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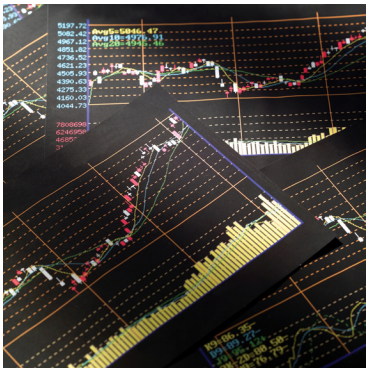

REPORTING ON ESG DATA IS A GROWING GLOBAL TREND

Several recent attempts to improve the reporting of Environmental, Social, Governance (ESG) data are gaining momentum. The American National Standards Institute in Washington has asked San Francisco based non-profit, Sustainability Accounting Standards Board (SASB), to develop standards for how publicly listed companies disclose sustainability information in their annual 10-K filings (Sustainable Insights: Edition 23). Drafts of the standards, yet to be finalized, include reporting of measures such as the carbon emissions of companies in which the banks have invested. The standards are backed by large investors such as CalSTRS and The Rockefeller Foundation, but are yet to be implemented (Sustainable Insights: Edition 31).

The European Union is already asking companies to disclose non-financial information. EU legislation, which takes effect in mid-2014, will require large public and private companies in the EU and listed on EU-regulated markets to disclose relevant environmental, social and governance risks, policies, and results (Sustainable Insights: Edition 23).

China, the world's largest green energy investor (Sustainable Insights: Edition 3), is now emerging as a leader on greenhouse gas emissions reporting. Thousands of Chinese companies will be expected to report on future emissions of all six greenhouse gases. Polluters may face pressure from NGOs and pro-environmental groups as pollution data of 15,000 enterprises will be made public (Sustainable Insights: Edition 28).

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Shareholder resolutions filed by asset owners and asset managers on ESG issues hit an all-time high this year.

MORE ESG ACTIVITY EVIDENT FROM ASSET OWNERS AND MANAGERS

The threat of a declining value in their fossil fuel investments because of stranded assets has led investors to focus more attention on oil and gas companies. Pension plans in particular are asking these companies for disclosure of carbon assets, which puts their equity value at risk under a low carbon scenario.

Last fall INCR members and others who collectively manage USD 3tr sent letters to 45 of the world's largest fossil fuel companies urging them to report on how they would mitigate the risk of stranded assets (Sustainable Insights: Edition 24). Later, a group of investors with AuM of over USD 200bn filed shareholder resolutions with ten energy companies, including Exxon Mobil (XOM US), Devon Energy (DVN US) and FirstEnergy (FE US), requesting disclosure of their strategies for competing in a low-carbon future (Sustainable Insights: Edition 29). The USD181bn CalSTRS has reached out to nearly 30 companies to discuss their reserves valuations and low-carbon strategies (Sustainable Insights: Edition 30).

Shareholder resolutions filed by asset owners and asset managers on ESG issues hit an all-time high this year. According to Proxy Preview 2014, a report compiled by As You Sow, the Sustainable Investments Institute and Proxy Impact, the number of ESG shareholder proposals reached 417,

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fifty more than last year. Thirty percent of the proposals referred to political lobbying, while the number concerning environmental and sustainable governance issues accounted for 39% of the total, the most ever filed by shareholders (Sustainable Insights: Edition 33).

Large government pension plans and sovereign wealth funds worldwide are also strengthening their responsible investment mandates. A Japanese advisory committee found that market demand is increasing for medium and long-term funds investing in socially responsible areas, such as human resources and education. The committee recommended that Japan, which is going through a process of reform in several areas including corporate governance and reporting, long-term finance, and sustainability, should lead the global community by setting guidelines for its pension funds for socially responsible investing. The committee recommends increasing responsible investment from JPY1trn (€7.1bn) to JPY5trn (€35.5bn) by 2020 (Sustainable Insights: Edition 31).

Likewise, the Government Pension Fund Global (GPFG) the USD840bn Norwegian sovereign wealth fund, which owns about 1.3% of global market capitalization, will consult an independent panel to recommend if it should halt investments in carbon-intensive firms. The panel is expected to report back in 2015 (Sustainable Insights: Edition 32). GPFG has a tendency to divest or rule out investments that fail to meet its ethical standards, as reported in Sustainable Insights: Edition 27.

Green bond issuances are increasing, and may account for 10%-20% of bond market by 2024 as renewables firms face financing cuts from governments and financial institutions.

One asset manager in particular, F&C, which has approximately GBP83.4bn of AUM, recently reported 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 (Sustainable Insights: Edition 35).

Institutional investors are turning to different investment vehicles to support their responsible investment mandates. For example, green bond issuances are increasing, and may account for 10%-20% of bond market by 2024 as renewables firms face financing cuts from governments and financial institutions (Sustainable Insights: Edition 27). Demand is also growing. 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 USD 50B next year (Sustainable Insights: Edition 35).

* BELIEVE IT OR NOT *

World Health Organization (WHO) reports that 1 in 8 global deaths are linked to indoor and outdoor air pollution. Paris and London have all had some of their worst pollution days on record in the last few months, while China's pollution levels remain dangerously high.

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BATTLE LINES ARE DRAWN IN FOSSIL FUEL DEBATE

An Australia Institute Report finds portfolio returns will fall by only 0.2% when fossil fuel assets are excluded; yet big oil says there is no reason to be concerned by fossil fuel risk. The Australia Institute analyzed the ASX 200 index, ranked 8th worldwide in terms of carbon reserves, and found that 88% of its stocks are exposed to coal investments. The report projected that the annual returns of a hypothetical back tested portfolio constructed by a third party reduced performance from 13.36% to 13.22% after excluding carbon intensive companies based on subjective ranking criteria over the period October 2004 to October 2013. The report asserts that by divesting fossil fuel stocks, investors can avoid the risks associated with stranded carbon assets. Some of the companies at risk of divestment include Woodside Petroleum (WPL AU), Origin Energy (ORG AU), Whitehaven Coal (WHC AU), and AGL Energy (AGK AU) (Sustainable Insights: Edition 32).

However, big oil responds to concerns about stranded assets by dismissing fossil fuel risk. BP rejected investors' fears over 'unburnable carbon' as overly simplistic and overstating the financial impact. Meanwhile, Shell has admitted that the company will face project delays and higher costs unless it lowers its emissions. Both will impact profits states the Shell Strategic Report. Exxon released two reports last week that outline how the company plans to assess its policies limiting greenhouse gas emissions.

OPINIONS DIVIDED ON THE ECONOMICS OF CLIMATE CHANGE

Countries face a challenge when weighing two different options to reduce their contribution to climate change: set emissions targets or increase support for renewables. Six European Union countries set a 2030 goal for renewable energy use. This move comes in opposition to the UK, which has instead set a greenhouse gas emissions reduction target. Ministers from Austria, Belgium, Denmark, France, Germany, Ireland, Italy and Portugal signed the letter stating a 2030 renewables goal, hoping to cut dependency on fossil fuel imports and spur economic growth. Those in favor of setting an emissions reduction target argue that it will provide governments more flexibility in how they cut emissions—including investing in nuclear power or energy efficiency (Sustainable Insights: Edition 24). Given a renewable energy goal, is it the government's responsibility to provide subsidies? The British government's pledge to provide subsidies to solar projects, irrespective of size, and low panel prices (which have halved since 2011) is attracting large scale solar project developers to the UK. On the contrary, Germany proposed to cut renewable energy subsidies by approximately 30% through 2015 is an effort to reduce the country's high energy costs.

The examination of the economics of climate change begs another question: What is the economic impact of carbon reduction on a country? The EPI concluded that wealthy countries produce the highest levels of climate emissions, but have for the most part successfully reduced the

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carbon intensity of economic growth over the last decade. Rapidly developing economies, such as India and China, have seen the steepest increase in emissions over the last decade. For poor countries, such as Nepal, emissions are comparatively low. Germany, one of the world's largest coal consumers, ranked 6th among 178 countries in an index that assessed countries based on protection of human health from environmental harm and protection of ecosystems. The country ranked the highest amongst the world's largest economies. The report notes that China ranks 118th and India ranks 155th as these countries have sidelined environmental policies to achieve quick economic growth (Sustainable Insights: Edition 27).

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The deployment of a carbon market is one component of a government's carbon reduction plan. Results have been mixed however, especially in Europe. Russia is considering a domestic carbon market in order to reduce greenhouse gas emissions and provide additional cash flow. Meanwhile, a recent report noted that the influence of the UN's first carbon emissions market is waning. Italian state-owned energy exchange Gestore Mercati Energetici (GME) plans to close its carbon emissions market on March 22, more than three years after it temporarily suspended trade because of what it called "presumed unlawful" activity (Sustainable Insights: Edition 33). 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 (Sustainable Insights: Edition 35).

On a global scale, the price tag on climate change is also still debated. 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 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 (Sustainable Insights: Edition 35).