FLEXSTONE PARTNERS

SUSTAINABILITY

NEWSLETTER – SEPTEMBER 2024

CONTENT

EU SUSTAINABILITY REGULATION UPDATE FOR SEPTEMBER

01 New EU Ecodesign Law to Make Sustainable Products the Norm

EU's new Ecodesign for Sustainable Products Regulation, which came into force in July 2024, will enable the setting of ecodesign requirements and information for almost all categories of physical goods that come onto the EU market.

With the passing of the regulation, **a sustainable product will have to display one or more of the following characteristics:**

- Uses less energy
- Lasts longer
- Can be easily repaired
- Parts can be easily disassembled and put to further use
- Contains fewer substances of concern
- Can be easily recycled
- Contains more recycled content
- Has a lower carbon and environmental footprint over its lifecycle

The Regulation also introduces measures to **ban the destruction of unsold textiles and footwear** and opens a way to extend similar bans on other sectors, if evidence shows they are needed.

Go to the full article →

02 EU Commission Publishes CSRD FAQ

On the 7th of August 2024, the European Commission announced the publication of a **FAQ aimed at supporting companies and other stakeholders such as auditors in implementing sustainability reporting requirements of EU's CSRD**, with the first reports set to begin next year, based on FY2024.

The FAQ reflects input received from companies with the objective to provide greater clarity on the disclosure requirements, reduce the administrative burden on companies, and to provide a cost-effective way for stakeholders to comply with the CSRD. In addition, the Commission seeks to ensure **the usability and comparability of the reported sustainability information.**

Key topics addressed by the FAQ include the scope of the rules, exemptions, which sets of European Sustainability Reporting Standards (ESRS) to use, and considerations for the use of estimates if companies are not able to obtain value chain information, especially from SMEs.

Go to the full article →

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US SUSTAINABILITY REGULATION UPDATE FOR SEPTEMBER

03 Missouri's 'Anti-ESG' Rules Ruled in Violation of the First Amendment by District Court

In August 2024, the U.S. District Court for the Western District of Missouri issued a decision ordering **a permanent injunction against the 'Anti-ESG' rules (the Rules) promoted by the Missouri Securities Division.**

- The Rules mandated brokers and investment advisors to disclose to their customers if they incorporate a social objective or other non-financial objective in their investment decisions, and if yes, to obtain written consent from customers.
- The penalties imposed included loss of registration, a civil penalty up to USD 25k, and if the violation was wilful, a criminal penalty.
- The Court held that the Rules were invalid under four independent bases, including that **they violated the First Amendment and were unconstitutionally vague.**
- The decision may mark a turning point in anti-ESG public sentiment and general backlash against investment strategies integrating ESG considerations.

Go to the full article →

04 EPA Releases New Standards & Labels Recommendations for Sustainable Products

The U.S. EPA announced their **proposed update for the Recommendations of Specifications, Standards and Ecolabels for Federal Purchasing.**

- The EPA's Recommendations aim to help buyers identify products & services that are **more sustainable, climate friendly, or contain safer chemical ingredients**, across 35 product & service categories.
- **The standards cover environmental attributes** such as conservation of energy and water, use of recycled content, and the reduction of PFAS and single-use plastics.
- This follows **the new Sustainable Products and Services procurement rule** released by the Biden Administration in 2023, with requirements for federal government buyers to prioritize sustainable products & services.

Go to the full article →

ESG MARKET INSIGHTS
ESG TRENDS IN PRIVATE ASSETS - 2024

01 ESG in alternatives in 2024 – PREQIN

Key insights from the last study released by PREQIN

- The growth of ESG fundraising began in 2021 and continued into 2022, before a notable decline in 2023 activity. However, **2024 has seen a quickening in the pace of fundraising**, comparable to the rate of 2022.
- **Private equity and infrastructure still dominate ESG fundraising in 2024**, with ESG assets under management surpassing $1tn.
- **Climate fund raising overtakes impact**. Investor sentiment has focused on climatic risks underpinning renewable energy deal activity and fundraising for climate related funds
- **ESG fund performance is similar, aligning with expectations.** There is no significant difference between ESG and wider private capital fund's performance. Impact funds do show lower returns.

Go to Preqin to view the webinar →

02 Six trends driving private investment in 2024

Natixis Investment Managers, Global Survey of Institutional Investors conducted by CoreData Research in October and November 2023. Survey included 500 institutional investors in 27 countries throughout North America, Latin America, the United Kingdom, Continental Europe, Asia and the Middle East :

- **Sustainable investments rank as top private opportunity in 2024**. **96% of institutions** with ESG investments anticipate maintaining (40%) or increasing (56%) their investments in 2024.
- **35% of institutions say sustainable investments present the biggest opportunity in private markets for 2024 ;** mostly because of government funding to support energy transition projects (electrified transport to renewable energy) has grown from $526 billion globally in 2018 to $1.7 trillion in 2023.
- Within private assets and alternatives, investors are more likely to make ESG (environmental, social and governance) investments in **private equity (41%) and infrastructure (39%),** ahead of real estate and private debt.

Go to the full article →

03 Draghi’s Awaited Report Lays Out a Joint Decarbonization and Competitiveness Plan

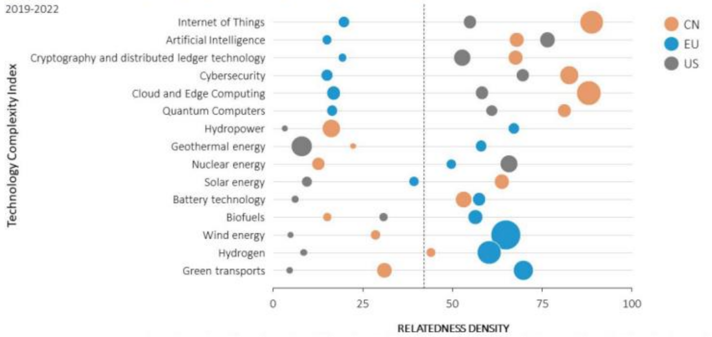
The future of European competitiveness report, produced by Italy’s former prime minister Mario Draghi, **emphasizes the role of decarbonization in improving EU’s competitiveness.** Europe must urgently refocus its collective efforts to close the innovation gap with the US and China, particularly in high technology.

Draghi’s recommendations to boost competitiveness are focused on significantly increasing investment and innovation:

- **Joint borrowing based on the Next Generation funds model** should be used to fund EU’s green transition – specifically, investing in the decarbonization of EU’s energy system is key to reducing the bloc’s dependence on fossil fuels and ensuring the affordability and security of supply.
- Draghi emphasizes the importance of **simplifying and streamlining permit and administrative processes** to accelerate the roll out of renewables, grid updates, and flexibility infrastructures.
- The report also calls for an **EU-level planning coordinator for energy infrastructure** to speed-up the development of cross-border power links.

FIGURE 2

The EU’s position in complex (digital and green) technologies



Notes: The results are based on an analysis of patent data to understand the complexity and potential for specialisation in different technology areas. On the y-axis, technologies are ranked according to how advanced or complex they are, with scores ranging between 0 (less complex) and 100 (more complex). The x-axis (showing the relatedness density) represents how easily a country can build comparative advantage in a particular technology, depending on how closely related it is to other technologies the country is already strong in. The size of the bubbles shows how much each country has already specialised in a technology, using a measure of "revealed comparative advantage"(RCA), which reflects their competitive strenght in that field.

Source: European Commission, DG RTD.

Click to read the full article →

NEW IN RESEARCH
CLIMATE CHANGE

01 A New Paper Published by University of Oxford Finds New Climate Standards Insufficient

The paper, *'Is impact out of scope'*, published in the Carbon Management journal, highlights the importance **of rewarding and comparing corporate climate action and innovation.**

- To date, corporate climate standards primarily seek to guide companies in setting targets (e.g., SBTi) and to help them monitor GHG emissions within their operational boundaries (e.g., GHG protocol).
- Additional standards are necessary **to incentivize broader climate action to drive systemic change** via their products, purchases, and lobbying activities.

The authors present an alternative framework for assessing a company's climate impact, offering a meaningful and separate place for companies to report efforts to leverage (a) their products, to empower others to avoid emissions; (b) their purchasing power, and (c) their policy advocacy.

This framework would **incentivize and reward actions** such as **lobbying for cleaner energy systems** and **signalling financial support for new net zero technologies.**

*The authors of the paper propose **a framework for structuring the 'beyond inventory' space** within which organizations can record, report, and set targets for their **systems-level interventions** and **contributions to global GHG emissions reductions**.*

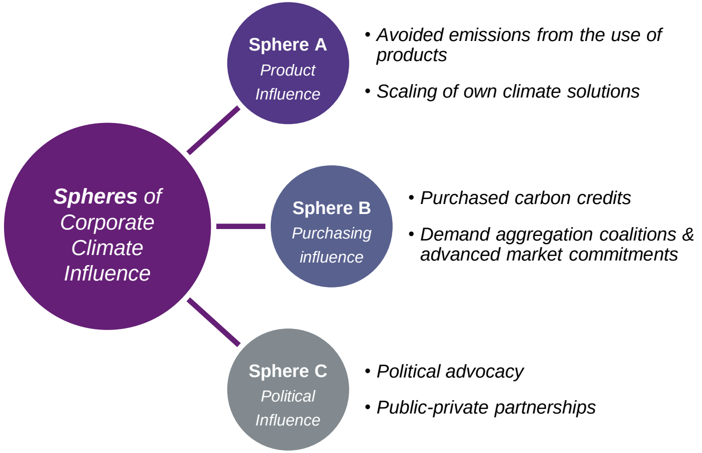


Diagram adapted from 'Is impact out of scope? A call for innovation in climate standards to inspire action across companies' Spheres of influence' paper, published in the Carbon Management journal (August 2024)

Click to read the full paper in the Carbon Management journal →

02

IIGCC Publishes New Supplementary Guidance for Scope 3 Emissions of Investments

The guidance provides a set of good practice principles for investors to address scope 3 emissions of investments within their portfolios. The principles emphasize the importance of focusing on the most material sectors and scope 3 categories and using both qualitative and quantitative data for investment decision making:

1. Prioritise Incorporating Material Scope 3 GHG Emissions

Investors to conduct a scope 3 materiality assessment for at least the NZIF high impact sectors.

2. Focus on Relevant Scope 3 Categories

Focus on a sub-set of the most relevant scope 3 emissions categories as determined by the sector.

3. Prioritize Data Quality and Address Gaps

Focusing on material sectors & categories helps to make scope 3 information useful for decision making. Investors should continue to identify and address barriers to more accurate activity data.

4. Prioritize Assessing Asset Level Scope 3 Emissions

Assessing portfolio decarbonization using a total portfolio emissions figure that includes scope 3 is inconsistent with mitigating climate change and is associated with financial risks, in the real economy.

5. Use Qualitative Information & Quantitative Emission Data

Qualitative analysis is required to ensure that investment decisions are aligned with climate change mitigation objectives and the associated financial risks.

6. Take a sector- and company-specific approach, where possible

Each entity's value chain is unique; decarbonization objectives should be based on each company's specific business model.

Click to read the full IIGCC supplementary guidance for scope 3 emissions →

NEW IN RESEARCH
2024 SOCIAL BENCMARK

03 90% of the 2,000 Most Influential Companies Are Not Even Halfway to Meeting Fundamental Societal Expectations on Human Rights, Decent Work, and Employment

The World Benchmarking Alliance assessed 2,000 of the world's most influential companies (also known as the SDG2000) on whether they are fulfilling societal expectations to foster a more equal and inclusive world.

- The SDG20000 directly **employ 95 million people and hundreds of millions more** through their operations and supply chains, and
- Generate **USD 45 trillion in annual revenue** – equivalent to **45% of the global GDP.**

However, most of the companies perform poorly on fundamental aspects of decent work:

Only **4%** pay or have a target to pay their workers a living wage,

3% comply with the ILO's standards for working hours, and,

Just **2%** disclose their global gender pay gap.

Only **5%** disclose their lobbying expenditures

10% disclose how much tax they pay in each country they operate

20% conduct due diligence on human rights (process to identify and address human rights risks and impacts)

10% disclose how much tax they pay in each country they operate

Click to read the full Social Benchmark Report for 2024 →

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IN FOCUS: THE FUTURE OF FOOD
THE PROTEIN TRANSITION & ANTIMICROBIAL RESISTANCE

01 New Research from Madre Brava Assesses the 15 Largest Supermarket Chains in Europe on their Climate Ambitions & Protein Transition Strategy

Madre Brava* assessed the 15 largest European supermarket chains on their climate and protein transition ambitions. Although some retail groups have already started the transition to plant-rich diets, the protein transition has a long way to go.

- Globally, food is the second largest source of GHG emissions **– in the EU, food accounts for 38% of all consumption related GHG emissions.**
- **70% of food consumption related GHG emissions** in the EU are from **animal-based products**, notably meat (40%) and dairy (24%).
- **71% of farmland in EU is used for livestock and is a primary cause of water pollution and scarcity, deforestation, and health-related** issues

THE SOLUTION

- The report outlines a set of actions to accelerate the protein transition, encouraging food retailers to set **a 60% plant / 40% animal protein split sales target by 2030** at group level.
- A study by the Journal of Agricultural Economics published in 2023 found that a shift to plant-based diets in line with EAT-Lancet recommendations **could increase farm income by 71% in Europe.**

A study by Profundo for Madre Brava found that if four of the supermarket giants in Europe would replace 50% of their beef, pork, and chicken sales with a mix of legumes, tofu, and plant-based meat alternatives by 2030 (excluding dairy and other meat products), they would save:

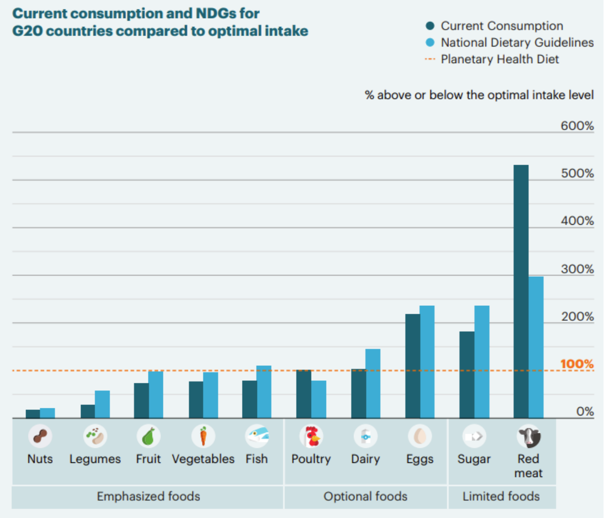
- Emissions equivalent to **taking 22 million cards off the road** (27.7 tCO_2e per year)
- An area of **land the size of Portugal** (91,000 sq km)
- Water equivalent to **228,000 Olympic-size swimming pools** (570 million cubic meters)

Click to read the full report from Madre Brava on the Protein Transition →

** Madre Brava is a non-profit organization engaging with companies, financiers and governments to achieve sustainable, healthy, and affordable food for all.*

IN FOCUS: THE FUTURE OF FOOD
THE PROTEIN TRANSITION & ANTIMICROBIAL RESISTANCE

02 Diets for a Better Future – Current Consumption and NDGs* for G20 Countries



Go to the full EAT report →

03 Investors Representing US $13 Trillion in AUM call on Global Leaders to Fight Antimicrobial Resistance

Ahead of the UN General Assembly's second meeting on Antimicrobial Resistance (AMR) in September**, 80 investors have signed a statement from Investor Action on Antimicrobial Resistance (IAAMR),** calling global leaders and policy makers to act against AMR.

- **AMR is recognized as a systemic global risk** comparable to the COVID-19 pandemic and the 2008 financial crisis.
- AMR-related treatments and productivity losses could **cost US $412 billion and US $443 billion respectively per year by 2035.**

IAAMR has outlined seven critical acts to address the AMR crisis, including:

- The establishment of **an independent panel** to provide policymakers **regular scientific assessments** on AMR
- Development of an international science-based framework, such as the Paris Agreement, with a guide to sustained and cohesive action.
- **Policymaker stewardship** to reduce the use of antibiotics in agriculture and to establish maximum residue limits in wastewater from manufacturing facilities.

Go to the press release →