SECTORAL UPDATES

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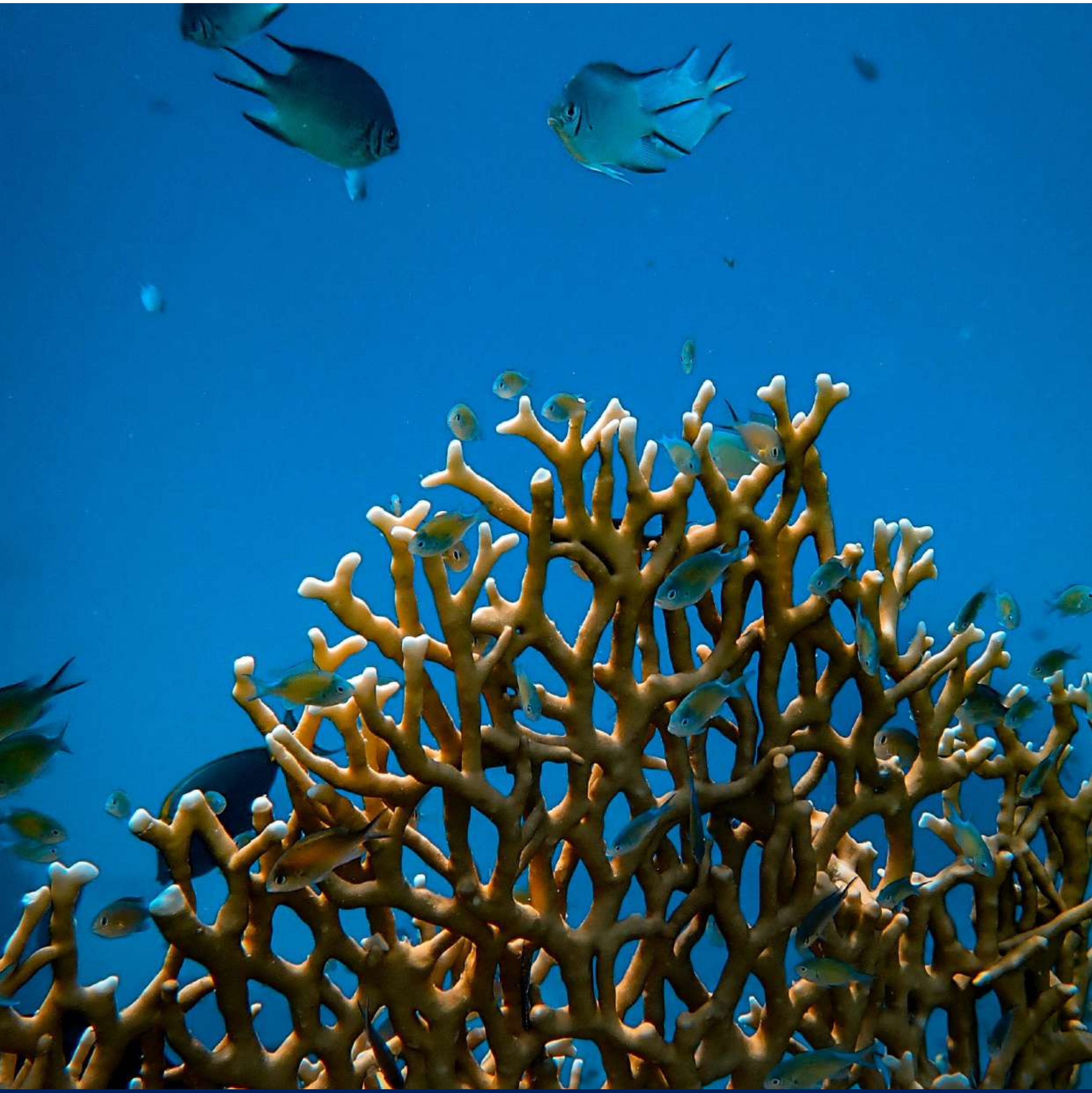
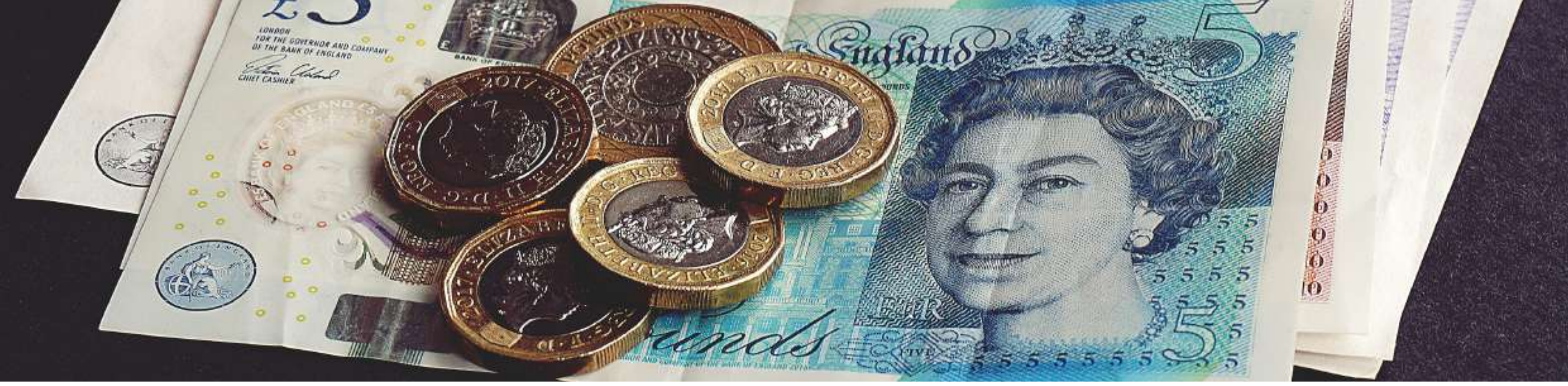
FEB 2022





ESG

AllianzGI insists EU large caps link exec pay to ESG KPIs

Press Release (Allianz GI), 22nd February 2022

Leading asset manager, Allianz Global Investors, announced a list of amendments to its Annual General Meeting voting policy. The amendments include a policy to vote against large-cap European companies that fail to link executive compensation to ESG KPIs. The amendments follow a series of measures undertaken by the asset manager to expand its sustainable involvement and operations.

Along with amendments, the asset manager also disclosed its voting record for 2021, noting that it voted against 47% of all compensation related management proposals. It also brought out guidelines that map its expectations of clear targets and annual reporting as part of a company's climate strategy. Going forward, AllianzGI intends to apply stringent benchmarking on 'say on climate' resolutions, in tandem with development on market standards on such votes. This marks a positive step parallel to the increasing need for corporate governance to foray into sustainability.

https://www.allianzgi.com/en/press-centre/media/press-releases/allianzgi-insists-eu-large-caps-link-exec-pay-to-esg-kpis

EU Sustainable Finance Expert Group Proposes Taxonomy to Define Social Investments

ESG Today, 28th February 2022

The sustainable finance expert advisory body of the European Commission, Platform on Sustainable Finance, published a social taxonomy amidst growing demand for social investments. Built on EU's environmental taxonomy, the social taxonomy defines activities that could possibly be socially sustainable.

The taxonomy considers key stakeholders such as workers, consumers and affected communities in its goal of protection of human rights. The taxonomy's key objectives include decent work, living standards, well-being of consumers, and inclusive and sustainable communities. Detailing them further, the sub-objectives are related to safety, healthcare, housing, wages, non-discrimination, consumer health, and communities' livelihoods. The taxonomy blueprint comes at a timely moment as the EU grapples with multiple ongoing phenomena of the pandemic, climate change and conflicts.

https://www.esgtoday.com/eu-sustainable-finance-expert-group-proposes-taxonomy-to-define-social-investments/

ESG Funds Managing $1 Trillion Are Stripped of Sustainable Tag by Morningstar

Bloomberg Quint, 10th February 2022

In what marks as a hygiene move, Morningstar revoked the ESG tag from more than 1,200 funds, representing over $1 trillion in assets. Morningstar claims that the guiding principle behind its purge was the use of ambiguous ESG language and that funds who did not include ESG factors in their investment selection despite initial promises were stripped.

Part of its bid to reduce confusion in the market regarding sustainability performance vis-à-vis sustainability claims, Morningstar continues to scout for more funds that do not merit an ESG tag. As sustainable finance rises and becomes more popular, possibilities of greenwashing intensify if regulation reform does not evolve accordingly. Market scrutiny is crucial for the upkeep of a needful market such as sustainable finance.

https://www.bloombergquint.com/onweb/funds-managing-1-trillion-stripped-of-esg-tag-by-morningstar

EU watchdog tells rating agencies to improve ESG ratings disclosures

Reuters, 10th February 2022

The European Securities and Market Authority (ESMA) has instructed credit rating agencies to emphasize clarity on how they refer to environment, social and governance factors in their ratings. The ESMA notes a ‘high level of divergence’ among raters in their ESG disclosures, which might affect growth of sustainable funds.

Examining 64,000 press releases between 2019 and 2020, the ESMA found that the total volume of ESG disclosures has expanded since it introduced guidelines on ESG disclosures by credit raters. The latest instruction comes as an effort to address greenwashing concerns that might hinder capital flows. As investors grow more serious about sustainable transparency, such efforts are a step in the right direction.

https://www.reuters.com/business/sustainable-business/eu-watchdog-tells-rating-agencies-improve-esg-ratings-disclosures-2022-02-10/#:~:text=LONDON%2C%20Feb%2010%20(Reuters),securities%20watchdog%20said%20on%20Thursday.

Union Budget 2022 | ‘Green bonds’ target carbon neutrality

The Hindu, 1st February 2022

As part of the 2022-23 Union Budget presentation, India’s Finance Minister announced that the Indian government’s market borrowings for 2022-23 will include sovereign green bonds. The proceeds will be designated for public sector projects that reduce the carbon intensity of the economy.

India’s move is timely and significant to help the country achieve its climate commitments made at COP26 in November last year. These include achievement of net-zero carbon emissions by 2070, one billion tons of carbon emissions reductions by 2030, and 50% of energy requirements from renewable sources by 2030. The sovereign green bonds are expected to validate the Indian green bond market, leading to stronger bids, better pricing and leverage, and greater quality of the investor base.

https://www.thehindu.com/business/budget/union-budget-2022-green-bonds-target-carbon-neutrality/article38360845.ece

IDB Invest May Sell $2 Billion in ESG Bonds as Demand Jumps

Bloomberg Quint, 11th February 2022

IDB Invest, the multilateral private sector institution affiliated to the Inter-American Development Bank, has plans to issue as much as $2 billion in sustainable bonds in 2022. Capitalizing on the demand for sustainable debt from Latin America and the Caribbean, the bank aims to surpass its 2021 record of $1.6 billion in ESG debt issuance.

IDB Invest has the distinction of issuing the first blue bond in Latin America and the Caribbean; the proceeds of the same were designated to be used to provide access to clean water and sanitation in the region. With its imminent plans for bond issuances in 2022, IDB Invest stands to support the development of local capital markets in emerging economies with a focus on climate change action. With this announcement, IDB Invest intensifies its commitment toward climate action.

https://www.bloombergquint.com/onweb/idb-invest-plans-to-sell-up-to-2-billion-in-esg-bonds-in-2022

Egypt aims to increase green investments to 50% in 24/25 budget

Egypt Today, 28th February 2022

Following a presidential mandate to bolster green and sustainable finance in the coming years, Egypt's Finance Minister announced the government's plans to increase green public investments from 15% to 30% in 2022-23, and 50% in 2024-25. The plans are an effort to leverage Egypt's competitiveness in the Environmental Performance Index.

Egypt is keen to enhance its effort to combat climate change alongside development partners from the private sector. The government is also eager to finance investment projects from an assortment of products, including dollar, green, sovereign bonds, and Eurobonds.

The Egyptian government's plans are yet another development in strengthening the country's climate action, ahead of its presidency at COP 27 this year. February also witnessed the launch of the Egyptian - American Working Group on Climate Change. In its first meeting, US Climate Envoy and Egyptian President discussed ways to transform Egypt into a clean energy hub, through the participation of American companies and institutions. This marks an important development in building the nascent financial market in Egypt.

https://www.egypttoday.com/Article/3/113315/Egypt-aims-to-increase-green-investments-to-50-in-24

Robeco introduces innovative Sustainable Index family

Press Release (Robeco), 24th February 2022

Robeco adds another index range to its universe, with a concerted focus on contributing to the Sustainable Development Goals (SDGs). The SDG Low-Carbon Indices applies Robeco's unique SDG Framework and have been made available to seven regions: Global AC, Global DM, Emerging Markets, US, Europe, Asia-Pacific and Japan.

The index drives the low-carbon economy and contributes to carbon footprint reduction in comparison to market cap indices. The index facilitates a combination of prevalent market trends – index investing and sustainable investing. Additionally, the indices have been made transparent only to Robeco's clients to prevent market competitors from benefiting from public information. Through Robeco's SDG Framework, the Indices are expected to differentiate between climate leaders and climate laggards, and will lower climate risks for clients.

https://www.robeco.com/en/media/press-releases/2022/robeco-introduces-innovative-sustainable-index-family.html?cmp=so_3_3975

In-depth Q&A: The IPCC's sixth assessment on how climate change impacts the world

Carbon Brief, 28th February 2022

The second part the IPCC sixth assessment report (AR6), termed 'Climate Change 2022: Impacts, Adaptation and Vulnerability,' clarifies that climate change impacts are worse than previously thought. The report finds that humans and natural systems are in a position to face irreversible severe risks if global temperature rises beyond 1.5C. It also estimates that at least 3.3 billion people inhabit places that are highly vulnerable to climate change, and extreme heat and humidity could result in 'life-threatening climatic conditions' for 50-75% of the global population.

The report also notes that poor utilization of climate finance has led to maladaptation, increasing the vulnerability of a group to climate risks. With adaptation finance falling drastically short of the requirement, maladaptive projects nullify the few funds that are directed toward climate change adaptation. By providing a comprehensive overview of global warming impacts and adaptive efforts, the report is a clarion call to increase, improve and implement global climate action within a 'brief and a rapidly closing window.'

https://www.carbonbrief.org/in-depth-qa-the-ipccs-sixth-assessment-on-how-climate-change-impacts-the-world

Economic losses and fatalities from weather- and climate-related events in Europe

European Environment Agency, 3rd February 2022

The independent environment information provider of the EU, the EEA, found that weather and climate-related events have resulted in loss of around half a trillion euros from 1980 to 2020. Extreme weather events in Europe have claimed 85,000 to 145,000 lives. To add more perspective, only 3% of the events account for 60% of total economic losses.

According to the EEA, floods have had the most devastating economic impact, while heatwaves accounted for 85% of the lives lost. With climate disasters increasing in frequency and intensity, similar data points are expected to surface, with developing countries that are most exposed to climate change suffering heavily.

https://www.eea.europa.eu/publications/economic-losses-and-fatalities-from/economic-losses-and-fatalities-from

European Markets Regulator Designates Climate Risk as a New, Distinct Risk Category

ESG Today, 15th February 2022

EU's market regulator, European Securities and Market Authority (ESMA) categorized climate risks separately in its risk assessment and monitoring framework, apart from other categories that cover liquidity, market, credit, contagion and operational risks.

Termed as 'Environmental Risks,' ESMA has plans to focus on predominantly climate risks initially, including physical and transition risks, and potential risks associated with green finance. The regulator primarily intends to take stock of risks such as changes in climate risks' perception, greenwashing, weather-related hazards. The primary risks could consequently lead to loss of physical assets, financial holdings, policy reforms, and widespread changes in market sentiment. A concerted focus on climate risks by way of regulatory action would drive greater risk identification, preparedness, and transparency.

https://www.esgtoday.com/european-markets-regulator-designates-climate-risk-as-a-new-distinct-risk-category/#:~:text=EU%20markets%20regulator%20the%20European,credit%2C%20contagion%20and%20operational%20risk.

BoE announces climate stress test and initiative on climate-related capital requirements

Responsible Investor, 10th February 2022

Continuing last year's Climate Biennial Exploratory Scenario, the Bank of England began the second round of climate stress tests for major banks and insurers in the UK.
The initial round signifies the first time financial institutions in the UK were tested on their ability to cope with climate-related financial risks. The sequel round is expected to delve further into the responses to the three scenarios from the first round. These scenarios included early, delayed and no governmental action in carbon emissions reductions. This round will examine the consequences for institutional business models, based upon the submitted responses.

Additionally, the bank also announced a conference on issues arising out of adjusting capital frameworks to take account of climate-related financial risks. The conference is expected to facilitate the bank's future policy on the same. It is a positive indication that the regulatory community is taking cognizance of imminent, urgent and detrimental risks.

https://www.responsible-investor.com/boe-announces-climate-stress-test-and-initiative-on-climate-related-capital-requirements/

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CLIMATE RISKS

Severe natural disasters expose Asia’s lack of insurance protection

CNBC, 1st February 2022

Extreme weather events that took place in Asia-Pacific last year have highlighted insurers’ unpreparedness against climate disasters in the region. Insurer Munich Re Group found Asia-Pacific to be lagging in insurance protection against natural disasters by 83%. The insurance gap is stark; only $9 billion of the total $50 billion incurred losses in 2021 were insured.

Prone to typhoons and flooding, Asia is witnessing an increasing frequency of natural disasters. Accordingly, there has been substantial increase in claims due to changes in climate patterns. This calls for better management of climate risks by insurers and reinsurers. Underinsurance against extreme weather events is driven from severe unawareness around the value of insurance, and low kevels of disposable incomes. With the region housing some of the most climate vulnerable countries, insurance protection against climate change needs to be scaled up.

https://www.cnbc.com/2022/02/02/asia-grapples-with-high-underinsurance-amid-rise-in-climate-disasters.html

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