PATHSTONE IMPACT

Sustainable Investing Highlights

April 2021

Government Agencies: SEC and DOL Continue to Push for ESG

The Securities and Exchange Commission ("SEC") recently commissioned its first Climate and Environmental, Social, and Governance ("ESG") Task Force in its Division of Enforcement to emphasize ESG as a priority.[1] The new task force is to "identify any material gaps or misstatements in issuers' disclosure of climate risks under existing rules."[2] The ESG task force would also engage in analyzing issues related to advisers' and funds' strategies, disclosures, and compliance. The new SEC task force is in line with the current administration's effort to require public companies to disclose material risk stemming from climate change.[3] According to Kelly Gibson, leader of the newly formed SEC task force, "The commission is responding to investors' growing concerns about materially misleading statements and omissions about companies' climate-related risks and activities."[4]

As ESG trends continue to gain more ground among investors, the Biden Administration announced that it would no longer enforce a rule put in place by the prior administration that would have established a higher hurdle for considering ESG issues within investment strategies used within tax-exempt retirement strategies regulated by the US Department of Labor ("DOL"), such as 401(k) plans.[5] The DOL, in a statement, states that it will not enforce the final rule or otherwise pursue enforcement actions against any plan fiduciary based on a failure to comply with those final rules. They went on to note that "This enforcement statement does not preclude the Department from enforcing any statutory requirement under ERISA, including the statutory duties of prudence and loyalty in section 404 of ERISA."[6] The DOL statement comes after hearings during which a wide range of stakeholders, including consumer groups, labor organizations, asset managers, other plan sponsors, service providers, and investment advisers, questioned whether the previous administration rushed to pass the DOL rule in order to inappropriately constrain the use of ESG criteria within investment strategies.[7]

Big Clothing Brands, BlackRock, and the European Union Outline Concerns Regarding Human Rights Violations within the Supply Chain

Big brands in the clothing industry, including H&M, Nike, New Balance, and Burberry, have expressed deep concerns over human rights violations within a concentration camp in Xinjiang, China, where members of the Uyghur minority have been forced to harvest and process cotton.[8] Activists and Western politicians accused big brands of not doing enough to hold the Xi government accountable for its actions against Uyghur ethnic groups.[9] According to Reuters, "Activists and some Western politicians accuse China of using torture, forced labor, and sterilizations of Uighur Muslims in Xinjiang. China denies the accusations, says it is providing vocational training and that its measures are needed to fight extremism."[10] In a statement, H&M was "deeply concerned by reports from civil society organizations and media that include accusations of forced labor."[11] Big brands have since experienced some retaliation by the Xi government for expressing concern over forced labor against the Uyghur ethnic groups.[12]

Meanwhile, BlackRock and the European Union are pushing for human rights. BlackRock recently said, "it will ask companies in which it holds stakes to identify and show how they intend to prevent human rights abuses and provide 'robust' disclosures about those practices."[13] Similarly, the European Parliament paved the way for a new law that would require publicly traded companies in the EU to address human rights issues within their supply chains. The new law would "oblige companies to identify, address and remedy aspects of their value chain (all operations, direct or indirect business relations, investment chains) that could or do infringe on human rights (including social, trade union, and labor rights), the environment (contributing to climate change or deforestation, for example) and good governance (such as corruption and bribery)."[14]

UN General Assembly President, Volkan Bozkir: Billions Without Clean Water and Sanitation is "a Moral Failure"

By current UN estimates, some 2.2 billion people lack access to safely managed drinking water, 4.2 billion people live without safely managed sanitation, 2 billion people do not have a decent toilet of their own, and 3 billion people lack basic handwashing facilities – even in the midst of a global pandemic.[15] The least developed countries are disproportionately affected, making vulnerable communities more susceptible to infectious disease. Last month, in response to these statistics, Volkan Bozkir, the President of the UN General Assembly, stated that "it is a moral failure that we live in a world with such high levels of technical innovation and success, but we continue to allow billions of people to exist without clean drinking water or the basic tools to wash their hands."[16]

Part of the reason for this failure is the inability to recognize water's true worth. In the UN's World Water Development Report 2021 entitled "Valuing Water," published on World Water Day, March 22nd, the organization said that ongoing waste and misuse of water could see up to 5.7 billion people experience water scarcity for at least one month of the year by 2050. "Recognizing, measuring and expressing water's worth, and incorporating it into decision-making, are fundamental to achieving sustainable and equitable water resources management."[17]

Although discussion of how to value water is an important theme of this year's UN World Water Development Report, many banks have missed the opportunity to highlight the issue of water scarcity and poor sanitation in their sustainability reports and financing commitments. Financing of clean-energy projects is frequently mentioned, but water's underrepresentation there is also amiss, since its treatment, delivery, and use account for significant greenhouse-gas emissions: for example, 5% in the United Kingdom, 10% in California, and 50% in Australia's state of Victoria.[18]

According to a 2020 UN report, global water usage has risen sixfold in the last 100 years, while the gap between water demand and supply continues to increase due to economic development, population growth, and increasing consumption patterns.[19] The UN forecasts water usage to increase 85% by 2035 due to energy consumption.[20] As clean water is an increasingly scarce resource, water has become an investment theme that can be accessed through investment vehicles.[21] Just as investments in technological innovation and improved infrastructure related to water usage in developed countries can reduce waste, increase efficiencies, improve lives, and boost corporate profits, similar investments in vulnerable communities within lesser developed countries can help improve the lives of many people without basic access to water and clean sanitation today.

Bitcoin Mining and Energy Consumption

Bitcoin, since its inception, has continued to generate an explosion of interest from investors, many of whom are still striving to determine how to classify Bitcoin and whether it should be viewed as an asset or currency.[22] The enthusiasm around cryptocurrency has crowned Bitcoin the king of all cryptos, and it is now a household name recognized by moms and pops.[23] The recent Initial Public Offering of Coinbase, the largest cryptocurrency exchange, is a strong indication that Bitcoin has gone mainstream.[24] While Bitcoin remains exciting to its enthusiasts, the currency is not without its challenges and controversies.

The operational approach of Bitcoin, which requires "Bitcoin miners" to consume large amounts of energy to confirm bitcoin transactions, results in tremendous greenhouse gas emissions. According to the Cambridge University Center for Alternative Finance, "As of mid-April, global power demand by the Bitcoin network probably reached an annualized 143 terawatt-hours, about 4% higher than Argentina's total electricity generation in 2019."[25] Similarly, "Bitcoin has a carbon footprint comparable to that of New Zealand, producing 36.95 megatons of CO_2 annually," according to Digiconomist's Bitcoin Energy Consumption Index, an online tool created by data scientist Alex de Vries. It consumes as much power as Chile, according to Digiconomist's estimates."[26]

Environmentalists are concerned that Bitcoin "miners will go wherever electricity is cheapest, and that may mean places that use coal. China has the most bitcoin mining of any country by far. While the country has been slowly moving toward renewable energy, about two-thirds of its electricity comes from coal."[27]

CoinMetrics calculates that there are more than 1 million participants in digital currency transactions on a daily basis.[28] How much energy will be required to verify a digital coin purchase of a candy bar? Arguably this platform was not created to support a large global volume of small-size transactions. To many critics, it appears that the carbon emissions from mining digital currencies are not sustainable over the long term. To many proponents, digital currencies are in their infancy, and the existing financial system is notably bloated and inefficient. Developers have noticed and are working on more energy-efficient approaches to verifying transactions. One such approach is said to rely on a "gossip" model of information sharing, combined with a random assignment of the task, in order to deliver a simpler, faster, and less energy-intensive verification of a transaction.[29]

About the SDGs, Targets, and Indicators

The SDGs

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals ("SDGs"), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go together with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.[30]

Targets

The SDGs targets are set to be achieved by 2030. There are approximately 169 targets covering a broad range of sustainable development issues.[31]

Indicators

The SDGs indicators are used to measure progress made by the United Nations member states towards the achievement of SDGs targets. There are approximately 232 indicators set by the United Nations to measure SDGs progress.[32]

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