ESG Digest #7

January 2023

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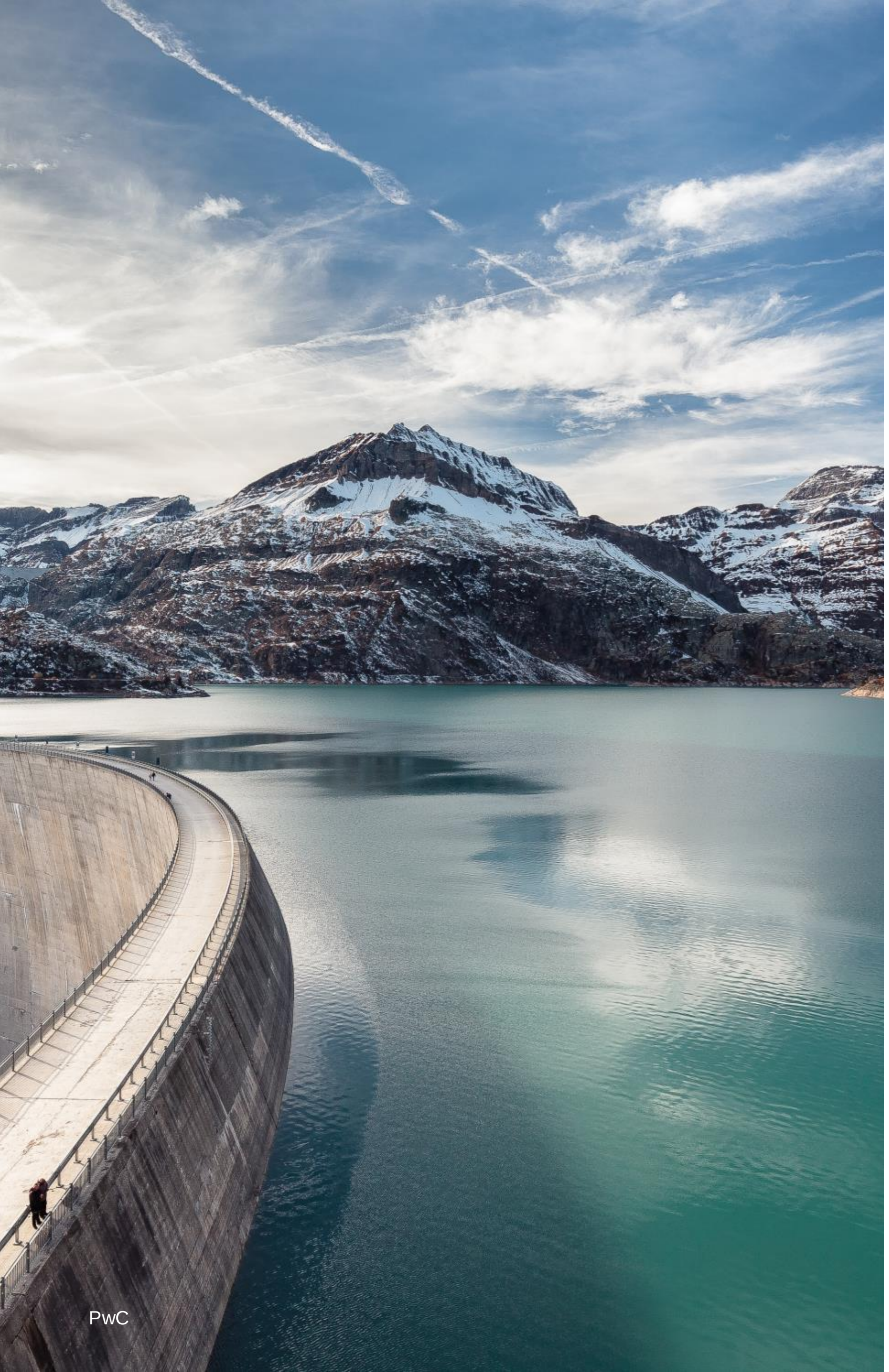

ESG issues to increase credit risk in 2023: Moody’s

Moody’s 2023 ESG Outlook highlights the rising risk to corporate and sovereign debt from ESG factors. While near-term risks stem from climate change, social challenges, and deteriorating economic conditions, longer-term risks arise from the need to reduce waste, physical climate risks, biodiversity loss, and the need for a just transition.

ESG disclosure and changing political landscapes are impacting the credit picture in 2023. Companies face complex and varying disclosure requirements across the jurisdictions where they operate, which adds cost and delays to complying with regulations. This is exacerbated by the backlash against sustainability in certain regions.

Moody’s also identifies a heightened credit risk for sectors that have not yet adequately disclosed their transition and decarbonisation plans (e.g. fossil fuel, mining, chemicals). This will result from the accelerated implementation of national policies and pledges, with related impacts from financial markets and corporate customers.

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USA unveils strategy to decarbonize transportation sector

The Biden-Harris Administration released the U.S. National Blueprint for Transportation Decarbonization. Developed by the Departments of Energy, Transportation, Housing and Urban Development, and the Environmental Protection Agency, the Blueprint is a landmark strategy for cutting all greenhouse emissions from the transportation sector by 2050.

The plan identifies the deployment of zero emission vehicles and fuels as the most meaningful drivers to decarbonize the sector, including all modes of transporting people and goods by land, air and sea. The blueprint also includes strategies to improve transportation convenience and efficiency, which are also expected to contribute to emissions reductions, as well as addressing high transportation costs and to provide equitable, affordable, and accessible transport options.

The Blueprint will be followed by more detailed decarbonization action plans, to be developed and implemented by these agencies in cooperation with governments at the State, local, and Tribal level, philanthropic organizations, the private sector, and global partners.

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It is planned to reach **5 mln.** tonnes of production

Spur nearly **100 bln.** of investment by 2030

India approves Green Hydrogen Strategy, expected to spur up to $100 billion investments by 2030

The government of India announced the approval by cabinet of the National Green Hydrogen Mission, its strategy to establish India as a major green hydrogen production hub, with plans to reach 5 million tonnes of production and spur nearly $100 billion of investment by 2030.

According to a statement by the government announcing the approval, the strategy is expected to help India become energy independent and decarbonize major sectors of the economy, including industrial, mobility, and energy.

Additional anticipated benefits of the strategy include the abatement of nearly 50 million tonnes of annual greenhouse gas emissions and over $12 billion reductions in fossil fuel imports by 2030.

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Scotland increases renewable energy capacity targets with New Clean Energy Transition Strategy

The Scottish Government published a new Energy Strategy and Just Transition Plan. Documents release the country's aim to grow Scotland's clean energy capacity by creating an additional 20GW of renewable electricity generation capacity by 2030, including 12GW of onshore wind, offshore wind, solar and tidal power. Scotland has also unveiled an ambition for 5GW hydrogen production capacity by the end of the decade and 25GW by 2045.

The plan also envisions the generation of surplus renewable hydrogen and electricity for export, supporting decarbonization efforts across Europe.

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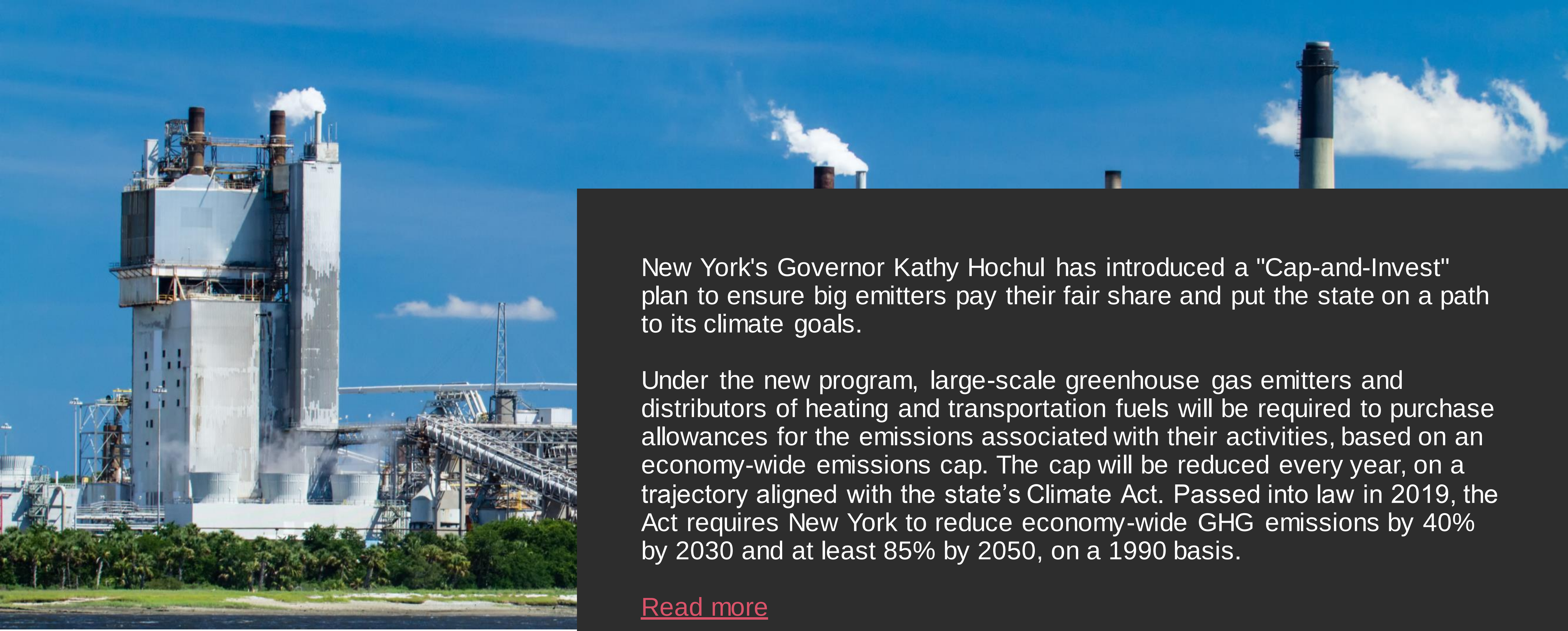

New York's Governor Kathy Hochul has introduced a "Cap-and-Invest" plan to ensure big emitters pay their fair share and put the state on a path to its climate goals.

Under the new program, large-scale greenhouse gas emitters and distributors of heating and transportation fuels will be required to purchase allowances for the emissions associated with their activities, based on an economy-wide emissions cap. The cap will be reduced every year, on a trajectory aligned with the state’s Climate Act. Passed into law in 2019, the Act requires New York to reduce economy-wide GHG emissions by 40% by 2030 and at least 85% by 2050, on a 1990 basis.

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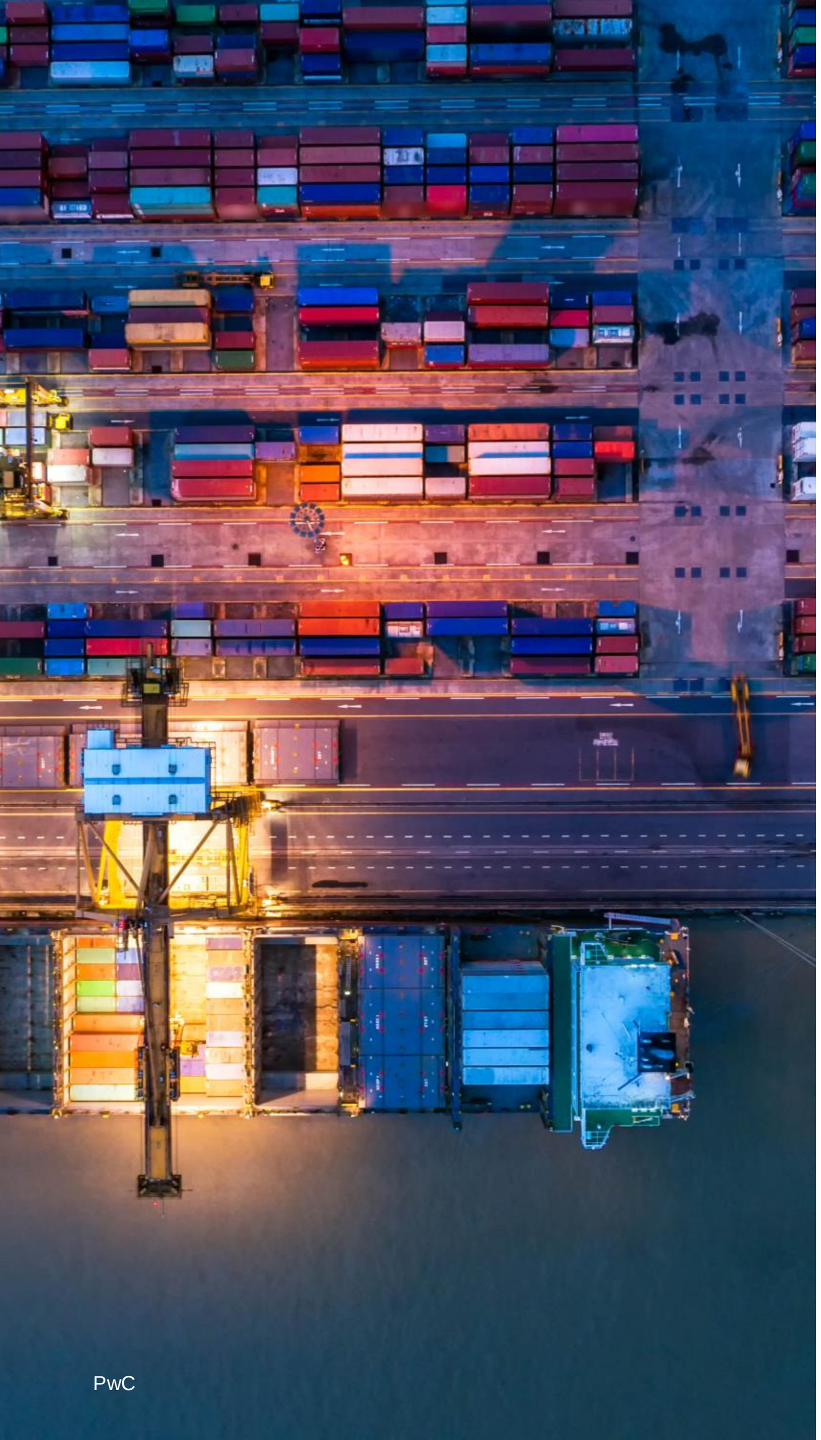
New York to cap-and-invest $1B carbon credits from big polluters



UAE to Europe green hydrogen supply chain planned by Masdar, Dutch companies

UAE-based renewable energy-focused developer Masdar announced that it will explore the development of an Abu Dhabi-to-Amsterdam green hydrogen supply chain, with an agreement signed with Dutch companies including port operator Port of Amsterdam, sustainable aviation fuel provider SkyNRG, and blending and storage terminal operators Evos Amsterdam and Zenith Energy.

The new agreement will see the partners join efforts to focus on green hydrogen production in Abu Dhabi for export to the Netherlands through the port of Amsterdam, targeting delivery to sectors including sustainable aviation fuel (SAF), steelmaking, and bunkering for shipping, as well as to new, emerging European offtakers, via pipeline, truck and barge. Several hydrogen transportation methods will be explored, with a focus on liquid organic hydrogen carriers and liquid hydrogen.

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UNEP, S&P Global launch new Nature Risk Profile Methodology

The UN Environment Programme (UNEP) and S&P Global Sustainable1 launched a new methodology for analyzing companies' impacts and dependencies on nature - the Nature Risk Profile.

Developed by experts from across the conservation, business, and finance communities, the new methodology outlines metrics and data enabling the identification and quantification of companies' nature-related exposure, covering areas including risks related to companies' impacts and dependencies on biodiversity, as well as potential risks arising from proximity to biodiverse areas.

S&P and UNEP said that the new methodology aligns with the TNFD's emerging approach, and will support the implementation of its disclosure framework.

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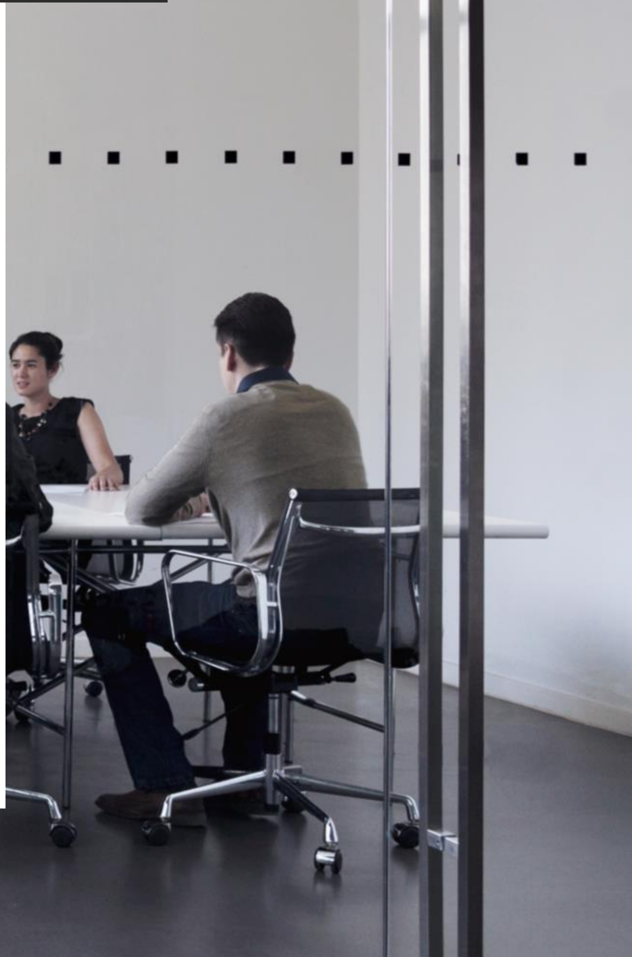

US Federal Reserve launches climate risk exercise for big banks

The U.S. Federal Reserve Board released details and instructions for its climate scenario analysis exercise for the six largest U.S. banks, including Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo. The exercise is designed to assess the banks' climate-related risk management practices and their resilience to a range of climate outcomes. Results from the exercise are to be submitted by the banks by the end of July.

The exercise will be composed of two separate modules:

- physical risk module will examine the impact of potential future shocks arising from harm to people and property from acute climate-related events such as hurricanes, wildfires, floods, and chronic events such as higher temperatures and rising sea levels on the banks' real estate portfolios.
- transition risk module will assess the impact on corporate loans and commercial real estate portfolios from the transition to a lower carbon economy, including shifts in policy, consumer and business sentiment, or technologies.

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ESG emerging as a key driver in investments: Aviva Investors Survey

Aviva Investors, an asset management company with headquarters in UK, released its Real Asset Study 2023 for which it polled 500 institutional investors, including pension funds, insurers, global financial institutions and official institutions, across Europe, North America and Asia, representing combined assets under management of $3.5 trillion.

The survey reveals the following trends in ESG (% of respondents):

- 16% - reported plans to increase allocations to sustainable real assets
- 28% - reported capturing positive ESG impacts as a primary reason for allocating to real assets, up significantly from just 17% 3 years earlier
- 93% - consider ESG a factor in investment decisions involving real assets, while
- 17% - consider ESG and sustainability matters as a critical factor in their real assets investment decisions.

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%.

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Broadridge Financial launches ESG benchmarking tool for North American companies

Fintech solutions provider Broadridge Financial Solutions launched an ESG Analyzer, a new ESG disclosure and data analytics benchmarking tool aimed at enabling companies to compare their ESG performance relative to their industry and peer group, and improve ESG strategy and practices.

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For more than 5 000 companies in North America, the ESG Analyzer compares company policies and disclosures from more than 385 ESG topics including categories like:

- Environmental: Energy & climate change, policy & reporting, resource management
- Social - Community: community development, product, human rights & supply chain
- Social - Employees: compensation & benefits, diversity, labor rights, training, health & safety
- Governance: Board, leadership ethics, transparency & reporting

ECB launches indicators to monitor climate risk for banks and investors

The European Central Bank (ECB) published a series of new statistical indicators aimed at helping to analyze climate-related risks in the financial sector and track the progress of the sustainable finance market.

The new data sets cover three areas:

- **Sustainable finance**. These 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.
- **Financed emissions**. 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.
- **Climate-related physical risks**. Analysis of the impact of natural hazards, such as floods, wildfires or storms, on the performance of loans, bonds and equities portfolios.

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Canada's BDC launches ESG Reporting Tool for venture investors

The Business Development Bank of Canada (BDC), that provides financing, advisory services and capital to small and medium-sized enterprises in Canada, released a new ESG reporting template, aimed at enabling Canadian venture capital and mid-market private equity funds to track and report on key ESG metrics in their own firms and across their portfolios on an annual basis. The framework was developed following consultations with industry partners and stakeholders on the need to bring more transparency and embed ESG disclosure and reporting standards within the Canadian venture capital space.

The ESG reporting template will require the above listed organizations to consistently report on a baseline of sector agnostic ESG metrics, including non-financial risks such as supply chain issues, data privacy risks, sanctions compliance and water stewardship issues. In addition funds will document on greenhouse gas emissions, energy consumption, and climate policies and practices of their portfolio companies.

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PRI updates Responsible Investment Reporting Framework for investors

Principles for Responsible Investment (PRI) released a revised Reporting Framework 2023 that sets out reporting processes for the organization's investor and asset owner signatories.

Changes include improvements in clarity, with updated terminology and minimized ambiguity in questions, as well as improvements in consistency and applicability, and restructuring of some sections for better alignment with other sustainability reporting frameworks such as TCFN, TNFD and ISSB. The framework also incorporates changes to reflect emerging themes across the responsible investment landscape, including the introduction of new voluntary indicators focused on human rights.

The 2023 release is a key step forward in the development of the PRI's Reporting and Assessment functionality as the industry-leading reporting framework, globally. The reporting cycle will begin again in May 2023.

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Geopolitics to accelerate shift to clean energy, BP Plc Energy Outlook

BP Plc, an oil and gas giant, released its Energy Outlook 2023. This outlook presents its scenario forecasts over the next three decades, which are based on global energy trends and uncertainties.

Following major events over the past year – most notably the Russia-Ukraine war, in addition to the U.S. Inflation Reduction Act – bp lowered its oil and gas demand forecast in 2035 by 5% and 6%, respectively, with scenarios predicting an accelerated energy transition, including lower demand for fossil fuel-based energy, and a greater share of renewable energy in the mix over the next several years.

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