SUSTAINABLE INSIGHTS

Sustainable Insight CAPITAL MANAGEMENT

Week ending 28 March 2014 | Edition 35

CERES PROPOSES UNIFORM SUSTAINABILITY REPORTING FOR GLOBAL STOCK EXCHANGES

The initiative will help investors value firms more accurately, as more comparable and meaningful disclosure of ESG risk factors will be reported.

Ceres, in collaboration with major institutional investors, including the New York Common Fund, announced an initiative to engage global stock exchanges in a possible uniform standard for sustainability reporting.

The objective of the proposal is to create cross-border collaboration of stock exchanges to help shift global firms towards more comparable and meaningful disclosure of ESG risk factors.

The initiative, to be implemented via the World Federation of Exchanges (WFE), is expected to help investors value firms more accurately and make better-informed investment decisions.

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IPCC REPORT SPARKS DEBATE OVER ECONOMIC COSTS OF CLIMATE CHANGE; CHINA ESTIMATES COST

Disagreements cause a rift between authors, with one claiming that Ch. 10 is “too alarmist” while another suggests it may have “downplayed” the costs.

The most recent IPCC report is at the center of a dispute between authors over the economic costs of climate change. The lead author of chapter 10 disagrees with the general findings that global warming will bring major disruptions to nations and nature. However, a reviewer of the chapter claims that certain clauses “downplay” the economic costs of climate change and contains other errors.

The United Nations report, set to be released at the end of March, has already been leaked on several blogs and websites.

The dispute highlights a challenge with the limited research in this area and difficulty of capturing the economic costs of climate change, extreme weather events and other events associated with climate change, such as conflicts over scarce food and water.

Meanwhile, China, the world’s biggest emitter of greenhouse gases, had no hesitations estimating the direct economic loss from rising sea levels and storm waves linked to climate change at USD 2.6B.

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CHINA TO ESTABLISH ANOTHER EMISSIONS MARKET WHILE THE EU’S CARBON MARKET HITS LOWS

Germany and Denmark propose stability reserve plan to strengthen EU’s carbon market while China prepares to launch the country’s sixth carbon market.

The Hubei province will launch its carbon trading market in early April, according to its emissions exchange. The carbon trading market, China’s sixth out of seven, sets to limit carbon dioxide emissions from approximately 140 of the province’s biggest companies.

The emissions market will be the nation’s second largest, after Guangdong. Three hundred permits will be issued in 2014 and another nine million will be auctioned.

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Germany and Denmark lead the charge to urge the European Union to tighten supply of emissions permits in 2016, five years before the proposed date of 2021. The two companies are pressuring the EU to ensure scarcity in the USD 72B Emissions Trading System, the world’s largest cap-and-trade program. This move comes in response to the market hitting record lows in early 2014 due in part because of oversupply. The EU’s 28 nations began talks in February to introduce a market-stability reserve policy.

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MARKET FOR BONDS TIED TO GREEN INVESTMENTS "BOOMING"

Green corporate bonds tied to the proceeds of an environmental activity are becoming a mainstream investment instrument.

Historically environmental departments of global financial institutions, such as the World Bank, have been the primary issuers of bank bonds to finance green projects. Last year the World Bank's private sector arm, the International Finance Corporation, issued a USD 1B green bond.

More recently, companies have been issuing debt to finance sustainability projects in the form of green bonds as well. Sustainable Insights Edition 33 also referred to the increase in private sector issuances. For example, Toyota is raising USD 1.75B to help finance sales of car loans for hybrid and electric vehicles.

Last week Unilever, the world's second-largest consumer-goods firm, issued a £250M (USD 415M) bond reserved for reducing waste, water use and greenhouse-gas emissions.

Institutional investors have been investing in green bonds for several years. Recently, insurance companies and investment managers, such as BlackRock, have been investing as well. Last year the value of green bonds was USD 11B. Jim Kim, the World Bank's president, thinks it will rise above $50 billion next year.

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SUCCESS OF SHAREHOLDER ENGAGEMENTS ON SUSTAINABILITY ON THE RISE: F&C REPORT

Investor values, risk management, and stronger codes and standards are identified as the key drivers.

A report by F&C, which has approximately GBP83.4bn of AUM, indicates that responsible investments continue to grow as a mainstream investment proposition, driven by investor values, risk management, and the introduction of stronger codes and standards.

The asset manager, whose range of ethical and sustainable funds had investments worth c.GBP3.4bn (4% of AuM) at end-2013, also stated that ESG issues were vital to ensure long-term company performance.

F&C achieved almost 300 instances of change by engaging with firms in 2013. It plans to focus on the issue of stranded assets for 2014 in order to achieve strong long-term performance of its AuM.

In Sustainable Insights – Edition 1, we discussed the reasons why sustainable investing will endure in the mainstream as identified by UBS.

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BLACKROCK'S CEO SAYS FINANCIAL SUSTAINABILITY OF COMPANIES IS KEY

Blackrock CEO warns against dividends or share buybacks if they come at the expense of future growth.

While many top corporations have faced pressure from Wall Street analysts and activist investors to increase their dividends and buy back shares to return capital to investors, Blackrock CEO Laurence Fink encourages senior management to instead invest in the future growth of their companies.

Returning cash to shareholders is important, but "when done for the wrong reasons and at the expense of capital investment, it can jeopardize a company's ability to generate sustainable long-term returns," Fink wrote.

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Believe it or not

The Pacific Institute has estimated that it takes about 3 liters of water to produce 1 liter of bottled water.