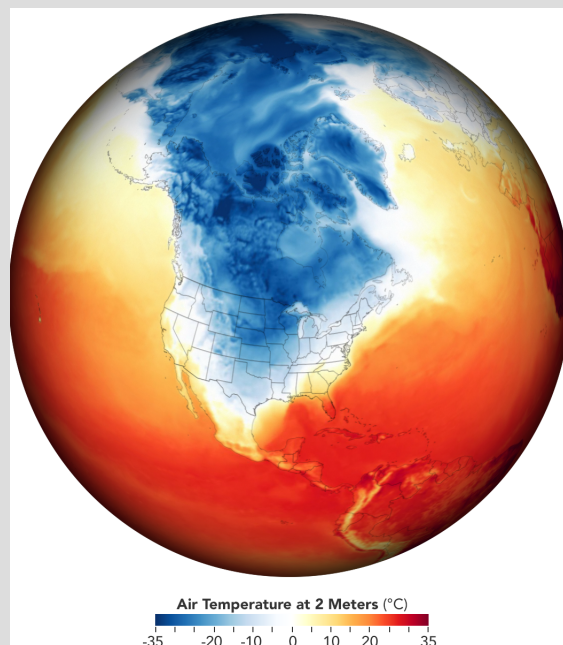


The Texan big freeze

While last year's climate news story appeared to be the Australian wildfires, Texas has become the 2021 casualty of increased climate sensitivity. Temperatures remained in the minuses for over a week while the State's power grid, disconnected from the continental United States, buckled under the strain.

The Texas Interconnection electrical grid was created in 1930. Being separate from the federally controlled energy grid it could escape federal oversight and regulation. While this has made the energy cheaper, the State was able to avoid making the grid resilient to extreme weather.

In 2011 a federal panel ([source](#)) stated that Texas' natural gas infrastructure was not prepared for cold weather, risking its ability to supply energy. In the freeze, one of Texas' four nuclear power stations automatically powered down followed by half the states natural gas capacity.



Source: Chart from NASA

Due to Texas' lack of a backup energy system the price for power increased dramatically. While Texas was unable to pull gas out of the ground to power their state, this did provide Macquarie group, an Australian investment group with stakes in gas pipelines, with a windfall start to the year as pipelines became one of the only ways to get gas to power stations. The group forecasted \$300m increased revenue in the first quarter of 2021.

Regulations & Standards

- The long-awaited SFDR Level 2 (Regulation Technical Standards) was submitted at the beginning of February to the European Commission for endorsement, which should be approved within three months. The full report submitted can be found [here](#).
- The Principles of Responsible Investment (PRI) has commented on the Financial Reporting Councils (FRC) recent proposal to unbundle financial reporting. The FRC suggested that the current regime of financial reporting could be improved by splitting up annual reports, such as creating a sustainability report separate from financial reporting. The [PRI's response](#) shows support for the proposal. However, they are wary that the connotations of removing sustainability from financials could be that they have no bearing to each other.

Fund specific news

Hard reading has emerged for ESG sceptics in the form of a global survey released by [Bfinance](#) during February. The results highlight the level of importance of ESG considerations when selecting money managers or asset managers.

The survey showed a third of respondents wouldn't appoint a hedge fund manager that lacked gender or ethnic diversity of staff. A fifth of those surveyed even highlighted environmental, social, and governance concerns as the main reason for having exited managers.

Case Study: Hedge funds eye carbon

It appears green greed is good, at least for now. A core part of the EU's net zero plan, the emissions trading scheme (ETS) permits are expected to drastically increase. This has started to attract managers such as Andurand Capital Management who see permits as a strong investment opportunity.

The ETS has been a central pillar of the EU's climate policy since its launch in 2005, now covering some 11,000 polluters. Around half the permits are sold at auction, allowing any firm to purchase them while the other half is given for free to polluters to avoid carbon leakage, where polluters relocate to jurisdictions with lower environmental regulations rather than investing in greener technology.

EU ETS carbon price (Euros)

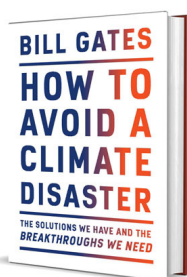


Andurand announced in 2020 they were diverting a small percentage of their \$600m fund to carbon trading after favourably viewing the carbon price. Their move comes at a good time, the ETS's fourth trading period opened in February, lasting until 2030. With climate change firmly in the EU's sights the ETS will act more like a policy than a free market, giving investors a strong indication that future rises are likely.

Prospective carbon traders should be wary. When the EU announced delays to the fourth phase there followed a scramble for permits from speculators, creating volatility in a normally very stable market. The EU seems fully aware that for the ETS to achieve its objectives permits should stay clear of Reddit style mania. Bloomberg reported that people familiar with the European Commission's redrawing of the MIFID II rules said that in order to prevent permit stockpiling by investment managers limits may be introduced on the number of permits which can be held by an investor.

Source: FT

INDOS pick of the month - How to Avoid a Climate Disaster



Bill Gates is well known as a strong advocate for action on climate change. His book, *How to Avoid a Climate Disaster*, crams the many interconnected solutions needed to bring the world to net zero into well under 300 pages. Concepts are fantastically explained with a Hans Rosling style and even the admittedly boring policy areas keep the reader interested. Another positive is, unlike other books within climate literature, Gates does not focus on the apocalyptic scenario's climate change will bring which gives the read a far more optimistic tone. These make it a great introductory read on climate change.

For more information contact:



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