FINPUBLICA

ESG NEWS YOU CAN USE

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Environmental

According to the World Economic Forum's Global Risks Report 2024, climate change, demographic changes, technology, and geopolitics are major drivers of destabilization, with severe impacts including extreme weather, cyberattacks, misinformation, and socio-political polarization. The WEF specifically identifies extreme weather events, critical change to the Earth's systems, and biodiversity loss/ecosystem collapse as the three leading long-term risks. The report describes the varying impact and timelines of these risks and highlights the need for mitigation and preparation as each risk is interconnected and their consequences compound each other.

Experts are predicting that 2024 may be the hottest year on record. Global warming, resulting from fossil fuels, deforestation, and El Nino already resulted in a record hot 2023, with such extreme weather events as deadly flooding in Greece and Libya, wildfires in Canada, Greece, and Maui, draughts in East Africa, and heatwaves from Arizona, to Mexico, to China. A number of scientists are saying that 2024 will be even hotter due to a strong El Nino event that boosts temperatures beyond human-driven factors.

According to a preliminary analysis from the Rhodium Group, U.S. greenhouse gas emissions fell by about 1.9% even as the economy grew in 2023. This is the first time since 2019 that emissions have fallen while the economy has grown. While the reduction shows progress (with GHG emissions about 17% lower than 2005 levels), the U.S. will need a 6% annual reduction to reach its 2030 goal of reducing emissions by half – which would require significant additional action by government and industry.

Regulation and Reporting

2024 could be the year many firms see increased ESG action with many new sustainability regulations on the horizon. The EU's Corporate Sustainability Reporting Directive came into force on January 1, 2024 and requires all large companies and listed SMEs that operate in the EU to report their climate impact. In the U.S., the SEC's climate disclosure rules are expected to come into effect in April and will require companies to report their greenhouse gas emissions and other climate impacts. Other important regulations that firms will need to focus on in 2024 include California's Climate Corporate Data Accountability Act (SB253), the Global Plastics Treaty, the EU Deforestation Law, the EU Nature Restoration Law, the EU Sustainable Finance Disclosure Regulation, and the UK Sustainability Disclosure Requirements.

A federal judge ruled the Securities Industry and Financial Markets Association (SIFMA) has grounds to allege the Missouri ESG rules usurp federal law, rejecting the state's attempt to dismiss the case. The Missouri rules took effect in July and require asset managers to acquire written consent from clients in the state before using any "social and/or nonfinancial" objectives when investing; the rules are part of a growing Republican effort to restrict the consideration of ESG factors in investment decisions. SIFMA members told the court that the new rules would result in additional financial costs.

Investing

According to research from UBS, hedge fund managers are increasingly integrating ESG metrics into their investment strategies. The likelihood of lower interest rates in 2024 has the investment industry predicting that green assets will recover from the declines they saw in 2023. Managers are also exploring long/short strategies (with thematic equities), credit strategies (with sustainable, green, and social bonds), and access to compliance carbon markets.

ShareAction's annual *Voting Matters* report revealed a dramatic decrease in support from asset managers for environmental and social resolutions. In 2023, only 3% of environmental resolutions passed (compared to 32% in 2021). On the social front, only 4% of those resolutions passed (dropping from 15%). According to ShareAction, these trends are worrisome – especially as these proxy voting records stand in stark contrast to many managers' commitments to reduce carbon emissions and responsible investment.

The Wall Street Journal has labeled ESG as the newest dirty word in corporate America (with leaders eschewing the term for words like "responsible business"). Other experts, however, are pointing out that the policies and purpose behind ESG still apply (whatever the concept is called) – given that ignoring a business's landscape, consumers, and employees can create significant risks.

Resources & Membership

Finpublica's **membership portal** is live. If you are interested in joining a community more than 250 finance leaders focused on sustainable finance and ways to implement initiatives inside their organizations and across the industry, we invite you to apply.

Are you interested in a quick summary of greenhouse gases, how they are categorized, and ways they can be reported? Check out this new addition to Finpublica's website.

Click here for a video replay of How to Make an Impact in Impact Investing, sponsored by Finpublica, The Impact Capital Forum, and Harvard Alumni in Impact. Learn about the top questions impact investors should ask when assessing investments, impact opportunities in biotech, biodiversity, and underserved urban areas, the importance of blended finance and catalytic capital, and more. Speakers include: (1) Dr. Caroline Flammer, Professor of International and Public Affairs and of Climate at Columbia University; (2) Karyn

Polak, Founder of Shift the Prism Advisory and the former General Counsel of Transamerica; and (3) Tami Kesselman, CEO of Next Gen Success LLC and President of Harvard Alumni in IMPACT.

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