

INSIGHTS

For the Mainstream Investor

WEEK ENDING AUGUST 10, 2018 EDITION 256



HOTHOUSE EARTH

A possible scenario

A recent study in the Proceedings of the National Academy of Sciences of the United States (PNAS), the official scientific journal of the National Academy of Sciences, has raised the alarm of a possible ‘Hothouse Earth’. Hothouse Earth is used to describe a tipping point when climate change will be uncontrollable and large areas will be uninhabitable.

Worryingly, the research states that ‘human-induced global warming of 2°C may trigger other Earth system processes, often called “feedbacks”, that can drive further warming – even if we stop emitting greenhouse gases’. It is recognized that human emissions are not ‘the sole determinant of temperature on Earth’ as other Earth processes – feedbacks – can also drive warming.

Ten natural feedback processes are considered, which could change from being stores of carbon to emitters. These include: thawing permafrost, weakening land and ocean carbon sinks, Amazon and boreal forest dieback, loss of Arctic and Antarctic sea ice, polar sheet reduction and less northern hemisphere snow cover. The authors encourage the acceleration of a transition towards an emission-free world economy.

STOCKMARKET LISTINGS

Decline in public companies

The number of publicly traded companies is declining. In 1976 there were 4,943 companies listed on US exchanges. This number increased by 54%, peaking in 1997. However, by 2016 there were 3,627 when the number of listings dropped in every year except for 2013. On a per capita basis the drop is starker with 23 listed companies for every million US citizens in 1976, down to 11 in 2016. A deeper dive into the numbers shows that it affects all sectors in a similar way and therefore cannot be attributed to the country’s industrial composition changing. So what is driving this decline? Certainly de-listing happens when firms no longer meet listing requirements (de-lists for cause) or when they go private.

However, the largest contributor to de-listings – recently Tesla being aired as a possibility – is the significant number of mergers and acquisitions. Furthermore, the number of IPOs has also decreased in the US although other markets have seen a rising number. Finally, note that US markets have fewer smaller companies. For example, listed companies with fewer than \$100m of assets (in 2015 dollars) was 61.5% in 1975 but only 22.6% by 2015, while average market cap, adjusted for inflation, rose by a factor of 10 from 1975 to 2015.

THIS WEEK IN NUMBERS

1,000
GW of wind and solar capacity is now available in the world

720
MW of solar power projects have been approved by the French government as it aims to add 3,000 MW by 2020

65
countries are using integrated reporting approaches says the IIRC

51.3
C is the highest ever reliably measured temperature, recorded in Ouargla, Algeria

17
major wildfires were burning across California at the beginning of this week

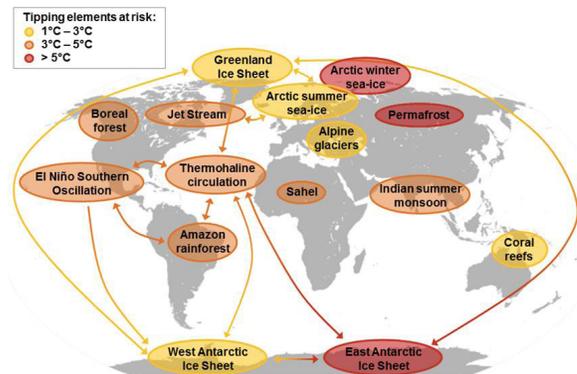
14
billion Euros (US\$16 bn) of fines are possible for European car manufacturers if they fail to meet tighter emission targets by 2020, claims IHS Markit

13.5
% is the forecasted compound annual growth rate for smart agriculture between 2017 to 2025, says Transparency Market Research

1.50
GBP (US\$1.93) is the cost 5kg (11 lbs) boxes of misshapen and damaged vegetables being sold by the Lidl supermarket chain in the UK

INFOGRAPHIC OF THE WEEK

Global map of potential tipping cascades



Note: The individual tipping elements are color-coded according to estimated thresholds in global average surface temperature. Arrows show the potential interactions among the tipping elements, which could generate cascades. Note that although the risk for tipping (loss of) the East Antarctic Ice Sheet is proposed at >5 degrees Celsius, some marine-based sectors in East Antarctica may be vulnerable at lower temperatures.

Source: [Stockholm Resilience Centre](#)

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NEW ESG RATING

Consultant goes alone

Aon, the global professional services firm, has decided to develop its own Environmental, Social and Governance (ESG) rating system. It will apply its ratings system on all buy-rated investment strategies. It aims 'to assess whether and how well investment managers integrate Responsible Investment (RI), and more specifically ESG considerations, into their investment decision making process'. The ESG rating system will be used alongside its existing ratings system but will provide 'an added dimension'.

To determine the rating it will use a variety of qualitative factors which will be sourced from a due diligence questionnaire and an Aon's manager's review of ESG policies and procedures, such as active ownership and proxy voting. Aon has introduced this policy as it believes 'the ESG landscape is both growing and evolving – and navigating it is highly subjective. As yet, there are no widely accepted global standards that define 'materiality' '.

WORTH NOTING

The International Integrated Reporting Council (IIRC) has established an IR Academic Database which brings together integrated reporting academic research into one place. Integrated reporting involves taking a holistic view of the six 'capitals' of financial, manufactured, intellectual, human, social & relationship and natural. See video (right).

WE'RE WATCHING

Expect more media coverage about Australia's superannuation sector as a royal commission examines governance and relationships in the financial sector. AMP has already revealed that it misled regulators. AustraliaSuper, the country's largest pension fund, is also to appear. The superannuation sector accounts for A\$ 2.6 trillion (US\$1.9tn) of savings.

INCORPORATING ESG

EC seeks help

The EU's national financial regulators have been asked to assist the European Commission on how to integrate sustainability into the area's financial markets. They have been invited 'to provide their final technical advices, including cost-benefit analysis, by April 30th, 2019, in order to allow the Commission to consider the adoption of potential delegated acts'.

This is the next step in the task of integrating sustainability into Europe's financial markets, following on from the EU's High-level Expert Group and the Technical Expert Group that aims to 'explicitly require the integration of sustainability risks, i.e. environmental, social and governance risks in the investment decision or advisory processes as part of duties towards policy holders, customers and/or beneficiaries'. Not all parties agree with this policy, such as the UK's PIFMA, which argued that 'ESG considerations should not override existing suitability obligations'.

DID YOU SEE?

An UK asset manager, Sarasin & Partners, has asked oil companies to reveal their long-term price assumption for crude oil. The asset manager believes it is close to \$70-83-0 a barrel, rising by 2% per year. There is concern that oil companies are over-valuing their assets.

WITH SADNESS...

The untimely death of Tessa Tennant means the world has lost a pioneer of green investment and sustainability. She co-founded the UK's first green investment fund in 1988 (Merlin Ecology) and co-founded the UK Social investment Forum and the UNEP Insurance Initiative. She also set-up the Carbon Disclosure Project (CDP) and helped launch Carbon Tracker.

READING LIST

The world is losing the war against climate change
The Economist

WATCH LIST



What is Integrated Reporting?
IIRC

LISTENING LIST



Why the plastic straw ban is catching on?
Wall Street Journal

Failures, Flops and Flaws
World of Business

Sounds of the Lofoten Islands
The Compass

BELIEVE IT OR NOT

More slippery food packaging is on the way. It's not to encourage the dropping of produce when shopping, but to reduce wastage. If food slides more easily out of packages there will be less wastage. Presently users only extract about 70% of their ketchup from the package. [READ MORE](#)

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