

CAPITAL MARKETS ESG INSIGHTS

JULY 2022



WELCOME

In this latest iteration of MHP Capital Markets' quarterly ESG Insights newsletter, we examine how perceptions of ESG have evolved over the past six months following a wave of criticism across the market questioning its relevance and future. With Scope 3 emissions dominating the corporate climate responsibility agenda this year, we take a closer look at how corporates are communicating their approach to becoming net zero in their supply chains. Whilst this remains an important focus, we also explore how the market is beginning to look beyond net zero, examining those companies that are committing to take this further and become climate positive, and what this looks like in practice. We also feature Tyman as our Client in Focus.

For any questions or feedback please contact us at esg@mhpc.com

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IS THIS THE END OF ESG?

Over the past six months, the debate around ESG, its relevance and future, has featured heavily in the business media. Oliver Shah, Associate Editor at The Sunday Times, argued that [the war in Ukraine exposed the failings of ESG](#), calling for its replacement with “something called CDP — common sense, decency and pragmatism”.

The Financial Times, meanwhile, called 2022 a ‘reckoning’ for ESG, after a major greenwashing scandal at DWS led to police raids at the German asset manager and its majority owner Deutsche Bank, and an investigation by the German financial regulator.

Despite widespread accusations of greenwashing and media sentiment towards ESG turning negative, ESG investing itself remains robust. The FT reported in June that [global ESG indices are holding up fairly well in the market turmoil this year](#), with commentators arguing that the structural drivers which underpin sustainability trends both at a consumer and policy

level are important for longer-term support. Indeed, wealth managers told FT Money that investors remained committed to sustainability despite the “short-term headwinds” against it. Even so, this trend might be changing, as [US ESG equity funds](#) reportedly experienced a record month of outflows in May, following three years of inflows.

Another consideration is ESG ratings, a topic we touched upon in the last edition of [ESG Insights](#). A recent [Bloomberg article](#) questioned the validity of MSCI’s ESG ratings, arguing that “there’s virtually no connection between MSCI’s “better world” marketing and its methodology”. There is clearly a disparity between investor sentiment and appetite for sustainable and ethical investment strategies, and the way companies are rated by ESG agencies, with many institutional investors shunning the larger rating agencies in favour of independent providers or their own proprietary analyses.

“I would like to propose switching ESG for something called CDP — common sense, decency and pragmatism”

Oliver Shah

Associate Editor, The Sunday Times

SECTION 01

IS THIS THE END OF ESG?

Wherever you look, there is further evidence of cynicism towards ESG as a concept, with one of the most surprising examples being ESG evangelist and Global Head of Sustainability at Franklin Templeton, Anne Simpson, declaring to delegates at a recent NY conference: “I think it’s time for RIP ESG”.

What this moment requires, perhaps, is a pivot to a sustainability-led, common sense investment strategy, rather than a radical reckoning, that accounts for the complexity of the global financial markets. This work is already being done in the UK and beyond: the Financial Conduct Authority recently expressed its support for the regulation of ESG data and ratings agencies.

Progress made to evolve ESG factors in investment decisions and corporate governance – to reflect a more nuanced, pragmatic approach – is

unquestionably a positive outcome for society. As ESG has become mainstream, boardrooms have been less able to ignore its role in decision making, and it has clearly prompted how we should all think about the fundamentals of sustainable business.

Rather than collective disregard, there needs to be a constructive debate on ESG and its future. There is clear rationale for the regulation of ESG data and metrics, creating a global standard for green taxonomies and addressing current accusations of ‘box-ticking’ and dogmatism in the industry.

In doing so, we can shape a system that delivers financial returns and incentives, whilst also working for people and the planet.

“I think it’s time for RIP ESG”

Anne Simpson
Global Head of Sustainability
at Franklin Templeton

SECTION 02

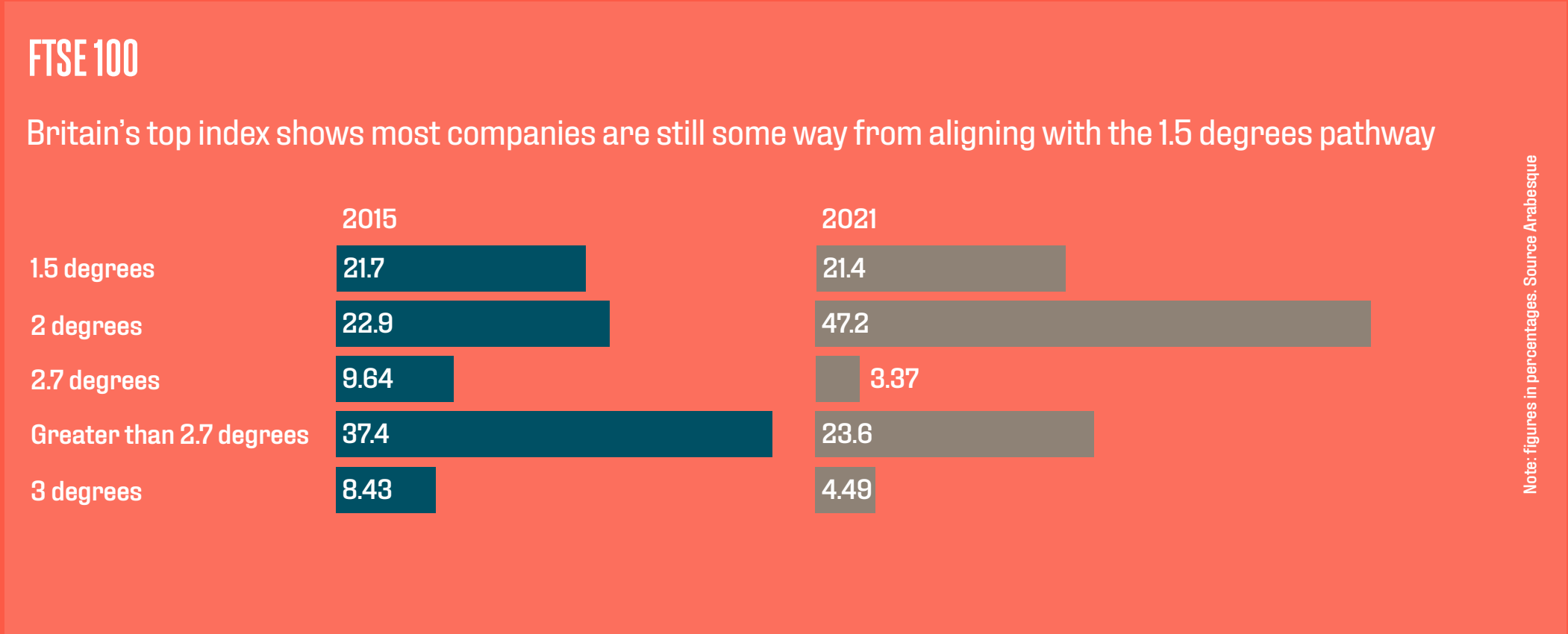
SCOPE 3 EMISSIONS: HOW ARE CORPORATES COMMUNICATING THEIR APPROACH?

We previously wrote on the topic of Scope 3 emissions [back in January](#), where we highlighted the challenges facing corporates given the proportion of emissions that are Scope 3. On average, they are **11.4 times higher than operational emissions** and account for more than **70% of a corporate's carbon footprint**. If you strip out the Utilities sector, that figure is closer to 90%.

According to [EcoAct's Climate Reporting and Performance](#) report published last year, two thirds of FTSE 100 companies have now committed to net zero. However, only 36% of the FTSE 100 have set Science-Based Targets (SBT) to reduce Scope 3 emissions.

As of 2022, the [FTSE 100](#) has not improved its contribution to limiting global warming [since 2015](#),

according to a study released alongside the [UN's IPCC report](#), which warned that climate change is worse than originally feared. However, a report published by [ESG Book](#) indicated that FTSE 100 companies are on track to reduce global warming to 2 degrees by 2050, with the proportion of companies aligned with this goal nearly doubling from 23% to 47% between 2015 and 2021.



SECTION 02

SCOPE 3 EMISSIONS: HOW ARE CORPORATES COMMUNICATING THEIR APPROACH?

Of the 36% of the FTSE 100 that have a specific target to reduce Scope 3 emissions, a smaller proportion commit to reaching net zero as a whole, inclusive of these emissions, with the majority instead targeting net zero in specific areas of their supply chain, or in some cases committing to become “carbon neutral” rather than “net zero”. For those companies that do commit to reaching net zero – inclusive of Scope 3 emissions – in most cases, there is minimal detail on how they actually plan to reach this target.

There is still a large number of companies that are yet to commit to a specific net zero target including Scope 3. For

this subset of the market, the majority are typically in the process of measuring Scope 3 emissions, or working to gain a better understanding of exactly where they are generated. In the interim, the collective focus is on reducing Scope 1 and Scope 2 emissions, with – in most cases – detail available on where these emissions are generated, a clear plan to reduce them and, in some cases, progress made so far.

At this point in time, the majority of corporate Scope 3 net zero commitments are headline statements with limited detail on methodology. This approach does vary by sector, however, given the diverse range of business models and varying degrees of energy consumption and / or supply chain complexity.

For those companies that are yet to make a firm Scope 3 commitment, but where decarbonisation within an organisation is already underway, many are using their communications to signpost any ongoing processes to determine Scope 3 emissions, with plans to reach a net zero target inclusive of Scope 3 to be announced in due course. Others have simply referenced that their ambition is to reach net zero in time.

Overall, there is no preferred way to approach the challenge of the energy transition, with most corporates taking the view that showing willing, progress and taking this cause seriously is, in the first instance, their main priority.

NET ZERO

Any CO2 released into the atmosphere by a company's activities is balanced by an equivalent amount removed, in line with the latest climate science. Remaining residual emissions can be balanced through carbon removal credits

CARBON NEUTRAL

Any CO2 released into the atmosphere from a company's activities is balanced by an equivalent amount being removed

CLIMATE POSITIVE

Activity goes beyond achieving net zero carbon emissions to create an environmental benefit by removing additional carbon dioxide from the atmosphere (i.e. positively impacting the climate)

FROM NET ZERO TO CLIMATE POSITIVE: AN EMERGING TREND


Against a backdrop of geopolitical instability, the residual effects of the pandemic, and rising allegations of greenwashing, the net zero agenda has been thrust even further into the spotlight.

Hundreds of net zero pledges have been made by companies across the globe, particularly in the wake of COP26, where the European Commission announced plans to step up investments in climate-positive infrastructure. However, meeting exponentially rising energy demand while reducing carbon emissions will require deeper commitment from corporates, policy changes from governments and, crucially, further investment.

ESG investing continues to be the fastest growing segment of the asset management industry.

Yet increasingly, investors are rethinking how they assess sustainable investments, as the concept of ESG becomes more fluid and definitions come under closer scrutiny.

Investors are being forced to look beyond investing in specific areas such as green energy or sustainable agriculture, which can be volatile and bring greater risk, or pursuing investment strategies that exclude sectors that are perceived to be poor ESG performers. Many are now considering an investment approach where corporates are considered if they can demonstrate a net positive impact on the world.



“At Burberry we believe our long-term success depends on creating a net zero future. Linking sources of funding to sustainable initiatives will help drive this, not only in the luxury industry but also across the wider economy.”

Julie Brown

Chief Operating and Financial Officer at Burberry

SECTION 03

FROM NET ZERO TO CLIMATE POSITIVE: AN EMERGING TREND

The pool of such companies is widening. Corporates are moving beyond a 'box-ticking' approach to ESG and demonstrating how they are offsetting the negative impact of their operations through contributory action which adds – rather than removes – environmental, societal, and economic value.


In terms of climate action, several high-profile companies have committed to a climate positive approach which goes beyond achieving net zero carbon emissions to create environmental benefit by removing more carbon dioxide from the atmosphere than is being emitted.

At the start of 2022, luxury fashion house Burberry [refinanced its revolving credit facility](#) to a £300m sustainability-linked loan as part of the company's ambition to become climate positive by 2040. The loan is linked to the achievement of key ESG targets and specifically includes accelerating the reduction of Scope 3 emissions. Similarly, Ikea [declared in](#)

[January](#) that it was on track to go beyond net zero and become climate positive by 2030, announcing that in FY21 it had cut emissions by 6% despite reporting record sales.

Microsoft has gone even further. Having been carbon neutral since 2012, in 2020 it announced its plans to be carbon negative by 2030 and to balance out all the emissions it has ever produced by 2050 by investing in sustainable technologies such as carbon sequestration. It provided an [update on its progress this year](#).

The Intergovernmental Panel on Climate Change (IPCC) has expressed confidence that by channelling capital effectively, it could be possible to limit warming to below 2°C by 2030. In a [recent report](#), it stated that, while current financial flows are three to six times lower than levels needed to reach this target, sufficient global capital and liquidity exists to close such investment gaps.



As the trend towards net positive accelerates and corporates demonstrate more tangible evidence of commitment and delivery, investors must consider modifying strategies to ensure capital is channelled towards effectively offsetting negative impacts.

CLIENT IN FOCUS - TYMAN

Tyman is a leading international supplier of engineered fenestration components and access solutions to the construction industry. The Group designs and manufactures highly-engineered products that enhance the comfort, sustainability, security, safety and aesthetics of residential homes and commercial buildings, covering all aspects of the hardware and sealing solutions required for doors and windows, and a full suite of solutions for roof, wall and floor access.

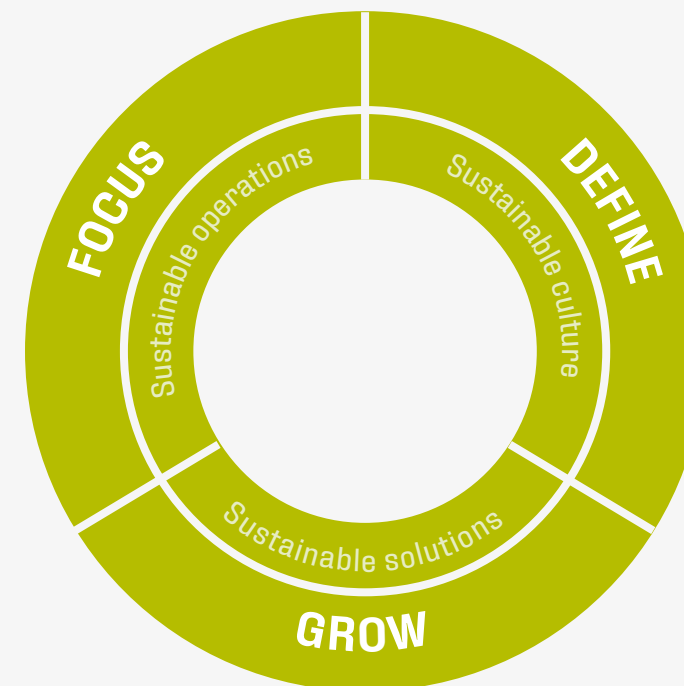
EMBEDDING SUSTAINABILITY ACROSS TYMAN

Tyman's sustainability roadmap was established in 2020 and embedded at the core of the Group's strategy, with the three pillars of Sustainable Operations, Sustainable Culture and Sustainable Solutions aligned with and reinforcing the Focus, Define, Grow strategy.

The strategy is guided by Tyman's purpose and reflects that there is still much value to be realised in the near term from activities that will optimise its business, build a more cohesive culture, and create a stronger base.

Combined with the growth initiatives that leverage the Group's inherent strengths, Tyman's strategy aims to deliver margin expansion and consistent profitable

growth, establish a high-performance culture, and make a positive impact on the environment and in the communities within which it operates, creating meaningful long-term value for all stakeholders.



“Sustainability is at the core of our ‘Focus, Define, Grow’ business strategy. For Tyman, this means addressing our own operational climate impacts as well as designing products that promote climate resilience through energy efficiency, hazard protection and product decarbonisation. TCFD provides us with a framework to systematically assess climate impacts so we can build business resilience and ultimately drive positive environmental and societal impact through more sustainable solutions. We are pleased to be an official TCFD supporter.”

Jo Hallas
Tyman CEO

SECTION 04

CLIENT IN FOCUS - TYMAN

SUSTAINABILITY AT TYMAN

In 2020 Tyman completed a thorough review of the sustainability landscape, including benchmarking the practices of over 50 customer, competitor and peer group companies to inform the development of its 2030 sustainability roadmap. Using the SASB materiality map and GRI as a guide, Tyman engaged with both internal and external stakeholders and developed a detailed materiality matrix. This was then mapped against the UN Sustainable Development Goals (SDGs) in order to understand where Tyman is best placed to make a meaningful contribution.

The outcome was a comprehensive sustainability roadmap that sets out Tyman's ambitions and action plans through to 2030 under the three pillars of Sustainable Operations, Sustainable Culture and Sustainable Solutions, all of which are aligned to specific UN SDGs.



SUSTAINABLE OPERATIONS

Tyman's ambition is to transform its environmental performance by reducing its carbon footprint, water use and waste

GOAL	SDG TARGET
	TARGET 8.8 Promote safe and secure working environments or all workers
	TARGET 6.4 By 2030, substantially increase water-use efficiency and address water scarcity
	TARGET 7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
	TARGET 12.5 By 2030 substantially reduce waste generation through prevention, reduction, recycling and reuse

SUSTAINABLE CULTURE

Tyman's ambition is to be recognised as an ethically-led employer that people want to work for

GOAL	SDG TARGET
	TARGET 16.5 Substantially reduce corruption and bribery in all its forms
	TARGET 4.7 By 2030, ensure all learners acquire the knowledge and skills needed to promote sustainable development
	TARGET 10.2 By 2030, empower and promote the social, economic and political inclusion of all

SUSTAINABLE SOLUTIONS

Tyman's ambition is to offer more innovative products and services to help its customers reach net zero, promote circularity and create safer, more inclusive communities

GOAL	SDG TARGET
	TARGET 7.3 by 2030, double the global rate of improvement in energy efficiency
	TARGET 13.1 Strengthen resilience to adaptive capacity to climate-related natural disasters
	TARGET 11.1 By 2030 ensure access for all to adequate, safe and affordable housing
	TARGET 8.4 Improve global resource efficiency in consumption and production to decouple economic growth from environmental degradation
	TARGET 12.2 By 2030, achieve the sustainable management and efficient use of natural resources
	TARGET 12.4 Achieve the sound management of chemicals and all wastes throughout their lifecycle

SECTION 04

CLIENT IN FOCUS - TYMAN

WHAT'S NEXT FOR TYMAN'S SUSTAINABILITY JOURNEY

Tyman aims to become carbon neutral for its operational emissions (Scope 1 and 2) by the end of 2030. This will require a holistic approach to energy efficiency, the procurement of renewable electricity and battery electric vehicles, the deployment of renewable energy technologies, other innovations and carbon removal projects for the final hard-to-reduce emissions. In 2021, operational carbon emissions were reduced by 7% compared to 2020 and water consumption was down 45%.

To support its climate goals, Tyman appointed external advisers and signed up to the Science Based Targets initiative in order to play a role in delivering the level of decarbonisation required under the Paris Climate Agreement. Tyman expects to publish its Science Based Target in early 2023.

In 2021, Tyman increased its revenues from products positively impacting the SDGs in use to 21% of global revenues, up from 19% in 2020. Tyman will continue to enhance its understanding of the risks and opportunities of a changing climate on its business, implementing mitigation

measures where necessary and growing sales of climate resilient products to save energy (SDG 7) and protect against severe weather (SDG 13).

Going forward, further reductions in energy, water and waste will be a key area of focus, together with the roll out of solar energy technologies at key locations (such as Tyman's i54 facility in Wolverhampton shown below) and the elimination of single use plastic packaging. Purchased raw materials will be a priority area for attention by optimising product designs and increasing material recycled content.



Tyman's progress has been recognised in its ESG ratings, with MSCI awarding an AA 'leader' grading and both S&P Global and Sustainalytics ranking Tyman in the top 20% of building products peers globally.



Find out more: [Tyman Sustainability](#)

Read Tyman's: [Annual Report](#)

SECTION 05

IN CASE YOU MISSED IT...

On 29 June, environment ministers of the 27 EU member states **agreed to a range of tougher climate related measures**, including the establishment of a Social Climate Fund to address the impact of carbon pricing on vulnerable citizens.

On 29 June, the Climate Change Committee (CCC) **unveiled a detailed report** tracking the decarbonisation progress of the UK's major sectors against the 2050 net zero target, revealing current government policy will miss its net zero target.

On 28 June, The Taskforce on Nature-Related Disclosures (TNFD) **released the latest pilot of its framework** to help corporates outline and disclose nature-related risks, with plans for a finalised framework to be released in late 2023.

On 24 June, relating to the invest or divest argument, Mark Carney's Global Transition Fund, the world's largest impact fund, announced it **will focus on investing in companies with large carbon footprints** to accelerate their clean transition plans.

On 21 June, the European Council and European Parliament **struck a provisional agreement** on the Corporate Sustainability Reporting Directive (CSRD) which will require companies to be more transparent on the impacts of their activities and supply chains, as well as their ESG-related risks and opportunities.

On 20 June, the Chair of the European Securities and Markets Authority told asset managers to **make more effort to avoid misleading disclosures** to investors about the 'greenness' of a financial product.

On 10 May, Blackrock, the world's largest money manager with more than \$10tn in assets, **warned that it will not support most shareholder climate resolutions** because they have become too extreme or prescriptive.

On 22 April, **new research** revealed FTSE 350 companies are increasingly linking remuneration packages to environmental goals.

UPCOMING KEY EVENTS

Event	Date
Bloomberg Sustainable Business Summit (Singapore and Virtual)	27 July 2022
Bloomberg Equality Summit, (London and Virtual)	18 October 2022
International Conference on Climate Change in Complex Systems and Policy ICCCSPP	26-27 July 2022
Chief Sustainability Officers for SDGs High-level Political Forum	13 July 2022
International Conference on Environment and Climate Change ICECC	23-24 September 2022
Reuters Sustainability Reporting & Communications	22-23 November 2022

LINK TO PREVIOUS MHP CAPITAL MARKETS ESG CONTENT

[MHP ESG Insights: April 22](#)

[MHP ESG Insights: Supply Chains](#)

[MHP ESG Insights: January 22](#)

[MHP @ COP26: In Conversation with Mark Landler](#)

[MHP ESG Insights: COP26 Roundup](#)

[MHP ESG Insights: In Discussion with Mark Babington at the FRC](#)

[MHP ESG Insights: October 21](#)

[MHP ESG Insights: July 21](#)

[MHP ESG Insights: April 21](#)

MHP CAPITAL MARKETS

MHP Capital Markets provides strategic financial communications advice to private and public companies across a range of sectors. We advise companies on all aspects of their engagement with the capital markets, from financial reporting, M&A, IPOs and fundraisings to corporate profile-raising activity, ESG communications and reputation management.



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