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AEGON Asset Management

Sustainability Snippets

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SFDR Changes

The EU commission is coming under a lot of criticism over the clarifications issued last month on SFDR.

Many believe they are now enabling greenwashing and frustrating asset managers and investors with their constant changes to the rules. It now looks like a whole host of funds that downgraded to Article 8 will now reclassify as Article 9 once again.

Women CEOs vs S&P-Johns

Some good news in the form of a minor victory and some slight progress for women in corporate America. According to data from Bloomberg, the 41 women CEOs in the S&P 500 have finally outnumbered CEOs with the first name John.

While it's certainly encouraging to see women surpassing their male counterparts with the name John, it's worth examining this achievement within a broader context. Currently, women hold only 8.2% of CEO roles at large companies, a figure that underscores the persistent gender gap. When compared to the entire U.S. population, Johns make up a mere 3.27%.

Nevertheless, the rise of female CEOs surpassing the number of their male counterparts named John is a small but significant step forward. It serves as a reminder of the importance of representation and the need to empower women in business and create a more inclusive and equitable corporate landscape.

US Bank climate stress test

The US Federal Reserve is conducting a pilot climate scenario analysis of six large banking organisations.

Closely examining their management practices and challenges in relation to the financial risks of climate change, the analysis will ask banks to model changes in the probability of default and loss, given default for their property and commercial loan portfolios. This is a narrow scope of investigation compared with other jurisdictions like the UK, France, and Japan. The ECB and Bank of England are already dramatically impacting the cost of capital of certain companies based on carbon intensity.

This could signal the beginnings of the Fed's journey on a similar path. This will not be a path without hurdles – Republican senators have written to Fed Chair Powell arguing climate change risk sits outside the Fed's statutory mandate. Fed Governor Waller has also cast doubt on the need for special focus on how banks are preparing for climate change risks.

"Do ESG efforts create value?"

A new study has been released from Bain and Ecovadis that shows ESG activities correlate positively with stronger financial performance, with apparent benefits including faster revenue growth and stronger margins.

For the study, "Do ESG Efforts Create Value?," the companies assessed the impact of ESG activities on 100,000 companies tracked by EcoVadis, examining how ESG activities correlate with ESG outcomes and financial performance.

The study found that there were no strong negative correlations between ESG activities and financial outcomes, but instead found positive correlations in several areas, including:

- diversity, equity and inclusion - companies ranked in the top quartile of their industry for executive team gender diversity outperformed bottom quartile companies on revenues by 2 percentage points, and on EBITDA margins by 3 percentage points;
- renewable energy – companies employing these in traditionally more carbon-intensive industries reported higher EBITDA margins;
- sustainable supply chains - companies focused on ethics, environmental and labor practices in their supplier procurement enjoyed 3 – to 4 percentage points higher margins
- companies with ESG activities focused on the workplace have higher employee satisfaction, three-year revenue growth up to 5 percentage points above those with less-satisfied employees, and margins up to 6 percentage points higher.

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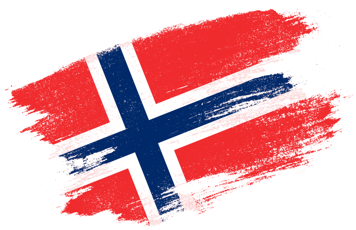
Norway Sovereign Wealth Fund Makes Progress in ESG

Norway's $1.4 trillion sovereign wealth fund, one of the world's largest investors, have said they will increase its use of shareholder proposals on environmental and social topics in the US.

The investor recently disclosed that they tested the idea out on a small number of holdings earlier this year. They asked four companies to set a target of net zero carbon emissions by 2050. Two of the companies gave commitments on it, so the fund withdrew its proposals. Whilst in two others, the wealth funds proposals were voted on at the respective annual meetings.

They have also called on governments to speed up the regulation of artificial intelligence as it revealed it would set guidelines for how the 9,000 companies it invests in should use AI "ethically".

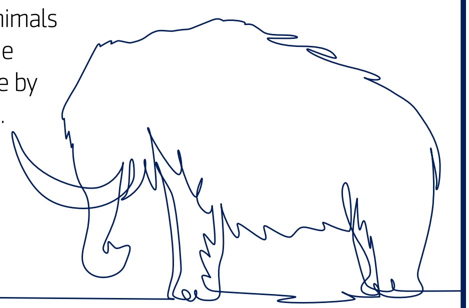
It's a change in stance for the investor, who in the past has shied away from being too outspoken as a shareholder. It is also an influential voice to have on the side of ESG advocacy - owning on average 1.5% of every listed company.



A Mammoth Encore

A novel way to tackle climate change? A company in the US, Colossal Biosciences, is on track to have the first calves of a genetically engineered mammoth by 2028. Planning on using Crispr, to alter the genome of the Asian elephant which shares 99.6% of its DNA.

The reason for doing this is that thawing permafrost in the Arctic has been found to be a major emitter of greenhouse gases. This is where the mammoth comes in - they weigh up to 8 tonnes and are being considered as a part of the solution to the melting permafrost - these hulking creatures trample on the ground, packing snow on the surface tighter which helps to cool the soil underneath. Studies conducted in Siberia's Pleistocene Park — with which Colossal Biosciences had worked closely prior to the war in Ukraine — found that the reintroduction of animals managed to cool the ground temperature by up to eight degrees.



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