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Sustainability Briefing

Sustainable investing is not new to Marquette. Ranging from mission-driven screening to minority-owned investment manager utilization, Marquette has been partnering with clients for over thirty years to implement investment strategies that address a myriad of environmental, social and governance (ESG) themes. But something has shifted over the last few years, bringing ESG to the forefront of client discussions and manager presentation decks. To help clients navigate this evolving space, we will be sharing quarterly briefings that highlight trending topics surrounding sustainable investing.

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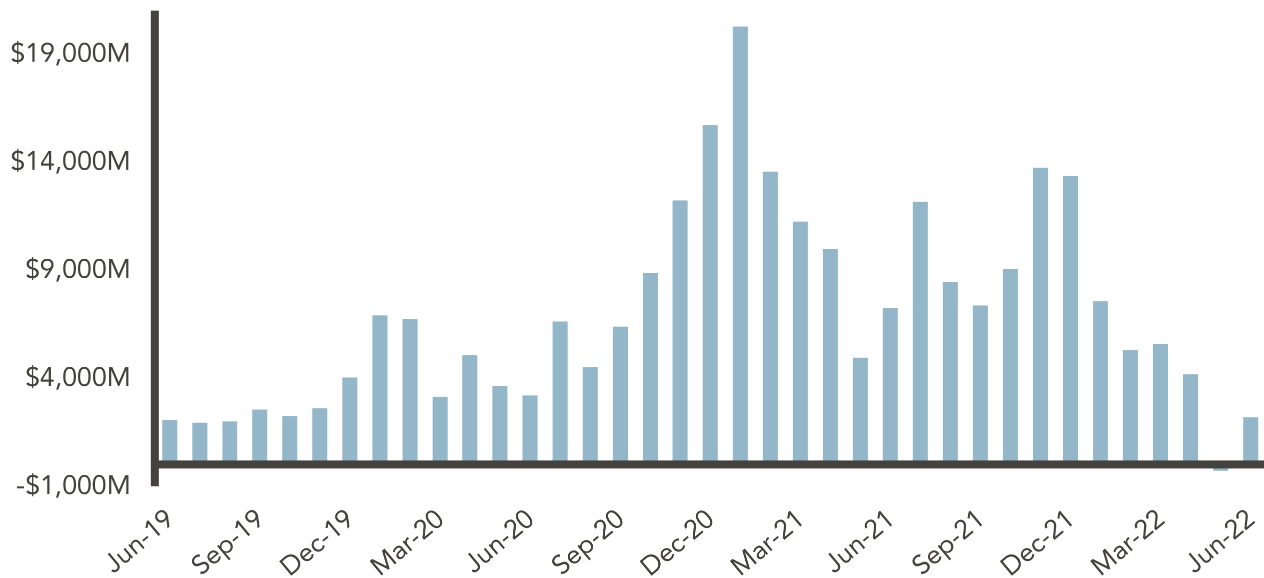
Developments in Institutional Finance

- "Greenwashing" has become a heavy-hitting issue, as funds and companies are under increased scrutiny for perpetuating false or misleading claims around their sustainability practices. For example, BNY Mellon was recently issued a $1.5 million fine from the Securities and Exchange Commission (SEC) in response to omissions and misstatements around its ESG funds. In late May, regulators raided the offices of Deutsche Bank for evidence of possible greenwashing by the bank's retail money management business, DWS. While these investigations are targeting the banks' sustainability-focused strategies, Marquette will continue to monitor any potential impact to the broader organizations where our clients may have exposure.
- The increase in regulatory scrutiny comes on the heels of growing investor interest in sustainable investing. According to Bloomberg Intelligence, global ESG assets under management are forecasted to reach $50 trillion by 2025, driven largely by the U.S. market, which has seen a 40% increase over the past two years.
- Notwithstanding the future outlook for sustainable investing mandates, equity ESG ETFs saw outflows in May for the first time in six years *(Exhibit 1, following page)*. Flows reversed course in June but it would seem that the recent crackdowns on greenwashing spooked some investors, at least temporarily.

Exhibit 1: ESG and Sustainability-Themed ETF Flows



Source: Bloomberg as of June 30, 2022

ESG Regulation News

- In response, the SEC has sought to bulk up ESG disclosures for public companies and is currently seeking public comments on File No. S7-10-22: *The Enhancement and Standardization of Climate-Related Disclosures for Investors (Proposed Rule)*. The Proposed Rule requires public companies to file certain climate-related financial information in a manner that allows investors to better assess potential risks associated with climate change. Marquette, as a founding member of the Investment Consultants Sustainability Working Group – United States (ICSWG-US), supports this standardization of disclosures and provided commentary to the SEC on behalf of ICSWG-US, which can be found here.
- It's worth noting that the regulatory approach being considered in the U.S. differs from what has been implemented by the European Union (EU), which first adopted the EU Taxonomy to help guide investors by providing a common language and uniform criteria around the classification of environmentally sustainable activities. Most recently, the EU has expanding on this by introducing the Sustainable Finance Disclosure Regulation (SDFR) to improve investment transparency by requiring disclosure of how certain companies are managing ESG challenges.
- States have also begun to weigh in on sustainable investing. The Texas legislature has approved a bill that would require the state's pension funds to stop investing in firms that plan to divest in some form of fossil fuel companies. This approach illustrates some of the complexities associated with sustainable investing where environmental concerns are weighed against other ESG issues such as job security (with Texas being the largest provider and refiner of crude oil, according to the non-profit Texas Economic Development Corp).

Business Impact

- These complexities are further highlighted when examining the electric vehicle (EV) market. According to Reuters, EV sales have increased to almost 10% of global car sales in the first three months of 2022, likely due in part to record-high gas prices. On the surface, this transition to EV seems like a win for the environment; however, according to the International Energy Agency, an EV requires six times

the mineral inputs of a comparable internal combustion engine vehicle, the extraction of which poses a variety of ESG challenges. These oftentimes competing issues tend to be the center of corporate engagement campaigns, which is why Marquette focuses on the dedicated engagement staffing and internal policies of the ESG-focused managers that it evaluates.

- Unions in retail may be poised for a comeback as workers at an Apple store in Towson, Maryland are finalizing plans to join the International Association of Machinists and Aerospace Workers. The store cited stagnant wages and Apple's apprehension to adopt more flexible schedules for retail staff as part of its rationale, further highlighting the importance of social issues as companies continue to navigate a tight labor market.
- A recent survey conducted by ERM SustainAbility Institute revealed that spending on ESG disclosures by corporate issuers would not increase dramatically if the SEC's Proposed Rule is enacted. According to the survey, U.S. corporate issuers currently spend, on average, $533,000 annually on climate-related disclosures, with the costs primarily being allocated to greenhouse gas and climate change analysis. This is right in line with the SEC's $530,000 estimated annual issuer costs if its Proposed Rule is implemented.

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