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King Tower Asset Management

The Four Principles of Market Environmentalism – How the Principles Can Be Used Toward Sustainable Investing

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As with all investments, your capital is at risk

The Four Principles of Market Environmentalism

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How the Principles can be used toward Sustainable Investing



The Cedar Portfolio



Richard Bonugli
CEO and Founder

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Notable Quotes

“All the hot air surrounding the climate change debate has contributed its fair share to warming the earth. Who could potentially finance all the new Green New Deals of this world, all these expensive policies that are demanded but not prized in? Instead of devising solutions that will land us in another economic crisis of unforeseeable dimensions, it might be more prudent to survey the market-based solutions to the environmental problem.”

Dr. Barbara Kolm,
Vice President of the Austrian National Bank (OeNB) and Director of the Austrian Economics Center

“For innovative solutions to environmental problems, the last places one should look are the smoke-filled rooms of politicians or the paper-stuffed file drawers of career bureaucrats. Problems are most often found and more effectively solved when we place a premium on positive incentives, cutting-edge technology and competitive entrepreneurship.”

Lawrence W. Reed,
President Emeritus of the Foundation for Economic Education

“The idea of a more sustainable, cleaner, and social economic system is not new .. it is happening as we speak thanks to competition and technology .. consumers are already making companies all over the world implement increasingly higher sustainability and environmentally friendly policies .. If we want a more sustainable world, we need to defend sound money policies .. free markets .. will make this world better for all.”

Daniel Lacalle,
Economist and Fund Manager, Chief Economist at Tressis SV



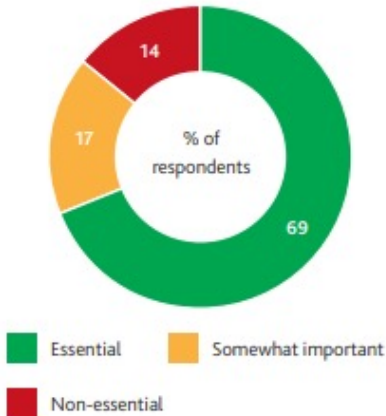
Overview

- 01 Trends in Sustainability Investing
- 02 Challenges of Sustainability Investing
- 03 Interesting Studies – Sustainability/ESG Investing
- 04 Market Environmentalism
- 05 Examples
- 06 Elements of Best Practices in Sustainability Investing



Trends in Today's Sustainability Investing Environment – Special Report: “The next stage of ESG evolution in the pension landscape” by Amin Rajan

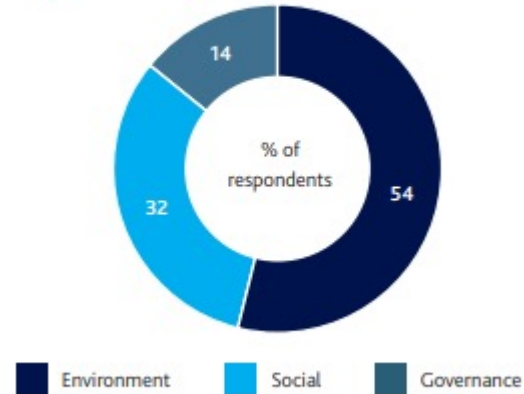
When it comes to impact investing, how essential are market-level returns to your pension plan, in addition to non-financial outcomes?



Source: Amundi Asset Management / CREATE-Research Survey 2023

Investors want market-level returns in addition to non-financial outcomes

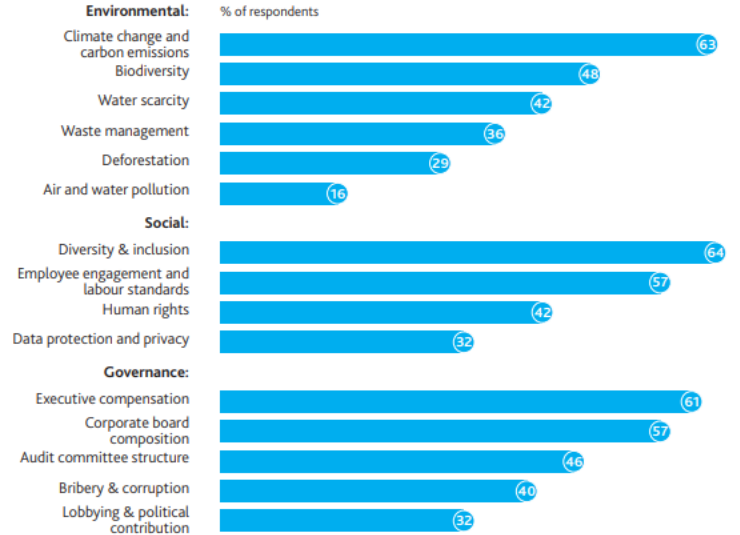
When considering ESG investments, which component do you consider to be the single most important?



Source: Amundi Asset Management / CREATE-Research Survey 2023

Investors have a greater focus on environmentalism

Which themes currently feature highly or are likely to feature highly in your pension plan's investment portfolio over the next three years?



Source: Amundi Asset Management / CREATE-Research Survey 2023

Within the environmentalism focus, investors are looking at climate change, carbon emissions, biodiversity

Challenges in Today's Sustainability Investing Environment

- *Is it possible to simultaneously target generating portfolio returns and invest in sustainability?*
- *Is it possible to invest in businesses that are actually profitable, and also helping society and the environment at the same time?*
- *Is it possible to invest in economical-based businesses that promote the 17 UN Sustainable Development Goals and providing a transition to renewable energies?*
- *Is it possible to invest in businesses aligned with the positives of human nature, instead of agenda-based environmentalism*



Are there studies supporting a Sustainability Investing approach?



Deutsche Bank – University of Hamburg

- *Positive link between stronger ESG management and better financial performance – [link here](#)*

University of Oxford and Arabesque Partners

- *Positive relationship between sustainability with equity performance and with lower cost of capital – [link here](#)*

Harvard Business Study

- *Focusing on material sustainability issues can be value-enhancing for shareholders – [link here](#)*

Alex Edmans on The Business Case for Purposeful Business

- [link to presentation](#)



Are there studies supporting a Sustainability Investing approach?



International Journal of Trade, Economics and Finance

- *The impact of ESG practices on Economic Performance using evidence from ESG scores – [link here](#)*

Rock Center for Corporate Governance – Stanford University

- *Business case for ESG – [link here](#)*

MDPI – Economic and Business Aspects of Sustainability

- *ESG performance enhances firm value – [link here](#)*

New York University STERN

- *Relationship between ESG and financial performance – [link here](#)*



Are there studies supporting a Sustainability Investing approach?

School of Economics and Management, North China Electric Power University

- *Positive correlation between ESG development and financial performance of large listed power generation companies – [link here](#)*

Journal of Business Ethics

- *Firm size has a significant influence on the ESG score, the pressure to disclose social and ecological aspects of the company increases with higher firm visibility – [link here](#)*

Romanian – American University; University of Craiova

- *The positive impact of ESG factors on market value of companies from travel and tourism industry – [link here](#)*

Urban Institute, Kyushu University

- *Higher market value & financial capacity usually come up with more ESG-related actions – [link here](#)*



What is the Austrian School of Economics?

Why use it as the basis of a Sustainability Investment Philosophy?

Investment Philosophy with a Dual Mandate:

- *Value-Investing approach based on the principles of the Austrian School of Economics, a unique school of thought initially developed in the 1870s in Vienna, Austria*
- *Principles emphasize enduring businesses with high free cash flows and manageable debt, together with elements of innovation, entrepreneurialism, and stores of value*
- *Provides a powerful advantage in an era beset with excessive debt and leverage*
- *Dual Focus Challenge – Identify great, successful businesses which are helping society and the environment and at the same time target outperforming portfolio returns*



Market Environmentalism – Four Principles from the Austrian School of Economics

01

Market Economy



02

Private Property Rights



03

Decentralization



04

Optimism and Innovation



Market Economy

Economic and environmental success are not mutually exclusive. While many claim the “market approach” has been tried, it is a “crony approach” that has often prevailed, marked by fossil fuel subsidies, energy monopolies, and regulatory capture.

The freer an economy, the better its environmental outcomes. As economies grow richer, they become more efficient and environmentally conscious, which leads to a gradual decoupling of economic growth and pollution.

Only the market economy’s dynamic nature incentivizes entrepreneurs to do “more with less” and to create innovations that limit our ecological footprint.

Free trade is crucial for both innovation and cooperation between people around the world, to jointly tackle environmental challenges.



Market Economy

The Monetary Authority of Singapore (MAS) has launched the Singapore-Asia Taxonomy for Sustainable Finance (Singapore-Asia Taxonomy), which sets out detailed thresholds and criteria for defining green and transition activities that contribute to climate change mitigation across eight focus sectors.

The Singapore-Asia Taxonomy is the world's first taxonomy to pioneer the concept of a "transition" category, as MAS cites a need to properly contextualize "transition" for the Asian region.



SINGAPORE-ASIA TAXONOMY FOR SUSTAINABLE FINANCE



Desired outcomes

- Credible green and "transition" definitions and interoperability with other global taxonomies to:
- Align and steer concerted private and government financing
 - Reduce potential greenwashing and reputational risks
 - Promote cross-border financing flows

TAXONOMY FEATURES

Environmental objectives



Climate change adaptation



Climate change mitigation
(focus of this taxonomy version)



Biodiversity protection



Resource resilience



Pollution prevention and control

SPOTLIGHT:

CREDIBLE STANDARD ON EARLY PHASE-OUT OF COAL FIRED POWER PLANTS (CFPPS)

Key features



Plant and entity-level criteria to ensure managed phase-out transactions are credible, economically viable and socially inclusive:

- CFPPs phase-out by 2040 and operation duration less than 25 years, in line with International Energy Agency (IEA) 1.5°C- aligned decarbonisation pathway for global energy sector.
- CFPPs have positive fair economic value and demonstrate verifiable emissions savings.
- CFPP phase-out is replaced 1-for-1 with a portfolio of clean resources.
- Entity has just transition plan to mitigate impact on stakeholders and local community.



Criteria are consistent with global coal phase-out guidance, e.g. GFANZ; Climate Bonds Initiative, Climate Policy Initiative and Rocky Mountain Institute.



Private Property Rights

Property rights provide the incentives for both environmental sustainability and accountability. That which no one owns, no one cares for.

In contrast, ownership stimulates stewardship and responsibility.

Strong property rights also include the ability to trade resources, which allows for markets to reallocate natural resources for conservation purposes



Private Property Rights

NZ Fisheries encouraging people to have their say on proposed changes to fisheries settings

Stratford Press

13 Jan, 2023 12:00 AM © 3 mins to read

Save | Share



Proposals include pāua, scallops, kina, and spiny rock lobster fisheries. Photo / Unsplash

Fisheries New Zealand is asking for feedback on proposed changes to catch limits and other settings for four fisheries as part of its biannual sustainability review.

Proposals include pāua, scallops, kina, and spiny rock lobster fisheries.

Emma Taylor, Fisheries New Zealand's director of fisheries management, says every six months, Fisheries New Zealand reviews a range of fish stocks to ensure their long-term sustainability.

“With over 600 stocks in the quota management system (QMS), it's important that we prioritise which stocks we review. To do this, we consider factors including strength of science, information we receive from iwi, fishers, and communities about their local fisheries, and environmental factors.”

“This includes feedback we receive from tangata whenua, fishers, and communities about what they are seeing in their local fisheries. Where information suggests more fish can be harvested sustainably, we look to increase catch limits. On the other hand, if stocks aren't as healthy, catch limits can be reduced to help the fishery recover, or in some cases like SCA CS, closures are considered.”

Decentralization

Many environmental challenges are communal in nature, and local communities are better placed than governments to manage their shared resources.

Where central planners lack the on-the-ground information, communities benefit from the dynamic, decentralized knowledge necessary to implement effective conservation strategies.

Decentralizing power from government bureaucracies to local communities fosters closer cooperation, resource management, and environmental accountability.



Decentralization

Example from Schneider Electric – Municipal Government



Solutions

AlphaStruxure's Energy as a Service model integrated with EcoStruxure Microgrid solutions helped Montgomery County become a leader in fleet electrification — all with zero capital outlay and no risk.

Results

- Utilizes a 6.5 MW microgrid with battery energy storage, on-site solar, and more
- Advances the county's goal of reducing carbon emissions 80% by 2027, and 100% by 2035
- Ensures reliable transit for the county's 1.1 million residents

Montgomery County is a sizeable government that found itself with an equally sizeable problem. With 9,000 employees and 400 buildings totaling 9 million square feet, the Maryland county has a budget as large or bigger than many states. Bordering Washington, D.C., with over 1 million people, the county represents 16% of the state's economy.

Even before installing microgrids, Montgomery County was a clean energy leader. As early as 2009, the county set a goal to reduce greenhouse gases. In 2017, the county set an aggressive goal of an 80% reduction in greenhouse gasses by 2027 and a 100% reduction by 2035. The county has also installed 7.6 MW of solar, taken steps to make its buildings more energy efficient, and with the help of Schneider Electric's Energy and Sustainability Services, buys 100% clean energy for its facilities. Today, Montgomery County has achieved carbon neutrality, but seeks more directed efficiency through renewables and microgrids.

The county is making significant strides in sustainability, safety, and security. Microgrids and other upgrades to critical facilities have also improved the county's resilience, keeping residents safe and providing needed services even in the event of prolonged power outages.

The challenge: gaining resilience, going green, updating buildings — without breaking the budget

Two pivotal events led county leaders to pursue microgrids. The first occurred in 2012 when a devastating storm, known as a derecho, launched a surprise assault on the Mid-Atlantic.

Goal

Increase resilience, upgrade electrical infrastructure, and enhance sustainability — without upfront capital investment.

Solution

Install microgrids at two critical county facilities.

Story

After a devastating storm caused widespread outages, Montgomery County set out to find private partners to help mitigate the impact of future disasters. Schneider Electric was selected after a competitive bidding process.

Results

With the right partners, the microgrid solution:

- No upfront cost
- Incorporates other repairs and upgrades
- Improves efficiencies and enhances sustainability

Montgomery County pioneered a microgrid model others can follow.



Optimism and Innovation

Nihilism, degrowth, and misanthropy are the enemies of the environment.

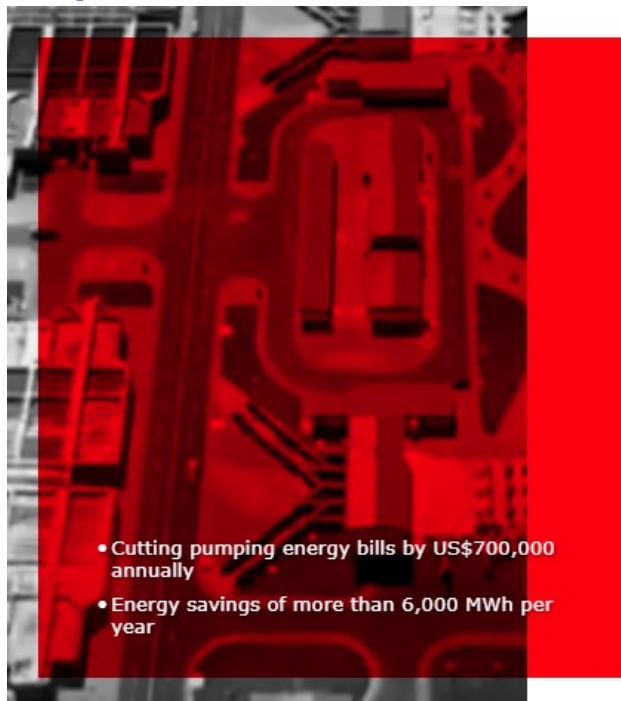
We must embrace optimism and the power of innovation to achieve real change. Humans are not a plague on the planet but rather the “ultimate resource,” capable of bringing forth innovative ideas and solutions to protect our environment.

Environmental challenges can be solved through innovation, technological progress, and entrepreneurship—while rejecting alarmist and unscientific approaches.



Optimism and Innovation

Example from ABB



- Cutting pumping energy bills by US\$700,000 annually
- Energy savings of more than 6,000 MWh per year

Helping Brazilian water and wastewater company cut pumping energy bills

Brazil

Challenge

Seeking to reduce high electricity costs for pumping in water and wastewater treatment, and to boost system reliability

Solution

The improvement project involved Saneago's four inlet water pumping stations where ABB ACQ580 water dedicated drives and motors, as well ABB Ability™ Digital Powertrain solutions comprising remote condition monitoring for motors, drives and pumps, Smart Sensor technology and cloud connectivity, proved to be perfectly suited to simultaneously resolve numerous challenges.

Outcome

Osmar Qualhato Junior, Energy Management Supervisor at Saneago, explains how the project developed. "One of our biggest overheads are our energy costs for pumping water. We knew we needed to lower electricity consumption and ABB suggested a solution that we found attractive, based on a combination of drives, motors and digital tools. We then worked together to systematically implement them."



Other Market Environmentalism Examples

For Farmers, Ranchers, Land Stewards

- Enhancing fish habitat by trading instream water flows
- Diversifying ranch income by providing recreation and hunting opportunities
- Enhancing farmer or rancher income through revenue streams from environmental groups for habitat preservation

For Companies involved with Commodity Efficiencies and Inputs

- Leverage technologies and innovations for energy efficiency enhancements, using less water and commodity inputs

For Companies involved in Pollution Reduction Including Carbon Emissions:

- Employ Robotics Process Automation (RPA) and Business Process Optimization to reduce carbon emissions and cut operational costs at the same time
- Leverage technologies and innovations for minimizing pollutant emissions



Decentralized Solutions

- Local Communities and Municipalities
- Landowners, Ranchers, Farmers, Stewards

For Governments

- Enhancing property rights and encouraging good stewardship of the environment and resources;
- Reviewing regulations towards fostering innovation, technology, entrepreneurialism;
- Fostering decentralized sustainability solutions based on the SEZ;
- Minimizing government subsidies that often degrade the environment;
- Promoting market incentives that spur entities/individuals to conserve resources, protect environmental quality;
- Enhancing legal infrastructure on polluters - should be liable for the harm they cause others.

For Companies Involved in Energy Transition

- Opportunity – receive income through revenue streams from environmental groups for habitat preservation;
- Opportunities – see later slides - Application of ABB, Schneider Electric, technologies for energy efficiencies on buildings, transportation, manufacturing, residences.

What approach make sense on Investing in ESG and Sustainability?

- ❑ *Implement an integrated view of ESG, Socially Responsible, and Impact Investing – all 3*
- ❑ *Incorporate the 17 UN Sustainable Development Goals (SDGs) as part of your analysis, and only invest in successful businesses that meet your high standards for helping society and the environment*
- ❑ *Assess comprehensive ESG metrics, positive screens and negative screens for Socially Responsible*
- ❑ *Assess the extent of Impact Investments by each business*
- ❑ *Take an active ownership approach with the businesses*



What approach make sense on Investing in ESG and Sustainability?

- ❑ *Include great businesses that cover aspects of design, implementation and operations of sustainable energy and environmental systems– generally greater net-profit in the design/implementation*
- ❑ *Assess great businesses' plans for transition strategies from legacy to future sustainable systems*
- ❑ *Include great businesses investing in clean, scalable and 0 carbon emissions nuclear fusion energy*
- ❑ *Emphasize great businesses enhancing efficiencies of production and use – not just minimizing waste*
- ❑ *Assess all organizational and industry life-cycle phases of carbon emissions, from design and manufacturing to operations – not just the end product like an EV battery or car*



What approach make sense on Investing in ESG and Sustainability?

- ❑ *Invest in intersecting trends, technologies and renewable energy transition:*
 - *Low Carbon/Green Hydrogen – CO waste product in steel; wood shavings; biomass gasification (carbon -)*
 - *Nuclear Fission/Cogeneration/Hydrogen*
 - *Low Carbon/Green Ammonia – fertilizers, chemicals, transportation, shipping, energy*
 - *Natural Gas arbitrage - fertilizers*
 - *Nuclear Fusion – oil and gas legacy revenue investments in private companies, EV, hydrogen*
 - *Energy efficiency technologies – innovation companies, also intersecting lifecycle of hydrogen/fusion*
 - *Oil/Gas, Recycling-based Steel, and Industrial Metal/Commodities companies in renewables*
 - *Inputs versus Services – like dot.com, emphasize investing in inputs required versus services*



Morgan Stanley Study, Earthshots by Ed Stanley



Impact Investing Examples

Schneider Electric – energy and automation solutions for efficiency and automation – based in France

- *Rated #1 top business by Corporate Knights – world’s most sustainable business*
- *Supporting SME with sustainable energy access and reforestation - Schneider Electric Energy Access impact fund*

ABB - robotics, power, heavy electrical equipment, and automation technology areas – based in Switzerland

- *Contributing to community projects and charities - in 2020, contributed to more than 340 (ABB Sustainability Report 2020)*
- *Donating time and funds - employees and businesses donated estimated \$10.1 million and 2,300 person-days in volunteer work (ABB Sustainability Report 2020)*

Oisix Ra Daichi – healthy and sustainable food from the farms to the supermarket – based in Japan

- *Providing long-term support to the food industry damaged by the Great East Japan Earthquake*
- *Providing school lunches for children in developing countries by choosing to eat healthy foods*

UPM-Kymmene – sustainable forest industry services and products – based in Finland

- *Promoting project on the conservation of environment in Uruguay*
- *Partnering with the Economy and Youth TAT’s Yrityskylä (Business village) project to teach children societal skills. The model society helps mentor kids in the skills of sustainable consumption and working life.*

Chr Hansen – natural ingredient solutions for variety of industries – based in Denmark

- *Supporting small local farmers in Kenya – together with CARE Denmark, CARE Kenya and local organizations*
- *Supporting Civil Society Organizations, such as Dairies without Borders, Chr. Hansen aiming to strengthen access to nutrition in developing countries by helping to develop small family run businesses*





The Cedar Portfolio

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