

ESG & ASSET MANAGERS

27 May 2020

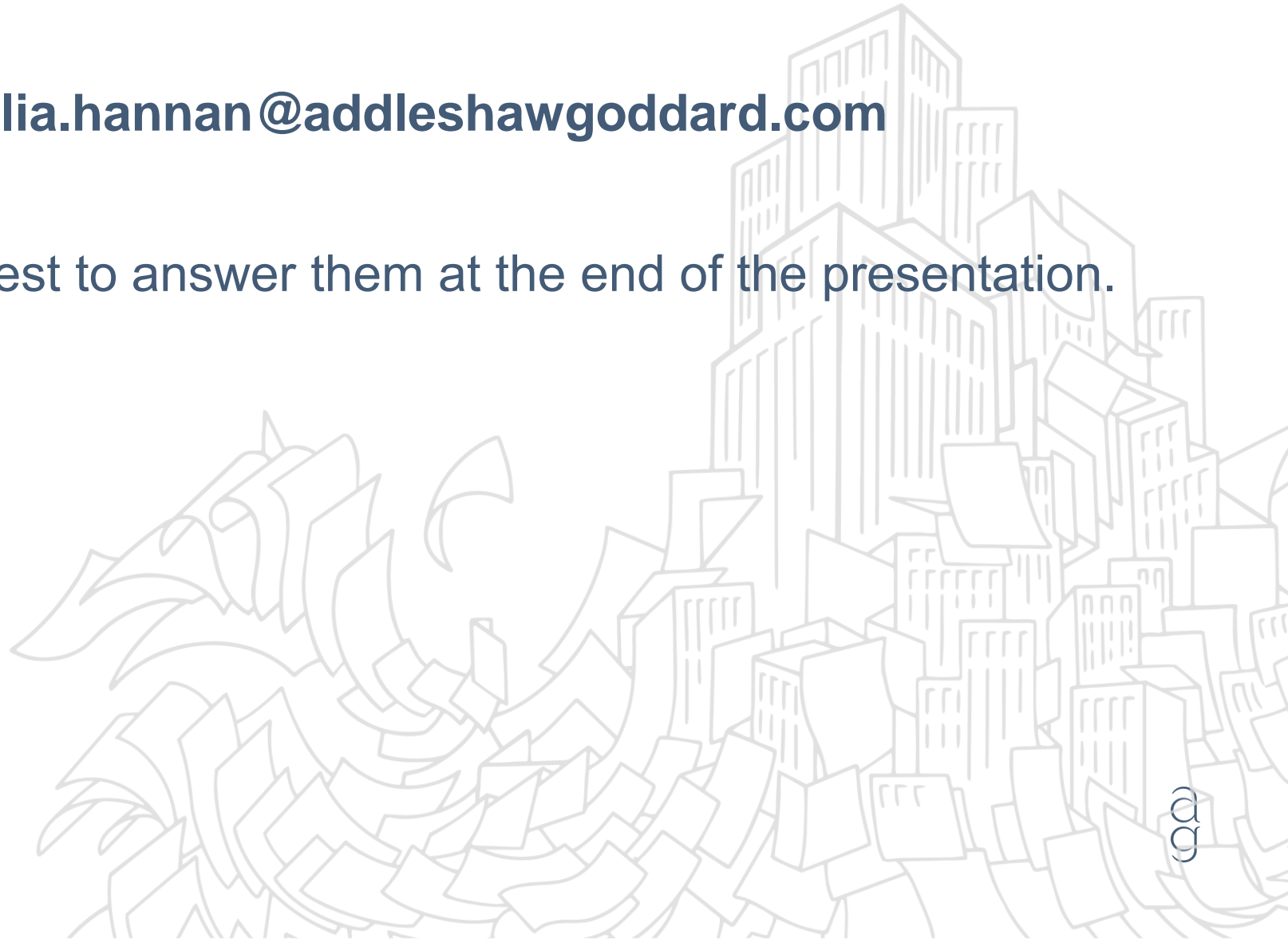


QUESTIONS?

Please email:

natalia.hannan@addleshawgoddard.com

And we'll do our best to answer them at the end of the presentation.



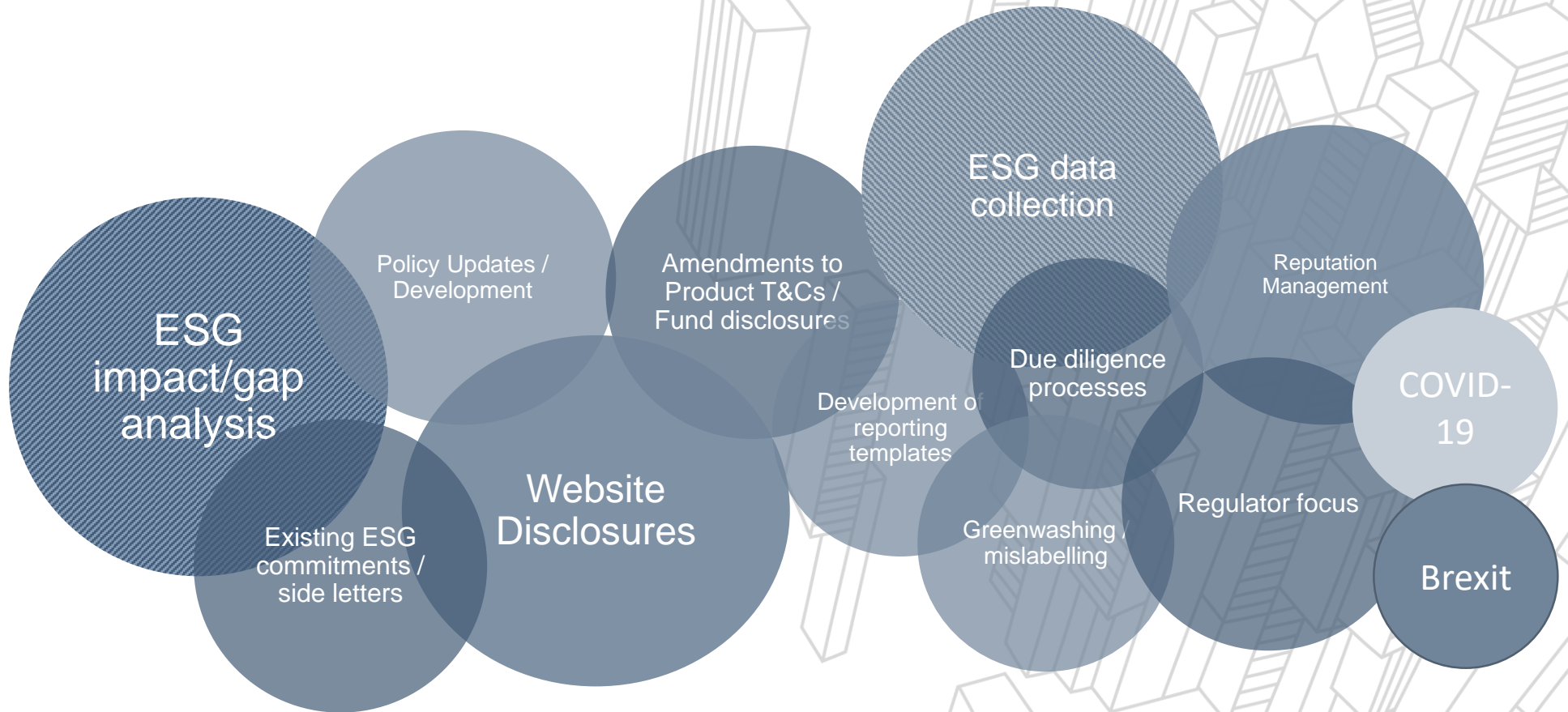
AGENDA TODAY

- Defining “ESG”
- ESG related issues asset managers are considering right now
- A brief state of play on the key EU developments
- A shift from the “E” to the “S” and “G” ?
- The Market View
 - The Managers’ Perspective
 - The Investors’ Perspective
- Questions

ESG – WHAT DO WE MEAN BY THAT?

- E = Environmental factors
- S = Social factors
- G = Governance factors
- “Sustainability”
- Focus on the “**E**” but shift in emphasis post Covid-19?

WHAT ASSET MANAGERS ARE THINKING ABOUT NOW

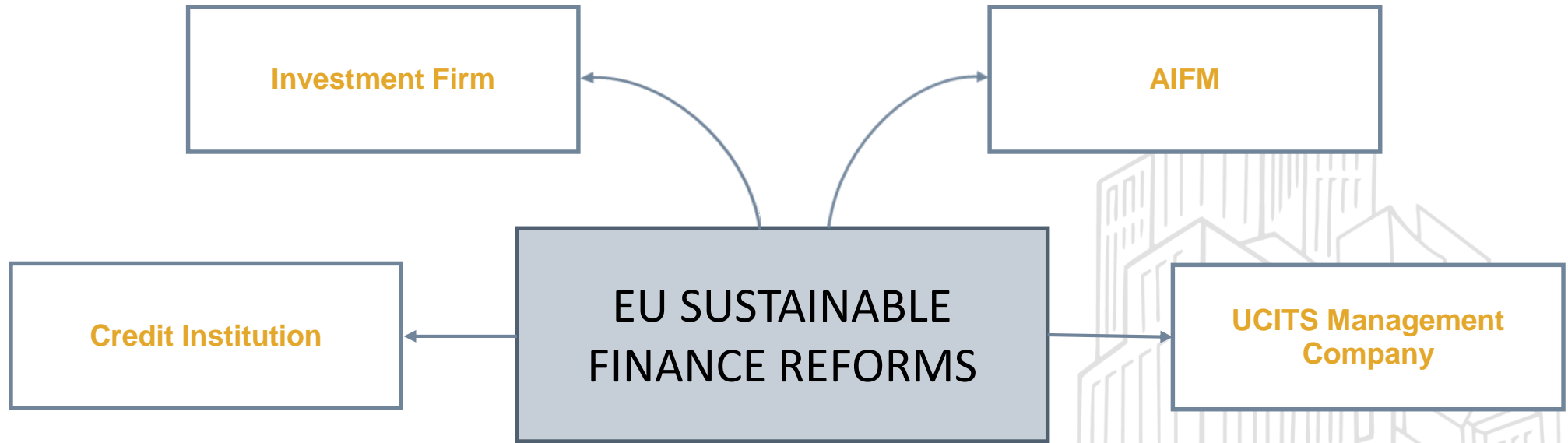




STATE OF PLAY ON KEY EU MEASURES



BROAD REACH OF THE EU'S MEASURES



EU business directly impacted



Non-EU business directly or indirectly impacted

A QUICK LOOK AT THE KEY PIECES

EU DISCLOSURE REGULATION

(L1 Regulation adopted & in force – material obligations will apply from March 2021 – ESAs consulting on key L2 measures)

EU TAXONOMY REGULATION

(L1 Regulation final but still awaiting EP approval – various L2 measures still to come)

LOW CARBON BENCHMARKS REGULATION

(L1 adopted & in force but L2 measures not yet adopted – ESMA no action letter – application effectively on hold)

AIFMD / UCITSD / MIFID II AMENDMENTS

(draft proposals - timing tbc)

PRODUCT GOVERNANCE & SUITABILITY REFORMS

(draft proposals – timing tbc)



ESG – PHASED APPLICATION OF DISCLOSURE OBLIGATIONS

- High level summary
- Subject to changes
- Red denotes compliance dates
- RTS = draft L2 measure

June 2020

EU Taxonomy Regulation expected to be formally adopted.

March 2021

Substantive provisions of EU Disclosure Regulation apply, including:

“Comply or Explain”

Entity level

- Firm website disclosures and pre-contractual disclosures on integration of sustainability risks
- Updated remuneration policy

Financial Product Level

- Pre-contractual disclosure on integration of sustainability risks (any product)
- Further pre-contractual disclosures on products promoting “E” or “S” characteristics or having sustainable investment as objective

Review of Marketing Communications

- Communications must not contradict information disclosed under EU Disclosure Regulation

December 2021

Enhanced disclosure obligations apply for products that promote “E” characteristics (only covering “climate change” and “climate adaption” objectives) (see June 2021 ESA RTS)

Non-financial reporting obligations apply to “Large Public Interest Entities (but only covering “climate change” and “climate adaption” objectives)

ESA draft RTS due covering:

- Firms' website disclosures (social impacts, including human rights, anti-bribery etc.)

Commission to publish technical screening criteria (all remaining “E” objectives).

June 2022

ESA draft RTS due covering:

- Enhanced disclosure requirements for products that promote “E” characteristics (covering the remaining “E” objectives):
 - disclosure of the “do not significant harm principle”
 - “Taxonomy alignment” of portfolio.

Jun 2020

Dec 2020

Mar 2021

Jun 2021

Dec 2021

Jan 2022

Jun 2022

Dec 2022

December 2020

ESA draft RTS due covering:

- Firms' website disclosures (climate and other environmental impacts)
- Product pre-contractual and website disclosures for products that promote “E” or “S” characteristics
- Annual report disclosures for products that promote “E” or “S” characteristics.

Commission to publish technical screening criteria for climate change mitigation and adaption objectives only).

June 2021

“Comply or explain” becomes “comply” for financial market participants with 500+ employees

ESA draft RTS due covering:

- Enhanced disclosure requirements for products that promote “E” characteristics (only covering “climate change” and “climate adaption” objectives)
 - disclosure of the “do not significant harm principle”
 - “Taxonomy alignment” of portfolio.

Commission delegated act due to flesh out non-financial reporting obligations that will apply to “Large Public Interest Entities”

January 2022

Annual Reporting requirements apply.

December 2022

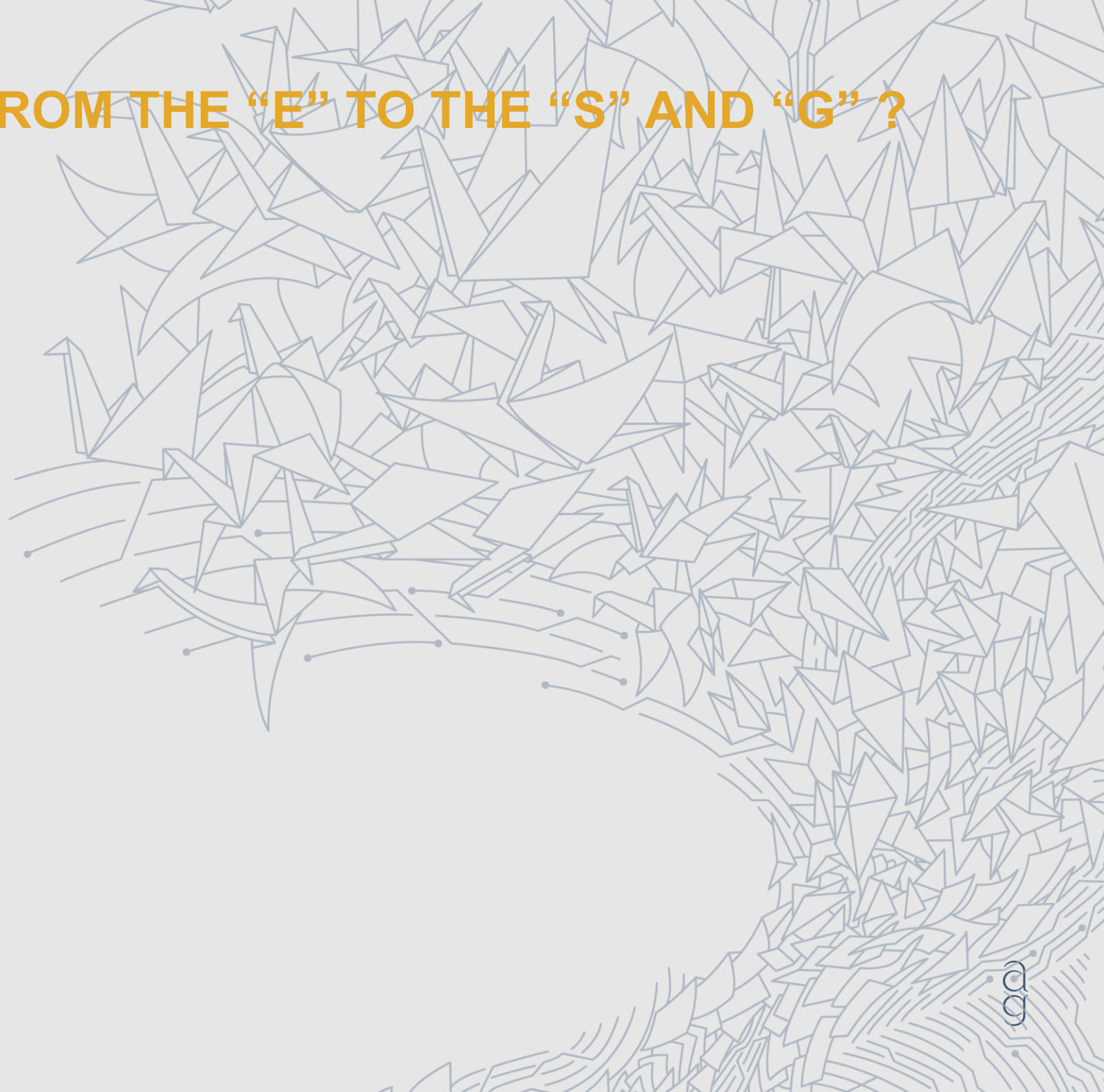
More detailed disclosure and reporting requirements apply on whether/how adverse impacts on sustainability factors are considered at product level (any product)

Enhanced disclosure obligations apply for requirements for products that promote “E” characteristics (covering the remaining “E” objectives). See June 2022 ESA RTS)

Non-financial reporting obligations apply to “Large Public Interest Entities” (covering remaining “E” objectives).

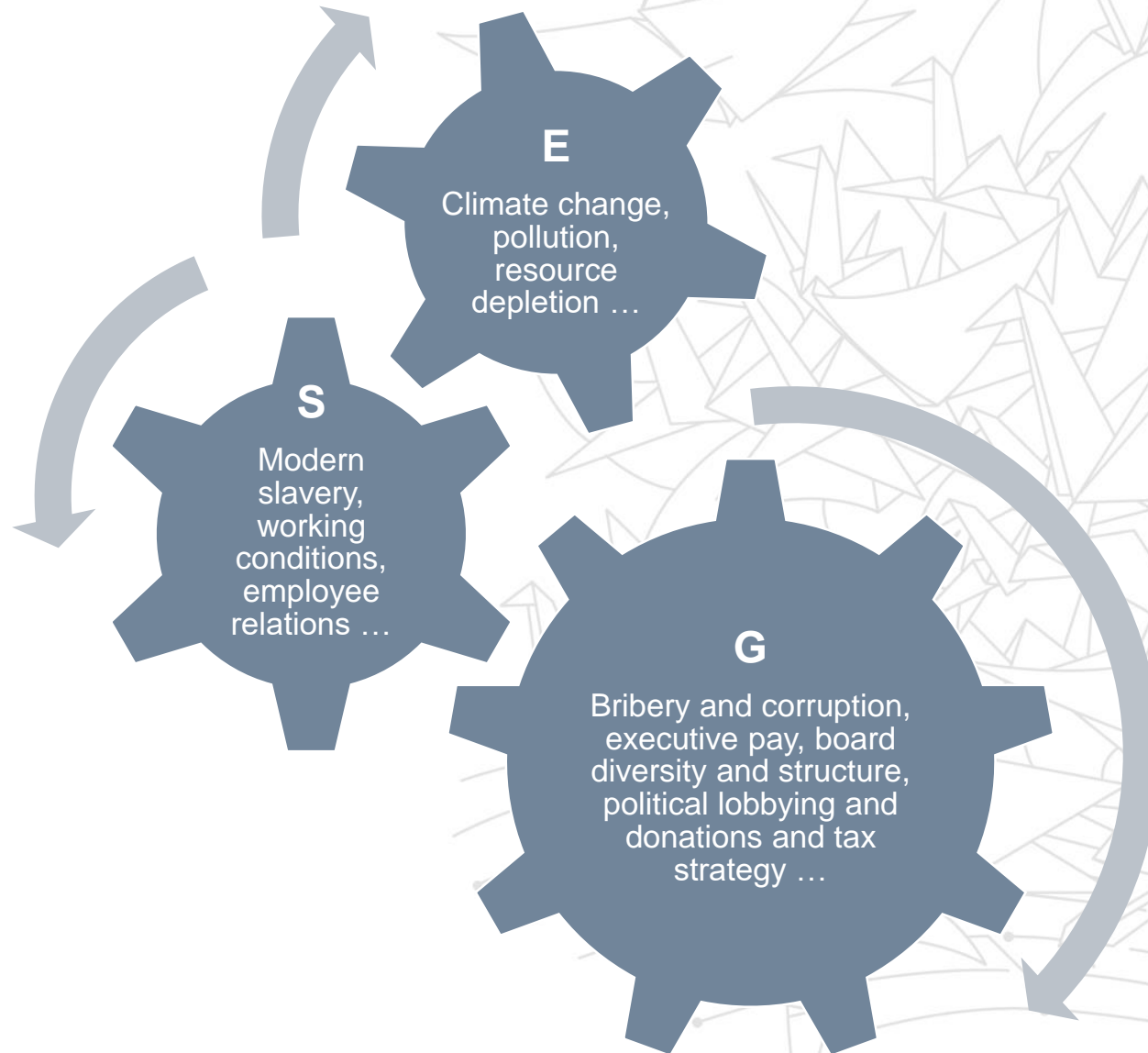


A SHIFT FROM THE “E” TO THE “S” AND “G” ?





WHAT EXACTLY ARE THE 'S' AND 'G' IN ESG?





G-FORCE ACCELERATION – THE IMPACT OF COVID-19

In the near future – and sooner than most anticipate – there will be a significant reallocation of capital.

Climate risk is investment risk.

Improved Disclosure for Shareholders ... should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers' data.

... we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.

Larry Fink, CEO Blackrock (January 2020)

.. there is already substantial empirical evidence to suggest that the “G” aspect of ESG ultimately yields better corporate returns.

Kelly Tang, S&P Global (March 2019)

Companies can still demonstrate that they have effective leadership. In times of crisis that becomes more apparent, not less apparent.

Michelle Edkins, BlackRock (March 2020)



PRACTICAL IMPLICATIONS FOR ASSET MANAGERS

- Defining the 'S' and 'G'
 - Remember – ESG is a marathon not a sprint
 - Better to under promise and to over deliver
 - Look at what peers are doing
- Board engagement
 - Establish cross-functional team – beware of risk concentration in a single function
 - Be mindful of the PRA's guidance for banks and other financial institutions
 - Board should consider on a regular (semi-annual basis)
- Portfolio companies
 - Discussing with management (together with other investors) your ESG obligations/expectations
 - Actively engage by voting on resolutions or proposing specific shareholder resolutions on ESG matters
 - Be aware of potential parental liability for actions of subsidiary portfolio companies

CHANGES TO MIFID, AIFMD, UCITS FRAMEWORKS

- **Status:** Draft legislative proposals and recommendations





THE MARKET PERSPECTIVE





THE MARKET PERSPECTIVE...

Investor transformation



81%

most millennials want to know more about responsible investing

that are changing the world”



55%

of CEOs believe that their organizations must look beyond purely financial growth if we are to achieve long-term, sustainable success



\$30tn

Globally, sustainable investing assets in the five major markets, representing a

34%

increase in two years



But to meet the goal of limiting the global temperature increase to 1.5 °C (2.7 °F), about

\$90tn

of investment is needed by 2030

173%

Forecast growth of the UK socially responsible investing market by 2027



67%

of UK investors said sustainable investing was important to them – and were willing to hold sustainable investments for **two years longer** than the average investor

56%

of UK investors have increased their allocations to ethical funds over the last five years. Ethical investment is the practice of excluding investments in sectors that do not align to an investor’s belief or principles. Controversial sectors such as tobacco and armaments as well as those involved in animal testing are examples of this.





INVESTOR REQUIREMENTS...

ESG INVESTING

ESG REPORTING

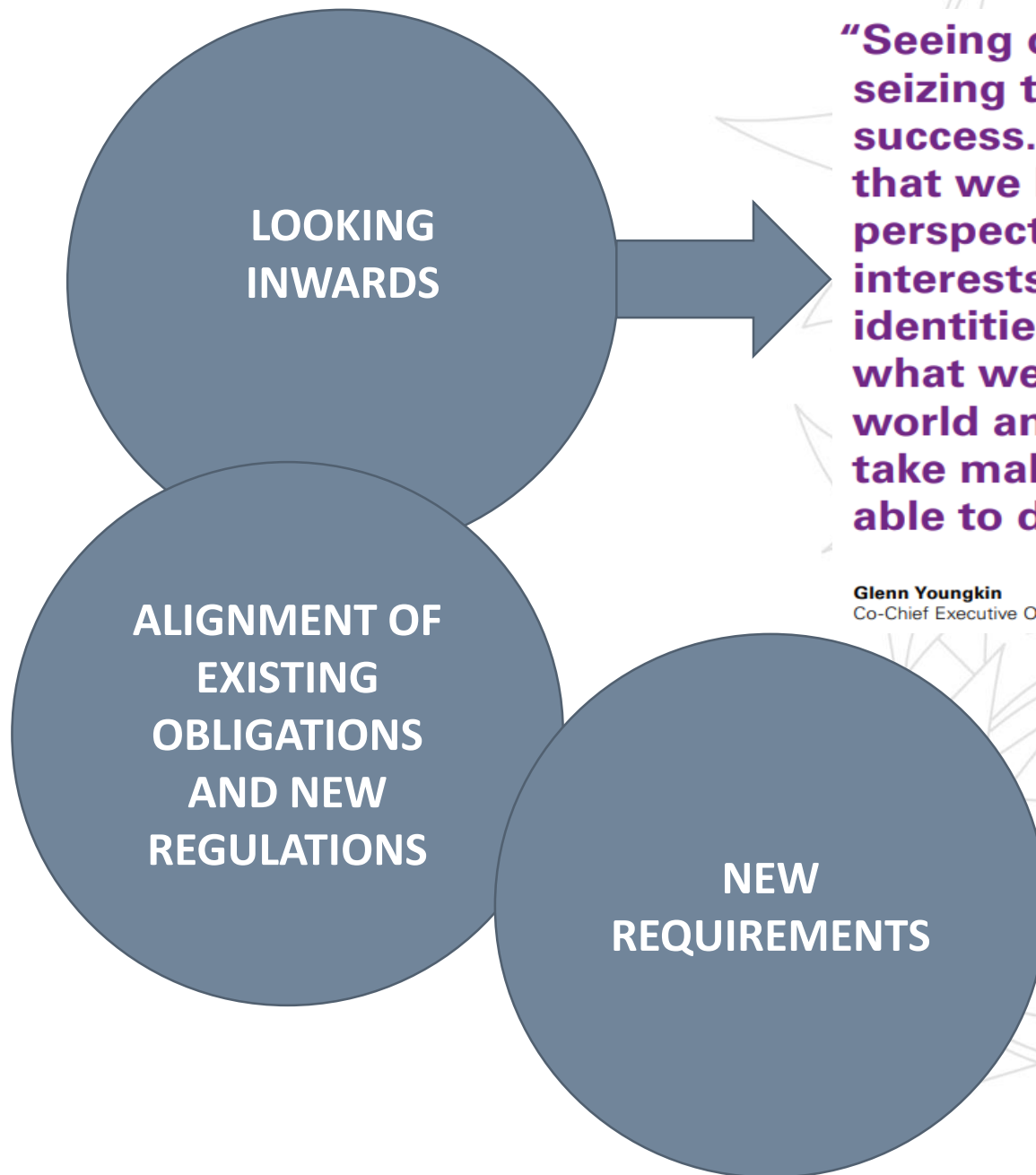
ESG
GOVERNANCE

“ Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. ”

Larry Fink
CEO BlackRock in annual letter to CEOs



THE IMPACT ON MANAGERS...



“Seeing opportunities and seizing them is core to our success. Therefore, it is critical that we have people with diverse perspectives, knowledge bases, interests, passions, and cultural identities. These differences in what we know, in how we see the world and in the approaches we take make us stronger and better able to deliver for our investors.”

Glenn Youngkin
Co-Chief Executive Officer, The Carlyle Group



QUESTIONS



AG SPEAKERS



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