

INVESTMENT UPDATE

ESG and Responsible Investment

There is a burgeoning movement to pursue environmental, social and governance (ESG) issues, including climate emergency agendas, in the deployment of human and capital resources and in financial decision making and risk assessment. The ratification of the Paris Agreement in 2016 turned a significant spotlight on climate-related risks, energy transition and clean technology.

The UK banking system and the Bank of England's response to climate risks and resilience

In its July 2019 Financial Stability Review the Bank of England outlined its intention to test the UK financial system's resilience to the physical and transition risks of climate change. It will be the first regulator to stress test its financial system against different climate pathways, including the catastrophic business as usual scenario and the ideal but nonetheless challenging transition to net zero carbon emissions by 2050 consistent with the UK's legislated objective. Banks will be required to establish how their borrowers are managing current and future climate-related risks and opportunities.

The Bank will be developing its stress testing approach in consultation with industry, credit rating agencies and the Network for Greening the Financial System. It will gather views on the design of the exercise and, as a first step, will publish a discussion paper in autumn 2019.

UN Principles of Responsible Investment (UN PRI)

There is no single set of ESG definitions or metrics which are universally agreed and accepted. Environmental and social issues are diverse and emotive. ESG priorities vary widely and are, unsurprisingly, defined subjectively based on personal values, conviction and perception.

The UN has sought to bring some commonality with its Principles for Responsible Investment. These outline the approach for investors in their role as owners and creditors in the management of their assets. However, whilst the UN gives ESG examples, it doesn't provide a prescriptive or exhaustive list.

Several fund management firms are UN PRI signatories. They file reports annually on their responsible investment policies, governance, implementation and activity for each asset class managed. The UN PRI then produces Assessment Reports with scores from A+ to E (A+ and A being the highest) for each module of reporting.

Clients' externally managed funds

None of the Money Market Funds or funds in Arlingclose's Short-dated and Strategic Funds Suites are managed with the explicit or implicit aim of being an ESG/'ethical' product. The managers have varying approaches to ESG incorporation, many prefer active engagement, using their shareholding and voting rights to influence and improve corporate behaviour and responsibility.

Arlingclose's **ESG and Responsible Investment Service**, described in the attachment, is designed to advise and assist local authorities incorporate and monitor ESG factors in their treasury investment decisions.

If you have queries or would like to discuss, please call the Arlingclose Team on 08448 808 200.

Arlingclose Limited
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