FAB ESG WEEKLY UPDATE

27 January 2023

This week, we identified the following events of significance within sustainability and their respective business implications.

REGULATORY

1. The **European Central Bank (ECB)** announced **new financed emissions and sustainable finance indicators to track climate risk**. The introduction of the new statistical indicators forms part of the ECB's climate action plan, launched by the central bank last July, which included initiatives to further incorporate climate change considerations into its monetary policy framework, as well as to enhance its risk assessment tools and capabilities to better include climate-related risks, and to improve the external assessment of climate risks. The new data sets cover three areas: sustainable finance; financed emissions; and the impact of physical climate risks on loan and security portfolios.

- The sustainable finance indicators track the issuance and holdings of debt instruments with sustainability characteristics such as green, social, sustainability and sustainability-linked bonds in the euro area, providing information on the proceeds raised to finance sustainable projects. These indicators showed that the volume of sustainable and green bonds has grown significantly faster than the broader bond market, doubling in the past two years in the euro area market. The indicators on climate-related physical risks aim to analyse the impact of natural hazards like floods, wildfires or storms, on the performance of loans, bonds and equities portfolios.
- The indicators covering carbon emissions financed by financial institutions include information on the carbon intensity of the institution's securities and loan portfolios, and on the sector's exposure to counterparties with carbon-intensive business models. These indicators include financed emissions or the total greenhouse gas emissions of a debtor or issuer; carbon intensity, measured by comparing financed emissions to the production value of the company; as well as transition risk indicators measuring the exposure of loans and securities in portfolios to economic activities with elevated emissions.

2. The **U.K.'s Competition and Markets Authority (CMA)** will **[examine the accuracy of green claims made about household essentials](#)**. Selling practices targeting goods such as food, drinks, and toiletries will be scrutinized to make sure shoppers are not being misled. The move marks CMA's latest probe into greenwashing, a year after it started looking into misleading green claims in the fashion industry. The British regulator believes companies may be exaggerating their green credentials in an attempt to woo climate-conscious consumers in the U.K.'s consumer goods sector which is worth £130 billion a year.

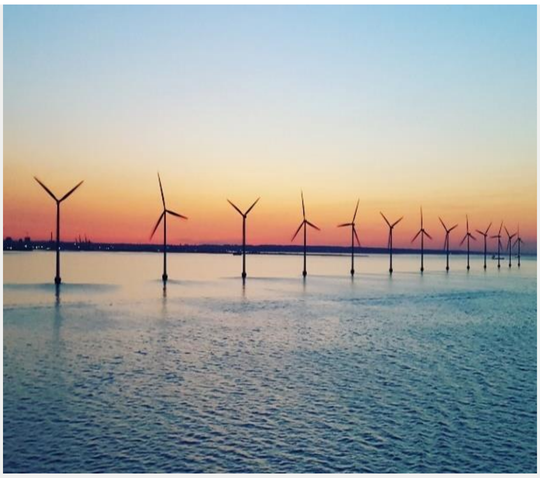
- In the U.K., a significant number of household products are marketed as green or environmentally friendly, including up to 91% of all dishwashing items and 100% of toilet products. CMA's review will examine a wide range of products known as fast-moving consumer goods. These are essential items used by people on a daily basis and repurchased regularly, such as food and drink, cleaning products, toiletries, and personal care items. In 2021, the average household spent almost £70 a week on food and drink alone.
- The CMA will analyse environmental claims made about such products to consider whether companies are complying with U.K. consumer protection law. Concerning practices could include the use of vague and broad eco-statements for example packaging or marketing a product as sustainable or better for the environment, with no evidence. Also, misleading claims about the use of recycled or natural materials in a product and how recyclable it is, or even entire ranges being incorrectly branded as sustainable.

3. As You Sow filed **resolutions with 5 of the largest U.S. banks seeking transition planning to meet net-zero targets**. Bank of America, Goldman Sachs, JPMorgan Chase, Morgan Stanley and Wells Fargo were asked by the shareholder representative to disclose climate transition plans for achieving their 2030 net zero-aligned emissions reduction goals. All five banks targeted by the resolutions have set 2030 intensity reduction targets for their highest-emitting portfolio sectors, including auto-manufacturing, energy, and power. Wells Fargo have set absolute 2030 targets, while JPMorgan Chase, Goldman Sachs, or Morgan Stanley have set intensity targets. All 5 banks are members of the Net-Zero Banking Alliance.

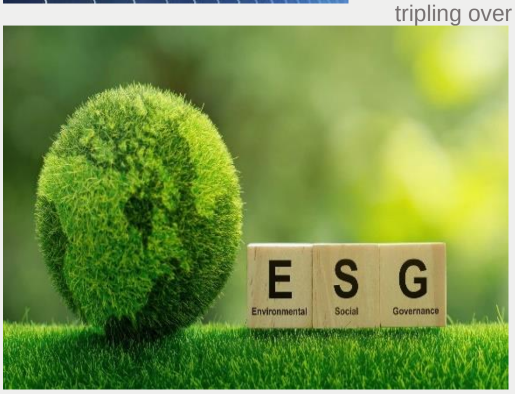
- These resolutions follow similar ones filed in 2019 and 2020 by As You Sow and a host of other shareholders, asking these same banks and Citicorp to measure, disclose, and set net-zero targets for their financed emissions. In response, each bank has shown leadership in determining how to measure their financed greenhouse gas emissions, began to disclose those emissions, and set 2030 net zero-aligned greenhouse gas reduction targets for certain of their highest emitting sectors.
- As You Sow has also sought action from the U.S. insurance industry, including companies like Hartford, Berkshire Hathaway, Chubb Limited, and Travelers Companies, asking each to measure, disclose, and set net-zero targets for their underwriting and investing activities in alignment with the Paris Agreement's 1.5 degree goal. While catastrophic climate change losses are increasing for insurance companies, only The Hartford has taken responsibility for its contribution to climate change and set a net-zero goal.

RESEARCH

1. BloombergNEF published a **report** claiming that **global low-carbon energy technology investment surged past $1 trillion for the first time**. Defying supply chain disruptions and macroeconomic headwinds, energy transition investment jumped 31% to draw level with fossil fuels and totalled $1.1 trillion in 2022. A new record, as the energy crisis and policy action drove faster deployment of clean energy technologies. In another first, investment in low-carbon technologies reached parity with capital deployed in support of fossil fuel supply. China was the leading country for attracting energy transition investment, accounting for $546 billion or nearly half of the global total. The U.S. was second at $141 billion, a position that would have been held by the European Union (EU) if treated as a single bloc, at $180 billion. Germany held the third place, while France was fourth and the U.K. fifth.



- The report represents an annual accounting of how much funding businesses, financial institutions, governments and end-users are committing to the low-carbon energy transition. Almost every sector covered achieved a new record level of investment in 2022, including renewable energy, energy storage, electrified transport, electrified heat, carbon capture and storage (CCS), hydrogen and sustainable materials. Only nuclear power investment did not set a record, staying broadly flat.
- Renewable energy, which includes wind, solar, biofuels and other renewables, remained the largest sector in investment terms, achieving a new record of $495 billion committed in 2022, up 17% from 2021. However, electrified transport came close to overtaking renewables, with $466 billion spent in 2022 and a 54% increase year-on-year. Hydrogen is the sector that received the least financial commitment at $1.1 billion in 2022 or 0.1% of the total, despite strong interest from the private sector and growing policy support. Hydrogen is, however, the fastest-growing sector with investment more than tripling over the year before.



2. Aviva Investors shared the results of a **survey** where **nearly all investors now consider ESG factors in their real asset investment decisions**. ESG and sustainability are emerging as key drivers of growing institutional investor allocations to real asset investments where 28% of respondents reported capturing positive ESG impacts as a primary reason for allocating to real assets, up significantly from just 17, 3 years earlier. Aviva questioned 500 senior decision makers of institutional investors such as pension funds, insurers, global financial institutions and official institutions, out of which 250 were in Europe, 125 in North America and 125 in Asia. The respondents had combined assets under management of $3.5 trillion.

- ESG factors were considered by 93% of investors in real asset investment decisions, including 17% of investors who deemed ESG as critical and deciding factors. Similarly, ESG factors featured prominently in the top reasons for investors to reject or divest from real asset investments, with lack of clarity around ESG credentials or impact reported by 38% of respondents, and concerns over the level of performance or disclosure on ESG grounds by 32%, ranked only behind historical underperformance at 47%.
- More than one quarter of the respondents reported plans to increase allocations to sustainable real assets, with renewable infrastructure as a primary beneficiary, with 44% already having exposure and planning to increase it and another 15% considering investment. The study also revealed the greatest risks to sustainable real assets investments, with over half of respondents choosing greenwashing, followed by high valuation and difficulty in measuring impact.

3. Nasdaq released a **report** flagging that **67% of Russell 3000 constituents and 91% of MSCI USA ESG Leaders constituents discussed ESG matters with the capital markets**. Nasdaq's quarterly ESG report showed that compared to the prior quarter, there is a slight increase in ESG discussions in MSCI USA ESG Leaders' earnings calls, and a slight decrease across Russell 3000 companies, but still an increase relative to Q1'22.

- The top 10 key issues on the earnings agenda were very similar for both MSCI USA ESG Leaders and the Russell 3000. For both, culture and sustainability secured the top two spots. Regarding the trending issues of the earning calls, MSCI USA ESG Leaders recorded clean water, carbon-free, clean Energy, carbon transition, carbon market and circular economy as the most recurrent themes. The predominant topics on earning calls among the Russell 3000 companies were cybersecurity, cyber risk, environmental statement, gender diversity, wind energy and climate goals.
- A notable trend of 2022 was the increase of companies fielding ESG related questions from sell-side research analysts. There were significant jumps in the prevalence of these types of questions between Q1'22 and Q2'22 with a 12% and 20% quarterly increase across the Russell 3000 and MSCI USA ESG Leaders constituents, respectively. As of the Q3'22 earnings season, one-third of the 273 MSCI USA ESG Leaders fielded 199 total ESG related questions. Over 50% of questions received are related to climate transition matters, such as shifting to a low carbon economy, electric vehicle production, geothermal energy, and the carbon markets. In Russell 3000, 1,074 ESG related questions were received during Q3'22 earnings calls, and climate transition was the core subject focus with 50% of the questions relating to the topic.

COMMERCIAL

1. The **United Arab Emirates** aim to **develop the country's first EV battery recycling facility**. In a landmark agreement, BEEAH Recycling, the UAE Ministry of Energy & Infrastructure and the American University of Sharjah will explore the development of a state-of-the-art recycling facility for end-of-life batteries from electric vehicles. The move aims to support landfill waste diversion and the sustainable growth of the EV market. The consortium was formed last week during the 2023 world future energy summit in Abu Dhabi.

- The EV battery recycling facility will be added to BEEAH Recycling's integrated waste management complex, which currently has 10 specialised waste processing and material recovery facilities that contributed to a 76% waste diversion rate in the Emirate of Sharjah, the highest in the Middle East.
- The UAE has witnessed a rising number of consumers switching from traditional vehicles to electric vehicles. In a 2022 study, over 30% of drivers in the UAE were considering the switch to electric vehicles. Projections show that the EV market will grow 30% between 2022 and 2028.

2. Emirates successfully completed an **engine ground testing with 100% sustainable aviation fuel (SAF).** The ground evaluation compared performance of different fuels in engines, paving way for an experimental test flight which is due to take-off this week. The testing activities involved running one GE90 engine of a Boeing 777-300ER on 100% SAF and the other on conventional jet fuel to better analyse the fuel system's behaviour and performance under each fuel type, compare specific outputs of each engine, and ensure seamless operation of the aircraft's engine and airframe fuel systems during the planned test flight.

- The test performed is in line with the memorandum of understanding (MoU) signed by Emirates, GE Aerospace and Boeing at the Dubai air show 2021. A MoU designed to develop a programme for conducting a test flight using 100% SAF on an Emirates 777-300ER aircraft powered by GE90 engines. Currently, SAF is only approved for use in blends of up to 50% with conventional jet fuel.
- Emirates has been working with its partners GE Aerospace, Boeing, Honeywell, Neste and Marathon Petroleum Corp throughout 2022 on SAF fuel blend testing. The blend developed showed the same qualities and performance characteristics of conventional jet fuel. The initiative contributed to the development of technical analysis and operational requirements surrounding ground testing and experimental flight activities. The results provide additional data and research around synthetic fuel blend components and biofuels, while supporting standardization and future approval of 100% SAF.

3. EY launched the **Middle East and North Africa (MENA) region's first climate change readiness index to support local decarbonization efforts**. The index provides scorecards for the 6 GCC countries, Egypt and Jordan. It aims to assist governments, investors, and citizens to evaluate their climate change readiness. The index showed that nearly every country in the region has substantially reduced per capita emissions from 2015 levels. The carbon capture and renewables revolution has complemented this trend, with nearly every country in the region introducing a long-term net-zero strategy.

- The index is supported by 2 pillars: adaptation or the adjustments made in response to existing climate change impacts like building environments that are flood-resistant or can withstand higher temperatures; mitigation or the steps taken to curb future emissions such as reducing energy consumption and adopting renewables.
- The tool is based on a robust and transparent methodology, developed using data from reliable, validated international sources, such as those compiled by the UN system, the World Bank (WB), the International Monetary Fund (IMF) and other data aggregators, to ensure a uniform methodology and data collection process.