

INSIGHTS

For the Mainstream Investor

WEEK ENDING FEBRUARY 23, 2018 EDITION 233



EARNINGS OUTLOOK FOR 2018

Ongoing growth this year?

Earnings forecasts are on the rise. Since December 31, the 2018 bottom-up EPS estimate for the S&P has increased by 7.0% as corporates have upped their guidance. This change represents the largest increase in the annual EPS estimate over this period since FactSet began analyzing this data in 1996. The main driver of earnings upgrades appears to be the corporate tax rate reduction. By mid-February, 127 companies had issued positive guidance, which is more than double the 10-year average. Looking at a sector level, we can observe that the Health Care sector led the way, with 35 companies. At the other end of the ranking were Energy (0), Telecom (1) and Real Estate (2). Apart from the legislated tax cut other reasons cited for rising earnings were the improving global economy and a weaker US dollar, benefiting exporters.

WE'RE WATCHING

Is short-term performance driven by asset managers' pay structures, rather than just corporate executives incentive plans? Japan's \$1.4tn Government Pension Plan Investment fund (GPIF) wants to investigate external portfolio managers and fund performance. The GPIF wants to ensure long-term performance is the focus of pay rewards.

PHASING OUT GERMAN COAL

Minimal impact

The CDU and SPD negotiators have agreed that Germany should stick to the international climate goals in 2030 and 2050. A special commission is to be tasked with coming up with an "action plan" by the end of 2018 on how to hit those targets, with each department obliged to set its own goals. Climate activists have argued that this was the least the parties could do. When the Greens were in discussions with the CDU about a possible coalition, they fell out over the issue of phasing out Germany's coal-fired power plants.

The SPD position on coal is somewhat vague but what has emerged is that the retiring of German coal will have little impact on global figures. The IEA estimate that if Europe's largest economy goes ahead with plans to shutter its more than 46 gigawatts of coal-based generating capacity, global consumption would only drop by 2%. The same cannot be said domestically though. Figures from Euracoal, the European Association for Coal and Lignite, show that more than 46,000 people were employed in Germany's coal-related industries in 2015. The SPD wants to see these jobs redeployed in other sectors, such as renewable energy.

THIS WEEK IN NUMBERS

42

OECD and G20 economies were analyzed by the OECD which concluded that energy taxes in developed economies are too low to fight climate change

17.1

is the forward 12-month P/E ratio for the S&P500

12

emerging Global Trends That Bring Hope for 2018 according to The Nature Conservancy

8

of the top 20 car manufacturers align to the transition to low carbon economy says Transition Pathway Initiative

5

is the planned size of Vanguard's new European stewardship team which aims to improve corporate governance standards

4

main factors determine the quality of coal deposits

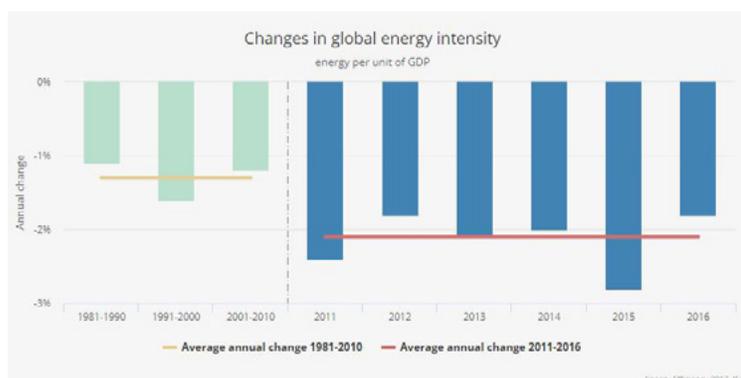
2.5

billion is the forecasted global, urban population by 2050, according to UN estimates

1.8

tanker accidents annually is the average since 2010, from an average 24.5 incidents a year, in the 1970s, says the International Tanker Owners Pollution Federation

INFOGRAPHIC OF THE WEEK



Note that global energy intensity is the amount of primary energy demand needed to produce one unit of GDP.

Source: IEA

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Sustainable Insight
CAPITAL MANAGEMENT

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HIGH SPEED RAIL

Very efficient

A significant [shift](#) to high speed rail (HSR) is underway, says the [IEA](#). HSR passenger activity totaled 625 billion passenger kilometers in 2015 with China, Europe and Japan together accounting for 95% of the global total. HSR is the fastest growing passenger rail transport service worldwide. The railway sector accounted for over 6% of global passenger transport activity in 2015, yet was responsible for less than 2% of transport final energy demand and just over 4% of CO2 emissions from the transport sector. This is not only down to better energy efficiency of the rail sector compared to the road sector, but also a continued increase in renewables energy sources. If HSR can replace short-haul aviation, there are further savings. The driver of HSR growth remains China. In 2016, nearly 11,000 km of HSR lines were still under construction and an additional 1500 km of lines were planned. This will raise the total high-speed rail network extension to 31,000 km by 2020.

BAD NEWS

Cleaning products used to clean homes may not be so [environmentally friendly](#). A recent investigation suggests that the use of volatile chemical products (VCPs) now constitutes half of fossil fuel VOC emissions in industrialized cities.

DID YOU SEE?

Have we had a glimpse of the end of [animal testing](#)? It has been normal to test new compounds in a laboratory, usually rats, mice and dogs. But an alternative looks promising. Instead, “organs on a chip”, has just taken a big step forward. Such devices contain a colony of human cells that have been coerced into replicating the function of a particular organ. A recently developed liver chip responded to a hepatitis B viral infection in the same way that a real human liver would.

CORPORATE GOVERNANCE IN JAPAN

Activism resurgence?

According to data compiled by [Nomura Securities](#) from investor filings, last year there were 103 [instances](#) of foreign investors buying large blocks of Japanese equities to push for significant management changes. There were 128 such cases in 2007 and 133 cases in 2008. Such filings are required when an investor takes a stake of 5% or more in a listed company. It looks as if the shareholder activists are back operating in the Japanese market. Apart from high levels of investment liquidity, changing corporate governance rules have given activists new hope.

In 2015, The Tokyo Stock Exchange introduced a new governance code on listed companies making companies more aware of the need for capital efficiency, something that has long been sought by activist investors. This followed on from Government pronouncements about requiring improved governance and the Financial Services Agency’s stewardship code. Boards are being [targeted](#) at AGMs especially where there have been recent scandals, such as Toshiba, Fujifilm and Takata. Things might yet change.

GOOD NEWS

Investors urge the shipping industry to improve its ESG credentials. Banks and large asset managers, such as the Norwegian Global Pension Fund and Blackrock, have both introduced new requirements concerning social responsibility. Demands are focused on requiring shipping companies to be run according to the principles of corporate governance, as well as setting requirements for compliance with environmental regulations and human rights. The Norwegian Council on Ethics has [announced](#) it will increase its monitoring of the shipping industry.

READING LIST



Banking on a Low Carbon Future
Boston Common

In Solitude What Happiness?
1843 Magazine - [The Economist](#)

How Low Will Retail Go? Look at the Railroad
[Bloomberg View](#)

LISTENING LIST



How do you close the gender pay gap
[The Inquiry](#)
The New Philanthropists
[Business Daily \(BBC\)](#)

BONUS GOOD NEWS

Deutsche Bank’s annual [Alternative Investment Survey](#), which surveyed 436 global hedge fund investors, representing 2.1 trillion US dollars in hedge fund assets, provided an insight into their current sentiment and allocation plans for 2018. While forecasting net inflows of \$41bn in 2018, driving industry assets to \$3.42tn, only ESG funds saw a meaningful increase in demand. The survey states 20% of respondents currently allocate to socially responsible/ESG investments, up from 13% last year. Of these respondents, 67% are looking to increase their allocation to ESG funds in 2018.

BELIEVE IT OR NOT

Evidence is emerging that teenagers are better behaved than their parents. They drink and smoke less, consume fewer illicit drugs, and fight less often. So all is good? Not quite; they appear more lonely.

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