UBS ESG and Sustainability Symposium 2019

Summary

It was the first-ever ESG and Sustainability Symposium, organized by UBS in London. The goal was to bring together global business leaders, academic experts, and policy makers to discuss the advancement of sustainable investing.

The conference covered the following topics:

- Next breakthrough technologies to invest in for supporting a low-carbon economy
- Environmental Challenges
- How to integrate ESG factors into investment & risk management processes
- How to mainstream ESG
- Different ESG approaches

Key Takeways

Below is a list of key points emerging from various talks, discussions, and associated documentation:

- There is a fast-growing interest into “ESG” strategies. Global assets invested into ESG-related strategies grew from **$13.2tr** in 2012 to approx.- **$30tr in 2018**. (Global AUM is $90 tr)

Meaning that the interest is already very high (1/3 of all AUM are being managed under “responsible investment strategies”), but it also means that the definition of ESG is so wide that a third of the assets can claim themselves being ESG managed.

ESG integration might therefore be going “**fast**” but apparently not “**deep**” enough. There is therefore a need to go deeper in the analysis and set up a clear **framework**.

- Today there is a large variety of different investment approaches which are labelled under names ESG/Sustainable investing/ Impact investing.

Usually, **ESG** tend to be more “**backward looking**” in a sense that it takes historical data (environmental, social, and governance) based on company’s disclosure and computes different sort of ratings. **Sustainable Investing & Impact Investing** intends to be more "**forward looking**" by looking at company's objectives (such as Sustainable Development Goals) and R&D efforts put in place to meet those objectives. The data used in this case will not necessarily be based on company's disclosure (like using companies reviews from employees, such as Glassdoor).

In the future, we should strive to use data which do not only reflect the past but also show the company's capacity to improve in the future.

The below table summarize the main approaches used for ESG and Sustainable investing.

Name	Investment Objective	Likely Underlying (Market) Beliefs	Investment Decision
Exclusion	Avoid or minimize negative ESG exposures irrespective of financial performance.	The "invisible hand" of markets will not correct the underlying ES or G issue.	Include / exclude.
Screening	Maximizing financial returns subject to financial risks and ESG constraints. (ESG scores might be used to constrain the universe.)	Markets can resolve ESG issues, but they work imperfectly.	Include / exclude (constrained universe of companies).
ESG Integration	Maximizing the financial return to risk ratio, where the idea of risk encompasses all relevant risks including ESG risks. (ESG data may or may not be relevant.)	ESG integration approaches can bring investment insight.	Over / underweight on the basis of the overall profile of companies and their competitive positioning.
Sustainable investing / Impact Investing	Jointly maximizing financial return and net positive social and environmental impacts through stock selections. Sometimes referred to as "impact investing", where impact denotes the extent to which firms address social or environmental challenges through their product offering or operations.	Social and environmental impacts and financial returns can be balanced, especially in the context of a long-term investment horizon.	Tilt portfolio towards "positive impact" through stock / sector selections.
"Traditional" impact investing	Maximizing net positive environmental or social impacts with short-to-medium-term return to (financial) risk coming second. Conventional market benchmarks may not be relevant. (Examples: Social Impact Bonds; project-level alternative energy.)	Social entrepreneurship is needed to limit the power of the invisible hand. Social or environmental impact needs to dominate, or shapes the profit motive.	Not relevant to listed / liquid portfolios. Most relevant to Alternative Investments. Can also be found WITHIN large listed companies or larger organizations.
Social Entrepreneurship	Social or environmental purpose is at the core. Likely to be "non-profit". Some may transition to one of the above categories through ideas like the "sharing economy".	The "invisible hand" of markets will not correct the underlying ES or G issue.	Not likely to be relevant to listed / liquid portfolios unless seed capital for new ideas. Most relevant to Alternative Investments.
Philantropy	Social or environmental purpose is at the core.	The "invisible hand" of markets will not correct the underlying ES or G issue. Economic success implies an obligation to plough back.	Philanthropy.

source: UBS

- The main challenges that ESG is facing at the moment are:

1. Availability of data: data are not disclosed by all Companies and asset managers have to rely on a few information providers
2. Robustness of data: need to make sure that all data disclosed by companies are accurate
3. Consistency of data: there is not always a consistency between companies on the metrics they report, many different ways to measure the same thing (CO2 emissions, % of women, etc.).
4. Method to integrate it into a business: how ESG is integrated into investment strategies? No official framework on how to do this and discrepancies across rating methodologies.

- ESG/Sustainable Investing/ Impact Investing generates new market opportunities:

1. There is a $1.8bn market for Information Providers (source:UBS) which can be segmented into the below 6 categories.

	TAM ($mm)	Coverage Companies with Solutions
Data/Research	$550	FDS, MCO, MSCI, NDAQ, SPGI
Index Subscriptions	$400	MSCI, SPGI
ETF Asset Based Fees	$300	MSCI, NDAQ, SPGI
Green/Sustainable Bonds	$230	MCO, MSCI, NDAQ, SPGI
Consulting	$200	SPGI
Non-ETF Passive	$100	MSCI, SPGI

Source:UBS

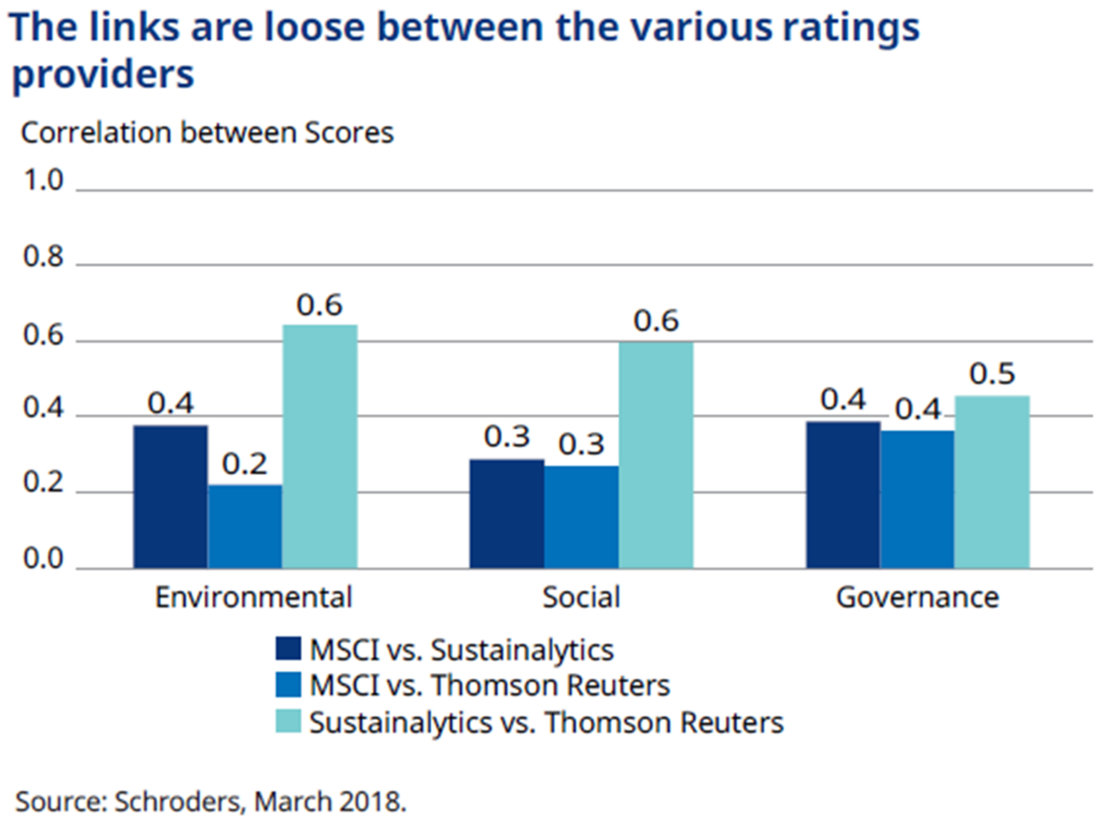
The largest ESG Information Provider today is MSCI who currently has a team of 185 ESG analysts and for which 46 of the top 50 global asset managers already purchase their ESG research. According to UBS, MSCI could capture 35% of the total addressable market.
Other major information providers include S&P Global /(SPGI), Moody's (MCO), Nasdaq (NDAQ), FactSet (FDS), FTSE Russel, Institutional Shareholder Services (ISS), Sustainalytics, Refinitiv, Bloomberg, Sustainable Accounting Standards Board (SASB).

2. Asset Managers, who are the main clients of information providers, do also try to catipilize on ESG in order to grow their AUM. Asset manager can both launch new ESG-labelled strategies and/or relabel existing funds to meet ESG criteria (that they define). Morningstar has identified 24 ESG-repurposed fund from major providers (JPM, MS, PIMCO, RBC, UBS).
During the period 2014 to 2017, net inflows to ESG funds at Top 10 providers accounted for 6.6% annualized organic growth (source: UBS)

- New coming regulation for ESG:

1. ESG ratings can largely differ depending on the rating provider. A correlation study

made by Schroders shows **low correlation** among the 3 largest rating providers (MSCI, Sustainallytics, Reuters)



This is the best demonstration of the lack of consistency between ESG ratings and it (in my opinion) completely invalidate all of today's ESG ratings. This shows a clear need of regulation on the ESG rating methods.

2. New regulations are likely to be implemented from the SEC and/or the European Commission within the next 1 to 2 years, even though data providers as well as investors might not be keen on new regulations.
   Indeed, if companies all start to disclose ESG data in a regulated way (as it is the case for financial data), there is a potential market loss for many of today's data providers. Thus, information providers (notably MSCI) are pushing in order to have regulations as close as possible to their standards.
   The European Commission is the most active today in term of implementing ESG initiatives and has recently (in May 2018) announced an action plan for sustainable finance.
   Below is a list of most recent ESG regulatory initiatives.

Date	Region/ Country	Initiative	Key Points	Source
30-Jan-19	UK	Consultation on a Proposed Revision to the UK Stewardship Code	Additions to the Code include the following: "Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration."	Financial Reporting Council
18-Jan-19	Global	International Organization of Securities Commissions Statement	IOSCO has three key objectives: protecting investors, ensuring fair, efficient, transparent markets and reducing systemic risk. [...] ESG matters [...] may have a material short- and long-term impact on the business operations of issuers[...]".	About IOSCO
11-Oct-18	USA	Public Petition Filed with SEC for ESG Disclosure	Petition for rule-making on ESG disclosure, signed by investors and associated organizations.	SEC
15-Oct-18	UK	Prudential Regulation Authority consultation Paper 23/18: Enhancing banks and Insurers' Approaches to Managing the Financial Risks from Climate Change (closed 15th January 2019)	"The PRA's desired outcome is that firms take a strategic approach to managing the financial risks from climate change".	Bank of England
11-Sep-18	UK	Pension Fund Trustees: Consultation: Clarifying and Strengthening Trustees' Investment Duties. Government Response.	By 1 October 2019, Statement of Investment Principles must include how financially material considerations (incl. ESG) are taken account of and policies in relation to engagement with companies in portfolios, and exercise of voting rights.	Department of Work and Pension
24-May-18	Europe	Commission Legislative Proposals on Sustainable Finance	Contains three proposals: an EU 'taxonomy' of 'sustainable economic activities'; improved disclosure requirements for ESG; new benchmarks the carbon foot printing of investments.	European Commission
Undated	EUrope	Action plan - Summary: Delivering on Sustainable Finance for a Greener and Cleaner Economy	This document contains a two-page summary and time-line for the above.	EC Factsheet
8-Mar-18	Europe	Action Plan: Financing Sustainable growth	This communication describes in summary the abovementioned legislative proposals, wrt COP21, the UN 2020 Agenda for Sustainable Development and the UN SDGs.	Communication from the Commission
31-Jan-18	Europe	Final Report of the High-Level Expert Group on sustainable Finance	Sets out 'strategic recommendations for a financial system that supports sustainable investments'.	European Commission
29-Jun-17	UK	Financial Stability Board Task-Force on Climate- Related Financial Disclosures.	Final Report: Recommendations of the Task Force in Climate-related Financial Disclosures. A technical supplement discusses scenario analysis.	Financial Stability Board

- On Climate change:
  1. Climate change is real, and we need to take actions in the financial industry
  2. Current global commitments are not enough to meet Paris Agreement
  3. Climate change is happening faster than any of the models predicted, therefore we imminently need to invest into breakthrough technologies (see next point)
  4. “Patient” investments (>10 years) are required

- Key breakthrough technologies mentioned to fight climate change:

1. Fusion Energy: Maria Zuber (MIT professor) presented a MIT spinoff “Commonwealth Fusion Systems” https://www.cfs.energy/ which is building a lower-cost Tokamak-based fusion system (called SPARC) using state-of-the-art superconducting magnet technology. The added value is on their high temperature superconductor (HTS) magnet.According to Prof. Zuber, CFS is 10 – 15 years away from creating the first commercially viable carbon-free fusion power plant with net energy production.
2. Batteries: investment in research & development of new batteries is necessary to enable intermittent renewables to deliver reliable baseload electricity. Mention of the work done by MIT professor Sadoway on new type of liquid-sodium based batteries using new type of metal mesh membrane (much less fragile than the ceramic membranes usually used for this type of batteries). http://news.mit.edu/2018/metal-mesh-membrane-rechargeable-batteries-renewable-energy-0122 Whether it is the technology developed by Prof. Sadoway or another one (there are many innovations in the battery sector right now), investing into battery tech. will be key.
3. Negative emissions: people should start to look at Carbon Capture, Utilization & Storage (CCUS) technologies which should be able to reduce CO2 at the Gigaton scale. While private investment should be sufficient to finance the two first technologies (a.) and (b.), here for CCUS, public support is required. There is also a good opportunity of knowledge transfer from the Oil & Gas industry where engineers know how to drill holes and work is gas transfer and chemical reactions.
4. Agriculture: today agriculture is responsible for about 9% of all GHG emissions, and about 1/3 of all food produced is lost in the food supply chain. We need to make agriculture more sustainable through less water usage, less land usage and with an optimized supply chain. The company Crop One https://cropone.ag intends to do this by developing a digital + mechanical agriculture (in opposition to chemical).
5. Transparent PV cells: Unbiquitous Energy (http://ubiquitous.energy/) was presented during the conference. It is a private US PV solar maker which manufactures transparent solar cells which absorb ultraviolent and near infrared light but transmit visible light.

List of Speakers

- Julie Hudson, Global Head of ESG Research, UBS Investment Bank
- Axel A. Weber, Chairman of the Board of Directors, UBS Group

- Dr Maria Zuber, Vice President for Research and E.A. Griswold Professor of Geophysics, Massachusetts Institute of Technology (MIT), Co-Head MIT Media Lab, Space Exploration Initiative and Lead on the MIT Action Plan on Climate Change
- Juan-Luis Perez, Group Head Research, Evidence Lab and Data Analytics, UBS Investment Bank
- Esther Gilmore, Partner, Generation Investment Management
- Mark Haefele, Global Chief Investment Officer, UBS Wealth Management and Chair of the UBS Global Investment Committee
- Andrew Lee, Head of Sustainable and Impact Investing Americas, UBS Wealth Management
- Ketish Pothalingam, EVP and PM on ESG Strategies, PIMCO
- Eugenia Unanyants-Jackson, Global Head of ESG Research, Allianz Global Investors
- Georg Goeres, Head of Europe, Indigo
- Sonia Lo, CEO, Crop One Holdings, UBS Global Visionary
- Mark Post, Maastricht University and Eindhoven University of Technology, UBS Global Visionary
- Tristram Stuart, Founder, Feedback Global and Toast Ale, UBS Global Visionary
- Dr Rob Bauer, Maastricht University
- Dr Ben Caldecott, Director, Oxford Sustainable Finance Programme & Associate Professor, University of Oxford
- Dr Samuel Hartzmark, The University of Chicago Booth School of Business
- Dr Michael Viehs, Head of ESG Integration, Public Markets, Hermes Investment Management
- Christopher Greenwald, Head of Sustainable Investment Research and Stewardship, UBS Asset Management
- Gerbrand Haverkamp, Executive Director, World Benchmarking Alliance
- Robert Hegt, Institutional Business Development EMEA, Ashmore Group
- Stanislas Pottier, Chief Responsible Investment Officer, Member of the Executive Committee, Amundi
- Rachel Whittaker, Sustainable Investing Strategist, UBS Wealth Management
- Francis Condon, Executive Director, Sustainable and Impact Investing, UBS Asset Management
- Oliver Marchand, CEO, Carbon Delta and UBS Global Visionary
- Ruth Knox, Managing Associate, Environmental, Product and Sustainability Regulation, Linklaters
- James Purcell, Managing Director, Head of Sustainable and Impact Investments, UBS Wealth Management
- Frances Way, Chief Strategy Officer, CDP
- Sam Arie, Head of European Utilities Research, UBS Investment Bank
- Jon Rigby, Head of European Oils Research, UBS Investment Bank
- Lindsay Hooper, Executive Director, Education and Business Transformation, University of Cambridge Institute for Sustainability Leadership
- Daniel Klier, Chief of Staff to CEO and Head of Sustainable Strategy, HSBC
- Rina Kupferschmid-Rojas, Head UBS Sustainable Finance, UBS in Society
- Jennifer Ramsey, Head of Investor Relations, Rolls Royce
- Steve Waygood, Chief Responsible Investment Officer, Aviva Investors

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