

Looking ahead: ESG in 2021

Looking ahead for 2021, perhaps with more caution than we did 2020, the ESG landscape for the year looks positive. While 2021 will bring COP26 and two climate themed G7 Summits, INDOS would also like to highlight which themes our ESG team believe will shape climate in the year.

1



The Biden administration has quickly begun to unravel his predecessor's legacy and pass COVID relief bills which are expected to come in by mid-February. The bill will include \$35bn for solar power out of the projected \$1.9tn relief package.

2



Investors entered 2020 with the expectation that biodiversity loss would be a major theme. However, as the zoonotic disease, COVID 19 took hold the focus shifted. In 2021 investors will consider how biodiversity is impacted by human systems and how it impacts ESG issues like supply chains, labour rights and climate.

3



China's aim to become net-zero by 2060 will begin to make waves in the landscape of the green economy in 2021. This will, as with the US, involve a huge scaling in green energy supply through hydropower, wind and solar.

4



With the EU SFDR deadline looming on 10th of March 2021, the EU will continue to push their green agenda. While UK managers are waiting on government advice US managers are being told that marketing in the EU under some circumstances will require compliance with aspects of SFDR. Contact INDOS if your fund would like guidance in this area.

Regulations & Standards

In the surprise move Biden's administration successfully took the House and Senate; paving the way for more liberal fiscal policy moves and increased focus on climate reporting. These wins will likely open the opportunity to pass two previously discarded bills on climate risk:

1. In 2019, Senator Elizabeth Warren submitted, the "Climate Risk Disclosure Act of 2019," which directs the SEC to require public companies to complete annual climate disclosures.

2. Later that year, Representative Juan Vargas introduced a bill requiring public companies to disclose ESG metrics and establish a Sustainable Finance Advisory Committee within the SEC.

Fund specific news

Supported by the continued stock market recovery and growing investor interest in ESG issues, global sustainable fund inflows were up 88% in Q4 2020 to more than \$152bn (Global Sustainable Fund Flows Report, 2021). The US accounted for 13% of the global inflows, while Europe led with 79%, whilst other global flows were also higher than previous quarters.

Active ownership funds in the UK received inflows of £7.5bn compared to £8.1bn inflows passive funds during 2020. Whilst it would appear passive funds are more popular, the first few weeks of 2021 has been rife with activist activity. "Robinhood" traders have dominated the news - making outsized impact on the mostly computerised equity markets

Case Study: Hedge funds vs big chem

Rosignano is a well-known Italian tourist destination sitting on the Tuscan coast. Visitors are tempted by white beaches and turquoise waters. However, this is not a product of nature. Disappointingly, it's due to a local processing plant releasing limestone silt directly into the sea, providing the famous shades of blue.

While limestone is not inherently bad for the environment, it increases alkalinity which stresses marine life and the silt's clouding effect prevents seaweed from photosynthesizing, again harming the habitat for marine life.

Rosignano Factory key areas

- 1) Limestone silt holding tank
- 2) Effluent limestone release channel
- 3) Limestone silt water run-off



Solvay, which owns the factory as well as 153 others, has been given a AAA ESG score by MSCI (2019) and is in the FTSE4Good Index (latest Annual Report, 2019). Other ESG rating agencies give Solvay a smattering of B's and C's in their own ratings. Such high marks for a chemicals company, although better than their peers in an industry with lower scores, piqued the interest of Italian activist hedge fund Bluebell Capital. The fund was set up in 2019 and in September 2020 they added Solvay to their burgeoning list of campaigns. Bluebell's letter to Solvay demanded a decontamination of the coastline so marine life could return and linking the chief executive's compensation to the clean-up efforts success.

Source: Story from FT, additional information taken from Bluebell Capital website, MSCI and Italian EPA.

INDOS pick of the month - How sustainable is your shop?



The simple choices we make every day can have a big impact on our environment. Giki is an app giving sustainability-minded individuals the opportunity to better understand the impact of household products. It works by scanning a product's barcode, then comparing this against 250,000+ products within its database. Each product is rated against 13 'badges' awarded to products based on how ethical, sustainable or healthy they are. For example, one scan can inform the user whether the packaging is recyclable, whether ingredients were sourced responsibly or if it's a healthier option.

For more information contact:



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