greenhouse Gas emissions by 2030 or earlier. In January 2015 President Obama visited India hoping to cooperate on climate change and Pope Francis weighed in on climate change.

INDIA

Ahead of President Obama's visit to India in early January, the Prime Minister of India Narendra Modi called for a "paradigm shift" in the global approach towards tackling climate change that will seek to increase India's efforts to bring down the cost of clean technologies. Atop President Obama's agenda was climate change. The White House [emphasized cooperation](#) between U.S. and India in areas of economic development, reduction of poverty and climate change. Ahead of the meeting, U.S. officials were working on agreements that could include a "solar energy deal, a plan to

improve rural electrification and potentially a carbon reduction pact that they hoped could be signed when Obama visits India." However, the Indian government was not willing to make any [commitment](#), particularly about when its carbon emissions may peak. However the country did commit to generating as much as 100 Gigawatts (GW) of solar power by 2022.

Inevitably drawing comparisons, this visit came on the heels of a historic agreement between China and the U.S. on climate change in November. Indian officials were, however, quick to argue that the development status of their country was not comparable to China, and that they were also "way behind" even in per capita emission. ([Sustainable Insights: Edition 77](#)).

In early March, India committed to [doubling the tax](#) on coal production and use in order to promote renewables. ([Sustainable Insights: Edition 82](#)).

WORLD ECONOMIC FORUM

Around the same time, global leaders convened in Davos, Switzerland for the [World Economic Forum](#). The president of the World Bank, Jim Kim, called 2015 the year for action on climate change, urging the international community to help developing nations combat climate change. There is a lot of anticipation for the UN-based talks in December in Paris. "There is a huge challenge ahead for the rest of this year," Kim said. ([Sustainable Insights: Edition 76](#)).



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POPE FRANCIS AND CLIMATE CHANGE

Widely regarded as one of the more liberal popes in recent history, [Pope Francis](#) has recently declared global warming a problem that Catholics “have a duty to try and address”.

Pope Francis, as the leader of the 1.2 billion worldwide Catholic Church, attracts considerable media attention. His statements carry great weight in many global communities. Pope Francis has made a number of references about the importance of the environment and climate change since his election in March 2013.

He plans to release an encyclical (circular) on climate change in time to influence ‘crucial decisions’ of this topic. He has pronounced his determination to do his best to encourage the signing of a climate change treaty, which he views as ‘a grave [ethical and moral responsibility](#)’. ([Sustainable Insights: Edition 79](#))



Read our Sustainable Perspectives: *Will Catholics become the new guardians of the environment?*

http://www.sicm.com/docs/sustainable_perspective.pdf

MILLENNIUM DEVELOPMENT GOALS

The deadline for the Millennium Development Goals (MDGs), which launched in 2000, is December 31, 2015. In 2000 many thought that the eight-point plan was too ambitious in too short of a time.

Others say the goals have been [a success](#). The UN Secretary-

General, Ban Ki-moon claims the blueprint was “the most successful global anti-poverty push in history” and billionaire philanthropist Bill Gates says the MDGs are “the best idea for focusing the world on fighting global poverty that I have ever seen”. We think the [question](#) becomes: How will progress be measured as we approach the year-end deadline?

([Sustainable Insights: Edition 79](#))

NORWAY CURBS GHG'S ABROAD

European Nations are expected to cut greenhouse gases (GHGs) significantly by 2030. Norway currently expects its own [greenhouse gas levels](#) to be about the same in 15 years, so will meet its 40 percent reduction goal by paying for cutting GHGs abroad.

“Carbon trading can speed up the global transition away from a fossil economy,” said Jens Froelich Holte, a political adviser at the Norwegian ministry for climate and environment. “Trade creates benefits and this is as true for carbon as it is for other commodities,” he noted.

POLITICS OF CLIMATE CHANGE: BY THE NUMBERS

100 million
people in China tuned in to watch a documentary on air pollution in less than 48 hours. ([Sustainable Insights: Edition 82](#))

50%
Switzerland is promising to reduce its greenhouse gases by this much ahead of the Climate talks in Paris, the only country so far to make a commitment. ([Sustainable Insights: Edition 82](#))

OCEANS: BY THE NUMBERS

0.005

Degrees the oceans are warming per year down to a depth of 500 meters and 0.002 degrees between 500-2,000 meters. Warming oceans are swelling in volume, lifting sea levels, and also affecting ecosystems.

2.8

gigawatt power plant is planned in the UK using tidal energy using 90 turbines.

5

The equivalent number of grocery bags full of plastic dumped into the sea, for each foot (30 cm) of coastline around the world. The three worst offenders were China, Indonesia and the Philippines.

600,000

in square miles the shrinkage in Arctic Sea ice from present levels when compared to the 1981-2010 average.

\$110 million

The annual cost to the oyster industry in the Pacific Northwest due to increasingly acidic waters.

\$23 billion

USD is the estimated cost of decommissioning oil platforms in the UK North Sea over the next decade.

DISEASES, VACCINATIONS, AND ANTIBIOTICS

In the first quarter we reported that vaccinations are prohibitively expensive in developing countries, yet those with access are choosing not to have kids immunized. Nine percent of American children are not immunized against measles, ranking them behind 106 other countries for vaccination rates, inciting anger amongst some parents.

GOOD NEWS FOR ANTIBIOTICS

Scientists have discovered a **new antibiotic**—teixobactin— which may be capable of fighting infections that kill hundreds of thousands of people each year. This is exciting news for a field that has not had a major new drug discovery in more than a quarter-century. Some have called this discovery a “**game changer**”.

The news came at a good time (January) as the **flu was widespread** across most of the U.S. The **CDC** is reporting that total flu deaths have reached 21 this year. The CDC closely watches flu cases to determine the level of severity of the spread of the disease. It also monitors the statistics for determining when it becomes an epidemic, not just a widespread outbreak. ([Sustainable Insights: Edition 74](#)).

Scientists are now hoping to find new sources for antibiotics in... the dirt? Visit their [website](#) to learn more, and even help the cause! ([Sustainable Insights: Edition 76](#)).

VACCINATIONS

A new **report** from international aid organization, Medecins Sans Frontieres, says that costs for vaccinations are **prohibitively high** in developing countries. It appears that pharmaceutical companies are charging high prices (there has been a **68-fold increase** in prices between 2001 and 2014) and not being transparent about pricing. The report calls for major pharmaceutical companies to reduce the price of the pneumococcal vaccine to USD 5.



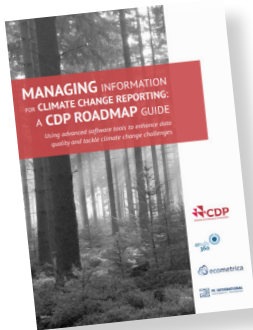
Meanwhile, in the U.S. more and more parents are wary of vaccinating their children. A study of over 150,000 children in Northern California found that **opposition to immunizations** often occurs in concentrations in certain communities. ([Sustainable Insights: Edition 76](#)).

MEASLES AND VACCINATIONS

More and more parents appear wary of **vaccinating** their children. Some began turning their attention to a recent **measles outbreak** in the U.S., placing blame on growing communities of unvaccinated people. The U.S. mostly eliminated measles by 2000, thanks to the vaccine. However, 2014 saw the most cases in 20 years. In fact, **9%** of American children are not immunized against measles, ranking them behind 106 other countries for **vaccination rates**. Some say that parents who don't vaccinate their kids put others at risk. ([Sustainable Insights: Edition 78](#)).

[READ MORE](#)

QUARTER 1 READING LIST



Ecometrica and CDP launched a [paper](#) this quarter that will serve as a roadmap for sustainability reporting. Already mandatory in many countries, the report hopes to provide best practices and offer practical guidance.



The Council on Ethics for the Government Pension Fund Global (GPF) put out a report this quarter with its [first exclusion recommendations](#) since assuming its new role as an advisor to Norges Bank Investment Management (NBIM). The GPF is an independent council appointed by the Norwegian Ministry of Finance. Recommendations include which companies should be excluded for ethical reasons. NBIM can decide whether or not to adhere to them.



The London Business School's Collier Institute of Private Equity released a [study](#) finding that 85% of larger private equity firms – managing assets in excess of \$10bn (€8.2bn) – said pressure was growing to integrate ESG policies into everyday working practices. According to the study pressure from clients is expected to hasten the movement of ESG from being purely a compliance function to a key part of the investment process.

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