Insights into responsible investing
CREATE A POSITIVE IMPACT

Wealth Management

Issue 11 | Q2 2023

ESG TRENDS FOR 2023

Earth Day: Here comes the sun . . . and solar panels

What is environmental sustainability? It is the practice of ensuring responsible stewardship of our planet[1]. Earth Day (April 22) gives investors an opportunity to participate in protecting the planet for future generations as the changing climate presents short- and long-term implications for people, places and policy makers.

Nature and biodiversity represent economic opportunities and are increasingly recognized as emerging and material ESG risks. Investment in nature conservation, restoration, land-management and biodiversity are key to climate mitigation. As clean energy solutions are brought to market at scale, they will likely help to reduce global greenhouse (GHG) emissions.

The impact of the Russia–Ukraine conflict

February 24, 2023, marked the first anniversary since Russia's invasion of Ukraine. As the invasion pushed the global energy crisis to center stage, it is a turning point for renewables, further accelerating decarbonization efforts worldwide.

The EU intends to have renewables account for 40% of its energy supply by 2030 to address the climate crisis, according to the European Commission. And Canada may allocate some of its 2023 fiscal budget[2] toward the green transition over the coming years to make it more competitive with the U.S.'s Inflation Reduction Act (IRA), which is incentivizing clean energy and climate adaptation.

A renewed hope for renewable energy

2022 was a double milestone for decarbonization efforts in the energy system with investment in the clean energy transition equal to global investment in fossil fuels at $1.1 trillion, according to BloombergNEF[3]. This made 2022 the first year investment in decarbonizing energy surpassed the $1 trillion mark.

Globally, renewable energy has come a long way. With prices depending on location, renewable energy has only recently become cost-competitive with fossil fuels for generating electricity[4].

Both traditional energy (oil and gas) and clean energy (wind and solar) solutions are expected to play an important role in the transition. The International Energy Agency (IEA)[5] predicts global electricity generation from both natural gas and coal are expected to remain broadly flat between 2022 and 2025, while low-emission sources are set to cover almost all the growth in global electricity demand by 2025.

The road to net zero has increased the prevalence of the energy sector and the transition to cleaner sources. The IEA forecasts renewables and nuclear energy will dominate the growth of global electricity supply over the next three years, meeting more than 90% of the additional demand. The immense growth of renewables will need to be accompanied with investment in grids and integrated power systems to successfully transition toward an electric grid.

A spotlight on solar

Solar energy: here comes the sun[6] . . . a cheap and emissions-free technology shines light on the potential of solar energy and how investors can look to tap into this growth opportunity.

- **When did solar energy start?** The technology was created in the U.S. in 1954, but it didn't pick up momentum until Germany passed a law in 2000 to boost

Continued on page 2

Earth Day: Here comes the sun . . . and solar panels, continued from page 1

renewable energy development, creating a market for the solar industry in the process.

- **How much does solar currently represent in global energy generation?** A mere 3.6%[7] of global energy generation, through the percentages vary widely by country. The IEA forecasts electricity from wind and solar to provide almost 20% of global power generation in 2027.
- **The growth potential of solar:** The IEA forecasts solar capacity is set to overtake other power sources in 2027, exceeding natural gas by 2026 and coal by 2027.
- **The impact of the sun:** The IEA predicts the sun could be the largest source of electricity by 2050, accounting for more than a quarter of worldwide power generation.
- **The cost of solar vs. fossil fuels:** According to calculations by Lazard, an advisory firm, solar was the cheapest of all energy sources at the end of 2020, and the average unsubsidized lifetime cost to build and operate utility-scale solar was just $36 per megawatt hour in 2021, down about 90% since 2009. That compares with $108/MWh for coal, $60/MWh for combined cycle gas and $38/MWh for wind[8]. Despite high investment costs due to elevated commodity prices and component parts, utility-scale solar remains the cheapest option for new electricity generation in most parts of the world.

An investors' perspective

Decarbonization strategies are an ongoing area of growth, disruption and balance. The U.S.'s IRA and the energy crisis in Europe have driven investment into the renewable energy sector. The IRA offers incentives that should make the clean energy transition more affordable as it includes tax credits for electric vehicles, home electrification upgrades, heat pumps and solar systems.

Solar will likely play an increasing role in our future energy supply as this low-cost and emissions-free technology helps countries decarbonize emissions. Thematic investing involves investments in a particular ESG-related theme or seeking to address a specific social or environmental issue. Investors can learn more about thematic investing strategies and investment themes, such as clean energy, wind and solar.

While adoption of alternative energy could take years, many companies and countries are proactively demonstrating a commitment to a business model designed to succeed in a low-carbon economy.

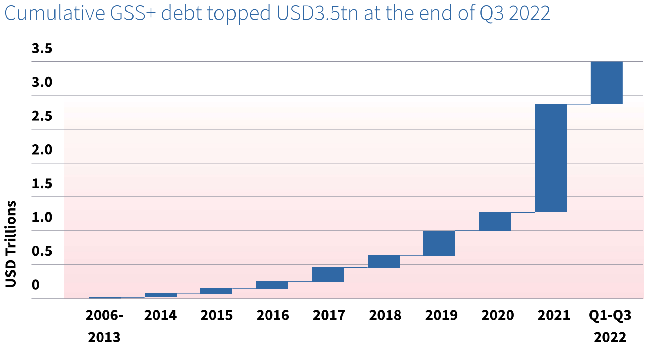
1. What is environmental sustainability? | McKinsey
2. https://www.reuters.com/business/canada-has-firepower-invest-billions-green-transition-analysts-say-2023-02-24/
3. Global Low-Carbon Energy Technology Investment Surges Past $1 Trillion for the First Time | BloombergNEF (bnef.com)
4. Why isn't the U.S. electrical grid run on 100% renewable energy yet? (cnbc.com)
5. Executive summary – Electricity Market Report 2023 – Analysis - IEA
6. RBC WM Global Insight - Solar energy: Here comes the sun - October 2022
7. https://www.iea.org/reports/solar-pv
8. Solar set to overtake other energy sources by 2027 | Financial Times (ft.com)

What you need to know about the labelled bond market

What has happened so far in the labelled bond market?

The cumulative labelled bond market had topped $3.5 trillion in debt, with $635.7 billion in issuance volumes. Labelled bonds have spread across the globe and now include debt originating from 99 sources and have been issued in 63 currencies. As of the last few years, labelled bonds have taken on a new name of GSSS bonds; standing for Green, Social, Sustainability and Sustainability-linked.

Cumulative GSS+ debt topped USD3.5tn at the end of Q3 2022

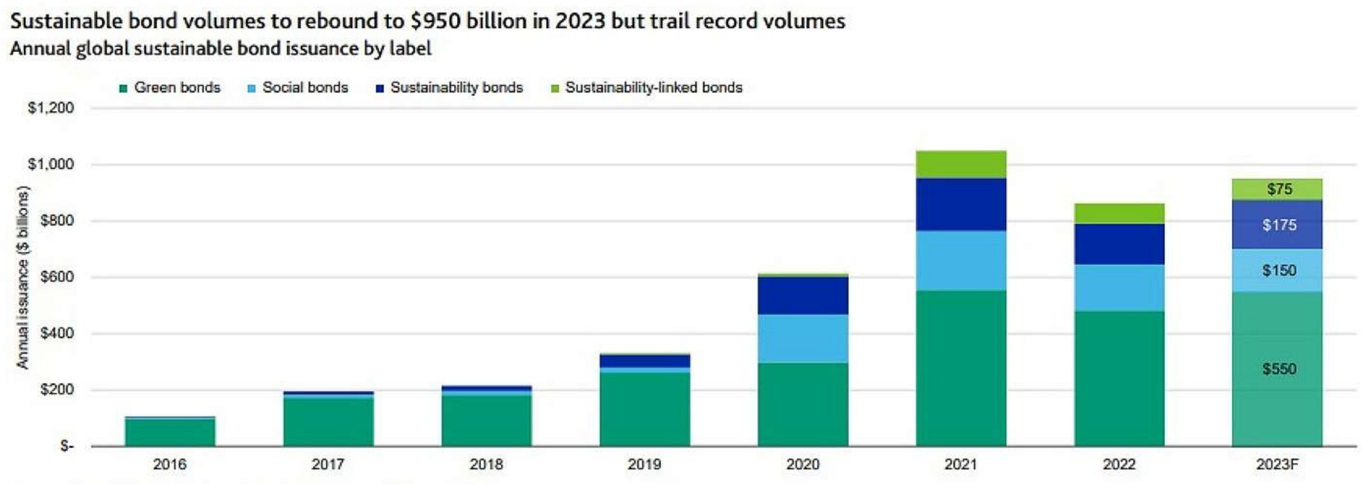


Source: Initiative Climate Bonds "Sustainable Debt Market Summary Q3 2022"

GSSS bonds overview:	
Green[1] bonds	Green bonds enable capital-raising and investment for new and existing projects with environmental benefits, including net-zero emissions and environmental protection.
Social[2] bond	Social bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance social projects, whether in part or in full. Some examples of social projects include: • Affordable basic infrastructure (e.g., clean drinking water) • Access to essential services (e.g., health care) • Affordable housing • Food security and sustainable food systems
Sustainability[3] bond	Sustainability bonds are any type of bond instrument where proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. This also includes social projects with environmental co-benefits and green projects with social co-benefits.
Sustainability-linked[4] bond	Sustainability-linked bonds aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an ESG perspective). The financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. Issuers are thereby committing explicitly to future improvements in sustainability outcome(s) within a predefined timeline; these bonds are forward-looking performance-based instruments.

Continued on page 4

What you need to know about the labelled bond market, continued from page 3



2023 could be a good year for the sustainable bond market

In 2022, GSSS bond issuance fell by nearly 20% to approximately $854 billion, with declines across each bond type as monetary policy and macroeconomic uncertainty challenged global bond markets, according to a report from S&P Global Ratings. However, despite declines, GSSS bonds outperformed the broader market, increasing its share to 13% in 2022[5]. S&P forecasts growth to resume overall for the GSSS bond market in 2023, with issuance volume increasing by 5%–17% to between $900 billion and $1 trillion, near the $1.06 trillion record in 2021. GSSS bond issuance volumes are estimated to grow by 2.5%, with GSSS bonds share of market growing to a record 14%–16% in 2023. Key growth drivers for the GSSS bond market highlighted in the report include policy, regulation and transparency initiatives, such as the recently passed Inflation Reduction Act in the U.S. and the EU's SFDR regulation, and an increasing focus on investment in climate adaptation and resilience projects and initiatives[6].

A report[7] from Moody's Investors Service forecasts the GSSS bond market to grow 10% in 2023 to an issuance of $950 billion with growth to be led by factors including growing pressure from investors and a more supportive policy environment, such as the Inflation Reduction Act in the U.S. The lone exception for this 2023 growth trend is the social bond sector, which is expected to be adversely impacted by lower pandemic-related financing.

Additionally, while overall bond-sale activity was tempered in 2022[8], ESG sales reached a record in emerging markets due to governments including China, Turkey and Mexico, according to the IIF. This should be a trend supporting growth in 2023 as well, as public sectors specifically in emerging markets will continue contributing to the expansion of the GSSS bond market[9].

1. Green Bond Principles » ICMA (icmagroup.org)
2. Social Bond Principles (SBP) » ICMA (icmagroup.org)
3. Sustainability Bond Guidelines (SBG) » ICMA (icmagroup.org)
4. Sustainability-Linked Bond Principles (SLBP) » ICMA (icmagroup.org)
5. Sustainability-Linked Bonds Need to Address Credibility Issues to Resume Growth: S&P - ESG Today
6. Sustainability-Linked Bonds Need to Address Credibility Issues to Resume Growth: S&P - ESG Today
7. Corporate Decarbonization, Supportive Policy to Drive 2023 Rebound in Sustainable Bond Market: Moody's - ESG Today
8. World's ESG Debt Pile to Shoot Past $5 Trillion as Sales Pick Up - BNN Bloomberg
9. Sustainable issuance set to rise: Moody's | Advisor's Edge

Proxy voting and engagement

Overview

The second quarter of every year is known as the proxy season for asset managers. During proxy season, several companies hold their annual general meetings where shareholders vote on corporate policies, budgetary items and board of directors. If you're a shareholder[1], you may have received proxy ballots in the mail or via email. If you are an investor whose primary exposure to stocks is through mutual funds and retirement accounts, asset management companies that run these funds vote, by proxy, on behalf of the investor[2]. In this case, investors have the capability to understand the firm voting processes to help ensure interest alignment.

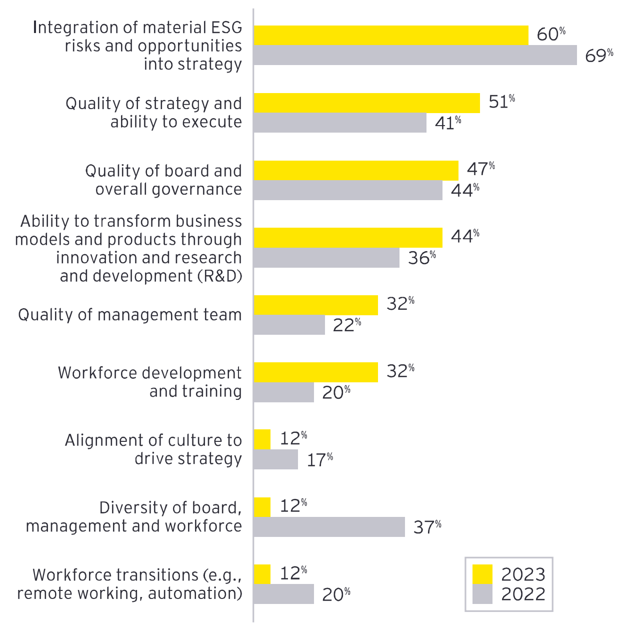
Active stewardship includes engagement[3], which is active dialogue with a specific and targeted objective. The underlying aim of the engagement dialogue should be to preserve and enhance the value of assets on behalf of beneficiaries and clients. Engagement[4] can be a more effective way of responsible investing compared to divestment, since it allows for influence to help ensure companies place proper oversight on climate change, diversity and other ESG factors.

For securities regulation, Glass Lewis & Co. and Institutional Shareholder Services (ISS) are two companies that provide guidance to institutional investors on how to vote at shareholders' meetings of publicly traded companies[5]. Both firms have released guidelines for the 2023 proxy season with focus on key areas, including board gender diversity and environmental, social and governance disclosures and related matters.

Landscape for 2023

A report by EY surveyed institutional investors representing over $48 trillion in assets under management and asked them what they expect from the 2023 proxy season. As seen in the bar graph below, investors are on course in their conviction that ESG factors can materially impact long-term financial value and expect companies to adhere to their ESG commitments and mandates.

What are the three biggest drivers of strategic success for your portfolio companies in the next three to five years?



Source: analysis by EY Center for Board Matters. Percentages represent the number of investors who selected the topic as a top-three driver.

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Proxy voting, continued from page 5

ESG is maturing to the point where it is now facing criticism for both doing too much and not enough. On one hand, there is political pushback for being perceived as furthering an ideological agenda through the integration of ESG into investment and engagement approaches. On the other hand, there is criticism around some ESG integration approaches seen as greenwashing and failing to evoke change or make an impact. Some investors are taking these challenges as an opportunity to clarify their message around ESG integration.

In a dynamic risk landscape, investors are staying the course on ESG and climate risks. In the 2022 EY survey, climate risk was the leading risk topic and it dropped 21% for 2023, though still viewed as the third largest threat. With other geopolitical and talent shortage risks coming into focus for 2023, investors express that climate impacts will have a lesser impact in the short term, three to five years, with the potential for longer-term threats.

Increasing board accountability is also an expected theme for the 2023 proxy season, as over half of investors state that ESG oversight will be a more important factor in how they evaluate and vote on directors. Some investors plan to introduce or expand policies to vote against directors if baseline ESG disclosures are not met and hold companies accountable for climate targets.

1. Proxy voting: What it is and why it matters (fidelity.com)
2. Proxy Voting: What Fund Investors Should Know About It—and How It Is Changing - WSJ
3. Defining-Stewardship-Engagement-April-2019.pdf (investorforum.org.uk)
4. Climate change: Active stewardship vs. divestment (rbcgam.com)
5. Outlook for 2023 Proxy Season (stewartmckelvey.com)

How ESG can bridge next-gen wealth transfer conversations

Born between 1981 and 1996, millennials have surpassed baby boomers as the nation's largest living generation, according to Pew Research. This generation is moving into its prime investing years and is poised to reshape the economy. Millennials are often values-based investors, looking to align their portfolios and make decisions with greater purpose.

High-net-worth (HNW) millennials and high earners not rich yet (HENRYs) are leading this change, representing the next big wave of wealth as they advance in their careers, buy first homes, start families and tackle the basics of managing their finances.

The millennial mindset

RBC Wealth Management surveyed 1,000 high-earning and high-net-worth millennials to understand their needs, wants, pain points and preferences related to money management. The millennial mindset report offers insights into the next generation's relationship with money.

Here's what RBC Wealth Management – U.S. found for the millennial mindset:

- **Financial security:** 84% of millennials agree they spend a lot of time thinking about their financial security, but many are unsure of what they need to do to attain it.
- **ESG investments:** 84% of millennials say it's important to consider environmental, social and governance (ESG) factors and that ESG investments are an integral part of their investment strategy.
- **Early retirement:** 50% of millennials plan to retire before age 65—but they don't want their parents' retirement. Many seek to establish passive sources of income—or "side hustles" in the gig economy—and reinvent themselves in retirement.

Millennial interest in responsible investing

Millennials seek a more sustainable type of capitalism and gravitate toward environmental, social, governance (ESG) and impact investing. They want to know that their money is being invested in companies that consider not only shareholders, but also all stakeholders. Millennials want their advisor to be aligned with their priorities as 92% believe it's important for their advisor to be knowledgeable about ESG investing.

More than 80% say:

- It's important to align their investments with their values
- ESG is an integral part of their investment strategy
- They are willing to sacrifice investment returns by holding ESG-rated investments

Continued on page 7

How ESG can bridge next-gen wealth transfer conversations, continued from page 6

Bringing in the topic of ESG to next-generation conversations

ESG and responsible investment present an opportunity in client-advisor relationships. It is one way for an advisor to engage and connect with their current clients' kids—the next generation—which often become the advisor's clients down the line.

Responsible investing provides the ability to deepen a relationship and further discuss your client's goals. Talking about values, passions, legacy and charitable giving can help your advisor learn more about you and help you meet your financial goals.

It's important to understand what you want to do with your investment portfolio. If you are interested in applying ESG data through responsible investment, there are a few applications to discover: ESG Integration, Screening and Exclusion, Thematic and Impact Investing. These applications apply ESG data in slightly different ways. Take some time to understand the definitions and applications of responsible investment.

Whether it is about environmental concerns, social issues, governance topics, philanthropic interests, faith-based principles, sustainability or other themes within the ESG space, learn more about how you can incorporate responsible investing into your investment plan.

If you are interested in better understanding the terminology, applying ESG data to your portfolio or aligning your wealth plan with your values, download our Responsible Investing Workbook today to learn more and evaluate what's important to you.

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