INTUITION
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2020: a tipping point for ESG?

Sustainable investing considers environmental, social, and governance (ESG) factors that create a lasting, positive impact on the world. It has come a long way since the Greenpeace movement and at the 2020 World Economic Forum, 7 out of the top 10 global risks, in terms of likelihood, related to ESG issues. Climate change is set to take centre stage as the key global theme over the coming decades. The Biden-era is being seen as the tipping point as trillions of dollars in ESG-related funding are set to create opportunities for informed-investors and companies willing to embrace change towards a sustainable future.

Nick Rogers

"Nothing is more powerful than an idea whose time has come" (Victor Hugo). This rings true in the case of sustainable investments. The 2015 Paris Agreement coupled with Europe's 2019 Green Deal targeting carbon neutrality by 2050 set the ball rolling. Keeping the momentum going will be paramount to the success and longevity of ESG-themed investments. It is hugely encouraging to see that the US, South Korea and Japan have committed to being carbon-neutral by 2050. China, the largest emitter of carbon dioxide in the world, is aiming for 2060. This marks a major step in the right direction as countries provide a road-map to cutting global emissions. Strong leadership is crucial, from presidents to CEOs to engineers on the ground. This article will paint a picture of the challenges, opportunities and current solutions.

[E]nvironmental e.g. Deforestation, pollution, plastics, solar, wind, electric cars & green buildings.
[S]ocial e.g. Human Rights, race/gender equality, minimum wage, ID fraud & cybersecurity, affordable housing.
[G]overnance e.g. Corruption, executive pay, ethics, auditor & board-rotation, shareholder rights/protection.

Firstly, let's look at the main drivers.

1. **The US elections** played a huge role in driving ESG to the top of everyone's minds during 2020. On his first day in the Oval Office, President Biden signed a letter to the UN indicating that the US will rejoin the Paris Agreement previously rejected by the Trump Administration. This should influence the global thinking and dramatically improve the score of the world's largest economy from the current low ranking of 26th out of 75 countries in JP Morgan's ESG scorecard.
2. **Private Investors.** Eco-conscious and tech-savvy Millennials or Generation Y (born between '81 and '96) will rise from 33% of the global workforce to 75% over the coming years, ushering in the biggest inter-generational transfer of wealth in history. They are going to control a lot more than the "Baby-boomers" did at the same age thus their pro-ESG stance will have a direct effect on where this money is invested.
3. **Institutional Investors**. It will not be possible to achieve the required growth in sustainable investing without significant demand from institutional investors. Blackrock, the world's largest asset manager, has committed to increasing its sustainable investments to $1 trillion by 2030.
4. **The COVID-19 pandemic** has had an incredibly negative effect on the poorer ethnic groups and nations. As Elon Musk's $185 billion fortune from electric Carmaker Tesla temporarily dethroned e-commerce giant Amazon's Jeff Bezos on the Rich List, central banks dished out money on a scale never seen before to support furlough schemes and swelling unemployment

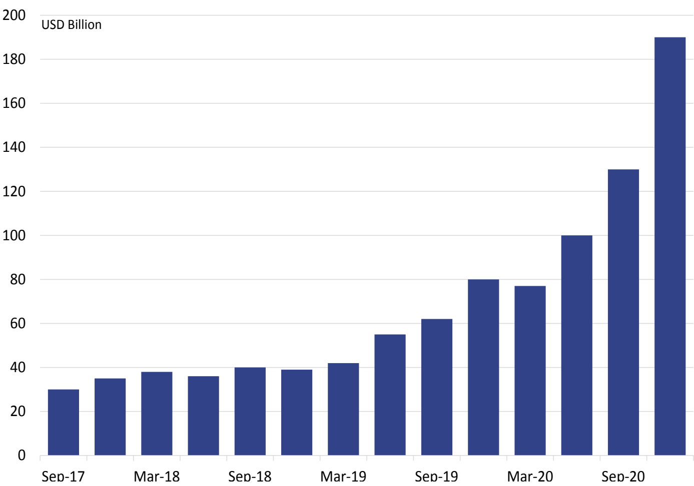
SPEED READ

- **The US, China (by 2060), Europe, Japan, and South Korea are aiming to be Net-Carbon Neutral by 2050.**
- **There has not been one month of outflows from ESG-themed ETFs since late 2017**
- **Millennials are going from 33% of the global workforce to 75% ushering in the biggest inter-generational transfer of wealth in history, they want their money to align with a higher purpose beyond profit.**

queues. Society is now, more than ever, demanding that companies//governments serve a social purpose to narrow the inequality gap across all levels. Non-compliance is shared within seconds of an event taking place on social media platforms. The "S" in ESG is becoming extremely relevant today for both corporates and government strategies whilst local SA corporate scandals have seen the "G" come to the fore.

Secondly, let's look at the exponential growth in sustainable investing. The value of global ESG investments has almost doubled over the past four years to $40.5 trillion in 2020. This is, in part, thanks to the growing popularity of ESG-themed Exchange Traded Funds (ETFs) which have yet to see a monthly outflow since late 2017!

VALUE OF ESG THEMED ETFS

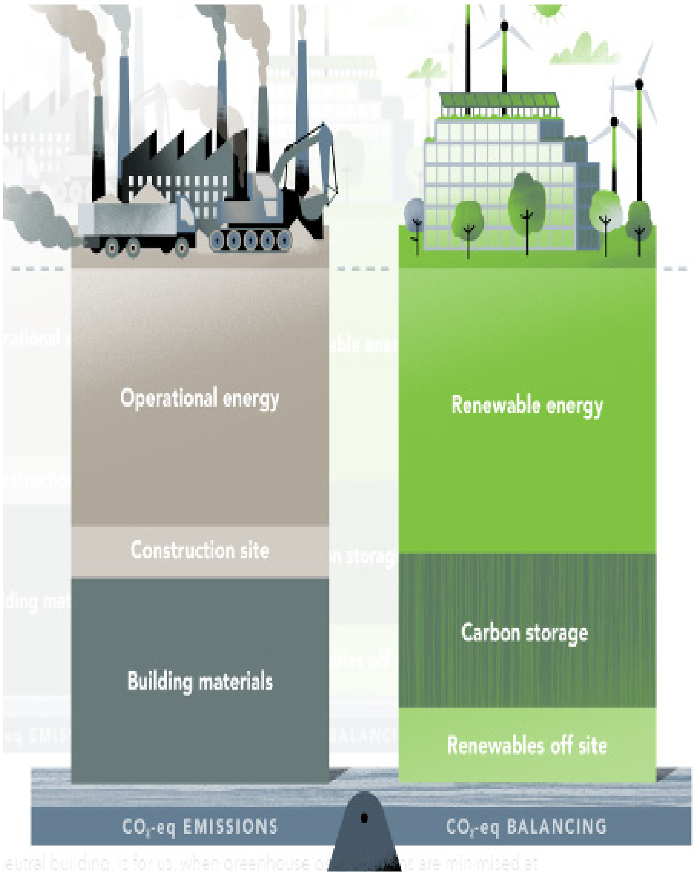


The amount of money invested in ESG-themed ETFs has risen exponentially over the past 4 years.

The above chart aggregates data from 517 funds in Bloomberg's global universe of ESG-themed ETFs. From c$40 billion in January 2019, their combined value has risen almost five-fold to $190 billion in December 2020, a truly remarkable performance. "I believe that in coming years more of the large pension funds are only going to be investing in sustainable, customized indices...I think you are going to see huge movement away from the standard indices." (Larry Fink - Blackrock). With this in mind, the FTSE4Good Index Series is a new tool for investors seeking to invest in companies that demonstrate good sustainability practices. It carries a higher weighting in US technology companies than the FTSE All-World index, illustrating the reliance on and importance of Big Tech in providing the software behind electric cars, data-centres, green buildings and smart cities. US-focused ESG funds started outperforming the S&P 500 after the US election. Fortunately, Harvard House (incl. the HH Worldwide Fund) is well placed offshore to capitalize on this theme with holdings in Microsoft, Johnson & Johnson, Visa, Procter & Gamble, Nestle & Disney. Other notable HH holdings that pop up in US and European ETFs include Amazon, Unilever, Schneider Electric, Adidas, SAP and LVMH. A recent JP Morgan survey showed that 48% (#1 position) of respondents place ESG as their top theme for 2021 making ESG is the most popular 2021 asset class and one to follow closely with sustainable companies rewarding shareholders over the long term due to sound decision-making. Risks may include a gradual switch out of technology into value stocks e.g. energy sector over time but it is difficult to fault the earnings for a company like Microsoft as much as it is difficult to know when a company like Exxon Mobil has become "green" enough.

Share	Country	Sector	FTSE4GOOD All-World Weighting %	All-World Weigh %
Apple Inc.	US	Tech Hardware	6.05	3.62
Microsoft Corp	US	Tech Software	4.71	2.81
Alphabet Class A	US	Tech Software	1.49	0.89
Alphabet Class B	US	Tech Software	1.44	0.86
Taiwan S'conductor	TW	Tech Hardware	1.28	0.77
Johnson & Johnson	US	Pharma	1.17	0.7
Visa	US	Financials	1.04	0.62
Procter & Gamble	US	H'hold Goods	0.96	0.57
Nestle	CH	Food Producers	0.93	0.56
Walt Disney	US	Media	0.93	0.55
Total			20%	11.95%

The production and use of energy generates over 75% of greenhouse gas emissions with buildings accounting for up to 40% of all energy consumed. It is no surprise that "Green Infrastructure" is the hottest growth topic in global climate circles. What is being done to mitigate emissions? More than half of the 2,500 global infrastructure projects announced in 2020 are classified as sustainable. Throughout their entire life cycle (from the manufacturing of the materials until the building is demolished), buildings have a carbon footprint. Consequently, the transition to climate neutrality is heavily reliant on "smart" (technology-driven) infrastructure. Approximately 50% of the 100 largest cities in the US have established Greenhouse Gas reduction targets yet two-thirds are currently lagging their targeted emission levels. The US government alone operates nearly 10,000 buildings. Datacentres are a massive growth area within this sector. As the world goes paperless, forests breathe a sigh of relief and data is stored in the "cloud". Thus, 2nd to job creation, the new $2 trillion Green Deal under President Biden will play a huge role in ESG-related investment over the next 4 years. Transport accounts for c25% of greenhouse gas emissions due to its historical reliance on fossil fuels. To achieve



climate neutrality, a 90% reduction in transport emissions is needed by 2050 in Europe alone affecting road/rail, aviation, waterborne transport and energy suppliers. Tesla is the best example of positive disruption in the motor industry. Apple has subsequently announced its partnership with Kia so the battle for market share has already begun. No new diesel cars will be sold in the UK post-2030 – a remarkable goal. Aviation produces less than 2% of the world's carbon emissions but passenger numbers (4.7 billion) doubled between 2009 and 2019. Despite a meaningful short-term reduction thanks to global lockdowns, positive vaccine news will see a resurgence in travel. Deutsche Bank forecasts that 90% of aircraft older than 25 years will be permanently retired by 2022. This will reduce fuel consumption by up to 30% on a passenger-mile basis, a good start. It is also pleasing that there are more than 30 electric and hybrid aircraft projects, targeting entry-in-service between 2021 and 2030. Furthermore, BA has just announced that it is looking to start using stainable aviation fuel (SAF) from 2022 on trans-Atlantic flights. Albeit relatively low impact today, the fuel would create 70% fewer carbon emissions than conventional jet fuel. Ships are responsible for roughly 3% of global CO2 emissions. Danish shipping giant, Maersk, aims to have net-zero CO2 emissions from its operations by 2050, which includes having commercially viable, net-zero vessels on the water and delivering a 60% relative reduction in CO2 emissions by 2030. Like all modes of transport, technology is at the forefront e.g. reducing distance to destination and optimising logistics. UBER and ride-sharing apps like LYFT, combined with millions more working from home, are also helping tremendously in cutting down emissions caused by global commuting.

The energy sector's relationship with fossil fuel has always caused controversy e.g. the Deepwater Horizon oil spill in 2010 hurt BP's reputation yet, inconceivable as it may seem, the company has just announced its aim to be NetZero by 2050 e.g. reducing its oil and gas production by over 40% with NO exploration in NEW countries, illustrating the pressure Big Oil is under to comply. A recent auction of seabed plots attracted huge bids from energy companies (incl. BP), willing to pay £462 million per year for the right to build wind farms in the Irish Sea. This comes as the largest sovereign wealth fund (Norwegian) divested all its oil and gas holdings worth c$30 billion in 2020. Intent is one thing. Action is what is now needed to alter investors' stance on the energy sector. Interestingly, for the first time in history, the UK generated more electricity from renewables than fossil fuels in 2020. While coal will be around for many years to come, those using/producing it will need to offset their carbon footprint or be heavily fined.

Lastly, the change in eating habits towards a healthier lifestyle, accelerated by lockdowns, will impact what products are supplied by companies such as Nestle and Unilever. Beef has the highest CO2 emission/gram of protein at 0.88, almost double that of milk, then come eggs, pork, and canned tuna. Emissions from chicken are only 0.02/gram. Nestle's sustainability score of 4.9 out of 5 speaks volumes about its approach across all levels, from protein burgers to bio-degradable chip and sweet wrappers. The averages score for the Food Products subsector and Consumer Goods Industry was 2.2. It will be a case of 'adapt or die' for the industry especially as new, ESG-driven entrants who appeal to the Millennials in particular, start to "eat their lunches".

In conclusion, ESG-friendly business practices will incentivize companies and lenders to act with long-term, sustainable and socially inclusive goals in mind. Consequently, they are more likely to offer better long-term returns for investors across the many solutions like electric cars, solar/wind energy, green building and smart cities of the future. It will take strong leadership to keep the momentum going, however, demand from the Millennials will see supply changing to suit the new ESG-driven world.

Given the uncertainty over a second wave of Covid, we cannot predict with any certainty when we will be allowed to resume our seminars. Until we have clarity, we will continue with our online videos and presentations. Please ensure that you subscribe to our Facebook page and YouTube channel to be kept up to date.

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Topic: **N/A**

Natal Midlands	
Date:	N/A
Venue:	Fernhill Hotel Midmar / Tweedie Road (almost opposite entrance to Midmar
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg	
Date:	N/A
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

CONTACT DETAILS:

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