

ESG Investing – Boom or Bubble?

Wednesday 26 May 2021

Speakers: Andrew Mitchell (Equilibrium Futures)

Jason Jones (TEAM)

Chair: Fiona Mc Farlane (RBC)

STEP Jersey is sponsored by:

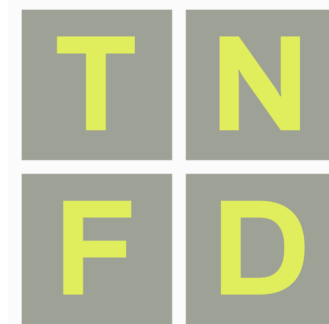


CAREY OLSEN



Finance strategies

Equilibrium Futures is at the forefront of catalysing changes to the world's financial system, and is educating and inspiring economic decision makers to implement Sustainable Finance in Jersey.



Jersey Finance

Delivering Insight • Driving Innovation

*What's the point of
ESG?*



*"Yes, the planet got destroyed. But for
a beautiful moment in time we created
a lot of value for shareholders."*



Equilibrium Futures

FOR ALL OUR FUTURES

“We would need 1.6 Planet Earths to maintain our current living standards”

Sir Partha Dasgupta

Dasgupta Review on the Economics of Biodiversity,
Feb 2021

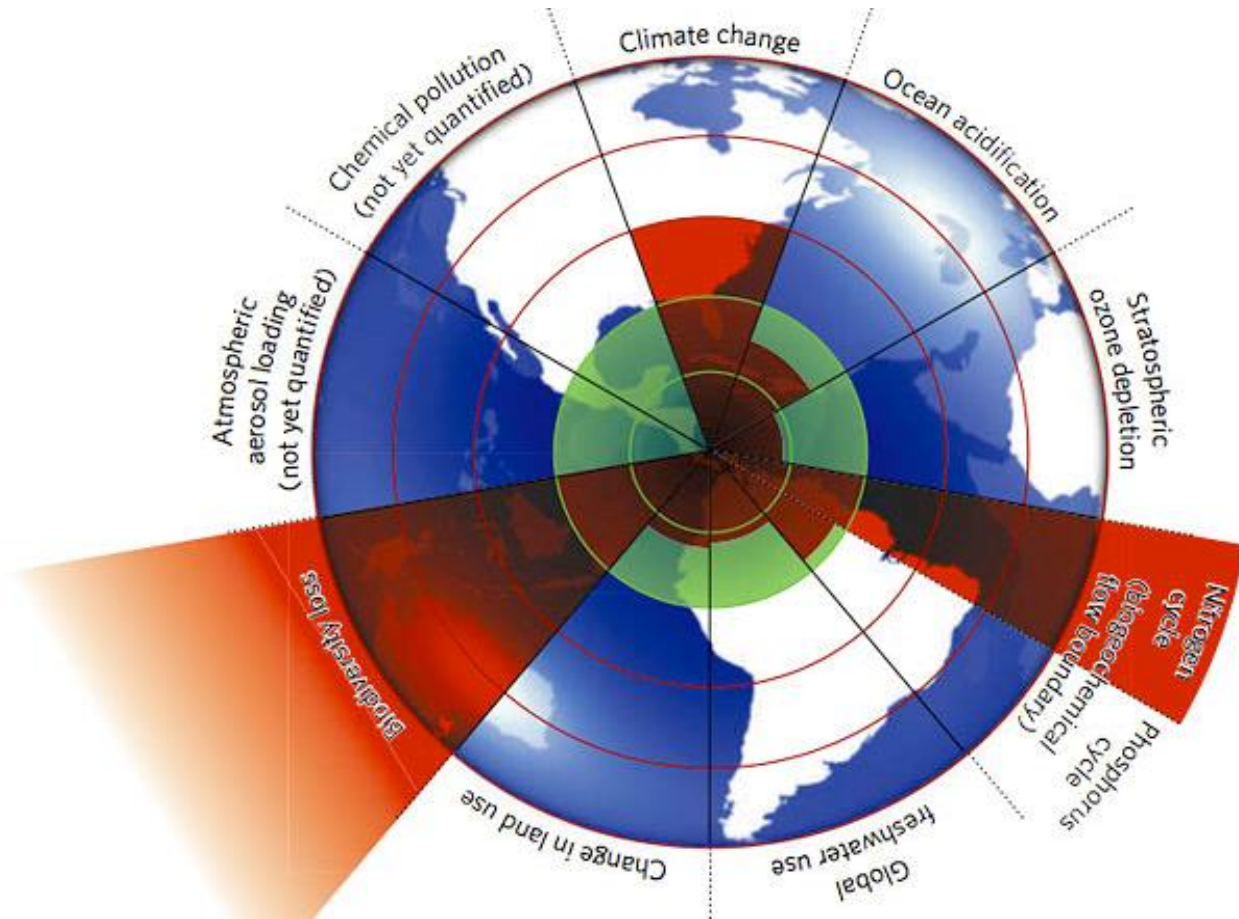
“If we do not change the movement of money, we will continue to finance ourselves into extinction.”

Andrew Mitchell

Founder - Equilibrium Futures

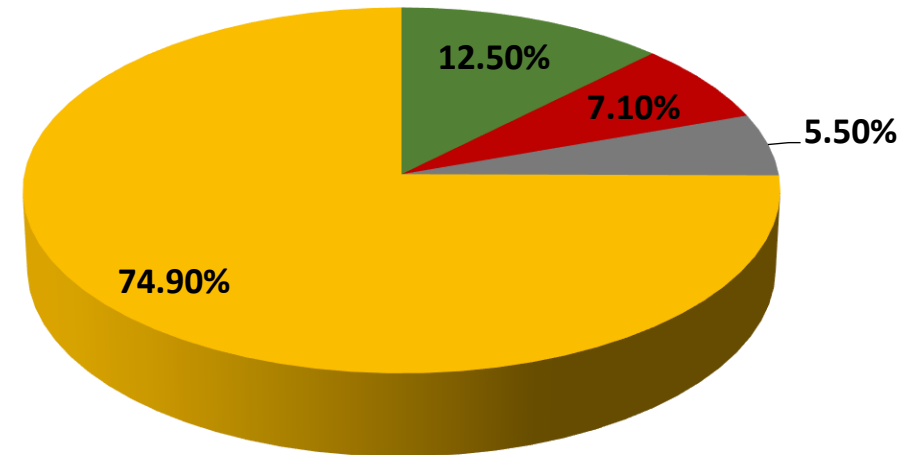


Our economy and its resource use is driving earth systems perilously close to many “Planetary Boundaries” which could trigger systemic upheavals



Global resource use and economic direction today is largely driven by the *Private Sector* and its century-old “*Corporation 1920*” business model

U.S. Gross Value Added



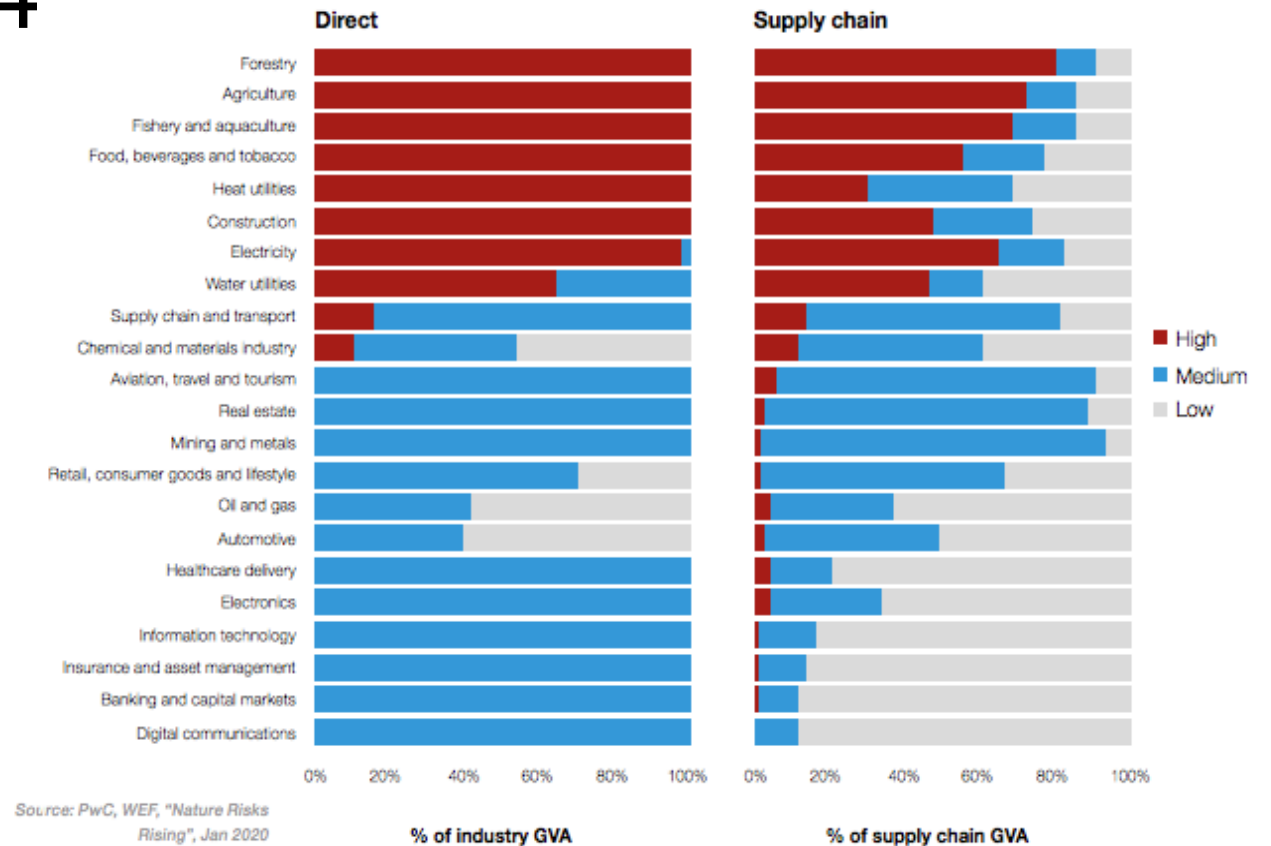
- Government
- Households
- Nonprofit institutions serving households
- Private business

2010 data. Source: U.S. Bureau of Economic Analysis

WEF estimates that \$44 Tn of economic value generation, more than 50% of global GDP, is moderately or highly dependent on nature.

New Nature Economy Report, 19th January, 2020

Figure 03 – Percentage of direct and supply chain GVA with high, medium and low nature-dependency, by industry





AML & Scale of ENV Crime

REFINITIVE - WWF

\$15-23 Bn

Refinitive's 2019 report drew on a WWF fund study of the value of wildlife trafficking only.

4th largest illegal trade behind drugs.

EUROPOL - UNEP

\$90-260 Bn

In 2016 took into account illegal logging, fishing, and mining.

Growing at 5-7% annually

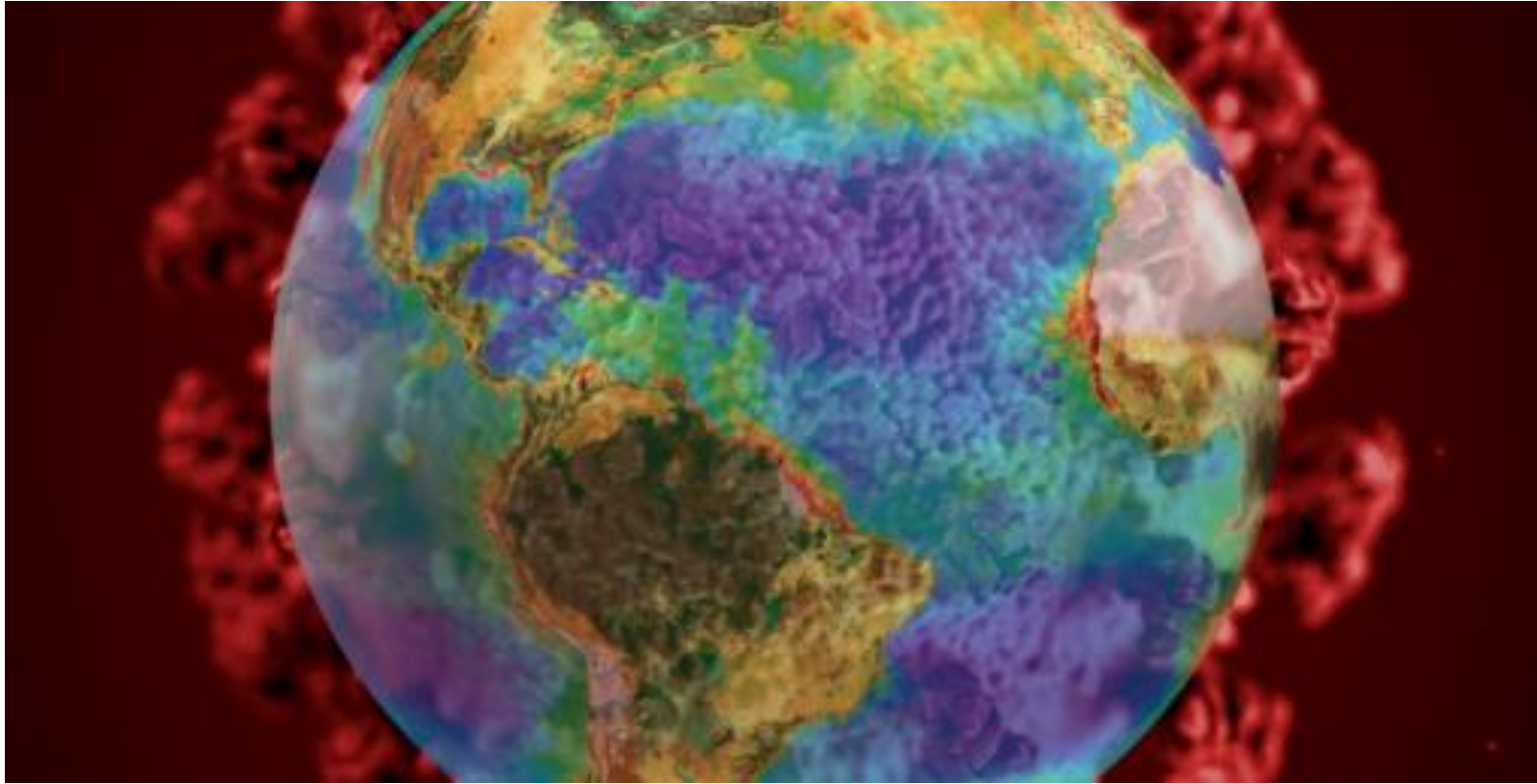
WORLD BANK

\$1-2 Tn

In 2019 estimated the full impact.

Includes loss of ecosystem services upon which the economy depends.

ESG Related Risk



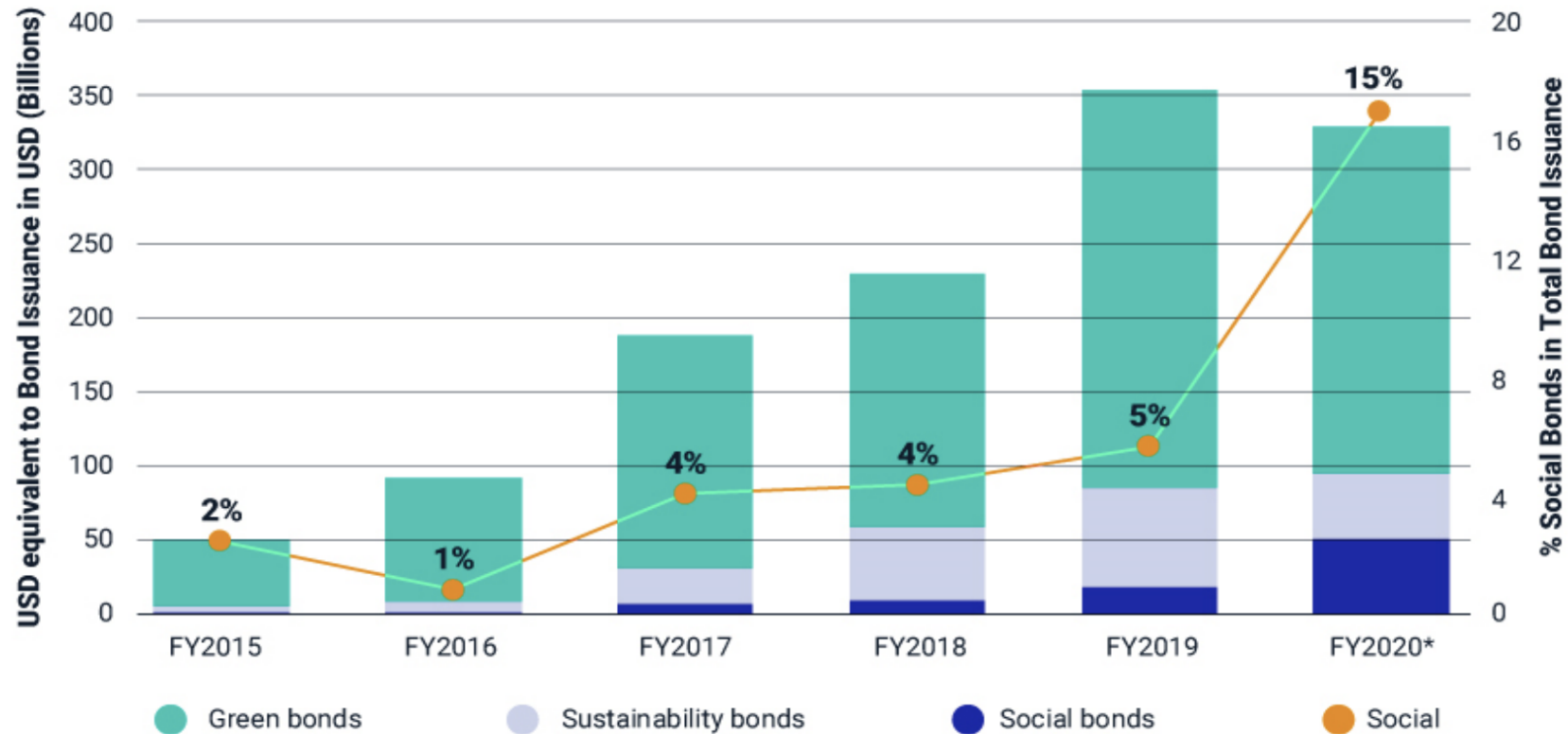
- TCFD
- Gender
- EU Taxonomy
- Diversity
- Biodiversity
- TNFD
- SFDR (10Mar)

Sustainable Finance Disclosure Regulation

- Classification of funds and mandates
- EU Sustainable Finance Action Plan and Taxonomy

ESG Bond Markets on the Rise

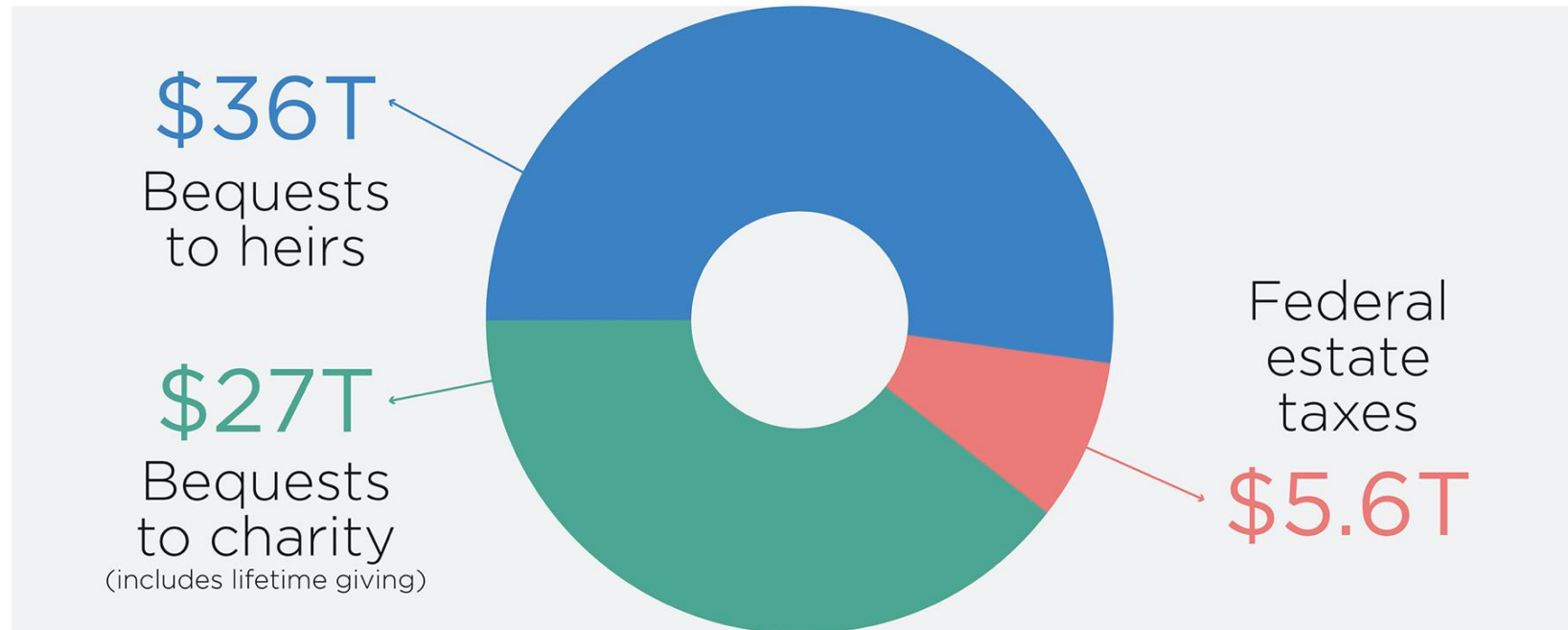
Exhibit 7: Social, Sustainability and Green Bond Issuances 2015-2020 (USD)



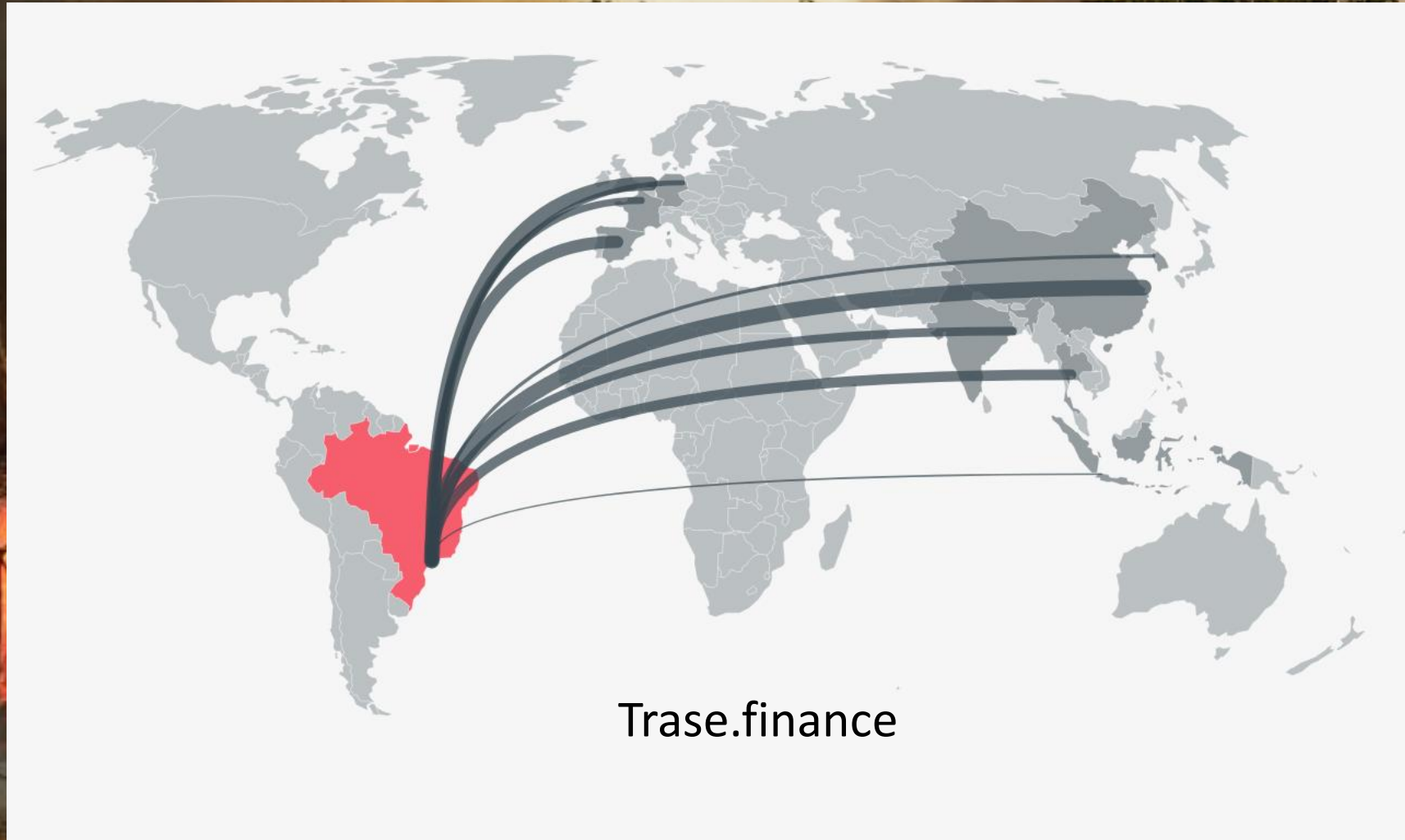
Social bonds aim to finance projects or operations with social benefits, as green bonds aim to finance environmentally beneficial projects. Sustainability bonds incorporate both social and environmental elements. Data as of Oct. 15, 2020. Source: Climate Bonds Initiative, MSCI ESG Research.

Trustees - Next Gen Has Different Priorities

\$59 TRILLION Will be transferred
from Boomers to Millennial heirs, charities and taxes
between 2007 & 2061

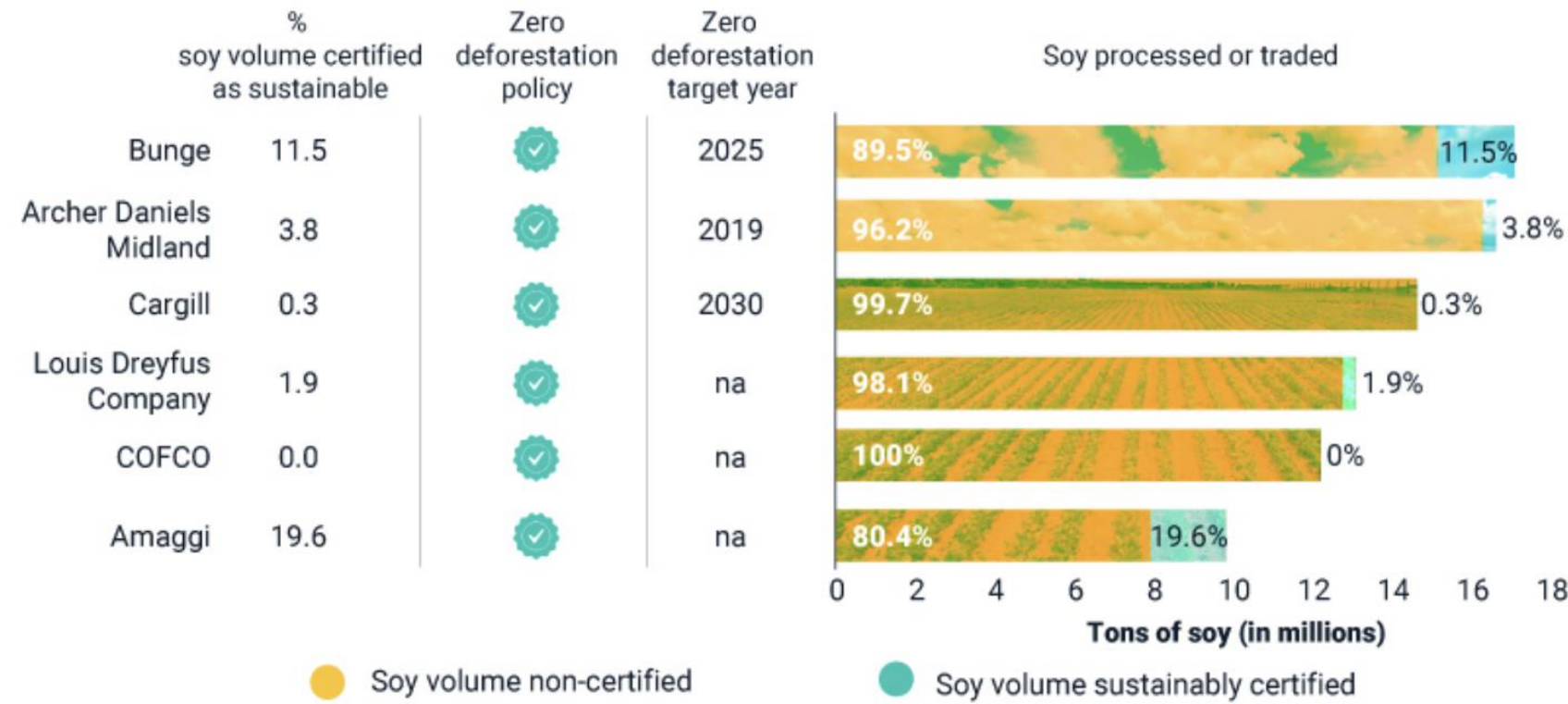


Where should you invest? Renewable Food?



Reform of Fossil Fuels > Food Industry is Next

Exhibit 4: Soy Producers and Users: Revenue Dependency and Progress Toward Zero Deforestation



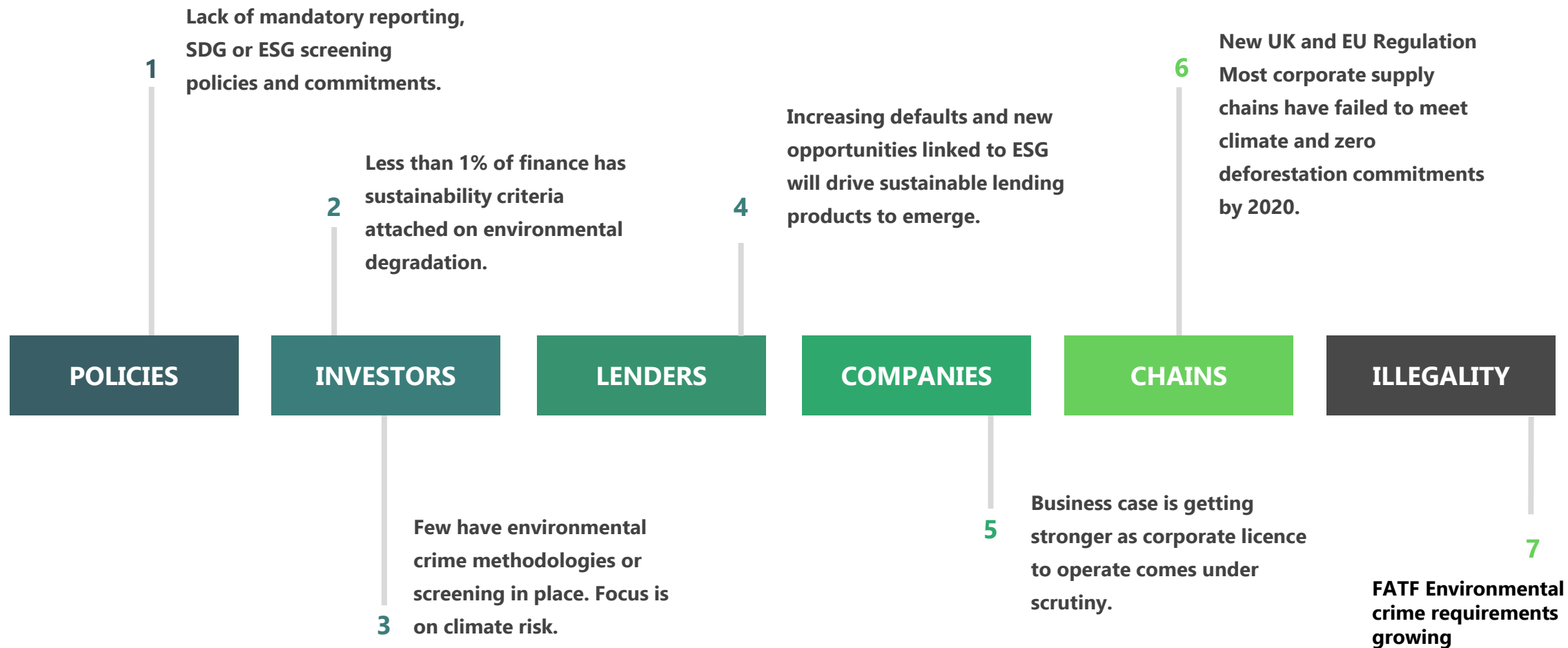
Taskforce on Nature-related Financial Disclosure

- Launch 10th June 2021
- Disclosure and Reporting Framework for water, landscapes, forests oceans.
- Widening the 'E' of ESG
- Climate mandatory in UK, France > EU and others
- EU Taxonomy will spread





What should Trustees be aware of?





What Family Office Principles should be thinking of

- Explore your investment philosophy;
- Set strategic direction;
- Understand risks and impacts;
- Capture new opportunities;
- Communicate to internal and external stakeholders;
- Measure progress & don't get left behind!



Help is needed to Navigate a way through



PRINCIPLES FOR
**RESPONSIBLE
BANKING**

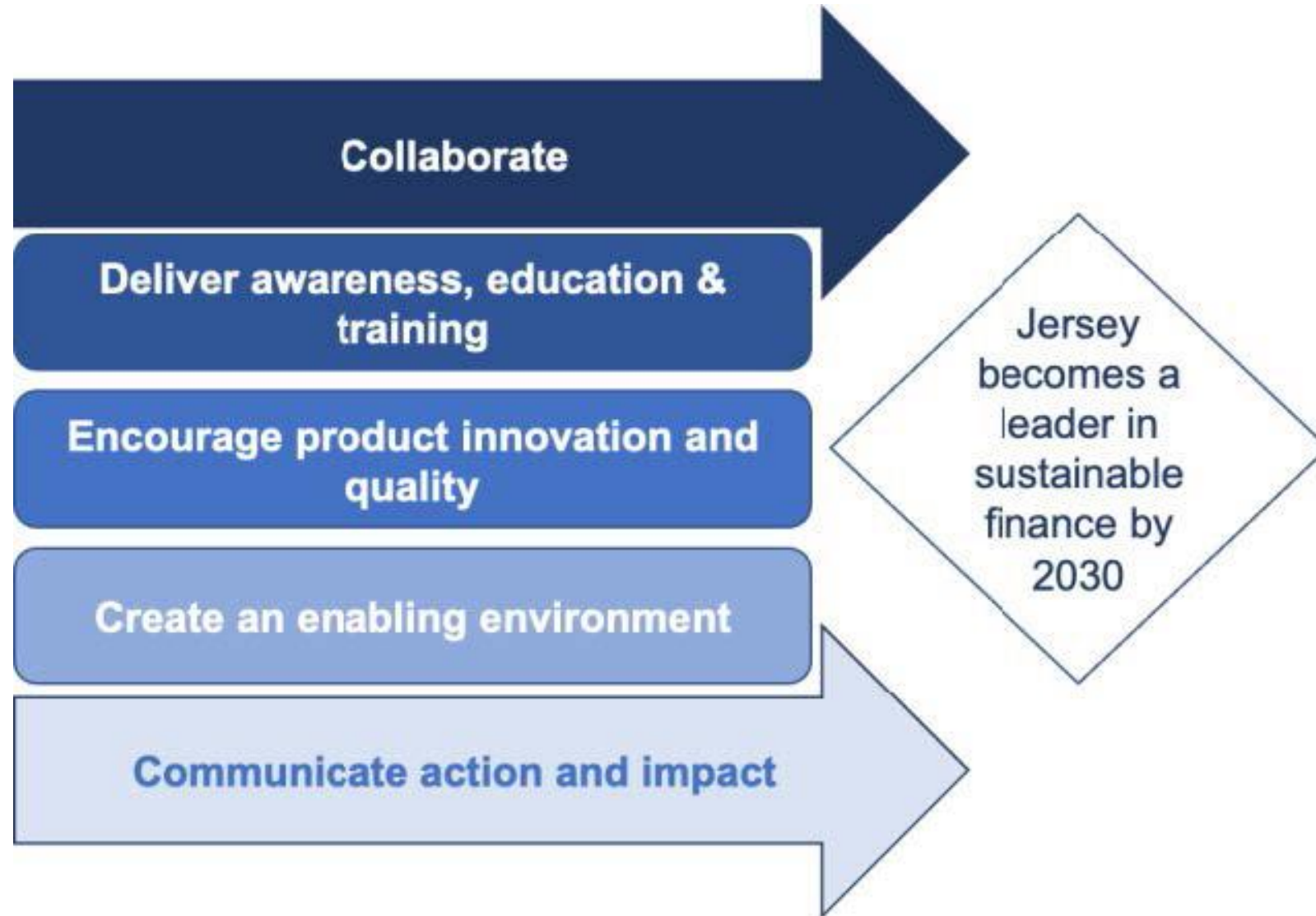




Sustainable Finance Vision and Pathway for Jersey to 2030

A Jurisdictional Case Study

Key elements of the Pathway for Jersey



Jersey Sustainable Finance: 2030 Vision and Pathway

- Commissioned July 2020
- Delivered to JFL in December 2020
- “Save Haven to Green Haven” Report & Tech Annex
- Two facilitated Leadership Team workshops
- 30 Interviews with Industry Leaders and other stakeholders
- Extensive expert research
- Launched – 5th March 2021



To ride the Boom and
avoid the Bust you need...

ESG Metrics



A Pathway



A Jersey for Good



andrew@equilibriumfutures.com

www.equilibriumfutures.com

EQUILIBRIUM FUTURES

MASTER ID

TEAM

TEAM

The Business of ESG

May 2021

TEAM

Environmental. Social. Governance.

1. What are the Regulations ?
2. What is ESG Data and how is it used ?
3. What impact are ESG considerations having on markets, and investment decisions ?
4. What can we expect (and what will be expected of us) in the future ?

TEAM

Official Journal of the European Union – Released 09-12-19

(8) As the Union is increasingly faced with the catastrophic and unpredictable consequences of climate change, resource depletion and other sustainability-related issues, urgent action is needed to mobilise capital not only through public policies but also by the financial services sector. Therefore, financial market participants and financial advisers should be required to disclose specific information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts.

(Legislative acts)

REGULATIONS

**REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
of 27 November 2019
on sustainability-related disclosures in the financial services sector**

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Economic and Social Committee ⁽¹⁾,

Acting in accordance with the ordinary legislative procedure ⁽²⁾,

Whereas:

Article 20

Entry into force and application

1. This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
2. This Regulation shall apply from 10 March 2021.
3. By way of derogation from paragraph 2 of this Article, Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2), Article 11(4), and Article 13(2) shall apply from 29 December 2019 and Article 11(1) to (3) shall apply from 1 January 2022.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Strasbourg, 27 November 2019.

For the European Parliament

The President

D. M. SASSOLI

For the Council

The President

T. TUPPURAINEN

TEAM

What is ESG Data ?

TEAM

ESG 'Data'

Environmental Attributes – Waste Disposal practices, Sustainability of Resources, Energy Sources

Greenhouse Gases – CO2 / Methane production

Carbon Reserves – Coal, Oil , Gas production and exploitation

Water Stress – Use and pollution of water sources

Renewable Energy – Production, Usage

TEAM

ESG 'Data'

Environmental Attributes – Waste Disposal practices, Sustainability of Resources, Energy Sources

Greenhouse Gases – CO2 / Methane production

Carbon Reserves – Coal, Oil , Gas production and exploitation

Water Stress – Use and pollution of water sources

Renewable Energy – Production, Usage

Social Attributes – Use of Human Capital, Labour Standards, Privacy, Data Security, Stakeholder Engagement

Gender Considerations – Balance of Employees / Board Representation

Diversity – Racial and Socio-Economic Diversity

TEAM

ESG 'Data'

Environmental Attributes – Waste Disposal practices, Sustainability of Resources, Energy Sources

Greenhouse Gases – CO2 / Methane production

Carbon Reserves – Coal, Oil , Gas production and exploitation

Water Stress – Use and pollution of water sources

Renewable Energy – Production, Usage

Social Attributes – Use of Human Capital, Labour Standards, Privacy, Data Security, Stakeholder Engagement

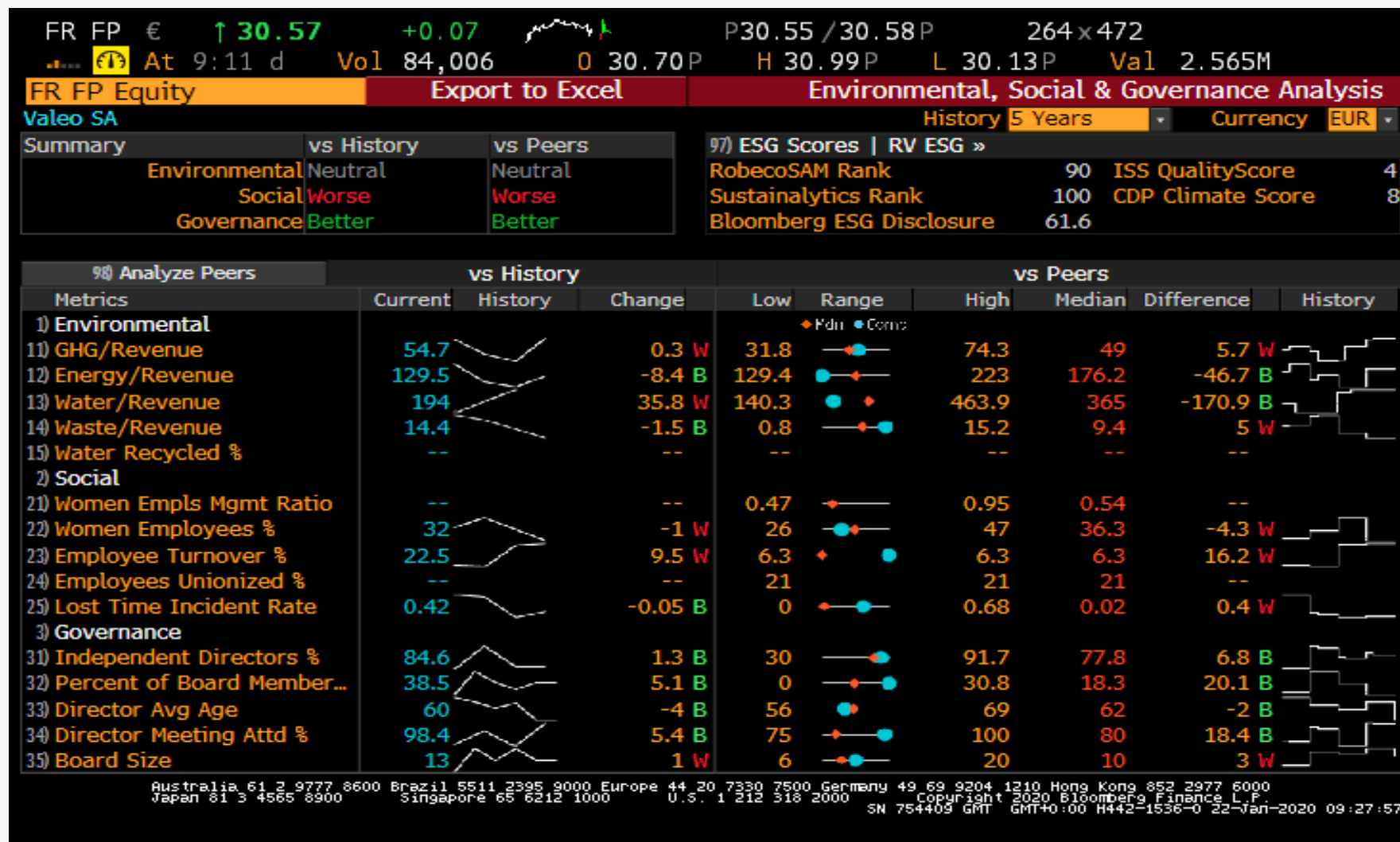
Gender Considerations – Balance of Employees / Board Representation

Diversity – Racial and Socio-Economic Diversity

Governance Attributes – Board Size / Director Age / Director Attendance

Management Structure – Board Gender / Racial Composition,

Compensation Policy – Executive Pay versus Average Employee Pay, Gender / Race Pay Disparity



TEAM

How do Companies Get Assessed at Present ?
(And Who Uses the Data ?)

TEAM

The ESG Ratings Landscape -Today

Data Gatherers



Annual Reports



Company Websites



Direct Questionnaires



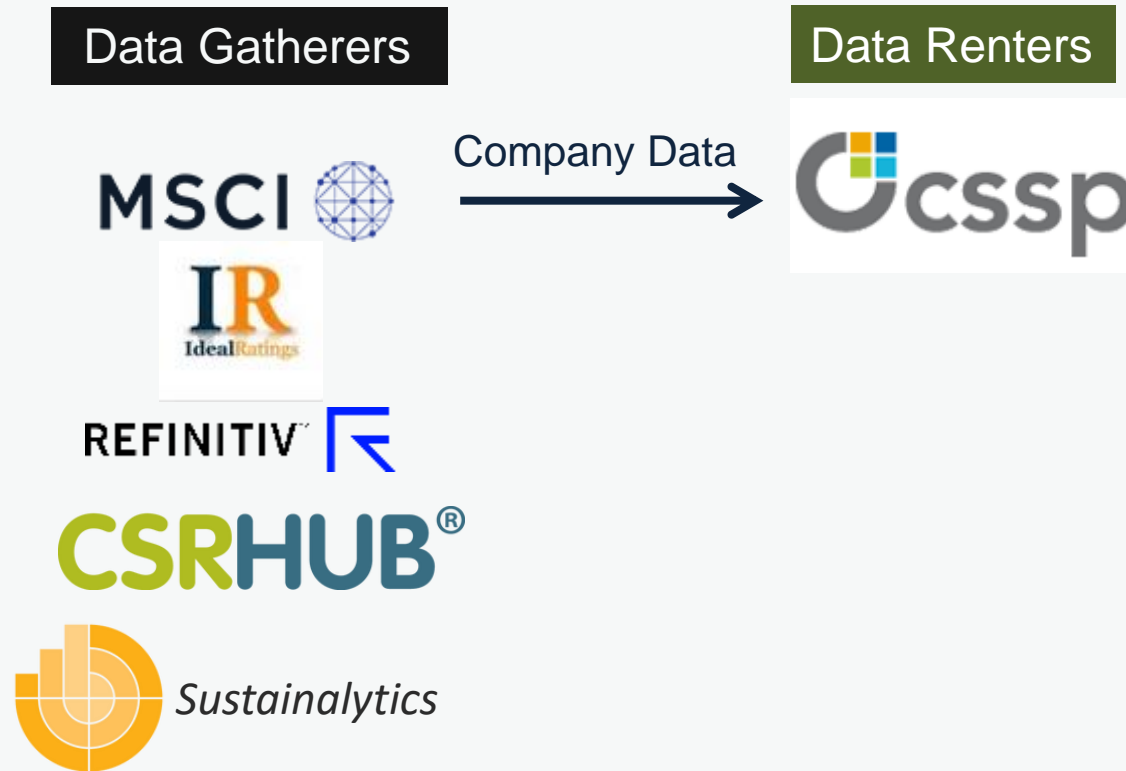
News, Social Media



Sustainalytics

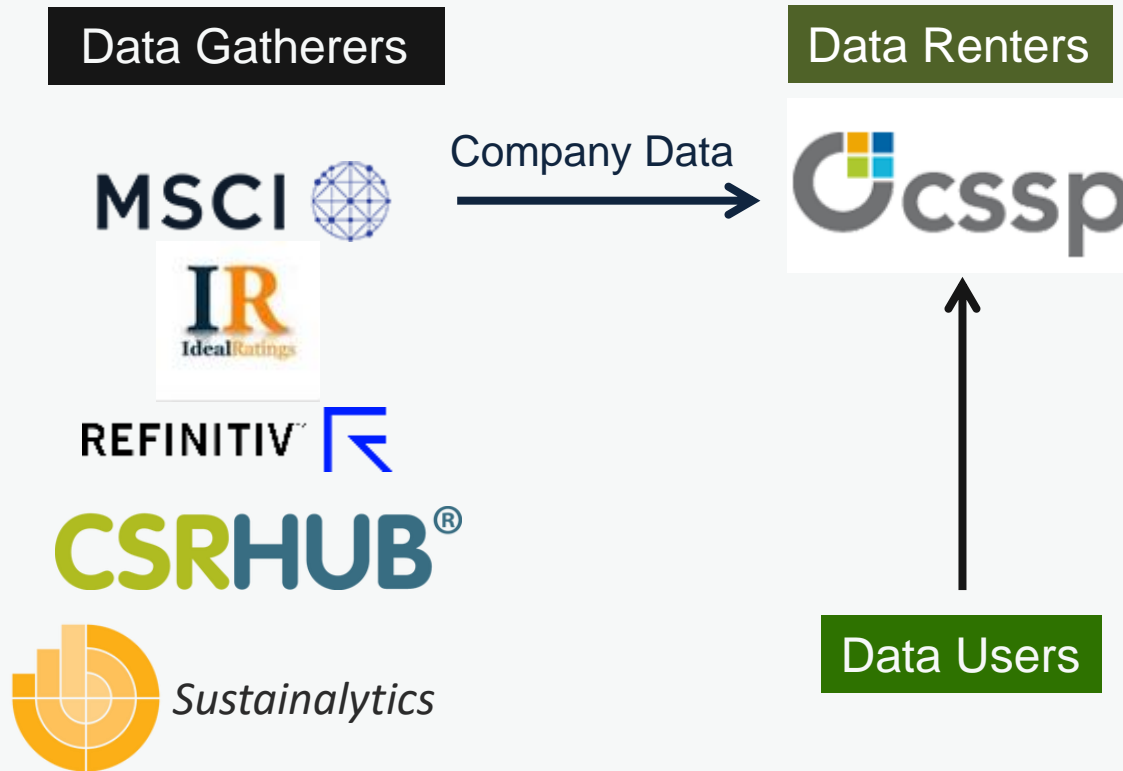
TEAM

The ESG Ratings Landscape -Today



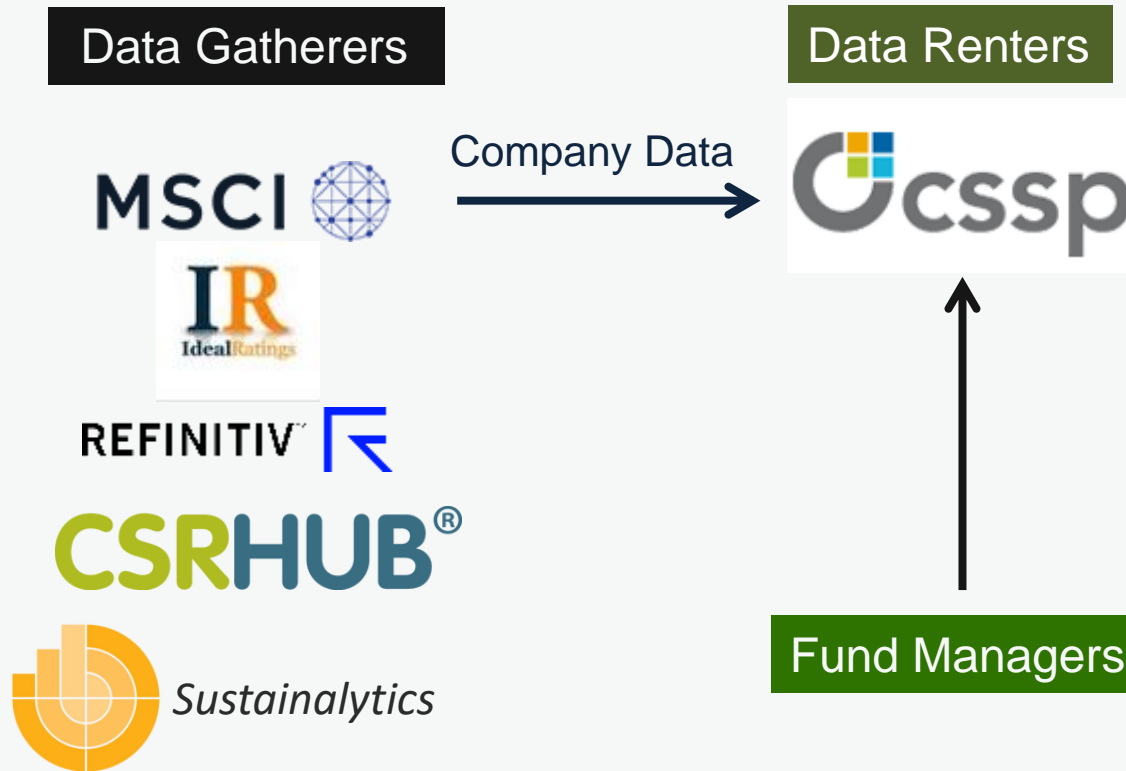
TEAM

The ESG Ratings Landscape -Today



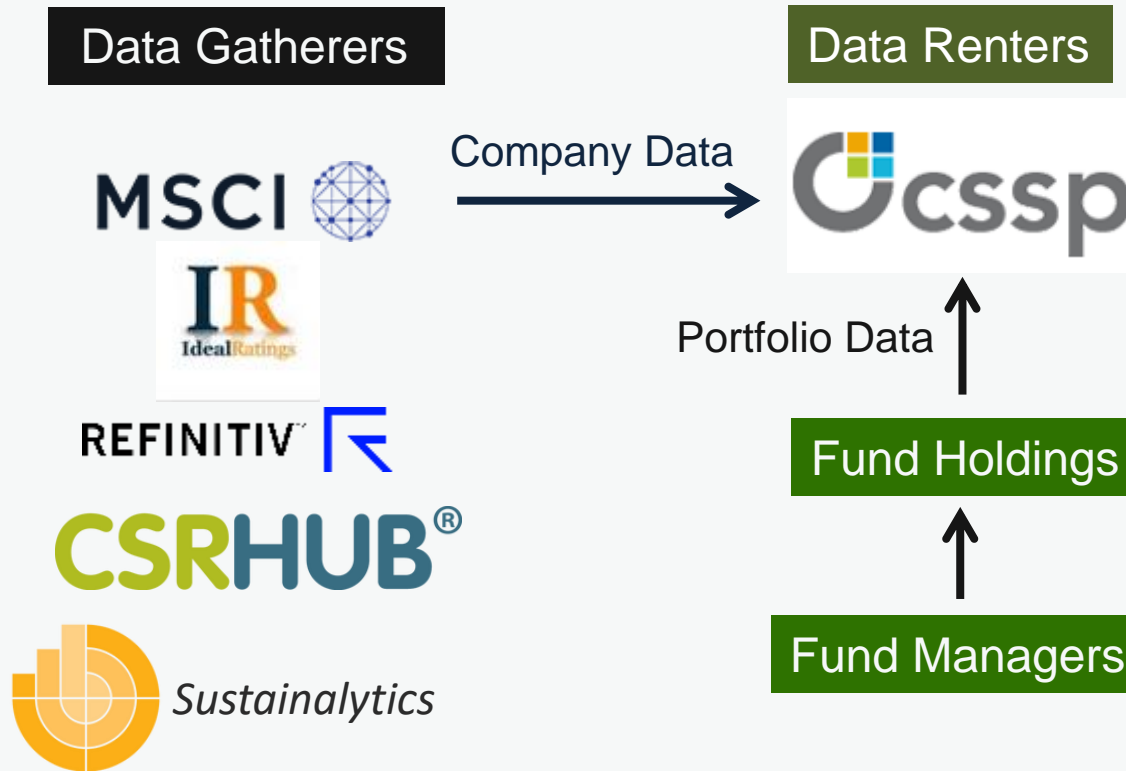
TEAM

The ESG Ratings Landscape -Today



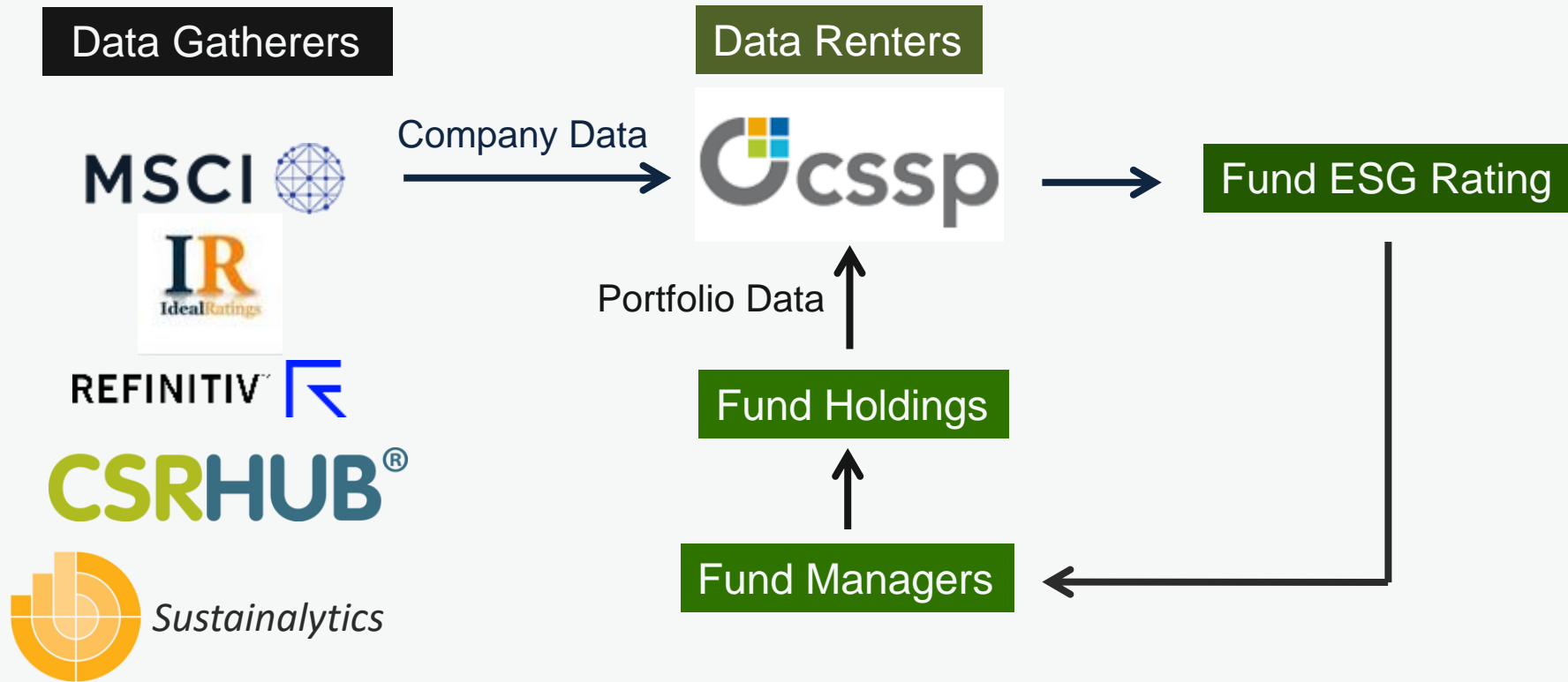
TEAM

The ESG Ratings Landscape -Today



TEAM

The ESG Ratings Landscape -Today



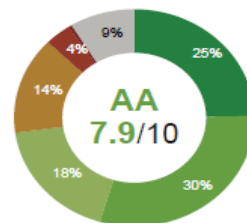
TEAM

I. Snapshot Summary

a. Quick Facts

98/100
Peer
percentile

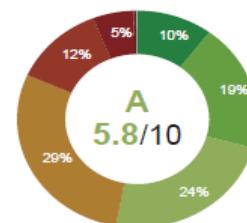
92/100
Global
percentile



Portfolio ESG Rating Distribution

AAA AA A BBB
BB B CCC Not Rated

Portfolio Score	7.9
Portfolio Rating	AA
United Global Compact Compliance	Failed 0.0%
Business Involvement Exposure	Failed 5.3%



Benchmark ESG Rating Distribution

AAA AA A BBB
BB B CCC Not Rated

Benchmark	Equity - MSCI World Index
Peergroup	Lipper Global Equity Global (n=3736)
Classification	GICS
Coverage	91.3%
Ext. Coverage	no
Holdings Date	Jan 28, 2021

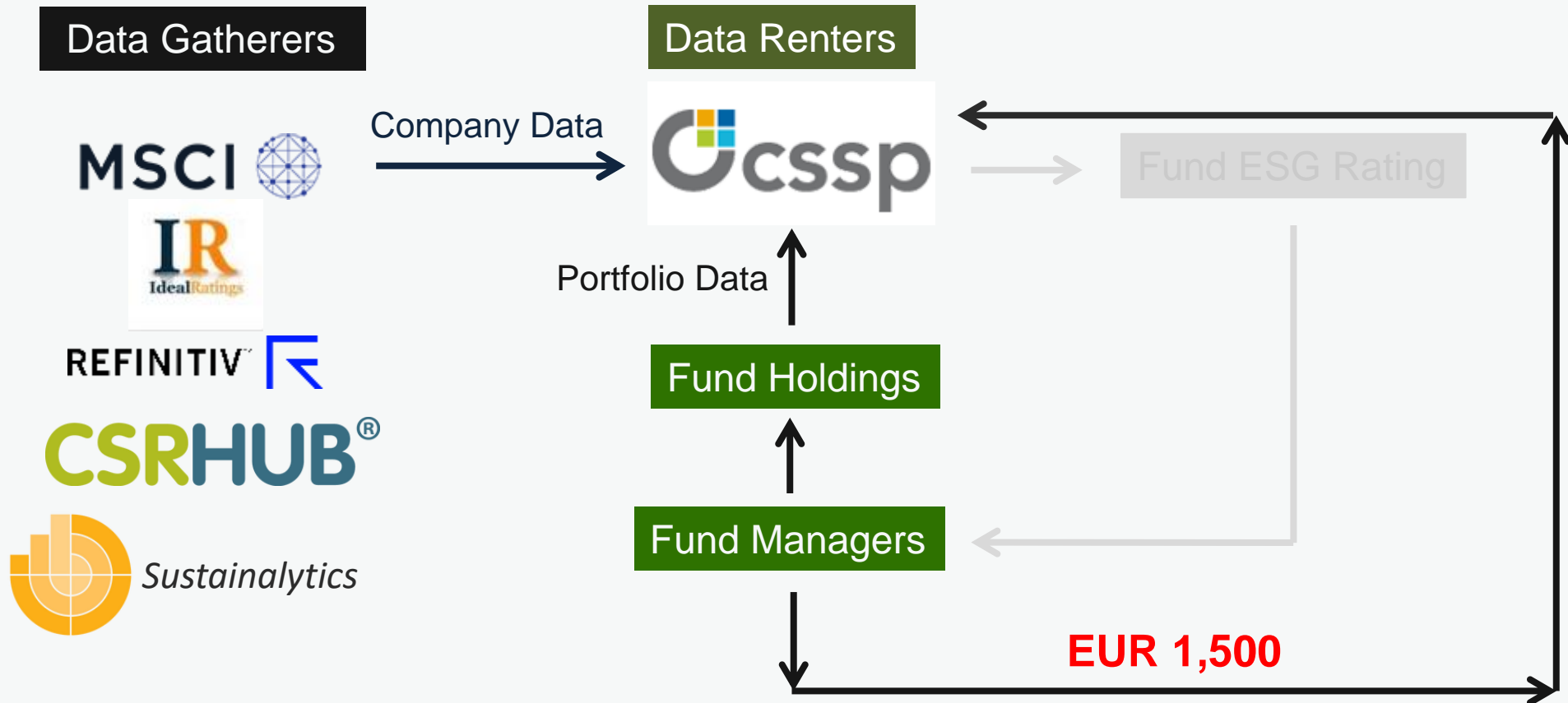
ESG Report

The ESG Quality Score measures the ability of underlying holdings to manage key medium to long term risks and opportunities arising from environmental, social, and governance factors.

The portfolio receives a score of 7.9 out of 10, and has 59.8% exposure to ESG leaders and 0.5% exposure to ESG laggards. It ranks in the 98th percentile within the **Lipper Global Equity Global** peer group and in the 92th percentile within the global universe of all funds in coverage.

TEAM

The ESG Ratings Landscape -Today



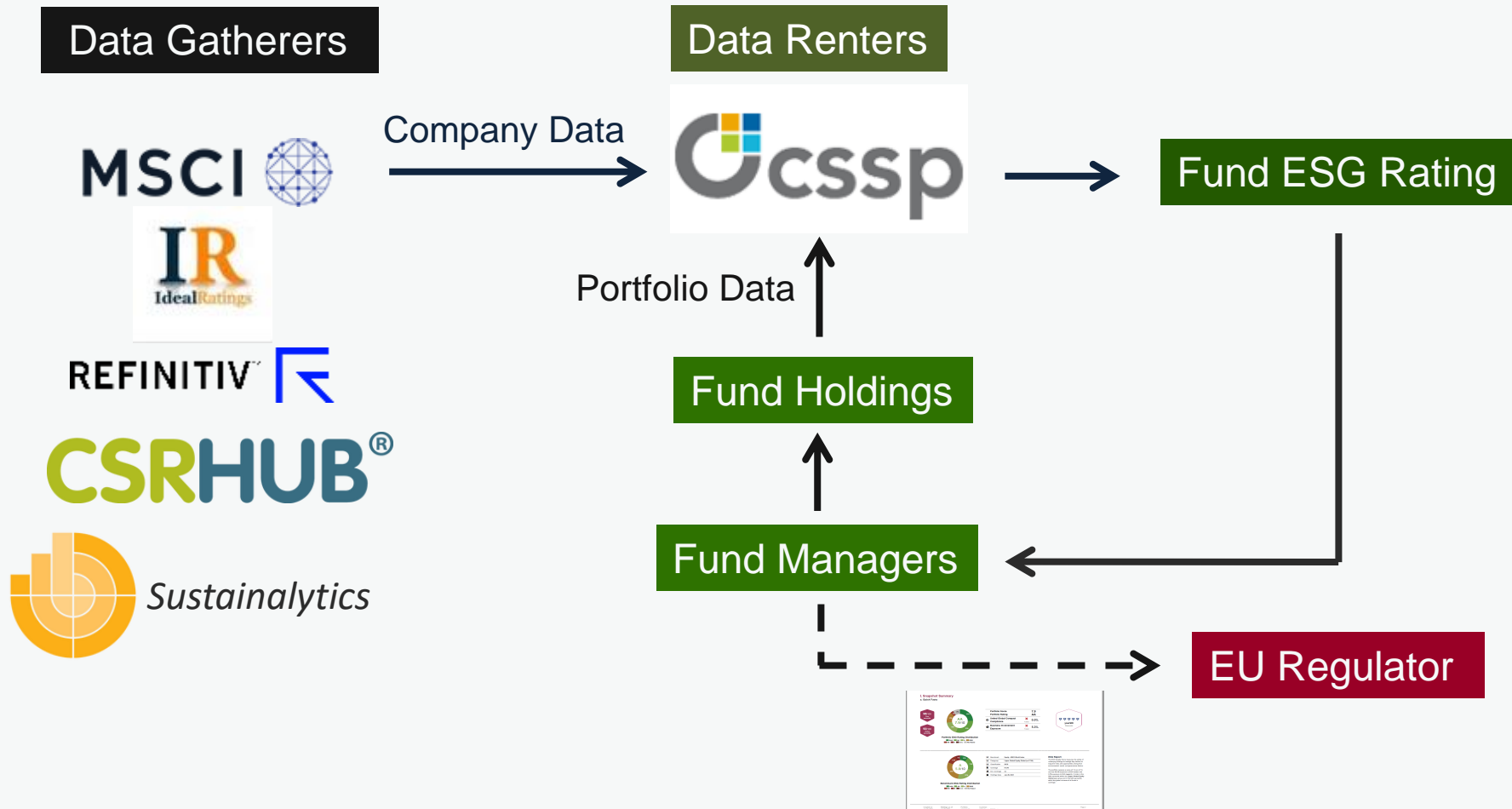
TEAM

Official Journal of the European Union – Released 09-12-19

(8) As the Union is increasingly faced with the catastrophic and unpredictable consequences of climate change, resource depletion and other sustainability-related issues, urgent action is needed to mobilise capital not only through public policies but also by the financial services sector. Therefore, financial market participants and financial advisers should be required to disclose specific information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts.

TEAM

The ESG Ratings Landscape -Today



TEAM

How does ESG Impact Investment Decisions ?

TEAM

3 Major Methods of Engagement

1. Exclusion – Avoiding The Bad

Tobacco, Alcohol, Weapons, Gambling

TEAM

3 Major Methods of Engagement

1. Exclusion – Avoiding the Bad

Tobacco, Alcohol, Weapons, Gambling

2. Integration – Adding the Good

Environmental services, Climate Change, Consumer rights, Health and Safety, Executive pay, shareholder rights.

TEAM

3 Major Methods of Engagement

1. Exclusion – Avoiding the Bad

Tobacco, Alcohol, Weapons, Gambling

2. Integration– Adding the Good

Environmental services, Climate Change, Consumer rights, Health and Safety, Executive pay, shareholder rights.

3. Impact – Picking the Bad (Big) companies who are getting Better Faster

Energy, Chemicals, Industrials, Autos

TEAM

ESG and Bond Markets

TEAM

How the Bond Market Works

Rate of Interest the Issuer of a bond pays to borrow will depend upon :

- 1) Creditworthiness of Borrower (AAA, AA, A, BBB, CCC etc)
- 2) Length Of Time until the bond is repaid

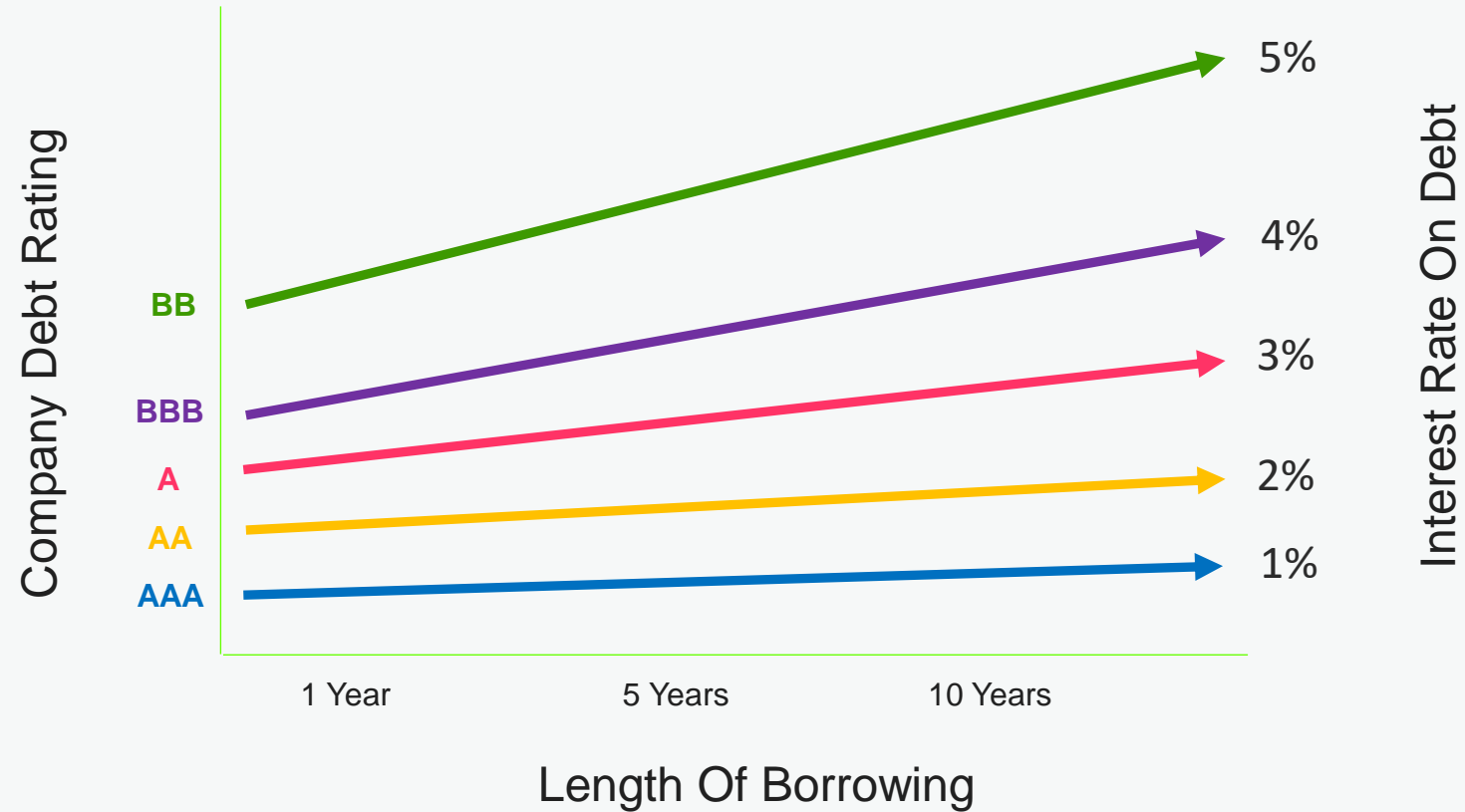
TEAM

How the Bond Market Works



TEAM

How the Bond Market Works



TEAM

How big is the market ?

TEAM

	BBG / Barclays Euro Corp. Bond Index
Number of bonds	3,077
Market Capitalisation	EUR 2.5 Trillion

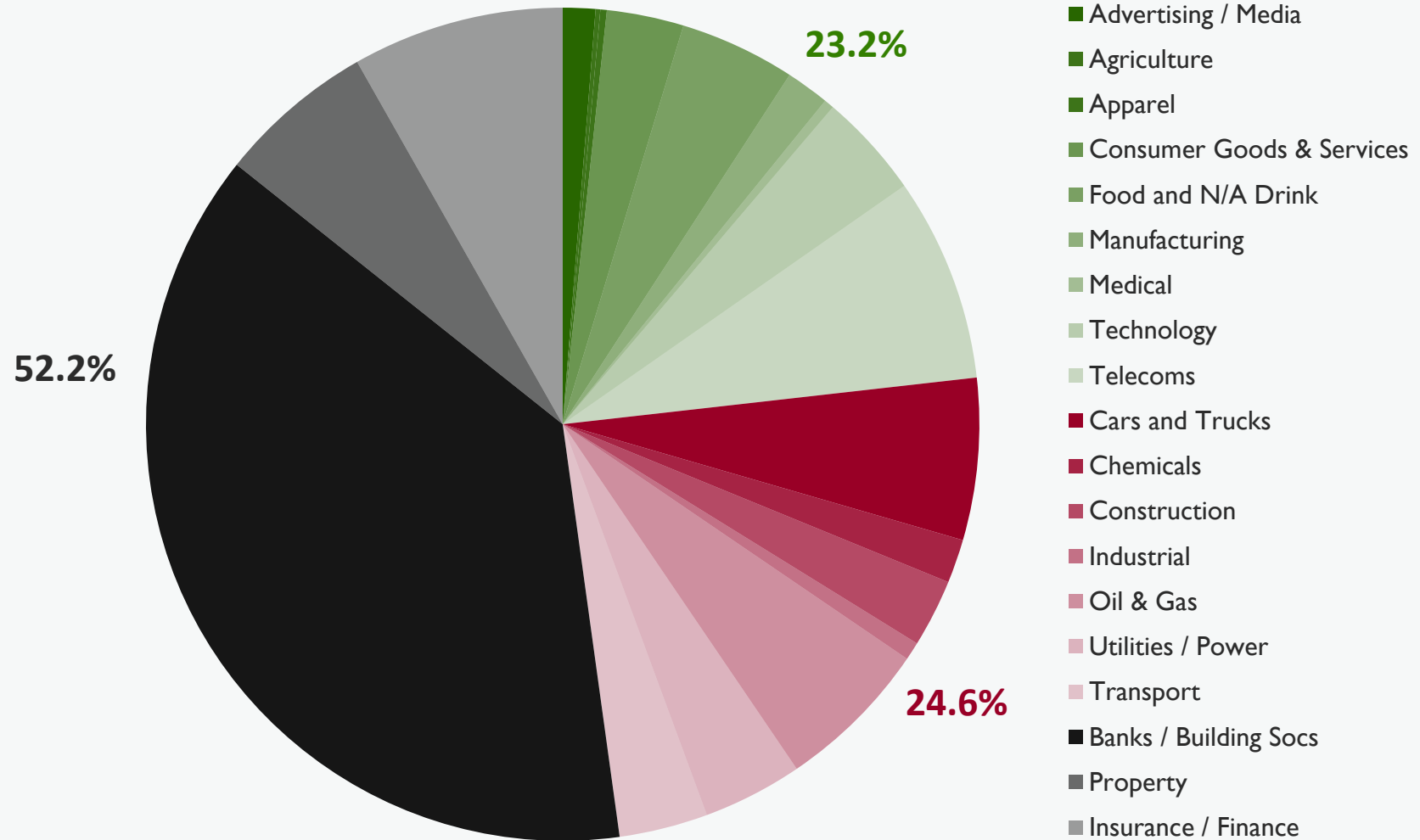
- Defence, Alcohol, Chemicals, Tobacco, Oil & Gas, Mining, Nuclear, (Some) Banks

TEAM

	BBG / Barclays Euro Corp. Bond Index	BBG / Barclays Euro SRI Corp. Bond Index
Number of bonds	3,077	2,147
Market Capitalisation	EUR 2.5 Trillion	EUR 1.7 Trillion

- Industrials, Transportation, Construction, Chemicals, (Some) Banks

Bloomberg Barclays Euro Corporate Socially Responsible Index

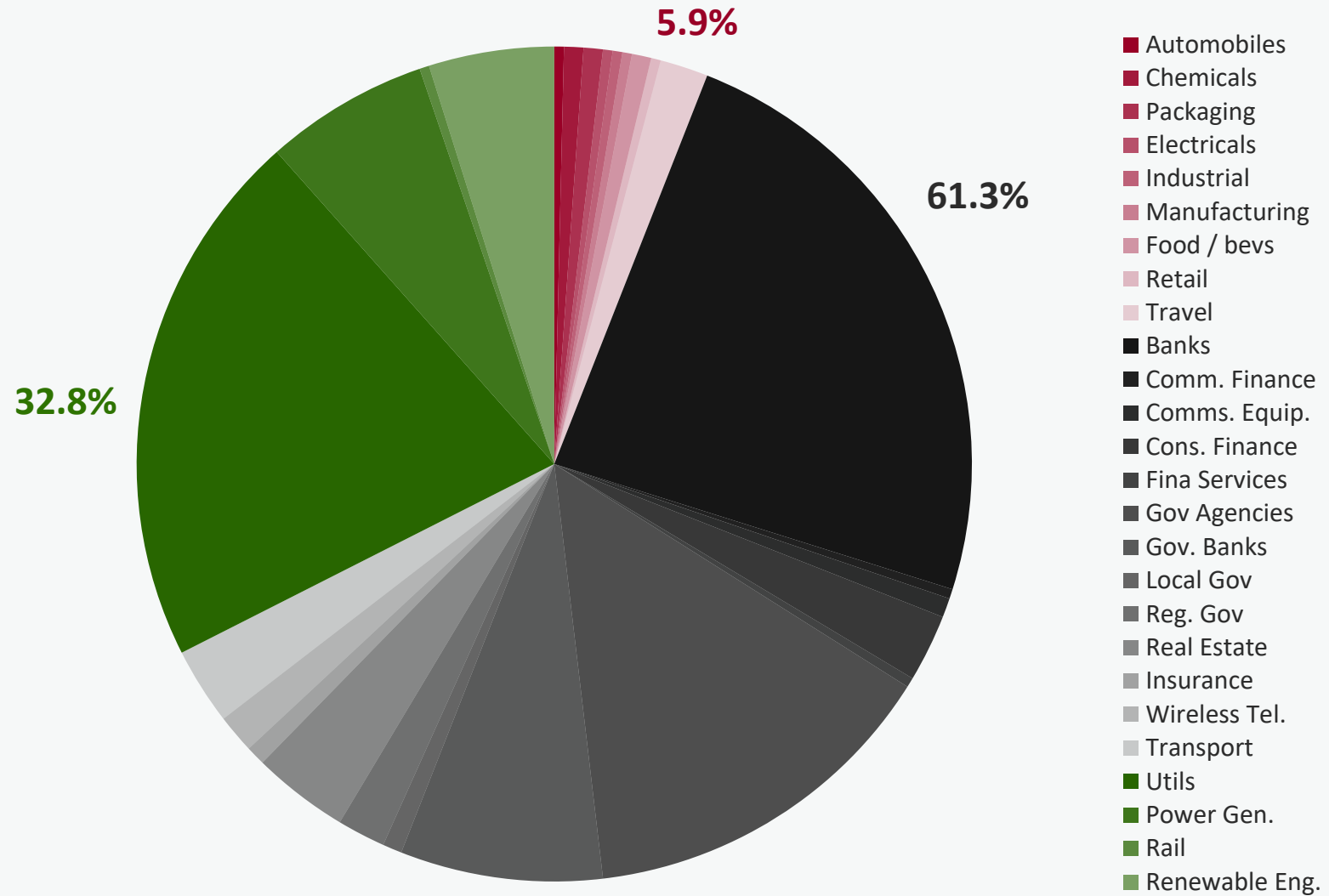


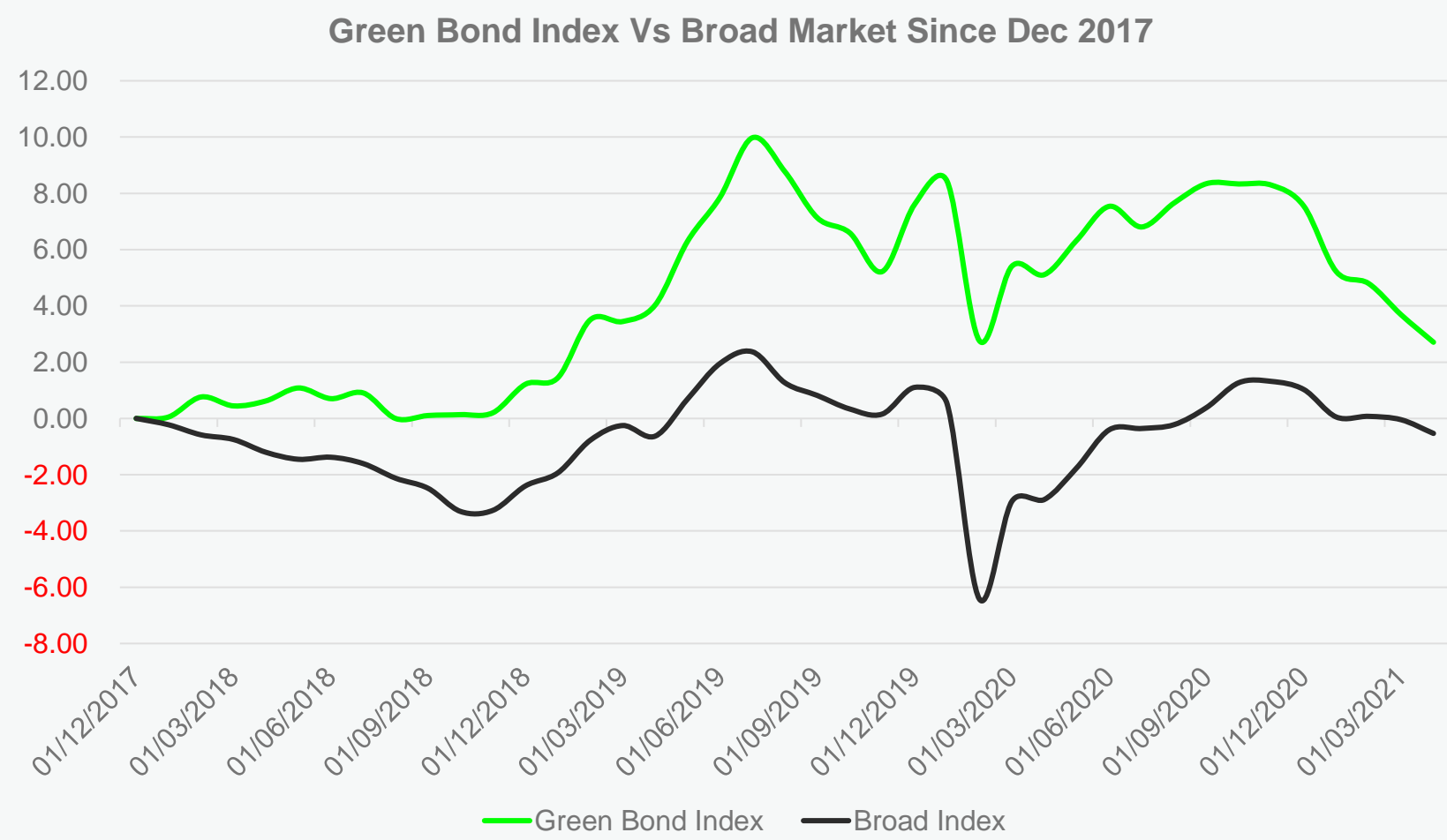
TEAM

	BBG / Barclays Euro Corp. Bond Index	BBG / Barclays Euro SRI Corp. Bond Index	BBG / Barclays Euro Green Corp. Bond Index
Number of bonds	3,077	2,147	379
Market Capitalisation	EUR 2.5 Trillion	EUR 1.7 Trillion	EUR 0.4 Trillion

Utilities, Government Agencies, Telecoms, Rail, Renewable Energy, Transportation

Bloomberg Barclays Euro Corporate Green Bond Index





TEAM

How is ESG impacting Bond Prices ?

How is ESG impacting Bond Prices ?

Glencore 1.75% 2025

Rating	Baa1 (BBB+)
Duration	3.8
Rank	Senior Unsecured
Sector	Metals and Mining

Sustainalytics 64

YTM **0.37%**

How is ESG impacting Bond Prices ?

Glencore 1.75% 2025

Rating	Baa1 (BBB+)
Duration	3.8
Rank	Senior Unsecured
Sector	Metals and Mining

Sustainalytics 64

YTM 0.37%

Anglo American 1.625% 2025

Rating	Baa3 (BBB-)
Duration	4.0
Rank	Senior Unsecured
Sector	Metals and Mining

Sustainalytics 90

YTM 0.15%

How is ESG impacting Bond Prices ?

Glencore 1.75% 2025

Rating Baa1 (BBB+)
Duration 3.8
Rank Senior Unsecured
Sector Metals and Mining

Sustainalytics 64

YTM 0.37%

Anglo American 1.625% 2025

Rating Baa3 (BBB-)
Duration 4.0
Rank Senior Unsecured
Sector Metals and Mining

Sustainalytics 90

YTM 0.15%

Naturgy 0.875% 2025

Rating Baa2 (BBB)
Duration 4.86
Rank Senior Unsecured
Sector Natural Gas

Sustainalytics 98.2

YTM -0.05%

TEAM

European 'ESG Focussed' Bond Funds (End 2020)

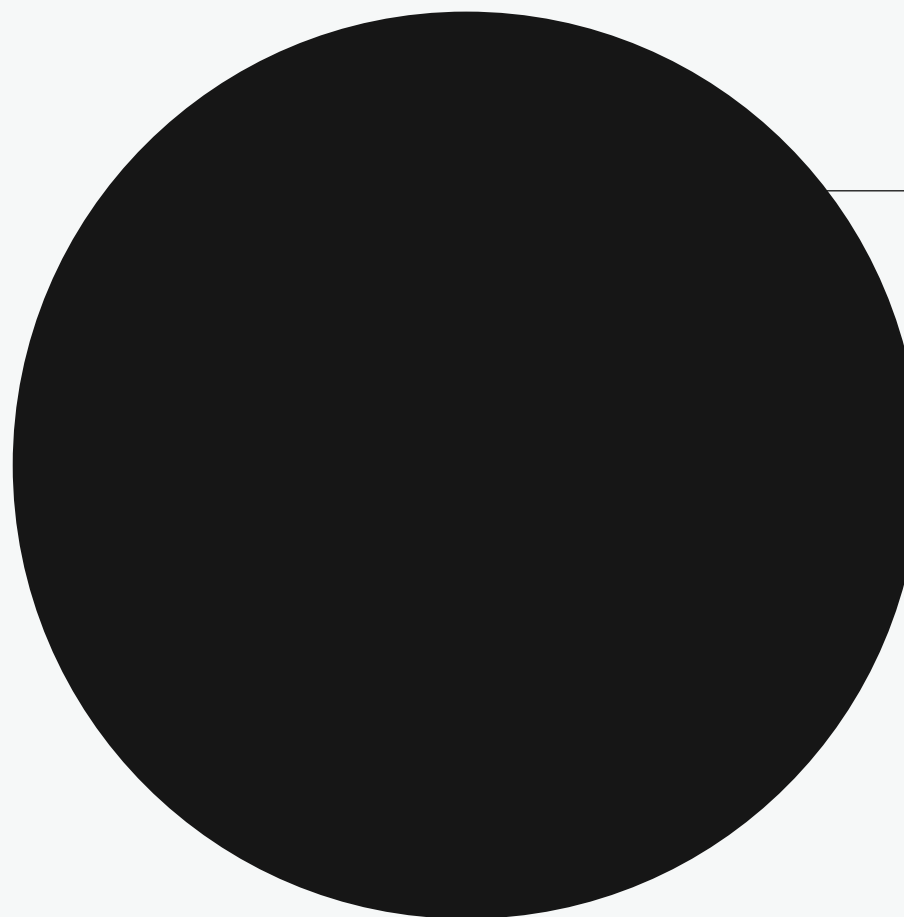
Broad 'ESG'	35 Funds	EUR 12.1 Billion
'Sustainable'	15 Funds	EUR 8.1 Billion
'Responsible'	8 Funds	EUR 0.9 Billion
'Ethical'	6 Funds	EUR 0.6 Billion
<hr/>		
Total	64 Funds	EUR 21.7 Billion
<hr/>		

Source – MPI / Morningstar Data Dec 2020

TEAM

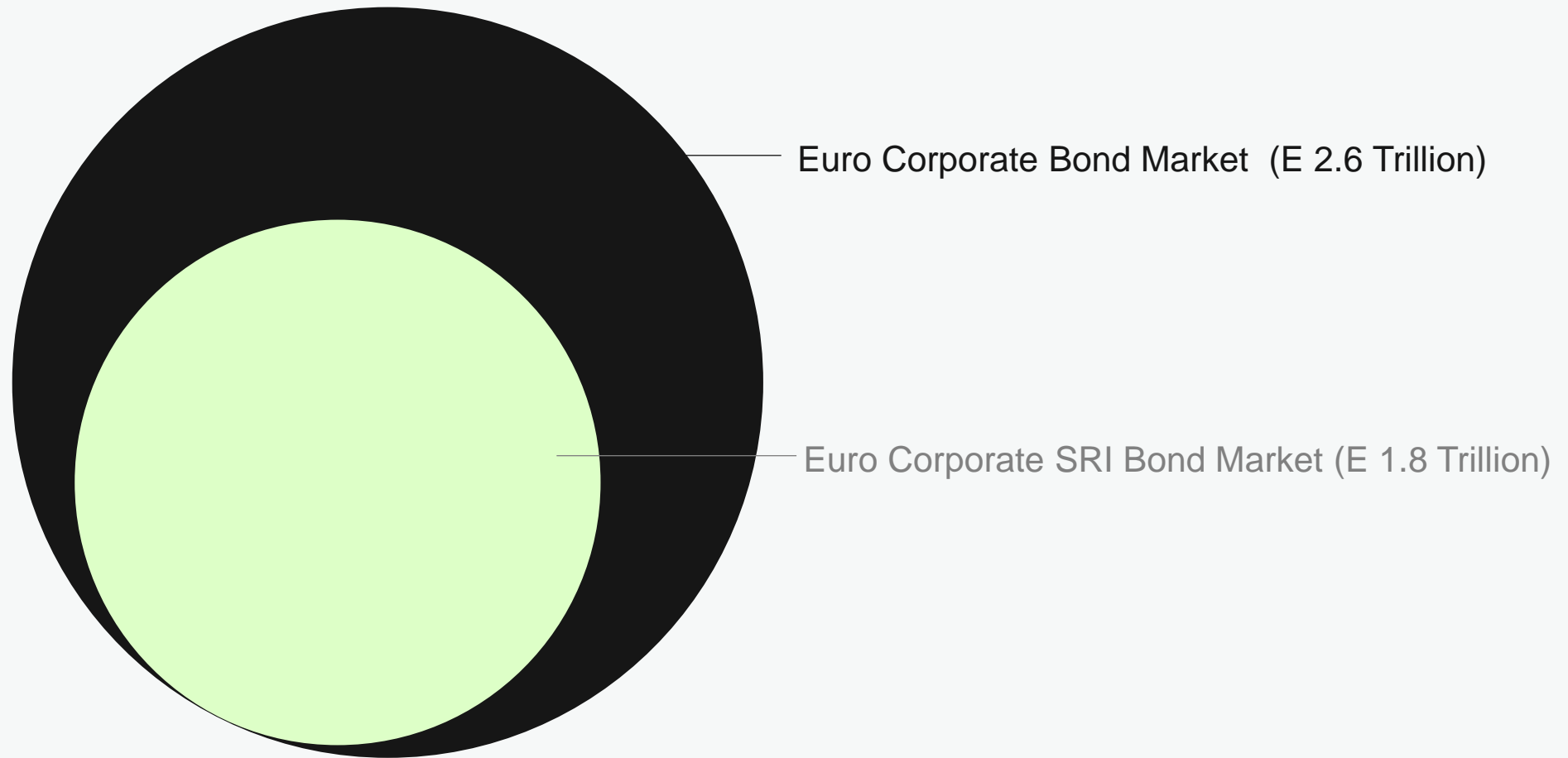
What influence will ESG have on Bond Markets in the future ?

What influence will ESG have on the Bond Markets in the future ?

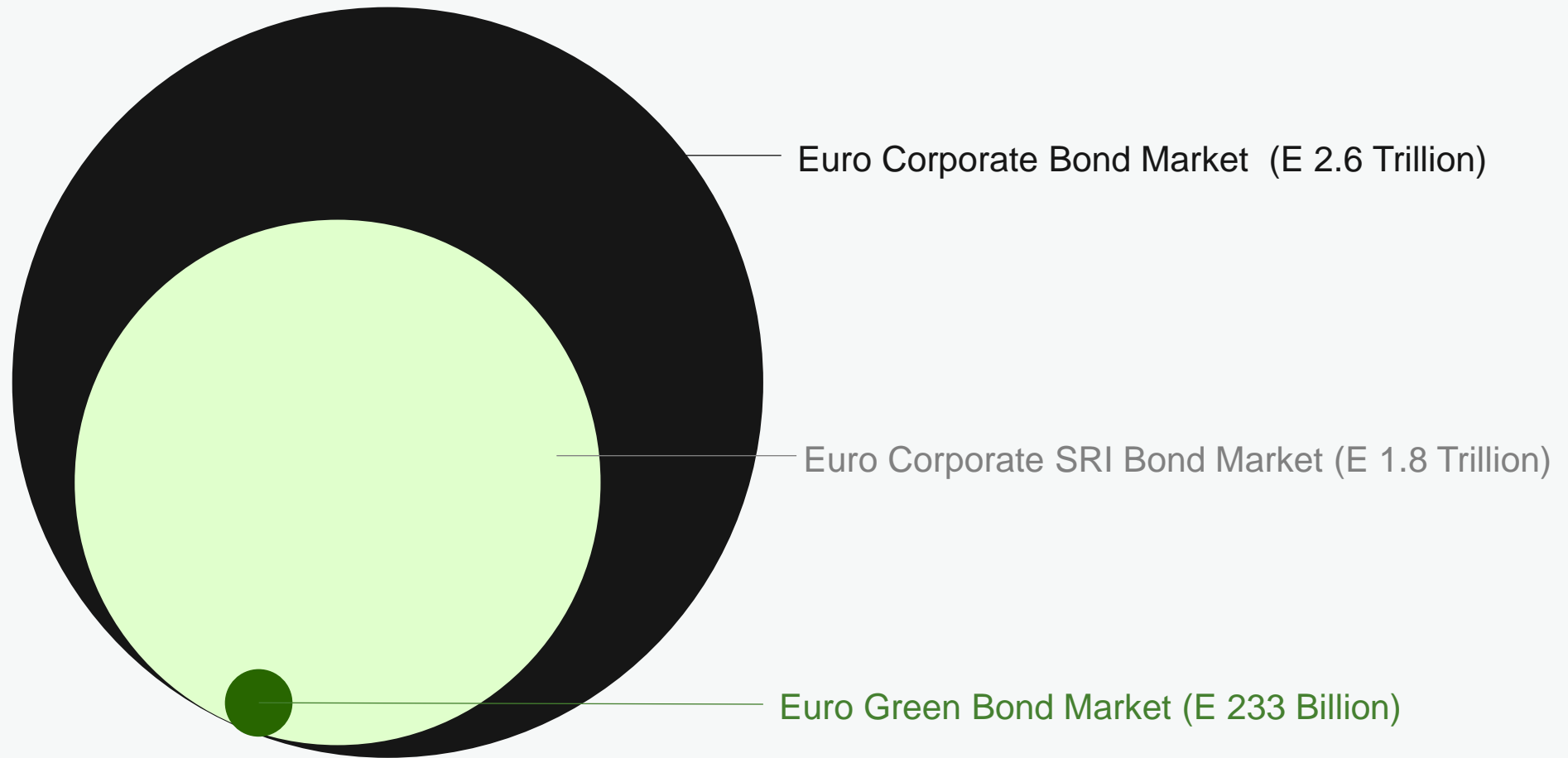


Euro Corporate Bond Market (E 2.6 Trillion)

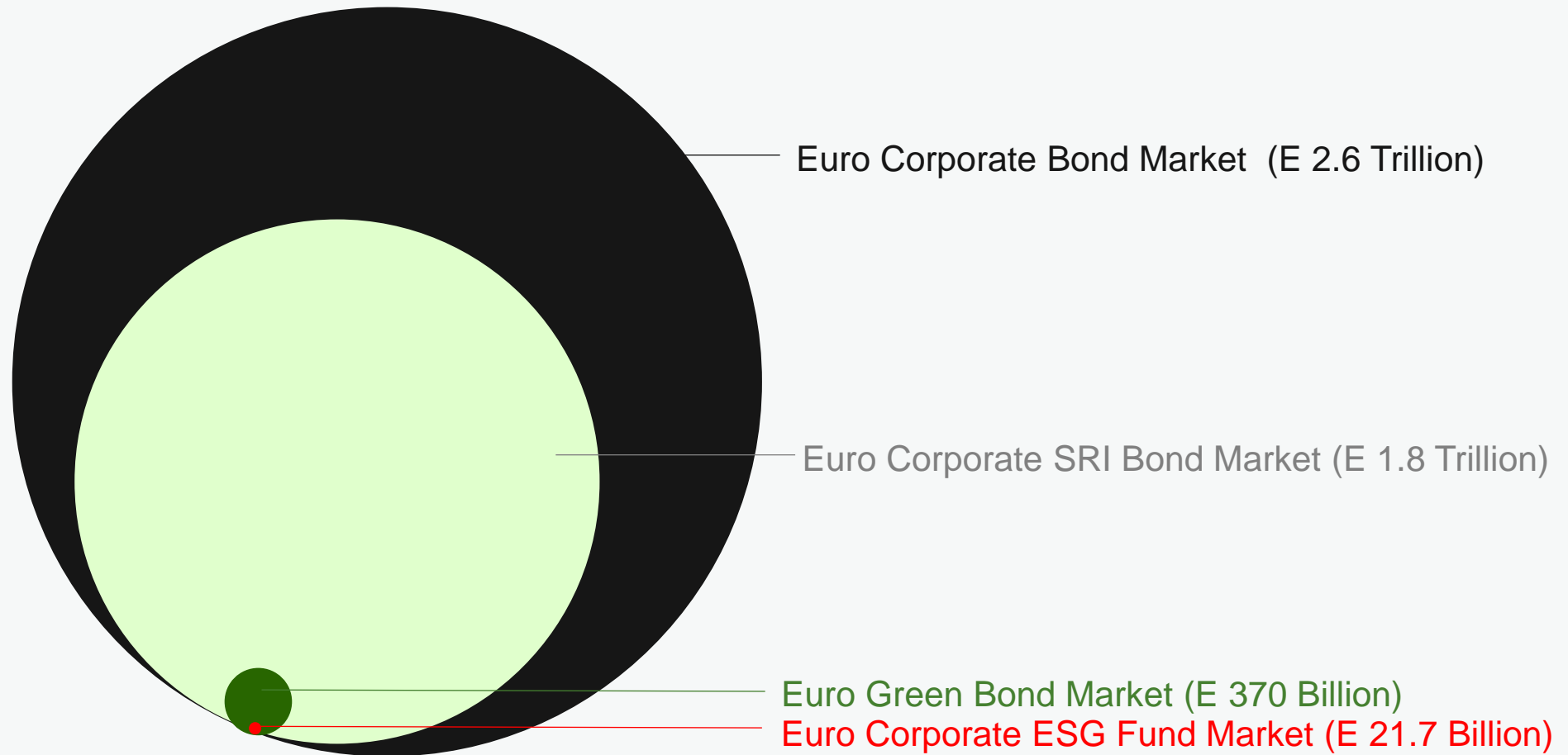
What influence will ESG have on the Bond Markets in the future ?



What influence will ESG have on the Bond Markets in the future ?



What influence will ESG have on the Bond Markets in the future ?



TEAM

What influence will ESG have on the Bond Markets in the future ?

2nd September 2020 – A Significant Date

TEAM

What influence will ESG have on the Bond Markets in the future ?

2nd September 2020

First Ever Federal Republic of Germany Green Bond Issue

Issue Price 104.71

Interest Rate 0%

Maturity 15/08/2030

TEAM

What influence will ESG have on the Bond Markets in the future ?

2nd September 2020

Federal Republic of Germany Green Bond Issue

Issue Price 104.71

Interest Rate 0%

Maturity 15/08/2030

Issue Yield To Maturity -0.47% (0.1% below comparable conventional Bund)

Issue Size EUR 6.5 Billion

TEAM

What influence will ESG have on the Bond Markets in the future ?

2nd September 2020

Federal Republic of Germany Green Bond Issue

Issue Price 104.71

Interest Rate 0%

Maturity 15/08/2030

Issue Yield To Maturity -0.47% (0.1% below Comparable non-Green Bund)

Issue Size EUR 6.5 Billion

Primary Market Demand - EUR 33 Billion

TEAM

What influence will ESG have on the Bond Markets in the future ?

Issuer Differentiation

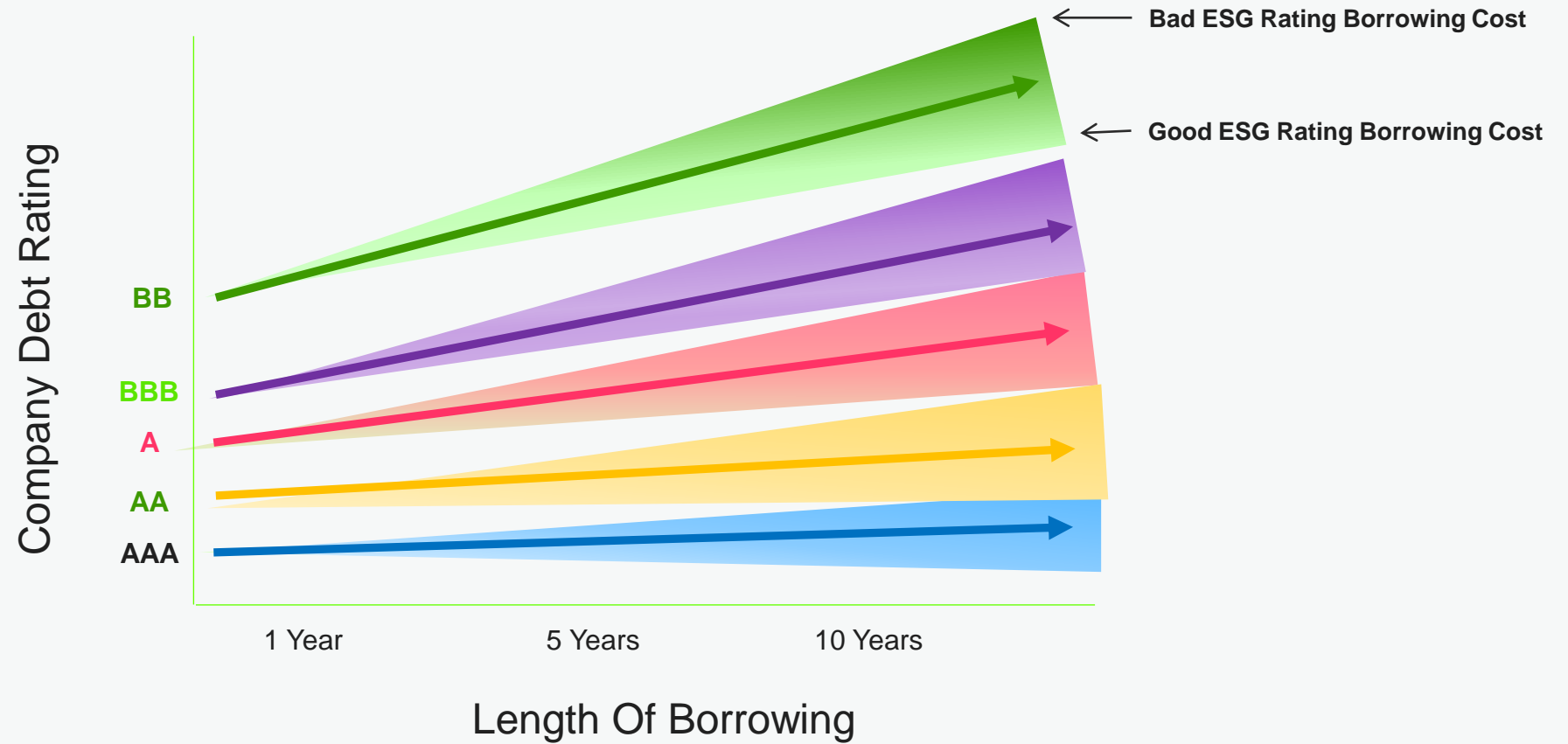
ESG ratings already having an increasing impact on Yield

Lower Rated ESG companies already paying higher yields to borrow

Future choice is improve ESG rating, or accept higher financing costs

Ultimately, for non compliant, eventual exclusion from Capital Markets
(Which is the EU's ultimate aim !)

What influence will ESG have on Bond Markets in the future ?



TEAM

Why will ESG matter to Step Members

Fund Administration

Additional Regulatory Burden / Cost

Reporting Requirements (Incl. 'Greenwash')

Client Expectations

New Fund Investment Strategies

Flow of Future Government Provided Liquidity

Driver of Fund Performance

However – New Market Opportunities / Competitive Advantages

TEAM

Why will ESG matter to Step Members

Private Clients

Additional Regulatory Burden / Cost

Expectations of New Generations of Wealth owners

Drivers of Investment Portfolio Performance

Driver of Investment Manager Selection

TEAM

Why will ESG matter to Step Members

Corporate Services

Additional Regulatory Burden / Cost

Director Responsibilities

Selection of Service Providers

TEAM

TEAM

THANK YOU FOR YOUR ATTENDANCE

STEP Jersey is sponsored by:



CAREY OLSEN