# BERENBERG UK ESG REVIEW

## Q1 2022 ESG UPDATE

To help investors stay up-to-date with the latest advances and thinking around ESG, our ESG Equity Research team produce a bi-weekly newsletter. From this we have extracted some interesting news stories and developments over the quarter.

### IN A NUTSHELL

- Russia-Ukraine War Spurs Increased Investor Vigilance
- International Women's Day – Investing in Diversity Panel
- Berenberg Energy Transition Conference
- Proposed Reforms to the EU Carbon Market

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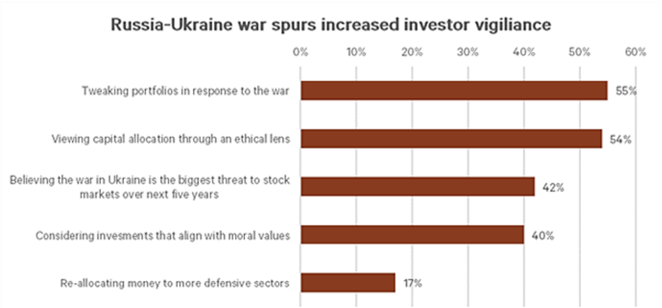
### *Russia-Ukraine War Spurs Increased Investor Vigilance (Interactive Investor)*




Source: Interactive Investor (2022)

A new poll by Interactive Investor highlights the change in investor perception of capital allocations following the wake of the Russia-Ukraine war, with a greater focus on ethical/moral considerations of investments.

Of the 2,058 respondents, 54% stated that they were becoming more conscious of how their money is invested and would be viewing future decisions through an ethical lens. 40% also stated that they were considering investments that align with their moral values. Alongside this, 17% of survey respondents stated they would be re-allocating funds into more defensive sectors (Interactive Investor: Ethical investing and Russia-Ukraine war).

### *International Women's Day – Investing in Diversity Panel (Berenberg)*

On International Women's Day, Berenberg hosted its inaugural "Investing in Diversity" panel in London as part of our International Women's Day celebration. The panel session focused on discussing different approaches to diversity investment, as well as the commonly occurring challenges faced both from a corporate and an investor perspective. We were delighted to host three incredible speakers: Lilian Haag, a Senior PM at DWS who runs the Women for Women fund; Michelle King, award winning author, speaker and expert on culture and equality and Cecilia Nelson-Hurt, former VP for Diversity & Inclusion at L'Oréal and currently Chief Diversity Equity and Inclusion Officer at Heidrick & Struggles.

A range of questions were covered around gender diversity, including strategies to optimise data collection around diversity and inclusion. The panellists stressed the importance of measuring 'lived experience' and highlighted the differences in progress made, as well as how we should be viewing gender diversity across sectors.

The importance of businesses incorporating a top-down approach was also discussed, ensuring that senior management have a stake in the success of their inclusion strategies and policies. An interesting statistic mentioned during the session was that culture is 10x more predictive of turnover than compensation, which again highlighted how vital it is for employees to feel that management genuinely offer an environment of empowerment: 'the solution starts with leaders'. Finally, our panellists emphasised how companies can benefit from leadership taking a personal interest in diversity and inclusion measures and metrics.

**Berenberg Equity Research view**

The panel session covered a broad range of topics, tackling how to approach diversity and inclusion from both an outsider perspective and as an investor. SDG 5 "Gender Equality" is a theme which is gaining traction, with 2022 seeing a considerable number of gender equality fund launches.

We believe the panellists gave attendees great insight into the business case for, but also moral responsibility of, investing in an inclusive environment, as well as the importance of leaders taking ownership of the success of diversity and inclusion strategies in their firms. As the speakers highlighted, hiring, promotion and retention strategies that engage with and encourage diversity are more important now than ever in a post-COVID world.

## *Berenberg Energy Transition Conference (Berenberg Equity Research)*

On 22 March, the Berenberg Energy Transition Conference took place, involving companies from across the energy sector. Discussions were especially pertinent given the narrative of energy security in the wake of the Ukraine-Russia conflict. Those speaking included names from the oil and gas sector, as well as companies from the carbon-capture, energy storage and renewables industries.

Supply chain issues and cost inflation were highlighted as key areas of concern by corporates. It was noted that high and volatile raw material prices have hit renewables and hydrogen, while increasing freight and logistics expenses have pushed new solar and wind development costs up by an estimated 10-20%. The outlook for hydrogen and carbon capture were positive, though both remain at early stages of development.

The RePowerEU initiative, which is likely to boost European solar and wind development activity, was looked upon favourably by many candidates. This initiative, however, will need to translate into action at a local level.

### Berenberg Equity Research view

One clear theme that ran throughout the Conference was that there is no quick fix in the transition to global, clean, green energy. It will require a monumental effort from corporates, institutions, and regulatory bodies, as well as the implementation of all available technology. The narrative around 'net zero' made clear that it is not possible without carbon capture as a transitory technology. Though we view the industry positively, we ultimately believe that it cannot be solely relied upon to offset all corporate emissions and should be used as a last resort for those that are unavoidable.

## *Proposed Reforms to the EU Carbon Market (Berenberg)*

The EU's lead lawmaker (Peter Liese) has outlined proposed reforms to the EU carbon market for intervention if the price of EU carbon permit prices rises too fast. EU policymakers are preparing to negotiate and vote on proposed reforms in June, before putting it to Parliament and the EU countries to negotiate the final law. Liese's proposals address some of the uncertainties relating article 29a which allows for a vote on the release of extra permits into the market if the price for at least six months is more than 3x the average price of the two proceeding years. Liese proposes the release of 100mt of permits from the market stability reserve over a period of six months if, for more than six months, the average permit price is more than two times the average price in the preceding two years. He also proposes that if those conditions continue for more than six months, the European Commission should decide whether the price movement is based on market fundamentals; if not, then auctions should be brought forward to ease liquidity constraints or more permits should be added from the market stability reserve. It seems that there are also proposals for an ESMA transparency mechanism. ESMA's report is due in March/April.

Following this, the EU has set aside time to discuss carbon price controls after four governments put forward detailed measures to adjust article 29a. This has been put on the EU agenda after the Czech Republic, Estonia, Hungary and Poland came out with details on how to amend current rules. Notably, it goes on to say that other nations are reluctant to open talks on the article. Rule revisions for the EU Emissions Trading System (ETS) are already under review by MEPs, with a vote due in June to address proposed reforms. The discussion is therefore unlikely to make much difference (especially as the countries raising concerns are not in a position to defeat a qualified majority of other states).

### Berenberg Equity Research view

The carbon price had softened off the back of this news, as it implied a proposed tighter and clearer set of conditions for reacting to carbon price rises. However, 100mt of additional permits over six months, even if the proposed revised Article 29a was approved and met, would have little impact on the overall liquidity deficit that we see accumulating from the market stability reserve.

We expect the price to continue to rise through the rest of this year and next. The vote on what should be passed to the Parliament and Member States is not until June – i.e. after the April deadline for 2021 emissions submissions, so it should not affect a liquidity squeeze before then. That said, further price rises could galvanise support for this or other new mechanisms when it does come to the table. Liese's proposals are not the only ones being tabled - alternatives will also be considered. While the effects of the proposed reforms are limited versus the magnitude of a potential liquidity deficit, it is notable that the EU is showing a desire to be proactive, rather than reactive to the prospects of further carbon price rises (potentially fuelled by already high energy prices due to the energy/gas price crunch).

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