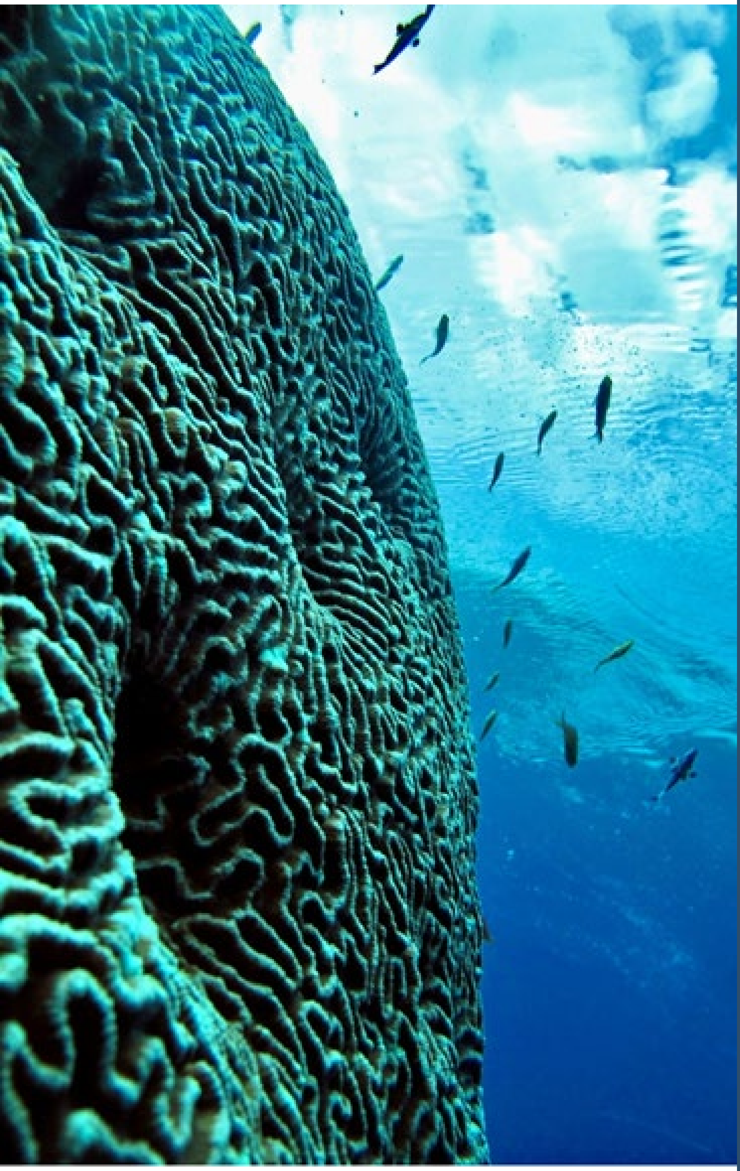

Phillip Capital Management

Taking Stock - What Is Driving ESG Investing?

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Salient Points:

- ESG Investing is not commercial suicide
- Pressing concerns that belie the opportunities
- What is Phillip's ESG Strategy?

"Vital Signs 2007-2008: The Trends That are Shaping Our Future" was a book I read with a quote from Utah Phillips that said, "The earth is not dying. It is being killed, and the people killing it have names and addresses." The economy is consuming the very systems we need to survive. Consumer lifestyle prevails today and continues to support fossil fuels and raise production of livestock and grain that require massive amounts of land. Warning signs about weather-related disasters, sea-level rise and the collapse of entire ecosystems have been lit as early as 1992, and climate change is just one indicator. More science-based evidence has surfaced since, but more collective action is being taken today to solve our climate crisis. There are more opportunities than what is currently on the table if we decide to look further than Agenda2030.

(continued)

ESG investing in the form we understand it began in earnest back in the late 1980s. In the U.K. the Friends Provident Stewardship fund was founded in 1984 and at the time was nicknamed the Brazil fund – because, people said, you had to be nuts to invest in it.

In fact, the earliest form of a negative screen was in 1758 in the US, when Quakers began to refuse to buy slaves. Back then, before mechanization, manual labour was essential and it was simply commercial suicide not to use slave labour. Today the world thinks very differently and most companies are required to have an anti-slavery policy. As for the Quakers, they are still around, they were brave and they were right.

Notwithstanding that, over the next 100 years Quakers in the UK founded many positive companies that changed society. Guinness (a meal in a glass), Boots (safer drugs), Cadbury's (calories for working people in a time of calorie deficiency) and Clarks (affordable shoes) were all founded with a social as well as economic mission to improve people's lives.

These points are not just a history lesson; they reflect two realities that have proven themselves to be very pertinent today.

1. That ESG investing is not commercial suicide. There is a long track record of outperformance. Even the new MSCI leaders ETFS reflect this (ACWI +41.58% and SUSL +55.58% US$ total return since 10/5/2019-18/6/21 – Bloomberg). The argument is old but as the evidence has become more apparent, the acceptability and marketability of ESG has dramatically increased.
2. That ESG investors, as they become more interested and knowledgeable, tend to increase their positive focus. This is also at a time when positive investments are more closely aligned to government actions (Build back better in the UK, Green investment in the EU and even government actions in Singapore).

People, Planet, Prosperity

'People' refers to Society, 'Planet' our natural Environment, and 'Prosperity' takes the place of 'Profit' in the shift of mindsets. We can define it as the state of wellbeing gained from long-term economic success, achieved equitably and within the resource limits of our planet.

It is already known as "The Blue Planet Effect" but David Attenborough's documentary in 2019 on plastic waste in the oceans led to immediate and significant change. Whilst this was not a new issue, this time around it touched a nerve and within weeks government policy and business practices changed. McDonald's Corp moved from plastic to paper straws within weeks on the back of this.

The speed of data, sensitivity of corporations and ability to find alternatives is a fact of life. ESG impacts daily living as well as investment lives. Corporate citizenship has become a political and social issue.

We will take stock of pressing issues and the intentions for ESG investing. Then orientate ourselves as best we can to the current state of this fast changing

landscape so we can position for long-term success.

Social Issues

The ‘S’ in ESG suffers from middle child syndrome. It’s often left out and few know what to do with it. It refers to the company’s responsibility towards Society and its Stakeholders. As with the ‘E’, the ‘S’ also infers the social risks (eg. reputation, legitimacy) that a company is exposed to as well as the impact of its activities on people, direct and indirect. The latter ranges from land development that has displaced entire villages, to child labor used by popular brands, to products that have resulted in health issues. Social injustices that a company commits reflect on its corporate culture and its inability and lack of will to effectively manage its business operations and supply chain. Factors we need to consider when making investment decisions.

Who remembers what is “Fast to cook, Good to eat”? Maggi “Mee” (noodles) is among a range of favorite products from Nestle. In May this year, the company acknowledged that more than 60% of their mainstream food and drinks products do not meet “recognized definition of health” and that some of their categories and products will never be healthy. It may be time to toss the KitKat, Nescafe, and San Pellegrino too. Obesity and diabetes are serious health issues. Preventing lifestyle diseases can help to relieve stress on medical systems, as seen in situations during this pandemic.

Pressing social issues that impede sustainable development success and the societal impacts of businesses are two areas ESG investing seeks to address.

Social SDGs provide guidance through targets that companies can set for themselves in order to promote the alleviation of poverty and hunger for example (ref: SDG1 and SDG2). SDG3 lays out targets to end epidemics (Target 3.3), achieve universal health coverage, including financial risk protection (Target 3.8), to substantially reduce deaths and illnesses from pollutions and contamination (Target 3.9), and to increase financing of health industries in developing nations. It is important to understand that the SDGs were not designed for investors to assess corporates so asset managers would need to disclose to asset owners their methodology and measurement of SDG alignment.

Climate Change

Climate Change

In its 2007 report, the Intergovernmental Panel on Climate Change (IPCC) concluded

that “warming of the climate system is unequivocal” and stated with ninety percent confidence that human activities since 1750 has resulted in the warming climate. It was increasingly clear then that it had significant impacts on the world’s biodiversity. While at the same time, marine scientists were reporting that the world’s growing appetite for seafood might drive major fish populations to extinction in the coming decades, compounded with the fact that 80% of pollutants in oceans originated from land sources like sewage, industrial run-offs and plastic waste.

Climate Change affects every nation, disrupts economies and affects lives. When economies recover beyond the pandemic, emissions are expected to return to higher levels. So post-pandemic recovery plans must trigger long-term systemic shifts that will change the trajectory of carbon levels in our atmosphere.

The FCA raised the risk of climate change with asset managers a number of years ago, they considered it a risk that needed to be fully accounted for. Over the years we have seen approach adopted around the world. Of significance is the fact the ESG is no longer just an issue of doing good, but an issue of risk management. In fact, many funds, screeners (MSCI) will be looking at ESG as a risk factor. This recognition had a significant impact of the sector, making it more acceptable.

Climate change remains a key topic in ESG. Even today large investor groups have been calling big companies to account for their poor reporting. With COP21 taking place in Glasgow this year, this topic will remain front and center. This, in itself, poses a risk for fund managers who may merely focus on data and on carbon emissions.

As climate change was an early part of ESG investing, many of the small companies of the 1990-2000 era have grown. The wind and solar OEMs that were small and edgy are now large cap, likewise the large companies such as Orsted who converted from oil and gas to offshore wind; a fact that often goes understated but has a key part to play in the growth of ESG is the maturing the sector. Unlike 20 years ago, these investments can more safely feature in funds and portfolios now that they are large, mature and profitable.

Biodiversity Loss

The IPBES Global Assessment Report on Biodiversity and Ecosystem Services found that the loss of biodiversity is shown to be not only an environmental issue, but also a developmental, economic, security, social and moral issue as well.

IPBES, the ‘Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services’ was set up in 2012 by 94 governments, of which Singapore is an observer and participant to. The report released in 2019 was the most comprehensive assessment of its kind compiled by 145 experts from 50 countries.

The Report’s authors examined six policy scenarios with very different policy approaches that included ‘Regional Competition’, “Business as Usual’, and “Global Sustainability’. They projected likely impacts on biodiversity and nature’s

contributions to people in these pathways by 2050. It was concluded that due to projected impacts of increasing land and sea use change, exploitation of nature and climate change, negative trends in nature and ecosystem functions will continue beyond 2050 except in scenarios with transformative change.

IPBES Global Assessment Report on Biodiversity and Ecosystem Services
Key Statistics (extract)

General	75% terrestrial and 66% marine environments are severely altered to date due to human actions.
Populations	Up to 1 million species (out of estimated 8 million on Earth) are threatened with extinction within the next decades.
Food	300% increase in food crop production since 1970.
Oceans	33% of marine fish stock in 2015 was being harvested at unsustainable levels.
Forests	45% increase in raw timber production since 1970 (4b cubic m in 2017)
Energy	US$345 billion in global subsidies for fossil fuels resulted in US$5 trillion in overall costs, including nature deterioration externalities.
Socio-Economic	>100% growth in urban areas since 1992; 105% increase in global human population since 1970 unevenly (per capita GDP in developed countries was 50x higher than least developed ones).
Health	70% of cancer drugs are inspired by nature; >80% global wastewater discharged untreated into the environment.
Climate Change	1 degree Celsius is the average global temperature difference in 2017 compared to pre-industrial levels; 40% rise in carbon footprint of tourism from 2009-2013.

The report identified direct drivers of change in nature being land and sea use, exploitation of organisms, climate change, pollution and invasive alien species. But it was It concluded that in order to better understand the root causes of damage to biodiversity and nature's contribution to people, we need to understand the social values that underpin them, as well as the history and global interconnection of complex demographic and economic indirect drivers of change, like per capita consumption, tech innovation, governance and accountability issues.

The UN Biodiversity Summit (Convention on Biological Diversity) COP15 happens in Kunming, China in October this year, a month before the COP26 UN Climate Summit in Glasgow. It is likened to the Paris Agreement but one to set targets to improve nature protection and commitments of finance to help poorer nations achieve them. Targets may also be set to eliminate harmful agriculture, fishing and logging subsidies and repurpose that money to benefit nature.
Investment opportunities lie in new technologies that not only provide sustainable harvesting methods but also aid in research, monitoring and measuring natural capital.

The Taskforce on Nature-related Financial Disclosures (TNFD) launched on 10th June 2021. Similar to the TCFD set up for climate-related disclosures, it aims to provide a common framework for organizations to report and act on evolving nature-related risks. It could promote understanding of transmission channels between economic and financial systems that affect biodiversity. Backed by the G7,

co-chaired by the UN Convention on Biological Diversity and Refinitiv, London Stock Exchange Group.

Sustainable Development

Sustainability refers to the needs of present and future generations in the areas of environment, society and economy. In 2015, 193 governments adopted the United Nations Agenda 2030, “a plan of action for sustainable development". At the core are the 17 Sustainable Development Goals (SDGs), which set out concrete targets to address some of the biggest challenges regarding people, planet, prosperity, peace, and partnerships. As impacts from a changing climate become more apparent, we now see a global shift from economic development to sustainable development and a movement for economies to shift from extractive to regenerative. 197 countries have submitted their new Nationally Determined Commitments (NDCs) in 2020 and are now implementing these new long-term climate action goals. The countries will meet again at the UNFCCC Conference of the Parties 26 in Glasgow later this year where setting rules for carbon markets between countries is also on the agenda.

The ocean is Earth’s largest ecosystem and the lung of our planet, affording the oxygen for every second breath we take. It provides almost half of the world’s population with its main food source and supports about 80% of the planet’s biodiversity. Major industries like shipping, fishing, aquaculture, and coastal tourism depend on the health of our oceans. This Blue Economy has an estimated annual economic value of USD2.5 trillion, equating it to the 7th largest economy in the world.

Global Targets and the 3P (Public, Private, People), Partnership

The 3P Sectors refer to Government (Public), Business (Private), and Civil Society (People) where trust in partnerships enable larger goals to be met.

The Singapore Prime Minister’s response to Climate Change in 2019 was for us to understand, mitigate and adapt. He announced that Singapore had joined efforts in reducing carbon emissions under the Paris Climate Agreement. He stressed the need for SG to do our part so we can be credible to influence global change. Beyond localized measures, SG needs defenses to protect entire areas and implementation had to start then.

The Singapore Green Plan 2030 was launched in February 2021. The comprehensive plan aims to strengthen Singapore’s economic, climate and resource resilience, improve the living environment of Singaporeans, and bring new business and job opportunities. It charts ambitious and concrete targets over the next 10 years, strengthening Singapore’s commitments under UN Paris Agreement and Agenda 2030, and positioning the nation to achieve its long-term net-zero emissions aspiration.

The Climate Impact X (CIX), joint venture between SGX, DBS, SCB and Temasek, will be a Singapore-based global carbon exchange that aims to scale the voluntary carbon market. Pricing carbon is necessary to drive the technological and behavioral innovation necessary to limit climate change. Market trading schemes and instruments are crucial in pricing emissions

and keeping climate action costs affordable as 2030 targets draw near. Exchanges like CIX does give rise to possible trade in new market instruments that can help drive other sustainability changes. Drawing from broader range of environmental issues, trading opportunities may arise in chemical pollutant and microplastic emissions, waste and renewable energy credits. Besides the CiX Coalition that will require its buyers and sellers to demonstrate their commitment to high integrity climate action through eligibility requirements before trading, new technology that verifies if carbon offsets are real is another area to watch. Carbon offsetting, through Nature-based Solutions like restoration of mangrove forests, will be an essential source for funding nature conservation projects.

Non-Governmental Organizations (NGOs) set agendas and pace for all three areas of ESG. They put immense pressure on leading firms and question government policies and rules. Civil Society is probably responsible for mainstreaming ESG today. Public concern backed by academic research bridges gaps in scientific practice, policy ownership and plain conversations that people need to have to work things out. Firsthand engagements and experiences win hearts and minds. Through frequent talks and kayaking trips into mangroves for example, NGOs in Singapore were able to show decision-makers in public service the significance of ecosystems to biodiversity, as well as how protected areas have restored key habitats despite rapid urbanization. Some NGOs are particularly effective at exposing problematic firms and calling out corporate misbehavior. They often have extended networks, which means good intelligence on smaller companies that may be suppliers to listed companies. Strategic partnerships with NGOs could place us ahead of trends and provide useful information for investments.

In business, companies need to play their part by doing business in a way that aligns long-term corporate strategies with people and the planet. Companies contribute to sustainable development by understanding and managing their positive and negative impacts in a way that is transparent, trusted and objective.

The Financial industry is a vital enabler for sustainable development change and can have a sizeable impact on the health of the ocean, for example. There are opportunities in financing, investment and insurance required to power ocean-related sectors, including shipping, fishing and coastal tourism and renewable marine energy. Integrating ESG considerations into the

business with targeted beneficiaries can drive needed change and yield positive short-term outcomes with long-term gains.

Current State – ESG Investing

A recent study by the Helmholtz Centre for Environmental Research (to be published in 'Ecosystem Services' in August 2021) found that ecosystem services flow inter-regionally between sending and receiving regions and their consumption can have impacts on ecosystems in distant regions. While provisioning ecosystem services like food, feed and timber are well studied, several studies have outlined that consumption of traded ecosystem services in one region can have major impacts on ecosystems in another region and that biodiversity loss can be linked to interregional flows of ecosystem services (IPBES, 2018, Moran and Kanemoto, 2017).

In carbon trading, while it can fill the gaps left by countries and companies that cant scale quickly enough to meet their net-zero targets, it is critical that carbon capture and offsets not be used as a means to justify business as usual. It is supplemental to actions needed as businesses transition to achieve carbon neutrality by 2030. Businesses still need to drastically reduce and report their emissions, understanding that their offsets through forest restoration efforts in one country is not a license to destroy the biodiversity in another. It is useful also to understand the faster biogenic and extremely slower non-biogenic carbon cycles, and how and when carbon is effectively sequestered (EOS.org 5Apr2021: 'Chasing Carbon Unicorns' – FoEI report).

The Sustainable Development Solutions Network (SDSN) released the 2021 findings on National and Global performance towards the SDGs, where for the first time since the adoption of SDGs in 2015, the SDG Index has decreased. This largely due to increased poverty and unemployment resulting from the pandemic. The report highlighted that the pandemic pushed back SDG progress in the poorest countries a full ten years (Foreign direct investment is expected to drop by 40%). This adds to the already weakening ability for some of these countries to make critical investments in recovery, climate change and the SDGs.

Global climate action, however, is pressing on. On 16th June 2021 in the US, the House passed legislation that would require public companies to report ESG metrics and climate disclosure rules. It is the first time the chamber has passed a rule for transparency on sustainability issues that would allow investors to hold companies accountable. (Rollcall 16Jun2021: 'House passes ESG, climate disclosure rules for public companies' Laura Weiss)

Sustainable investing has ballooned into a US$40 trillion sector. 'Impact investment', first coined in 2008 by the Rockerfeller Foundation, has since grown to US$715 billon as of 2020. (GIIN Annual Impact Investor Survey). Even the chief of DBS claimed on 17th June 2021 on CNBC, that sustainable investments could yield good returns as a "tsunami of money" is flowing into such assets. In the generational transfer of wealth, new generation investors want to be part of investing in the future and they are growing increasingly less tolerant of non-sustainable funds and projects.

Conclusion

Whilst ESG started small and was initially led by consumer demand from a small sector of the market it has seen substantial growth. More informed and demanding consumers plus increased government action and legislation enable this growth. ESG is rapidly becoming the norm. With available data ever increasing, like the population in general, ESG preferences differ from light green to impact and the market is providing a suite of products to accommodate this. ESG is also a truly global investment universe, unlike the evolution of the conventional fund market from the 1980s we are starting with national but global products.

The key takeaway is another difference in that the investor's preferences are a defining part of the product, and product design must incorporate this at the outset in addition to all the normal risk and market considerations. As this is a fast developing area, our thoughts need to be not only the investor of today but also where we will be in 2025,2030.

What should Phillip ESG Strategy be? In the wake of the pandemic, the global regulatory environment and the shift in investor values and product demand, ESG investing is currently the biggest fundamental change in the financial industry. In face of this, our strategy encompasses ESG integration at the corporate, organizational and business levels is a necessity. For investments, we should set ESG focal points. Going with the NetZero and Biodiversity flow is one point as it has ready customer buy-in and regulatory support. Focus should also be on areas of interest that could provide investment opportunities, set Phillip apart, and contribute to the wellbeing of people and planet. The Ocean is an interesting corporate theme. The Maritime and Port authority announced a Centre focused on maritime decarbonisation in support of two new studies to use hydrogen as fuel and the potential to deploy carbon capture utilization and storage (CCUS) technologies in Singapore. (Straits Times 23Jun2021). Accessibility to care and cash can be another focus.

What business ideas and opportunities arise from adopting this approach? As we transform operations, there are opportunities to minimize operational costs by setting up more efficient product support and automation. Developing a comprehensive data strategy and digital assets will move us along the curve with global asset managers that continue to invest heavily on data science and technology. This can include knowledge graphs or blockchain that have the ability to provide comprehensive views of vast data sets and link them to real-life connections that are useful for investment management. It can help quantify ESG risks, monitor ESG issues and work with AI used in portfolio management and decision-making.

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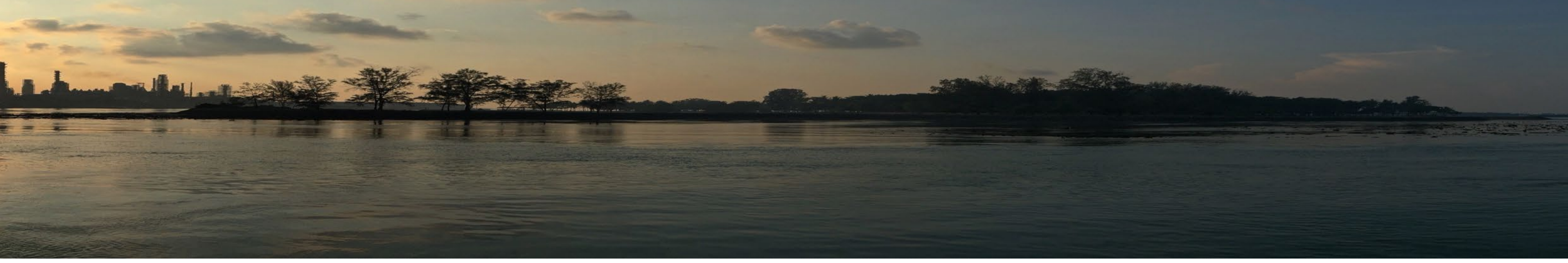

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