

INSIGHTS

For the Mainstream Investor

WEEK ENDING NOVEMBER 24, 2017 EDITION 221



REVIEWING CLIMATE TARGETS

Targets versus reality

The conference of parties (COP) which has recently closed in Bonn, is the second one since the signing of the Paris agreement in December 2015. The aim of COP 23 was to provide details about the workings of the Paris agreement from 2020 onwards. Inevitably there was focus on whether countries were meeting their commitments, both in terms of financing and emissions.

On the latter point it was agreed that emission stocktaking sessions will take place in 2018 and 2019, as well as a review of financial commitments in 2018 and 2020. In turn, this gave rise to the 'Talanoa dialogue' which will review the present status, the direction and how targets will be reached. This will focus on the pre-2020 era to ensure emission targets remain on track. [Analysis](#) from the [Global Carbon Project](#) suggests emissions are set to rise.

FORWARD GUIDANCE

To continue with caution

Central banks have traditionally had three main tools by which they control monetary policy: open market operations (buying and selling securities), the reserve requirement (money available overnight), and the discount rate (the charge for borrowing money). But perhaps one of the most powerful tools they have used is [forward guidance](#). In 2012, the chairman of the Federal Reserve, Ben Bernanke, announced that the Fed would not raise interest rates until America's unemployment rate dropped to at least 6.5%, while the ECB President, Mario Draghi, said he would do 'whatever it takes' to protect the eurozone. Other Central bankers followed and forward guidance became an important central bank tool. However, now central bankers are communicating its limits. [Four](#) central bankers have warned that as economic uncertainty increases it is difficult for them to provide the information investors are demanding.

THIS WEEK IN NUMBERS

100

percent of BMW's purchased external power will be sourced from renewables by 2020, for all 31 production facilities in 14 countries

100

billion US\$ of green bond issuance has been passed according to the Climate Bonds Initiative

75

percent fall in China's emissions of sulphur dioxide has been recorded since 2007, while India's grew by 50%

23

billion US\$ was committed by corporates to over 1,000 water projects in 2017, according to CDP

12

percent of China's farmland is covered in plastic sheeting which can boost crop yields

4.5

billion people live without a household toilet that safely disposes of their waste, today

4

of China's 28 northern cities met their air quality targets in October, one of the four being Beijing

1.3

million people die in road accidents every year, 93% in low- and middle-income countries

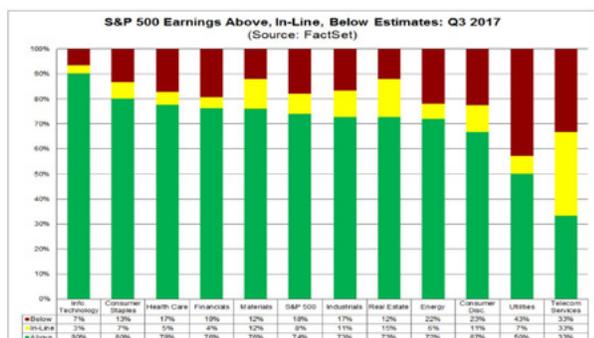
SPOTLIGHT FEATURE

Four NGOs (Oxfam, Greenpeace, BankTrack and Friends of the Earth) have filed a case against ING, the Dutch Bank, with the OECD. The NGOs argue that the bank has broken OECD guidelines by failing to report and set targets on indirect

greenhouse gases arising from ING's financing activities. This is the first such case that a climate related complaint will be reviewed by the OECD's national outpost, the National Contact Point (NCP).

INFOGRAPHIC OF THE WEEK

Q3 2017 scorecard for the S&P 500 – Earnings above, in-line or below estimates



Source: Factset

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SOIL HEALTH

An important carbon trap

There are lots of proposals as to how to reduce the amount of carbon in the atmosphere. These range from [geo-engineering](#) – artificially modifying the Earth’s climate systems – to carbon capture and storage (CCS) – capturing carbon and storing it underground. However, there may yet be easier ways. In Nature’s Scientific Reports journal, a recent [study](#) suggests that soil health improvements could capture extra carbon, equivalent to the emissions of the world’s transport sector. Furthermore, the author states, ‘Healthier soils store more carbon and produce more food’. When soil absorbs more carbon, fertility increases. So the [answer](#) is to use compost, keep soils disturbance down to a minimum and rotate crops. Sounds promising.

WORTH NOTING

Norway’s sovereign wealth fund may drop all [oil and gas](#) investments. The Norwegian central bank believes such a move will make the country’s wealth ‘less vulnerable to a permanent drop in oil and gas prices’. About 6% of the fund’s holdings are in the oil & gas sector. As this move requires Parliamentary approval, no decision is expected until later in 2018.

BAD NEWS

A recent [study](#) by Newcastle University in the UK has shown that crustaceans found in very deep ocean trenches found that the ingestion of plastic ranged from 50% (New Hebrides Trench) to 100% (Mariana Trench). The leader of the research team said, ‘This is a very worrying find. Isolating plastics from inside animals nearly 11 kilometres deep (7 miles) just shows the extent of the problem’.

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GREEN FINANCE

Agreeing on the standards

It has been an ongoing complaint that common standards are needed in the sustainable and ESG arena, notably in finance. The European Investment Bank and People’s Bank of China have published a [paper](#) to help encourage green bond harmonization. The research states that ‘the time is ripe for greater efforts towards global compatibility and harmonization of standards in order to enhance all stakeholders’ participation in the international green bond market’.

Furthermore, the Climate Disclosure Standards Board (CDSB) is organizing webinars to help corporates align themselves with the Task Force on Climate-related Financial Disclosures (TCFD). The CDSB has also joined forces with Sustainability Accounting Standards Board (SASB) in order to agree [international](#) standards of reporting.

DID YOU SEE?

[Climetrics](#), the fund rating agency, has a rules based approach to evaluate the overall climate impact of equity funds and ETFs in Europe. The methodology was developed by [CDP](#) and [ISS-Ethix](#) Climate solutions. Funds are rated on a one to five scale leaf system.

WE'RE WATCHING

In the first case of its kind in [Norway](#), Greenpeace and the Nature and Youth Group are suing the country arguing that the plan for Arctic oil exploration is unconstitutional. The Norwegian Attorney General is representing the state.

GOOD NEWS

The Joint Polar Satellite System 1 ([JPSS-1](#)) has been launched. It will help improve the accuracy of US weather forecasts for three to seven days out.

READING LIST



[The ESG Rating and Ranking Industry; Vice or Virtue in the Adoption of Responsible Investment? - University of Oxford – Smith School of Enterprise and the Environment](#)



[International Comparison of Light-Duty Vehicle Fuel Economy \(2005-2015\) – IEA](#) [Sucking up Carbon – The Economist](#)

LISTENING LIST



[What they don't tell you about climate change – The Economist](#)

BELIEVE IT OR NOT

The US FDA has approved the world’s first digital pill allowing doctors to track whether medication is being taken. [READ MORE](#)