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EPIC CAPITAL

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10 Reasons ESG Investing is Growing

BY PIMCO JUNE 2017

$22 trillion of assets globally are now managed under responsible investment strategies. We see 10 major trends contributing to the rise.

According to the Global Sustainable Investment Alliance, over $22 trillion of assets were managed under responsible investment strategies globally in 2016, up 25% from two years before. This is one of many statistics showing Environmental, Social and Governance (ESG) investing moving into the mainstream. We see 10 major trends contributing to the rise.

1. **Good governance is systemically important**. The financial crisis of 2008 was a wake-up call for public and private sectors, demonstrating how issues of culture and conduct could have systemic importance. Improving corporate governance is increasingly a goal for regulators and for fixed income and equity investors through active ownership.

2. **Public-private partnerships are expanding.** Public-private collaboration has grown from addressing infrastructure and housing needs to tackling broader social and environmental issues. The U.S. municipal market and the European agency market are two examples of how government vision has enabled private capital to drive social investments.

3. **Climate change is a reality**. Climate change is now universally understood and (almost) universally acknowledged. Mitigation techniques include international agreements such as the COP21 Paris agreement, which aims to keep the rise in world temperatures below two degrees, and private initiatives such as sustainable investment portfolios and more disclosure of climate-related financial risks.

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4. **Energy sources are shifting.** Climate change aside, there is a transformation occurring in energy markets. Well-telegraphed supply and demand drivers are shifting the dynamics of the oil market, natural gas is now cheaper than coal, and renewable energy sources are becoming cheaper and scalable.

5. **Technology is changing what we demand and how we consume.** Whether it's driverless cars in autos, smart metering in utilities, renewables in oil and gas, online sales in retail, or robo-advisers in asset management, most sectors of the economy are seeing paradigm shifts in the way business is conducted. Companies with ample resources and willingness to adapt will outperform, but others are likely to put investors at risk.

6. **Social media is driving convergence in social norms.** Given its borderless nature, social media has the potential to alter the cultural blueprint of countries, and for investors, its effects vary from changes in individual consumer preferences and traditional election patterns to subsequent demands for new regulations.

7. **We are living longer.** By 2050, there will be 2.3 billion people in the world over age 65, according to the United Nations. With average life expectancy rising in developed countries, sustainability issues will affect not only our children but also our older, less-capable selves. Climate change, income inequality, healthcare and poor governance are increasingly personal as they directly affect financial security in retirement.

8. **Demographics are changing**. Millennials and Generation-X are increasingly taking over from Baby Boomers in positions of influence, changing business, financial and political landscapes. The newly formed French government is an example – half of its members are women. Younger generations are driving the fast growth of the "green bond" market and the field of sustainable finance in general.

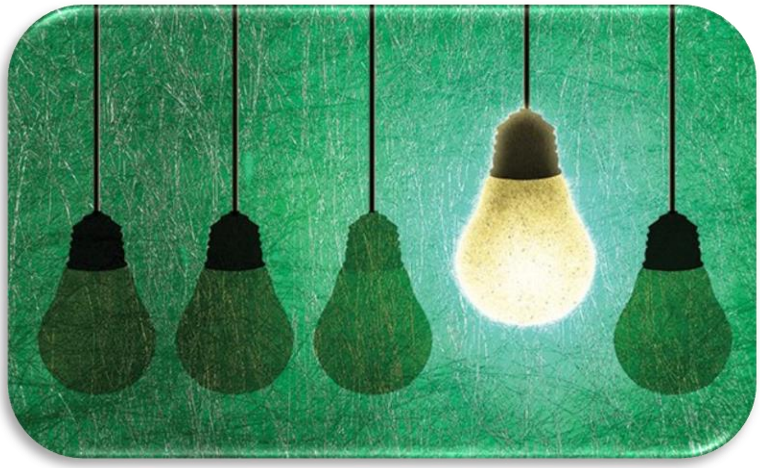
9. **Regulation is providing tailwinds**. ESG considerations have driven new regulations in a growing list of countries, which is tangibly affecting credit fundamentals. Examples include the shutdown of nuclear power in Germany, the Supervisory Review and Evaluation Process (SREP) in Europe, which governs subordinated financial debt, and France's mandatory reporting of climate risk, which raises the bar for financial institutions.

10. **Value chains are global**. Large corporations' value chains are increasingly global – as highlighted in our secular forum in May. These value chains are complex and if poorly managed can prove costly. Investors can be quick to punish companies for child labour practices, human rights issues, environmental impact and poor governance.

Together these ten factors are fuelling the rapid growth of ESG investing. It's a trend we think will continue for some time.

Is Fixed Income ESG Investing the New Frontier?

This article was written by Ginger Szala on behalf of ThinkAdvisor, September 20th, 2018



ESG investing goes beyond picking the right equities; fixed income ESG can round out an investors' socially responsible portfolio.

Roughly 25% of all investable assets globally, or more than $23 trillion, is invested in impact or environmental, social and governance products today. Most of this is invested on the equity side, as the fixed income ESG area is still nascent — for now.

In fact, according to Cornerstone Capital Group, only $385 billion has been allocated to fixed income ESG investing. Further, most "green bond" issuances fall into the $10 million to $100 million bracket. And there's only a limited number of issuers of sustainable bonds. ESG equity funds, according to an MSCI analysis, outnumber ESG fixed income funds 3 to 1 globally and 4 to 1 in the United States.

That said, Cornerstone equity strategist Michael Geraghty believes fixed income ESG is an area advisors should counsel their clients on, especially those who want to spread impact investing throughout their portfolio.

"This is a relatively new and unexplored area," Geraghty told ThinkAdvisor. "Quite a bit has been written about how asset managers use ESG in fixed income portfolios, but very little has been written on how asset owners or clients can incorporate ESG into fixed income portfolios."

Cornerstone's research paper, **"Considering ESG Factors in Fixed Income Investing,"** written by Geraghty; Craig Metrick, head of institutional consulting; and Jennifer Leonard, director of asset manager due diligence, provides an overview of this "complex" market, and how investors can take advantage of it for ESG investing.
However, Geraghty warns, "It is different from equities. There are a number of ways in fixed income to invest, but it's a new area with new products. Interested investors should speak to their financial advisor before jumping in."

More Fixed Income in Portfolios?

There are three key reasons investors should incorporate ESG into the fixed income allocation of their portfolio, according to the paper: values alignment, investing for quantifiable impact, and achieving risk-adjusted returns. Some products such as green bonds may achieve all three of these objectives, although the authors state these factors are not mutually exclusive.

The paper focuses on debt instruments backed by both public (e.g. government and municipalities, supranational development financial institutions) and private (e.g. corporate) issuers. “There are a growing number of opportunities for asset owners to invest in fixed income vehicles and securities that provide funding for impactful projects or sustainable companies, and that offer competitive yields,” the authors state.

Geraghty made clear that fixed income ESG investors, at least for now, typically are interested in a having a quantifiable impact with their investment. “A fixed income investor is in fact making a loan, and so a lender can demand to know how their loan is doing,” he says. “For example, if one supports financing a solar facility, they can measure impact of loans on amount of energy generated or reduction of emissions. So one particular appeal of fixed income ESG investing is quantifiable impact.”

There are five major areas of sustainable bonds, especially from public issuers:

- ***Green bonds***: raise capital for dedicated environment benefits; dominates the sustainable bonds sector;

- ***Social bonds***: raise capital for projects with dedicated social benefits, such as affordable water, sanitation and transport for underserved communities;

- ***Sustainability bonds*****:** raise capital for projects with both social and environmental benefits, such as building public sector energy-efficient buildings;

- ***Social impact bonds*****:** “Pay for performance” or “pay for success” bonds that typically finance a pilot project, for example, for the homeless or programs to reduce recidivism;

- ***Corporate bonds*****:** Not specific for projects, and “green” based on the investment manager’s own criteria.

Investors have several vehicles in which to invest, including sustainable bond funds, fixed income notes, private debt funds and Community Development Financial Institutions.

One key challenge with fixed income ESG, and green bonds in particular, is how to measure them and what they actually offer. **The International Capital Market Association’s Green Bond Principles**, and the **Climate Bond Initiative’s Climate Bond Standard**” are used as guidelines to determine whether or not a bond qualifies as “green,” but Geraghty says it’s not like S&P or MSCI saying “categorically they are four-star green bonds.”

He provides an example of the Spanish energy company **Repsol** issuing a green bond in May 2017 that it planned to use to save 1.2 million tons per year of carbon dioxide by improving the efficiency of its fossil-fuel burning activities. “But give me a break, Repsol issuing a green bond? If an investor sees that in a green bond portfolio, they may [want to] call that into question.”

In other words, read the fine print.

However, there are many positive options. Fixed income ESG allow investors to get involved with municipal projects that may help local welfare. For example, Massachusetts issued the first municipal green bond to "finance projects with net positive environmental impacts," according to the report.

Some corporate bond issuers have been screened using ESG criteria by having good relationships with their unions. Starbucks issued the first-ever U.S. corporate sustainability bond in 2016 in which it raised $500 million that was dedicated to sourcing coffee that meets the company's standards to measure environmental and social practices of its suppliers.

Geraghty also notes that fixed income is typically are buy and hold. "The attraction of these vehicles is you can track and measure the impact of your investment," he says. "People we deal with aren't in it for the quick buck. They are impact investing. They want to make a difference."

How Social Impact Bonds Can Confound Their Critics and Deliver Better Value for Government

This article was written by Michele Giddens on behalf of Forbes, October 3rd, 2018.

Last month, the U.K. Government announced almost £200m of funding for 22 programmes backed by social impact bonds (SIBs), via the **Life Chances Fund** – providing an additional boost for this innovative impact investment approach.

There have now been well over 100 SIBs commissioned around the world. Pioneered in 2012 by Social Finance as a way to reduce recidivism in the UK, these programmes are now helping migrants find work in Belgium, preventing diabetes in Israel, improving girls' education in India and supporting micro-enterprises in Kenya.

Different countries have adopted different models, but they all share two core characteristics. They're based around an outcomes contract – so a social enterprise or non-profit agrees to deliver some kind of social service on a "pay for success" basis, whereby a funder (usually the Government) only pays if the service achieves some pre-specified outcomes. And an impact investor provides the working capital and management support required to deliver the programme successfully.

For governments, the appeal is clear. Social outcomes contracts offer a way to target spending on the most effective solutions to pressing challenges (often by focusing on prevention rather than treating the symptoms), with the help of private capital and expertise – while the data-centric approach also improves the evidence base to inform future policy. And that's not just true in developed markets: there's also huge potential to use this approach in developing countries, perhaps funded by NGOs or large charities (a variant sometimes called 'development impact bonds').

These contracts also resolve a perennial challenge for impact-driven investors: how to align impact and financial goals without the need for unwanted trade-offs. The only way the provider gets paid, and the investor sees a return, is if the provider delivers the social outcomes governments want. So impact goals and financial goals are perfectly aligned. What's more, as an investment, it has the potential to deliver risk-adjusted returns that are not correlated with stock markets, interest rates or commodity prices.

GCAS: 400 Investors, Salesforce & Friends 'Step Up' to Ensure Climate Turning Point by 2020

This article was written by Sustainable Brands, September 13h, 2018

Today, among a flurry of big announcements at the **Global Climate Action Summit** (**GCAS**) in San Francisco, **Salesforce** announced its leadership in the creation of the **Step Up Declaration** and strategic corporate commitments to help catalyze a climate turning point by 2020.

Following a global challenge by Christiana Figueres, Convenor of the **Mission 2020** challenge to the technology sector to "step up" climate action and drive down their company's carbon emissions by 2020, Salesforce partnered with Mission 2020 to establish the Step Up Declaration – a new alliance committed to harnessing the power of Fourth Industrial Revolution technologies to help reduce emissions across all economic sectors. Salesforce was the first company to sign the pledge and is now joined by 20 other tech giants including **Autodesk**, **Bloomberg**, **BT**, **Cisco**, **Ericksson**, **HP** and **HPE**, **Lyft** and **WeWork** who have signed and made their own climate commitments.

"The existential threat we face requires everyone to expand their ambition; and Salesforce is not only stepping up its own climate action, it's pushing other companies to do the same," said California Governor Jerry Brown.

"Everyone has a right to prosper, and if emissions do not begin their rapid decline by 2020, the world's most vulnerable people will suffer even more from the devastating impacts of climate change," Figueres said. "I am proud of the work we did with Salesforce developing **the Step Up Declaration** to align companies to raise ambition, scale up our actions and move forward faster together to help turn the tide on the devastating impacts of carbon emissions."

Today, Salesforce also announced its own Step Up commitments, including signing onto the **Science Based Targets Initiative**, partnering with its top suppliers to set their own emissions reduction targets, and expanding its green real estate strategy. Salesforce makes these commitments on the heels of announcing its largest renewable energy agreement to date, which put the company on track to achieve 100 percent renewable energy by 2022.

And speaking of stepping up …

Nearly 400 investors with $32 trillion in assets step up action on climate change

Another GCAS launch is **The Investor Agenda**, which will support investors in accelerating and scaling up the actions that are critical to tackling climate change and achieving the goals of the Paris Agreement. Its launch also demonstrates the significant momentum already evident, with 392 investors with US $32 trillion in assets collectively under management, using The Investor Agenda to highlight climate action they are already taking and making new commitments[1].

The Investor Agenda provides a way for investors to directly report actions they are taking, and scale up their commitment to act, across four key focus areas: **Investment**, **Corporate Engagement**, **Investor Disclosure** and **Policy Advocacy**. The Investor Agenda will make it easy for investors, businesses, policymakers and other stakeholders to see who has taken voluntary action and which initiatives they have committed to.

The Investor Agenda's four focus areas are supported by the global investor community, which includes the **Asia Investor Group on Climate Change**, **CDP**, **Ceres**, the **Investor Group on Climate Change**, the **Institutional Investor Group on Climate Change**, **Principles for Responsible Investment** and **UNEP Finance Initiative.** These organizations will produce an annual report on the level of investor support for the actions and initiatives promoted by The Investor Agenda, and the outcomes that have been achieved since the soft launch.

"Investors are showing great leadership to promote climate action in multiple fronts. Their efforts to meet the shortfall in the financial resources required to deliver the Paris Agreement goals, and further building on engagement with high-emitting sectors are a valuable contribution," said **Patricia Espinosa**, Executive Secretary of the **United Nations Framework Convention on Climate Change** (**UNFCCC**) in welcoming the launch. "Yet we believe many more opportunities exist. The Investor Agenda offers a clear path to scale up investor action, which is essential to meet the needs in every region of the world to address climate change. It gives investors multiple opportunities to continue to demonstrate their willingness to become part of the transformation that will lead us to a more cleaner, greener, sustainable future for all."

The potential of the Investor Agenda to deliver change is strengthened by the collaboration and global reach of its founding partner organizations. Through momentum captured by The Investor Agenda to date, institutional investors, asset owners and managers, and pension funds are making significant impact across the focus areas.

- **Investment** highlights **120** investors pursuing new and existing investments in low-carbon and climate-resilient portfolios, funds, strategies or assets, such as renewable energy and energy efficiency projects; phasing out investments in coal; and integrating climate change into portfolio analysis and decision-making.
- **Policy Advocacy** highlights **345** institutional investors with US $30 trillion in assets who are urging governments to implement the Paris Agreement and enhance their climate policy ambitions by 2020. The full policy statement includes calls for bolder action from governments including phase out of thermal coal power worldwide, greater investment in the low-carbon transition and improving climate-related financial disclosures.
- **Corporate Engagement** highlights **650** investors with US $87 trillion in assets backing the CDP's environmental disclosure request; and **296** investors from 29 countries with US $31 trillion in assets that are signatories to **Climate Action 100+**. This investor-led initiative engages the world's largest corporate greenhouse-gas emitters and asks them to curb emissions to achieve the goals of the Paris Agreement.
- **Investor Disclosure** highlights the more than **60** investors committed to reporting in line with the **Task Force on Climate-related Financial Disclosure** (TCFD) recommendations. This is a sizeable portion of total finance sector signatories reported by the TCFD, but also illustrates room for growth in expected submissions of activity, as more investors participate in **The Investor Agenda**.

392 investors specifically reported new information or have committed to policy advocacy activity under the Investor Agenda. Other examples above illustrate broader participation in related initiatives[2]. Examples of specific investor actions in line with the focus areas above are highlighted in The Investor Agenda Fact Sheet.

The total number of investors taking action in line with The Investor Agenda is expected to grow over coming months and years. Submissions will remain open for investors through The Investor Agenda website.

"Progress is on the agenda of the investment community, and today's announcement is hugely important, but this is just the beginning of an extraordinary, economy-wide transformation to low-carbon that we must achieve within a generation," said Christiana Figueres, convener of **Mission 2020**. "We have an acute need for speed. The shift in investment – away from high-carbon towards low-carbon – needs to exponentially increase, and investors can now focus on scaling up financial flows to enable greater national ambition by 2020."

1*The 'nearly 400' refers to those investors that are taking action in line with one or more of the four focus areas of the Investor Agenda. 392 investors have specifically reported information via The Investor Agenda website.*
2*Initiatives, not factored into the total figure of 392 investors taking action include CDP's environmental disclosure request and signatories to Climate Action 100+. This was to avoid potential duplication in calculating participation and capture only those investors actively volunteering information on action taken.*

Impact in the News

- One foundation's journey to a 100% impact Portfolio

Edwards Mother Earth Foundation in Seattle invested 100% of its $35 million endowment for environmental benefits. Four years later over three million megawatt hours of renewable energy, a reduction of over two million metric tons of greenhouse gases, and 11,000 hectares of forest preserved.

- Salesforce commits $10 million for climate startups

The software company started its $50 million Salesforce Impact Fund last year. By 2022, the fund aims to invest $10 million to support entrepreneurs targeting clean energy, resource efficiency, and better supply chains.

- Working Capital Fund raises $25 million for tech solutions to labor abuse

Humanity United launched the fund in January to invest in early-stage technology companies fighting human trafficking, inhumane labor conditions, and other abusive supply chain practices. New pledges of $2.5 million from Zalando and the Children's Investment Fund Foundation bring the fund's final close to $25.2 million.

- Western New York Impact Investing Fund backs recycled insulation startup CleanFiber.

The $750,000 debt deal is latest investment from the $8 million place-based impact investing fund targeting western NY. The funding, will help finance a new production facility, create more than 30 jobs and produce up to three million bags of plant-based cellulose insulation for attics, walls and floors a year.

E3 = Epic Time, Talent & Treasure

Epic Capital Wealth Management is a mission-driven firm with a genuine passion for community, both locally and around the world, with a focus specifically on social outreach initiatives. We give our time, talent and treasure to organizations that support families in need, the working poor, homeless or impoverished .This is meaningful to us because we recognize the incredible blessings in our lives and the opportunities that we have been given to do work that we love. So we have taken our passion for empowering others and made it a part of our corporate charter. We call it ***E3***.

- We give **our time** through our quarterly *Epic Outreach* program, serving where the greatest needs are through local charities serving around the Charlotte area as well as internationally around the world.
- We give **our talent** through administering financial awareness workshops for organizations and churches that minister in low income neighborhoods, while working with organizations such as Common Wealth Charlotte.
- And we give **our treasure** through our *Epic Impact Grant Program* to local community and global organizations that meet our social outreach criteria.

We believe that we are all called to serve. We also believe that the positive impact one can make by empowering the life of another can alter the direction of that individual's life forever.

We are pleased to announce that we have opened up our quarterly Epic Outreach initiatives to include volunteer participation from clients of Epic Capital. Please consider joining us during one of our upcoming volunteer efforts.

Dilworth Soup Kitchen – Q3 2018

What a great honor to prep for and then serve the men, women and children that stopped in the Dilworth Soup Kitchen for Lunch on Monday. This is a special place, no doubt about it. With over 125 visitors in just over 1-hour, it was a heart-warming site to behold, and they truly made each of us feel like part of the DSK family. Everything here is donated, there is no government funding, and all of the kitchen support comes from volunteers. Most importantly, there is no cost for the guests, and everyone is welcome to come share a meal. We urge you to consider Dilworth Soup Kitchen in your philanthropic giving plans, and/or to serve along side and on behalf of an amazing group of individuals. For more information visit their website at https://dilworthsoupkitchen.org

If you would like to consider other volunteer opportunities, or to learn more about over 400 local non-profits in the Charlotte region, please visit a community partner of ours who we hold in very high regard: **Share Charlotte** https://sharecharlotte.org/

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Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal Bonds are federally tax-free but other states and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

This information is not intended to be a substitute for specific individualized tax, legal or investment planning advice.

Questions, comments, and inquiries are welcome: info@EpicCapital.com

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