

ESG and Material Efficiency Perspective for Investors



Presentation by Céline Méchain for the WMF

26-27th August 2020



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Growing awareness of Investors around Environmental Challenges, Carbon Emissions, Climate Risks and Scarcity of Planet Resources

Global Natural Disasters¹

Consequences of global natural disasters from 1997 to 2017²



The “Green Deal” in Europe

- Largest Economic stimulus since the Marshall Plan
- €7 trillion total investments needed by 2050E
- €1.85 trillion secured by the EU Recovery Package
- Acceleration of National Energy Plans through Covid-19 crisis

- c.\$5 of GDP by 2020 for every \$1 of capex invested in energy transition³
- First benefits expected in 2022/2023

Examples of Investment Strategies to Align Portfolios with the 2°C Pathway²

Divesting From Non-Compliant or High-Risk Assets
e.g: Coal Plants

Shareholder Engagement to Influence Company Practices

Green investments and Sector based re-allocation to support Drivers of the Green Transition
e.g: Utilities

- Financial players need frameworks, innovative indicators and risk management tools to draw comparisons and set targets for:
 - **Emissions accounting using carbon footprints**
80% of emissions are concentrated in 4 sectors: transport, power generation, manufacturing and heating systems
 - **Climate Risk evaluation using various indicators**
Diversity of possible indicators for incorporating multiple criteria into ESG strategies
 - **Maintaining a qualitative analysis**

Source: ¹UNISDR, 2018. ²Climate Risk in Finance report from Finance for Tomorrow. ³IRENA: International Energy Agency

ESG Has Shown Resilience During the COVID-19 Sell-Off

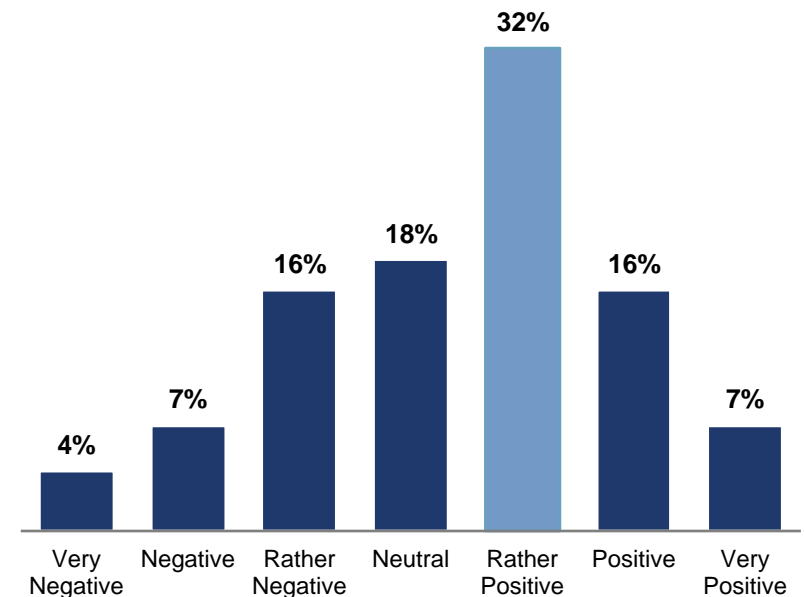
High-rated ESG stocks have outperformed those with low ESG ratings during the COVID-19 induced crash, strengthening the rationale, and accelerating momentum, for investing in ESG stocks

Outperformance of Highly Rated ESG Stocks vs. Low-rated ESG Stocks in Europe



Expectation that the Impact of the Pandemic on ESG will have a Positive Skew¹

What will be the implications of the COVID-19 crisis for ESG investment momentum in the next 3 years?

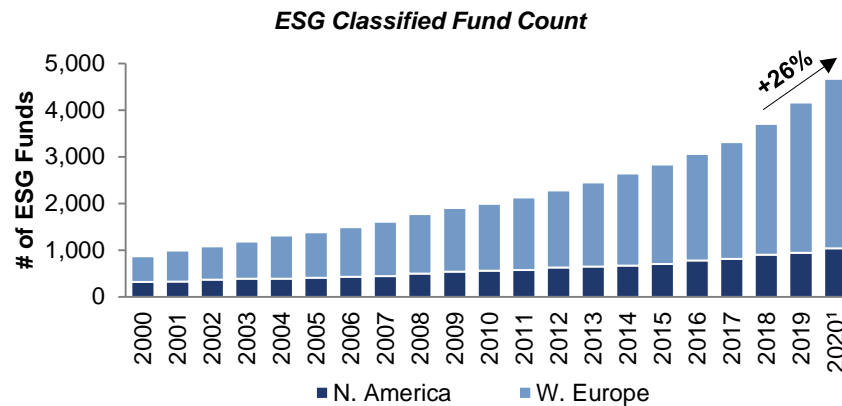


Source: Morningstar, EPFR, GS Sustain Research, GS ESG Baskets (Bloomberg), Blackrock; ¹ JPMorgan Investor Survey.

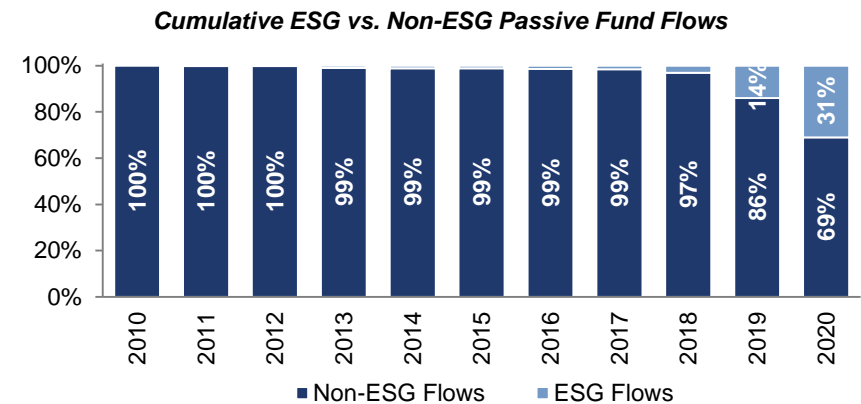
ESG Flow Momentum Has Remained Strong Throughout the COVID Crisis

Following the market-sell off ESG passive fund flows have been positive \$9bn, while broad equity flows are negative - \$15bn. YTD ESG ETFs¹ have pulled in >\$24bn in net new assets and this trend is gaining significant momentum

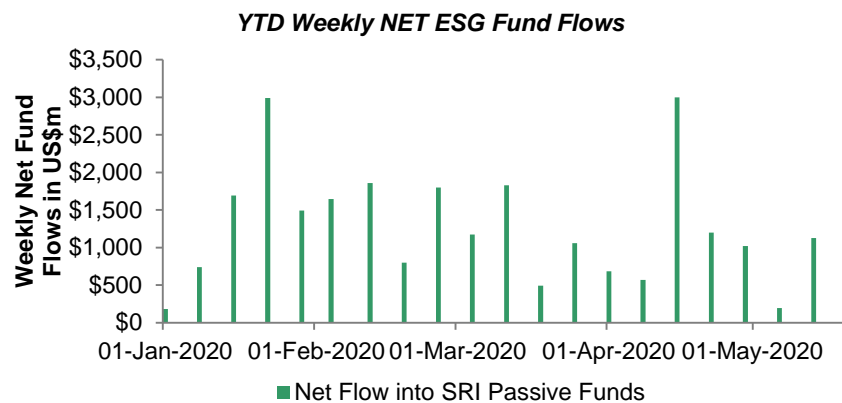
The Number of ESG Funds Has Continued to Grow



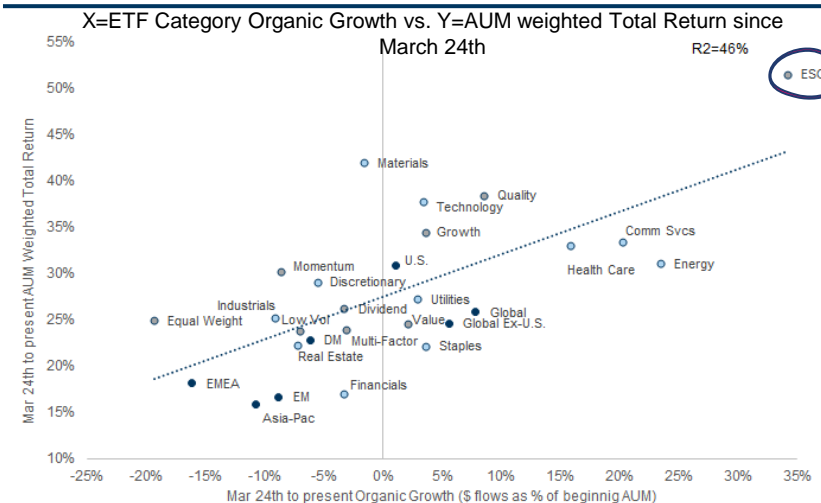
ESG Fund Flows Now Represent 31% of Global Fund Flows



Continued Positive Flows Into ESG Funds Throughout Sell-Off



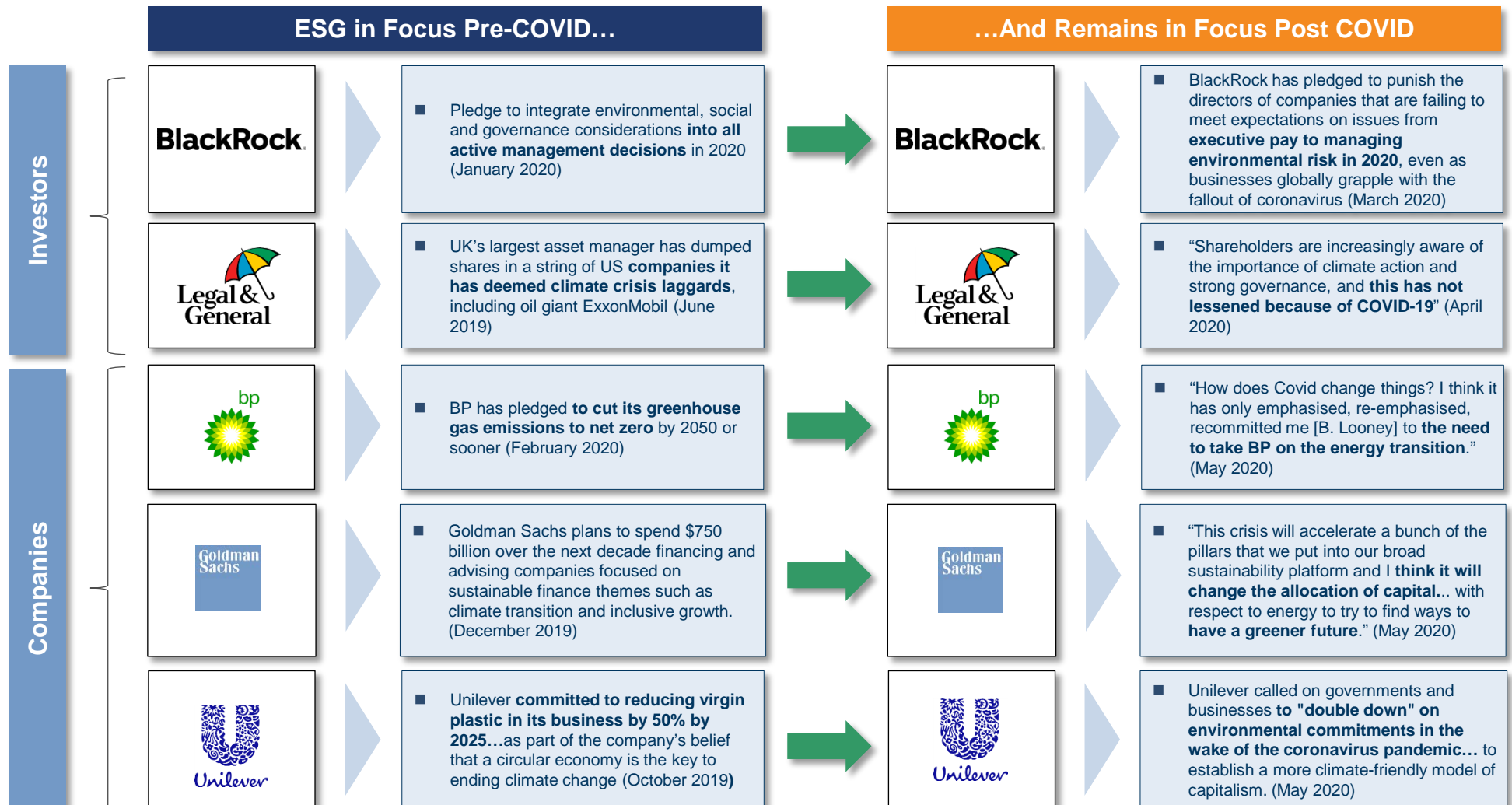
Strong Link Between ESG Flows and Performance



Source: EPFR, Goldman Sachs Sustain Research; ¹Exchange-Traded Funds

Importance of ESG Pre and Post COVID-19

Prior to the COVID-19 crisis, climate risks and ESG dominated headlines and the interests of regulators, shareholders, consumers and investors. While we witnessed a slight pause during the depths of the COVID selloff, the momentum of the ESG movement, ESG flows, stock returns, and discussions from corporates and investors show that ESG is neither gone nor forgotten.



Source: Company websites, news reports

Longer Term Dynamic Changes for Sustainable Regulation Remains Crucial

- Europe's commitment to ESG and decarbonisation was further emphasised as part of the COVID recovery fund in which over €200bn were earmarked for projects aimed at greening the economy
- Momentum towards aligning with the most important reporting frameworks (TCFD, SASB, GRI) has increased as continued investor focus on ESG factors has served to heighten the importance of better reporting and better data

Green Strings Attached to the EU's €1.85trillion COVID-19 Recovery Package

| | |
|--------|---|
| €1bn | For green building renovations |
| €50bn | For investments in zero-emission trains |
| €30bn | Increase to the Just Transition Mechanism |
| €25bn | Earmarked to produce 15 gigawatts of renewable energy |
| €20bn | For an EU scheme of grants and guarantees to boost the sale of clean cars |
| €10bn | For an EIB loan scheme to fund hydrogen infrastructure |
| €1.3bn | Earmarked for clean hydrogen research and innovation |

No Delay to the EU Taxonomy

"The **EU sustainable finance taxonomy** will guide investment in Europe's recovery to ensure they are in line with our long-term ambitions. This will be supported with a **Renewed Sustainable Finance Strategy** later this year."

- 1 Companies in Europe will now have to disclose the proportion of their revenue that is "Taxonomy-eligible"
- 2 Financial products will have to "comply or explain" how they incorporate the taxonomy into their process
- 3 Fund managers will have to report what proportion of a portfolio is "Taxonomy-eligible"

December 2020

1st set of technical screening criteria for climate change mitigation and adaption

December 2021

Full application enforced

Reporting Frameworks Gaining Momentum

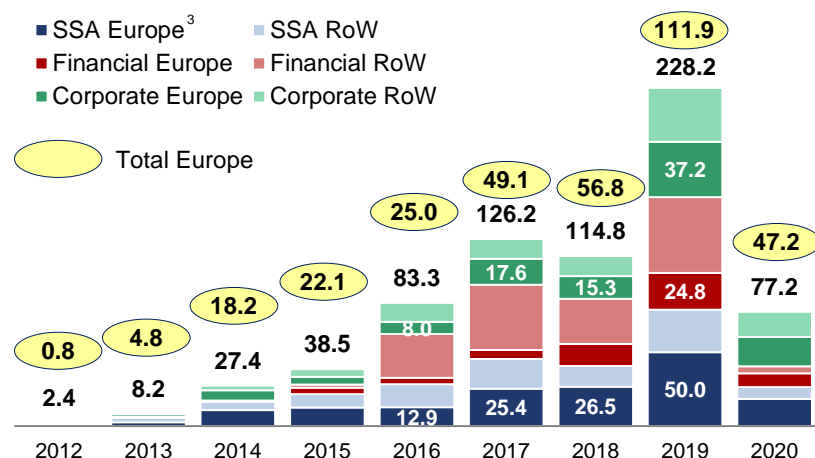


- FCA announced proposals to improve climate-related disclosures by listed companies
- Premium listed companies to comply with TCFD guidelines or explain why not
- The FCA is considering extending this scope to a wider range of issuers

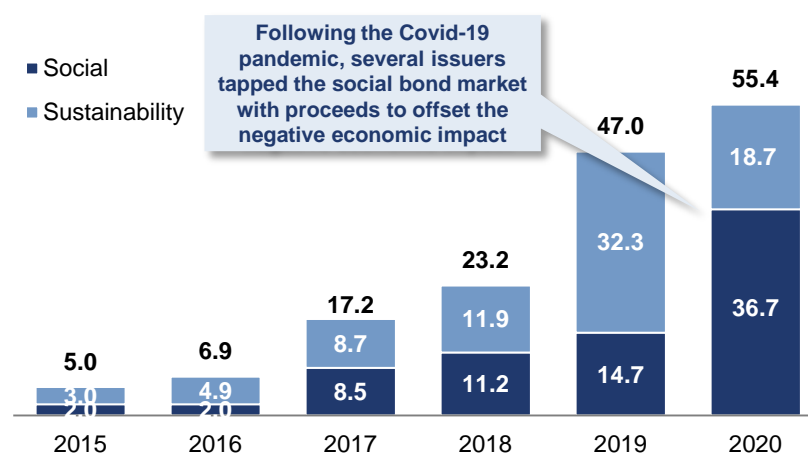
Growth of “Socially Responsible Investment – SRI” Issuance

2019 has been a record year in green bond issuance

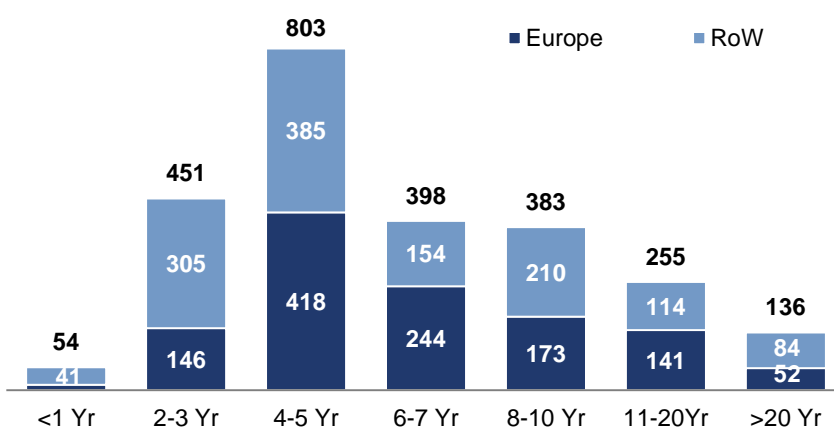
Total Green Bond Issuance (in €bn)



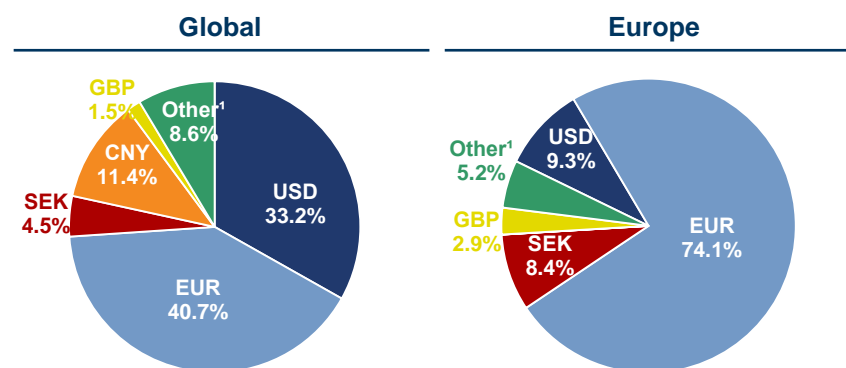
Total Sustainability / Social Bond Issuance (in €bn)



Number of SRI Bond Issuance by Tenor²



SRI Bond Issuance by Currency¹



Source: Bloomberg, ClimateBonds, as of 25-Jun-2020 – foreign exchange used as of the date of the bond issuance

Based on all outstanding Green bonds ¹ Other currencies include: AUD, BRL, CAD, CHF, CNY, COP, CZK, DKK, IDR, HKD, HUF, INR, ISK, JPY, KRW, MXN, MYR, NGN, NOK, NZD, PHP, PLN, RUB, SEK, THB, TRY, TWD, ZAR. ² Since 2007 ³ Sub-sovereign, Supranational and Agency

ESG Ratings Are Increasingly Frequently Used in New Issue Marketing, Also of Non-Green Bonds

- Issuers are adding their ESG rating(s) upfront in deal announcements to flag it to investors
- Selected Examples: ESG Ratings Featured in Announcements

€€€Deutsche Bahn - Dual Tranche 9yr & 19yr - IPTs €€€

Issuer: Deutsche Bahn Finance GmbH (Ticker: DBHNGR, Country: DE)
 Issuer LEI: 52990002BAIDUAIHYU29
 Guarantor: Deutsche Bahn AG, 100% owned by the Federal Republic of Germany
 Guarantor Rating: AA- negative / Aa1 negative by S&P / Moody's
Sustainability: Deutsche Bahn AG features ESG ratings from MSCI (A), ISS ESG (Prime, B-), and CDP (A)
 Format: Reg S Bearer, Senior, Unsecured
 Settlement Date: 23 June 2020 (T+5)
 [...]

Use of Proceeds: General corporate purposes
 [...]

New Issue: Unilever plc €€€Dual Tranche 5yr & 10yr*

Issuer: Unilever N.V. (Ticker: UNANA, Country: NL)
 Guarantors: Unilever PLC and Unilever United States, Inc.
 Issuer LEI: 549300TK7G7NZTVM1Z30
 Exp Issue Rtg: A1 / A+ both stable (Moody's / S&P)
ESG Rtg: 89 (S&P)
 Format: Senior, Unsecured, Reg S Bearer; TEFRA rules apply, no Communications with or into the U.S. (New Global Note)
 Settlement: 25 March 2020 (T+3)
 [...]

UOP: General Corporate Purposes
 [...]

€€Swisscom Finance B.V. - €500mm WNG Long 8yr - IPTs €€

Issuer: Swisscom Finance B.V. (Country: NL)
 Guarantor: Swisscom AG (Ticker: SCMNXX, Country: CH)
 Issuer Rtg: A2 / A both Stable (Moody's / S&P)
 Exp. Issue Rtg: A2 / A (Moody's / S&P)
MSCI ESG Rating: AAA
 Format: Senior, Unsecured, RegS Registered, NSS
 Settlement: 14 May 2020
 [...]

UoP: The proceeds of the transaction will finance/refinance Green eligible investments in line with Swisscom AG's Green Bond Framework
 [...]

*** NEW €CORP DEAL: COVIVIO 10YR €500m No Grow - IPTs ***

Issuer: Covivio (Ticker COVFP / Country: FR)
 Issuer LEI: 969500P8M3W2XX376054
 Issuer Rating: BBB+ stable by Standard & Poor's
 Issue Rating: BBB+ by Standard & Poor's
Sustainability: Covivio features ESG ratings from MSCI (AA), ISS ESG (C+, top 5% in sector Prime), CDP (A-) and is sector leader with Vigeo Eiris (A+)
 Format: Senior, Unsecured, RegS Dematerialised Notes
 Settlement: 23-June-2020 (T+5)
 [...]

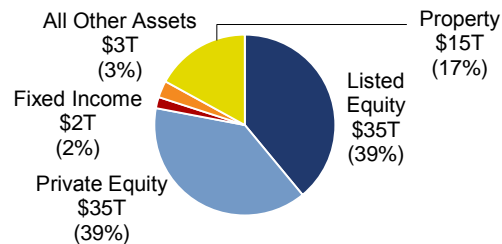
 Docs: Standalone / CoC / MWC / Clean-up Call (75%) / 3m Par Call / €100,000+100,000 / Euronext Paris / French Law
UoP: General Corporate Purposes
 [...]

Source: Bondradar, bold highlighting added

■ The Principles for Responsible Investment (PRI) Signatories have grown to more than **3,000 members**, with nearly **\$100 Trillion in assets under management**

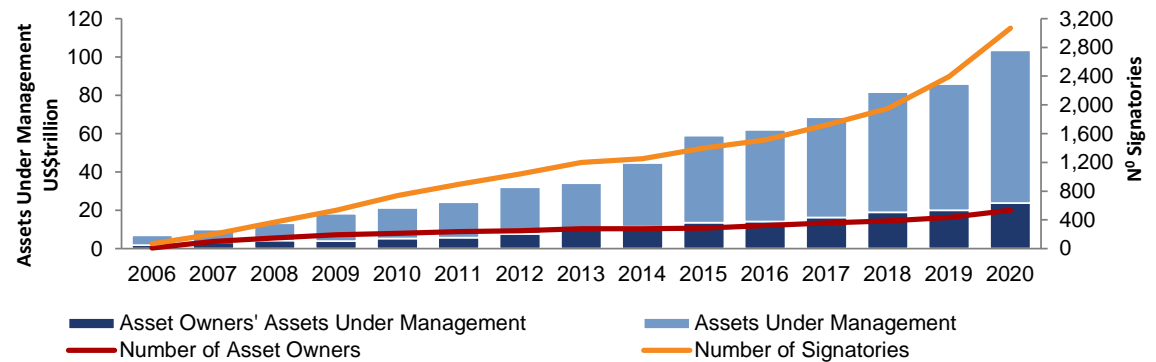
Signatories 2018

■ PRI have attracted a global signatory base representing a majority of the world's professionally managed investments



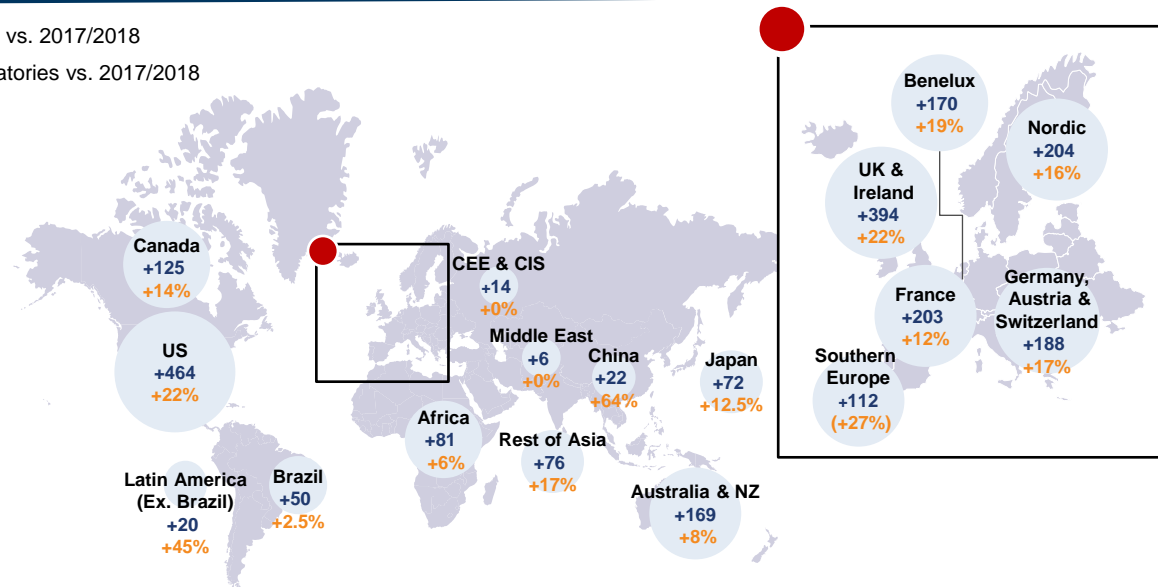
Total: \$90 Trillion
4,168 signatories

Growing Initiative Since 2006

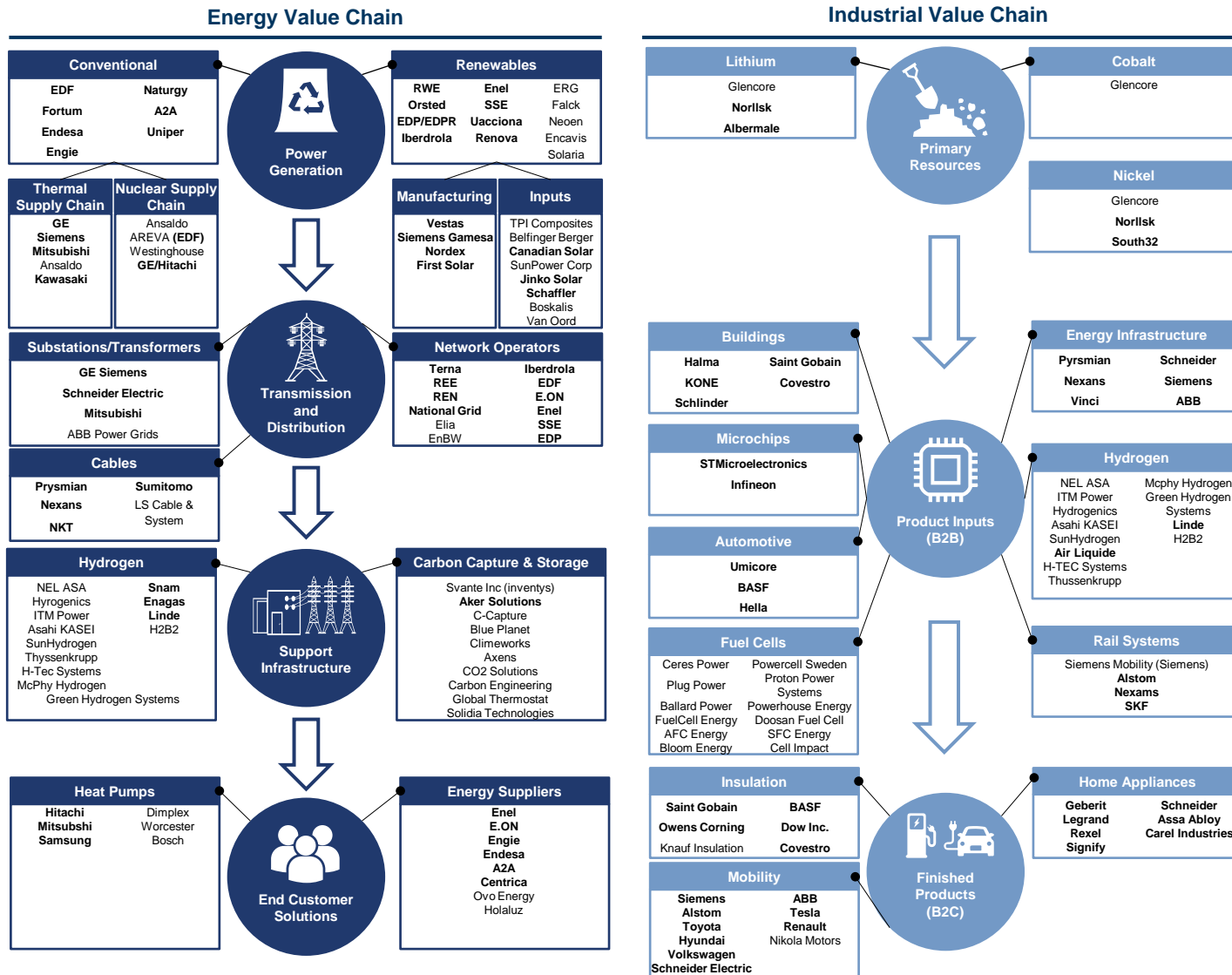


Growth of New Signatories in 2019/2020 vs. 2017/2018

■ Net New Signatories vs. 2017/2018
■ Growth of New Signatories vs. 2017/2018










Source: UN PRI Initiative Website



- While primary focus is on CO2 emissions impact and climate change, investors' awareness is growing on the full value chain around both **Energy & Manufacturing**
- The overall use of resources & material efficiency will continue to be increasingly scrutinized by investors to define "**transition champions**" (cf. the Plastic Paradox)
- Like for CO2 emissions **establishing sector benchmarks** for material efficiency, KPIs and rewarding associated technologies will be key
- The best players should proactively communicate on those KPIs and **translate associated performance into financial terms**

Source: GS Investment Research; Note: Names in bold are covered by Goldman Sachs Investment research

| | | | | |
|---|--|---|---|--|
|  <p>ESG Rising</p> <p><i>24 Aug-2020</i></p> |  <p>The Green Deal</p> <p><i>13 Jul-2020</i></p> |  <p>Climate Change</p> <p><i>30 Apr-2020</i></p> |  <p>Carbonomics</p> <p><i>11 Dec-2019</i></p> |  <p>New Era in CO₂ Regulations</p> <p><i>5 Dec-2019</i></p> |
|  <p>Global ESG Regulations</p> <p><i>3 Dec-2019</i></p> |  <p>The end of the non-OPEC growth</p> <p><i>16-Oct 2019</i></p> |  <p>The Plastic Paradox</p> <p><i>16 Jul-2019</i></p> |  <p>The future of mobilities</p> <p><i>4 Jun-2019</i></p> |  <p>The Rise of Renewables</p> <p><i>4 Apr-2019</i></p> |
|  <p>Shale Scale to Shale Tail</p> <p><i>10 Oct-2018</i></p> |  <p>Reimagining Big Oils</p> <p><i>8 Oct-2018</i></p> |  <p>Factory of the future</p> <p><i>10 Jan-2018</i></p> | | |