SUSTAINABLE TRENDS

Sustainable Insight CAPITAL MANAGEMENT

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POSITIONING AHEAD OF UPCOMING UN CLIMATE CHANGE TALKS

In Q1 several countries were expected to make climate action plan commitments ahead of December's UN talks on climate change. And it was a rollercoaster. At first, India's Prime Minister refused to "bow to foreign pressure". Then India and China teamed up to announce their respective commitments. The U.S., Canada, Germany and Japan also made public commitments. Global oil majors are divided with some refusing to participate in the talks. 200 countries are expected to be discussing climate change at the conference.

COMMITMENT-PHOBES

In Q4 2015 we reported that countries were expected to publish detailed information about climate action plans by the end of March 2015 – the so-called intended nationally determined contributions (INDCs). Japan, Canada and Australia all missed the end-March deadline. China did as well, although they made a verbal commitment in November 2014.

However, this spring, the Obama administration submitted its pledge to the UN formally committing to its most ambitious global warming reduction target to date. The plan hopes to slash U.S. greenhouse gases by more than a quarter over the next decade, as outlined by the president in a verbal commitment made in China in November 2014. Although the U.S. is the largest emitter, it joins Switzerland, Mexico and Norway in fulfilling its pledge to reduce greenhouse gas emissions. (Sustainable Insights: Edition 86).

INDIA FIRST MAKES RENEWABLES COMMITMENT

Narendra Modi, the Prime Minister of India said that India will "not bow to foreign pressure to commit to cuts in carbon emissions" and instead will commit to using more clean energy.

India has pledged to increase renewable energy generation but is also expanding the mining of coal, a major contributor to its growing emissions (also see Editions 82, 80, 77). Currently India is third in the world for greenhouse gas emissions. (Sustainable Insights: Edition 87).

> ***"The world guides us on climate change and we follow them? The world sets the parameters and we follow them? It is not like that," Modi said at an event in Delhi. "We can lead the world."***

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CHINA AND INDIA MAKE PLEDGES, OTHERS FOLLOW

China and India, the world's first and third highest greenhouse gas emitters respectively, teamed up on climate change with a rare joint statement that urged rich countries to increase efforts to reduce global carbon dioxide emissions. Specifically the Indian Prime Minister Narendra Modi's and China's premier Li Keqiang asked wealthy countries to "provide finance, technology and other necessary support to emerging countries to help reduce their own emissions."

Meanwhile, Canadian Environment Minister, Leona Aglukkaq, announced Friday that Canada will pledge to cut greenhouse-gas emissions by approximately one-third by 2030. Some critics were quick to dismiss the plan as "lacking detail and unrealistic without major policy changes."

The US Environmental Protection Agency (EPA) Administrator Gina McCarthy will also support the U.S.'s effort to decouple economic gains and environmental impacts. McCarthy stressed that there has never been a better time for innovators "to take actions that turn the challenge of climate change into economic opportunity."

SAVE THE DATE

Paris Climate Talks
November 30 - December 11
UNFCCC Secretariat
Paris, France

Meanwhile, German Chancellor Angela Merkel is also seeking a global emissions-trading system to help curb climate change. "Extending Europe's emissions-trading system, the world's largest, to other regions would level the playing field," Merkel said in May. (Sustainable Insights: Edition 93).

OIL COMPANIES DIVIDED

Six European oil companies have written to Financial Times arguing the December UN talks on climate change should result in 'widespread carbon pricing in all countries'. The US oil majors chose not to participate in the letter. The companies encourage 'realistic, workable solutions to the challenge of providing more energy while tackling climate change'.

The Europeans and US oil companies appear to have different expectations from their shareholders. While both Shell's and BP's Boards backed shareholder resolutions to look more closely into the effects on greenhouse gas emissions on their businesses, there was only about 20% voting in favor of the appointment of a director with expertise on climate and environmental issues at the Exxon and Chevron AGMs. (Sustainable Insights: Edition 95).

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SCREENING: BACK IN VOGUE?

NORWAY'S GHG EXCLUSION CRITERIA

The USD 885bn Norwegian Sovereign Wealth Fund plans to exclude investments in companies emitting "unacceptable" amounts of greenhouse gases, the Finance Ministry announced in April. The broad exclusion criteria looks at the acts and emissions of a company. "The criterion is broad in scope," the Ministry said, "and not limited to specific sectors or types of greenhouse gases." The fund is built on revenues from Norway's offshore oil and gas production. (Sustainable Insights: Edition 88).

SCREENING OUT COAL

Norges Bank Investment Management (NBIM), which manages Norway's sovereign wealth fund, asked top mining companies to consider "spinning off coal assets" to prepare for a low-carbon economy. In a letter, Norges asked unnamed mining companies to identify costs involved in "separating coal from other operations and the timeline for any such separation."

Nordea, the Nordic region's largest bank is also currently "evaluating its exposure to coal producers and is looking at about 30 companies worldwide," according to Sasja Beslik, head of responsible investments at Nordea. (Sustainable Insights: Edition 91).

A report from Germany's Urgewald, (German) along with Future in our hands (Norwegian) and Greenpeace Norway, which studied the Norwegian's Government Pension Fund Global's 2014 annual report (released in March 2015), found that the Government Pension Fund Global (GPFG) had divested 51 coal companies in 2014. However, 'the total sum of its coal industry holdings has, however, grown and now amounts to NOK 85.8 billion, an increase of over 3 billion kroner, when compared to 2013'.

Meanwhile, the Norwegian Parliament's Finance Committee (cross party) agreed that the GPFG should sell stakes in companies that generate more than 30 percent of their output or revenues from coal-related activities. The GPFG estimates that this may impact 50 to 75 companies. However, this will not require the fund to sell its oil and gas interests. The vote to sell the stakes is now going to full parliament for approval. (Sustainable Insights: Edition 94).

CHINA IMPOSES COAL BAN

Meanwhile, as part of its effort to curb air pollution, the National Energy Administration of China (NEA) will expand its ban on coal to include suburban areas as well as city centers.

The Agency will promote centralized heating and power supply by natural gas and renewables as part of its clean coal action plan 2015-2020. (Sustainable Insights: Edition 91).

NEW FOUND ENTHUSIASM FOR CORPORATE GOVERNANCE

This quarter we saw corporate governance issues take the spotlight. Listed companies – notably in technology and healthcare – are using tax havens to avoid billions in taxes says an MSCI report. JP Morgan's CEO says investors who use proxy voting are lazy and irresponsible. Meanwhile two large asset owners publish a shareholder engagement model. Lastly, we saw an uptick in corporate governance activity in Australia, India, Germany and Japan.

TAX HAVENS

As we marked Tax Day this quarter, some new information came to light about which companies are avoiding tax payments and who is watching. An analysis over 1,000 companies by MSCI suggests that listed companies in developed markets avoid over USD 82bn of tax per year using tax havens and other strategies. The report finds that companies in the healthcare and information technology sectors are among the biggest tax avoiders.

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Says Alex van der Velden, founder and chief investment officer of Ownership Capital, the Dutch asset manager: "Tax avoidance is an issue investors are increasingly aware of. The public ire that has been created by businesses found aggressively pursuing loopholes to pay abnormally low taxes has been significant and has led to serious reputational issues. Such risks can have material long-term financial implications." (Sustainable Insights: Edition 88).

CRITICISM OF PROXY VOTING

Jamie Dimon described shareholders who use shareholder advisory services as 'irresponsible', 'lazy' and they 'aren't a very good investor'. This came shortly after both Institutional Shareholder Services (ISS) and Glass Lewis recommended shareholders vote against Dimon's pay and for an independent chairman of the board.

Proxy advisers, organizations which advise investors how to vote on governance issues, have remained quiet, but some commentators are expressing sympathy with the CEO's view, arguing that institutions should not sub-contract such important decisions. There is also concern over the power wielded by the two leading proxy advisory firms, as well as possible conflicts of interest. Are asset managers being lazy or practical? (Sustainable Insights: Edition 95).

SHAREHOLDER ENGAGEMENT MODEL

Two European pension plans, PGGM and RPMI Railpen, have announced that they would publish a 'model policy' to encourage the boards of directors of US companies to demonstrate commitment to engagement with shareholders. The policy would emphasize certain protocols. These include: "clarity about

the purpose of engagement meetings and desired outcomes, confidentiality, sufficient preparation (by both sides) and the fact that directors prefer to deal with legitimate shareholder concerns in private 'rather than through public platforms such as the media'." (Sustainable Insights: Edition 86).

CORPORATE GOVERNANCE AROUND THE WORLD

NORWAY CURBS GHG'S ABROAD

The UK campaign group ShareAction that promotes the movement for responsible investment will coordinate letters from institutional investors to companies whose "public position on climate change contradicts their membership of trade associations that are lobbying against EU climate policy." Researchers from the UK think tank Policy Studies Institute (PSI) found that some investors have concerns about the misalignment between companies and their trade associations on climate policy. (Sustainable Insights: Edition 87).

INDIA'S STEWARDSHIP RULES

In March, we reported that 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 the lead of regional rivals Malaysia and Japan.

In May, the International Advisory Board of the Securities and Exchange Board of India (SEBI) board has advised its securities market regulator to set up a UK-style stewardship code. If adopted, India would be the third country in Asia to adopt a stewardship code. (Subscription required) (Sustainable Insights: Edition 91).

CORPORATE GOVERNANCE IN AUSTRALIA

The Financial Services Council (FSC), a wealth management industry body in Australia, has been lobbying to require that all Australian superannuation funds appoint a majority of independent directors.

A new report, titled Raising Governance Standards in the Superannuation Industry urges the Australian government to "mandate all superannuation funds have an independent chair and a majority of independent directors".

Some have pushed back, saying that the appointment of independent directors is not a guarantee for good decision making. Others think that the funds need to follow global best practices.

"It is the standard to which the FSC holds its members, consistent with international best practice, and it should be applied across all super funds in the industry," said the council's chief executive, Sally Loane. (Sustainable Insights: Edition 92).

GERMANY TIGHTENS GOVERNANCE RULES

The Deutscher Corporate Governance Kodex (DCGK), the commission that oversees Germany's corporate governance code, announced in May three recommended changes to the code:

1. Listed companies set age limits on board directors;
2. Ensure board directors have enough time to serve;
3. Inform shareholders when directors miss more than half of the board meetings.

Regarding the second recommendation, the DCGK noted that it was recommending companies ensure that candidates had enough time to devote to their board responsibilities. "Experience shows that the time pressures on board members have increased. Beyond board meetings and annual shareholder meetings, the work in the committees is more involved, as are the preparations." (Sustainable Insights: Edition 93).

UK PENSIONS: COMPLY OR EXPLAIN

In June, Trustees at several UK pension funds with a combined USD 548bn voted to adopt a comply-or-explain policy for fund managers on ESG voting at AGMs, referred to the 'Red Line' principles. The Association of Member Nominated Trustees (AMNT), a non-profit that works with UK pension plan boards, voted overwhemingly to support the policy at its annual conference.

Janice Turner, Co-Chair of the AMNT, who is also a member of the Department for Work and Pensions Trustees Panel and the Actuarial Users' Committee of the Financial Reporting Council, spoke about the importance of good corporate governance at the conference: "The fact is that a growing number of trustees are no longer willing to just sit there watching the value of their investments slide, as big companies are caught fixing Libor rates, accidentally misreporting their revenues and a catalogue of other scandals, and unable to have any say over those companies' governance. This has to change" (Sustainable Insights: Edition 98).

CORPORATE GOVERNANCE IN JAPAN

In Insights 67 and Trends Edition 6 we wrote that the Government Pension Investment Fund of Japan (GPIF) is making a push to improve corporate governance and raise the return on equity for shareholders. In a year when global stocks rallied, Japanese businesses have recently been buying back shares the rest of the world seemed to be avoiding.

Japan's tactics for encouraging good corporate governance include rewarding companies generating the highest return on equity. Approximately 130 institutions have adopted a new governance code to increase engagement with companies in which they own shares.

Kieran Calder, head of equities for Asia at Coutts & Co noted: "It's a pretty big sea change. Corporate mindsets are definitely changing. It makes Japan more of a normal market." (Sustainable Insights: Edition 96).

In Insights 96 we noted that Japan's corporate governance approach – a shareholder-centric model – may be changing company behavior in Japan. However, nearly one-third of companies listed in Japan have missed this 5 percent ROE target set by the code. Some fund managers say they will consider voting against annual meeting proposals for any company whose ROE is lower than 5 percent. CLSA strategist Nicholas Smith says that Japanese companies will need to justify actions to shareholders. Japan's biggest pool of untapped, wasted capital, he says, is not the company cash piles but the cross-shareholdings. So, are shareholders going to benefit? We're waiting and watching. (Sustainable Insights: Edition 98).

THE LETTER OF THE LAW: INCREASE IN THE WILLINGNESS TO USE THE LAW COURTS

UK COURTS: CONSIDER ECONOMIC IMPACT OF POLLUTION

The U.K.'s new government is being ordered by the nation's Supreme Court to put air pollution at the top of its agenda after the courts sided with environmental groups. The government will need to take immediate steps to comply with European Union rules by the end of this year. A group of environmental lawyers started legal action after the UK breached EU limits for nitrogen dioxide. London and other European cities have struggled to bring down nitrogen dioxide levels in part because NO2-emitting diesel is often favored over gasoline. (Sustainable Insights: Edition 98)

Judge: Dutch government must do more to combat climate change

In a similar vein, a Dutch court ruled in June that The Netherlands must do more to combat the threat of climate change.

The court ruled that Dutch Government's current plan to reduce emissions by 17 percent by 2020 was less than the 25-40 percent international norm for industrialized nations. The judge ruled that the country needs to reduce emissions by at least 25 percent of 1990 levels by 2020.
(Sustainable Insights: Edition 98)

Challenge to the EPA

Fourteen coal-producing states, along with the country's two largest coal companies, have challenged a proposed Environmental Protection Agency regulation, which the agency issued under the authority of the Clean Air Act
(Sustainable Insights: Edition 88)

DISEASES AND SUSTAINABILITY

New developments in antibiotics and meat and rice production, including substituting algae as an antibiotic. However, we're also noting the increase of an antibiotic-resistant "superbug" strain of typhoid.

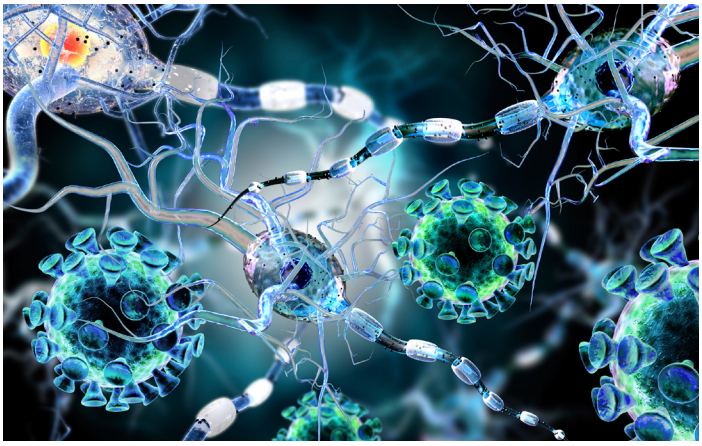
ANTIBIOTICS IN MEAT AND RICE PRODUCTION

A startup has been harnessing algae additive as an antibiotic. The hope is that algae can be used as a substitute to antibiotics in factory farms—a problem that's led to the rise of antibiotic-resistant bacteria (also known as 'superbugs') that are a threat to global public health.

Meanwhile, there is a problem plaguing rice farming: global warming is drying up water supplies for irrigated paddies. A network of scientists is working toward a solution which is based on perennial rice that yields grain for many years without replanting. " By crossing domesticated rice with its wild predecessors, they hope to create deep-rooted varieties that hold soils in place, require less labor and survive extremes of temperature and water supply." (Sustainable Insights: Edition 87).

"SUPER BUGS"

We reported in Q1 Sustainable Trends that progress has been made regarding antibiotics, but that so-called "superbugs" or antibiotic- resistant strains are on the rise. Recently, an international study has found that an antibiotic-resistant "superbug" strain of typhoid fever has spread globally. It appears to be driven by a single family of the bacteria, called H58. This "superbug" version, which is resistant to multiple types of antibiotics, is now becoming dominant. Typhoid affects around 30 million per year and is mostly seen in parts of Southeast Asia. Although vaccinations are available, they are often cost-prohibitive in many developing countries. (Sustainable Insights: Edition 92).



UPDATE ON EBOLA

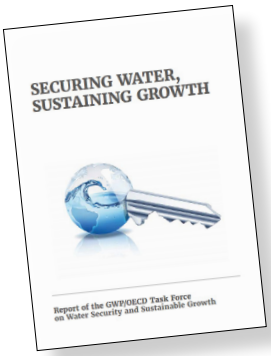
To date 11,000 plus people have died from the Ebola epidemic, mainly in Liberia, Sierra Leone and Guinea, which started in March 2014. (Sustainable Insights: Edition 95)

CAREFUL WHAT YOU WISH FOR

Warmer weather in Europe over the last 15 years has lead to an increase in vector-borne diseases across the continent. A new report concludes: "These changes are in part due to increased globalization, with intercontinental air travel and global shipping transport creating new opportunities for invasive vectors and pathogens. However, changes in vector distributions are being driven by climatic changes and changes in land use, infrastructure, and the environment." (Sustainable Insights: Edition 88).

QUARTER 2 READING LIST

A New Climate for Peace: Taking Action on Climate and Fragility Risks. An independent report commissioned by the G7 members (link)



Securing Water, Sustaining Growth (link)