

STAKEHOLDER CAPITALISM ON A NEW GEOPOLITICAL BACKDROP

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THREE INTERCONNECTED MEGA-CRISES

Global economy in turmoil –
inflation, increasing food and energy
prices for all

Run-away climate change – now
impacting every country on the
planet

Pandemics – COVID still a challenge
with new zoonotic diseases such as
monkeypox spreading



“Cascading crises put the SDGs at risk”
The Sustainable Development Goals Report 2022



A TIPPING POINT FOR A RENEWED SOCIAL CONTRACT

Growing resentment towards oil and gas companies profiteering in the midst of climate and energy crises

- A new 2022 analysis verified by leading academic institutions calculated that the oil and gas sector had seen **\$2.8bn** in pure profit over the last 50 years
- Major oil and gas companies announced **11-figure profits** in the second quarter 2022. At the same time, global inflation hit **40-year highs** with recessions on the horizon
- UN Secretary-General Guterres calls it “immoral” and proposes a renewal of the social contract, urging all governments to **“tax these profits”**



“We will make sure that everyone knows Exxon profits
– Exxon made more money than God this year”

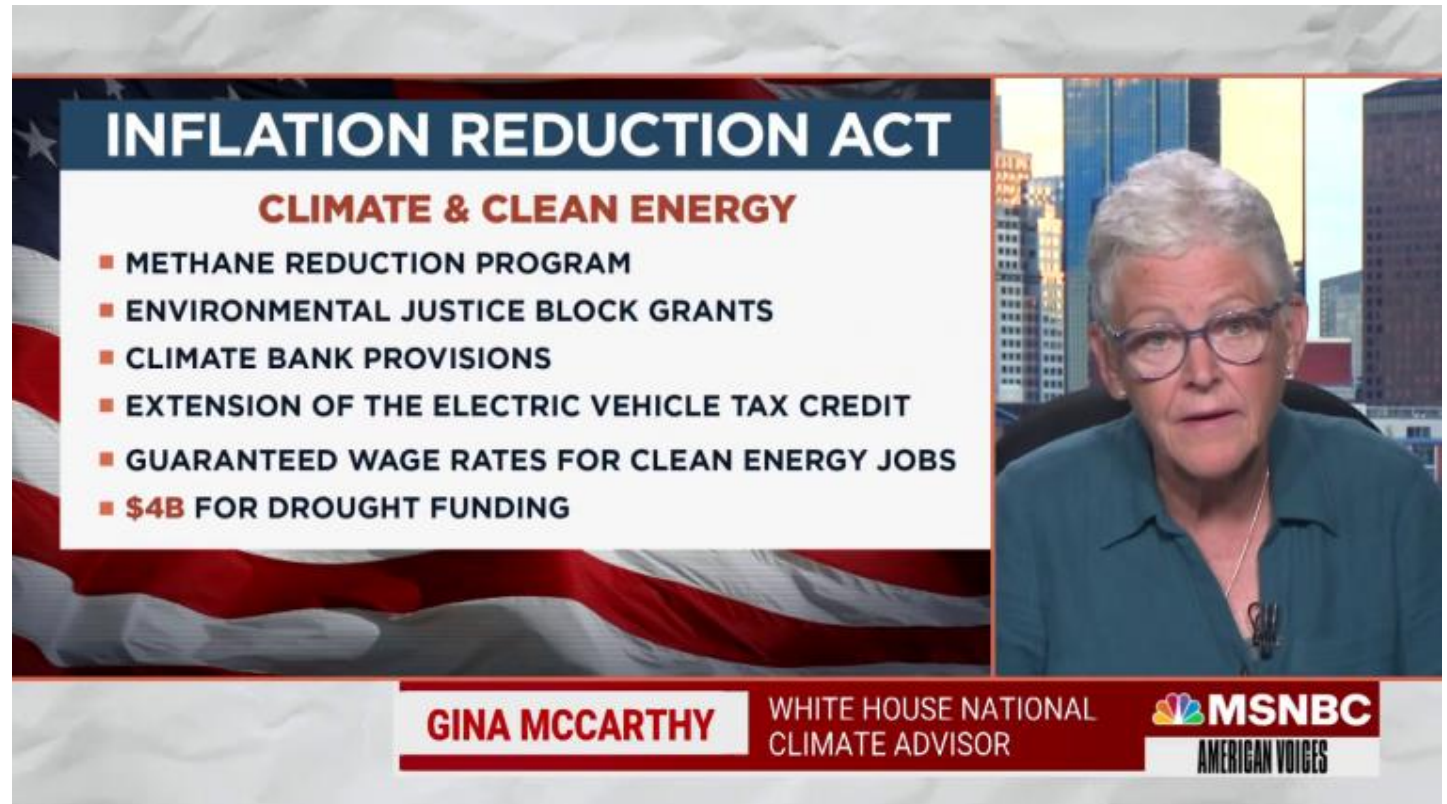
President Biden speaking on inflation at an event at the Port of Los Angeles 14 June 2022



LEADING TO A TIPPING POINT FOR THE GREEN ENERGY TRANSITION

Putin's war in Ukraine has foisted the equivalent of a global carbon tax on the world

- IEA recommended a carbon tax of **200-250 USD pr tonne** for the world to reach net zero emissions by 2030
- Present gas price is equivalent to a massive carbon tax of around **600-950 USD** according to Adair Turner, chair of the Energy Transitions Commission
- We are at a new tipping point where policy makers, citizens and companies rapidly make changes to renewable energy sources to save costs and make a political statement



GINA MCCARTHY

WHITE HOUSE NATIONAL CLIMATE ADVISOR

MSNBC
AMERICAN VOICES

Whitehouse:

“The Inflation Reduction Act could cut the social costs of climate change by up to \$1.9 trillion by 2050”

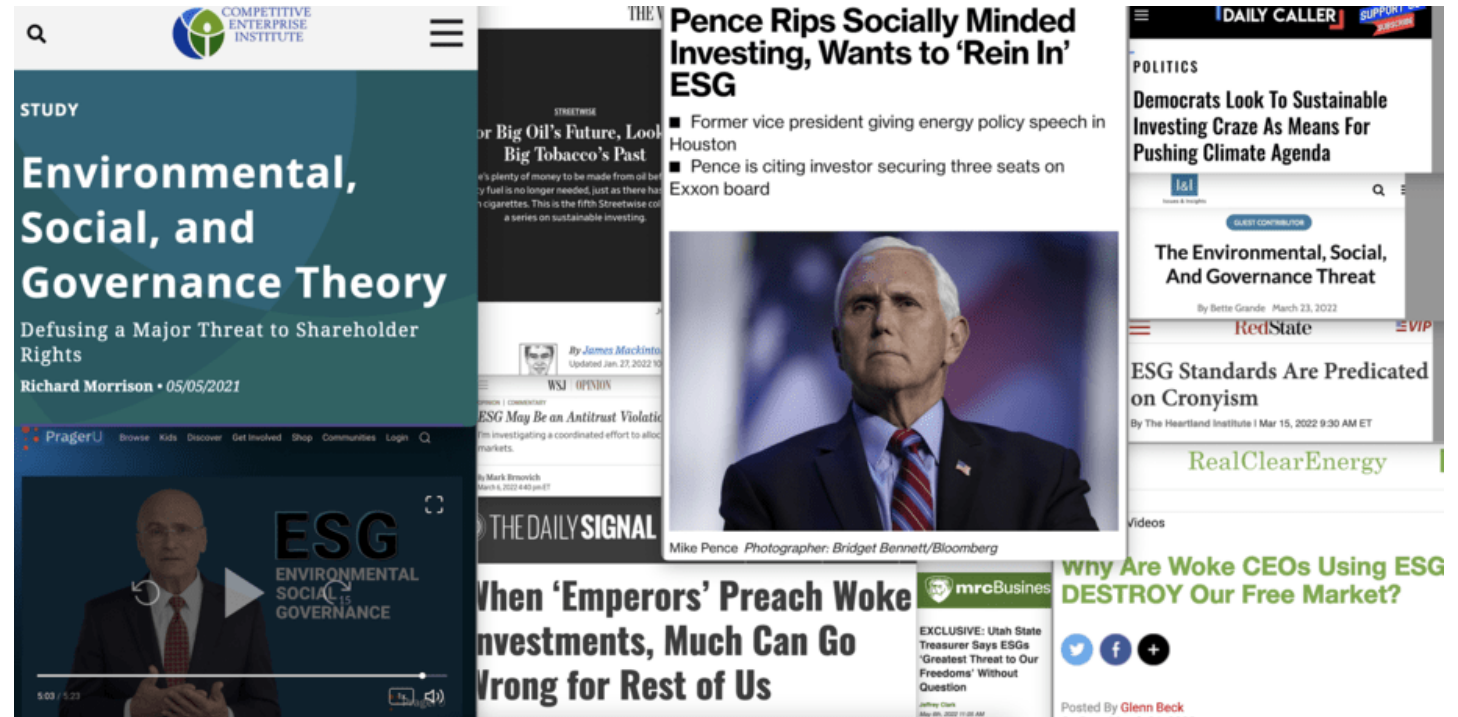
On 16 August 2022, the United States Senate passed the **Inflation Reduction Act** aimed at reducing energy costs and fighting the climate crisis.



LEADING TO AN ANTI-ESG POLITICAL MOVEMENT

A political backlash against ‘ESG-discrimination’, ‘woke capitalism’, ‘ESG political bias’ ‘leaning towards a ‘left-wing cancel culture’, ‘destroying the free market’

- In the US, 17 conservative-leaning states have introduced at least 44 bills to penalize companies with ESG policies this year
- Momentum is building, as 19 state attorneys general have asked the US Securities and Exchange Commission whether companies have put their ESG policies before fiduciary responsibilities
- States are protecting local market interests in oil, gas, weapons, forestry and extraction industries (a.o.) from ‘discrimination’ and ‘exclusion’



“In 2022 the woke left is poised to conquer corporate America and has set in motion a strategy to enforce their radical environmental and social agenda on publicly traded corporations. The shift is entirely manufactured by a handful of very large and powerful Wall Street financiers promoting left-wing environmental, social and governance goals (ESG) and ignoring the interest of businesses and their employees.”

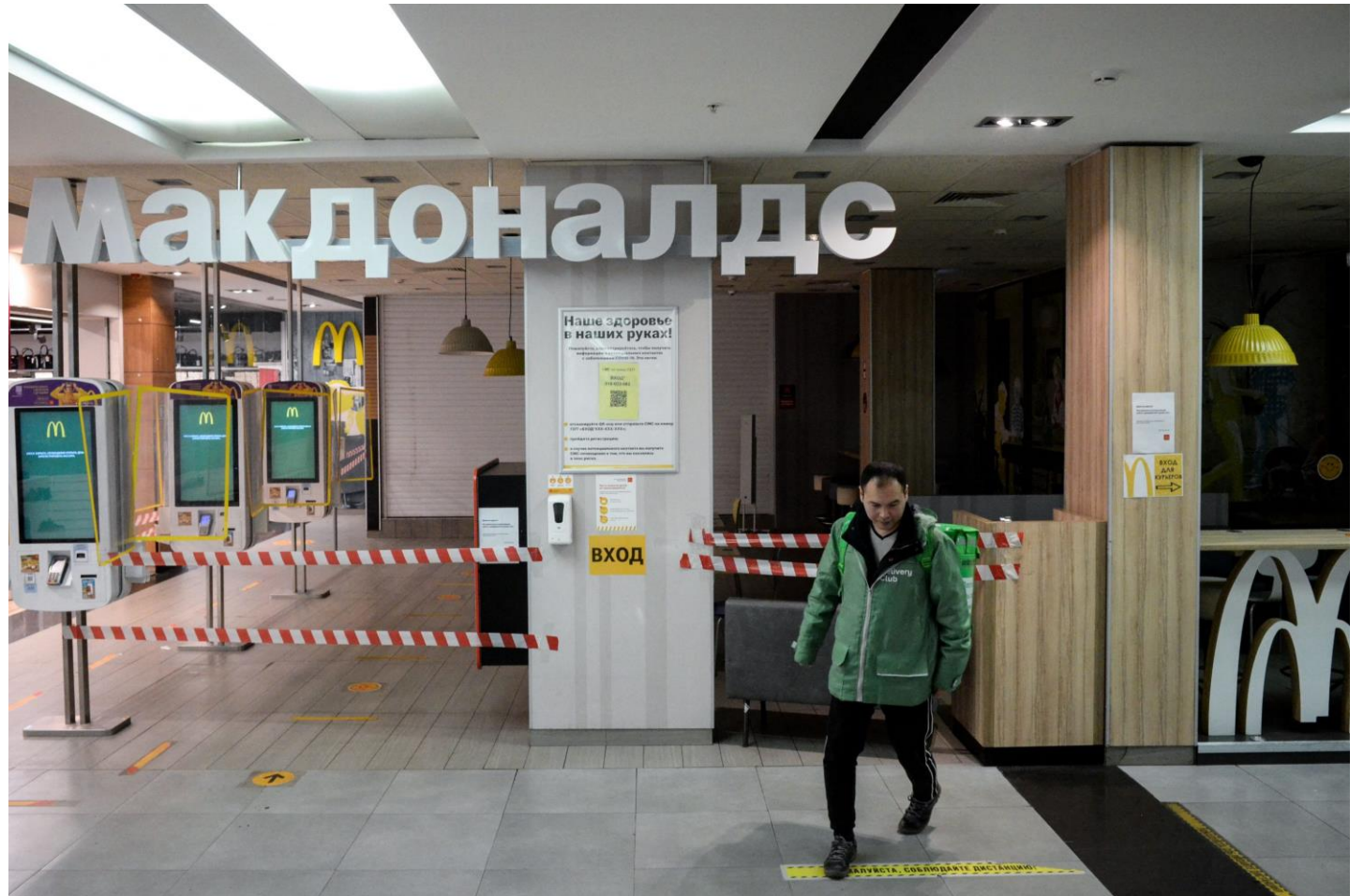
Mike Pence Opinion, Wall Street Journal, May 2022



BUSINESS CAN NO LONGER STAND AT THE SIDELINES OF GEOPOLITICS

“Business leaders are going to have to wake up fast and figure out how are they going to play in an **increasingly complex world** where sitting on the sidelines and saying, ‘I don’t have a moral position. I don’t have a political position. I don’t even have a geopolitical position.’ — Not going to work anymore,”

Ranjay Gulati, Harvard Business School Professor and author of the book - Deep Purpose: The Heart and Soul of High-Performing Companies



Fortune published “hall of shame” companies staying in Russia saw their stocks drop with 15-30% on a day where key market indexes only fell 2-5%



THE GLOBAL GOALS: IMPACT OF PANDEMIC AND CONFLICTS

“The 2030 Agenda for Sustainable Development is in grave danger, along with humanity’s very own survival”

– The Sustainable Development Goals Report 2022

- **The pandemic** wiped out more than **4 years of progress** of eradicating poverty with more than **24 million learners** at risk of never returning to school
- **One quarter** of the global population are living in conflict – not seen since 1946. A record 100 million people are forcibly displaced worldwide
- **War in Ukraine** is causing food, fuel and fertilizer prices to skyrocket and threatening a global food crisis
- The window to avert the **global climate crisis** it is rapidly closing. Greenhouse gas emissions need to peak by 2025, and then decline by 43% by 2030, falling to net-zero by 2050. Current national commitments point to a **14% increase** by 2030 instead of the sharp decline required
- **Women, children and vulnerable populations** are bearing the brunt of these crises



CODE RED FOR HUMANITY

“Targeting a climate resilient, sustainable world involves **fundamental changes** to how society functions, including changes to underlying values, world-views, ideologies, social structures, political and economic systems, and power relationships,”

IPCC 6th Assessment Report 2022:
Impacts, Adaptation, Vulnerabilities



“A liveable future is on the line”
2022 IPCC Climate Report



SENTIMENTS ARE CHANGING

In a push to ban fossil fuel advertising and sponsorship, more than 450 scientists signed a letter calling on PR and advertising agencies to stop working with fossil fuel firms and stop spreading climate disinformation

The Science-Based Targets Initiative (SBTI) and the Glasgow Financial Alliance for Net Zero (GFANZ) are under growing stakeholder scrutiny for enabling greenwashing, and tougher accountability measures and control mechanisms are instituted



“It is time to ban fossil fuel propaganda for being deadly and criminal, and driving us inexorably towards climate catastrophe”

Actor and climate activist Emma Thompson in The Guardian on 2 August 2022



OUR LIVES ARE CHANGING

“Pakistan is a window into a future of permanent and ubiquitous climate chaos on an unimaginable scale – at least half of all climate finance needs to go to adaptation and climate resilience, and funding needs to come from leading economies”

- Antonio Guterres, UN Secretary-General on 14 September 2022

In the **62** most vulnerable countries in the world, we are talking about a roughly **\$25.4 billion** increase in the food import bill compared to last year. And this is affecting **1.7 billion people**

- Maximo Torero Cullen, FAO’s chief economist September 2022



War and Warming - A New Breed of Crisis:

Unrest and climate change are creating an agonizing feedback loop that punishes some of the world’s most vulnerable people

The New York Times, August 2021



HUMAN RIGHTS ARE CHANGING

Human Rights are “greening”,
requiring businesses to consider
environmental impacts in their Human
Rights due diligence

October 8, 2021, the UN Human Rights
Council (UNHCR) formally recognised
“the right to a clean, healthy and
sustainable environment as a human
right that is important for the
enjoyment of human rights”



More than 90% of the world’s children are breathing
toxic air every day

World Health Organization, 2018



ECONOMIC THEORY IS CHANGING

Between 1992 and 2014, produced capital per person doubled, but the stock of natural capital per person declined by nearly 40%.

We must adopt different metrics for economic success. This requires moving towards an **“Inclusive” measure of wealth**, one that injects natural capital into national accounting.

Dasgupta Review on the Economics of Biodiversity, 2021



“Prosperity has come at a devastating cost to the natural world”

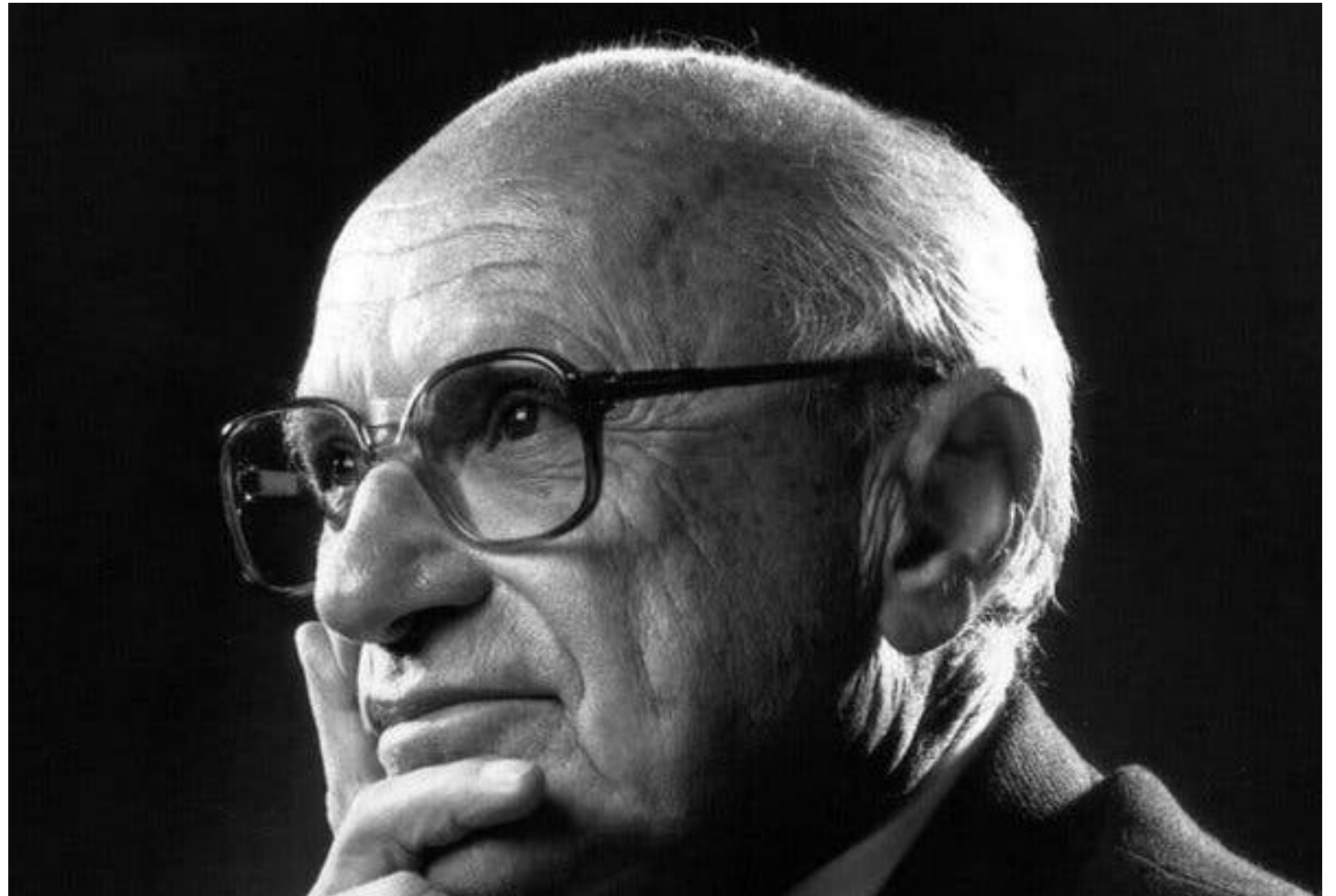
Prof Sir Partha Dasgupta, University of Cambridge,
Dasgupta Review on the Economics of Biodiversity, 2021



DUTY OF CARE IS CHANGING

As of the writing of the report, **shareholders earned five majority votes**--two at **Apple** ([AAPL](#)) on racial justice and concealment clause risks, one at **Costco Wholesale** ([COST](#)) on greenhouse gas reduction targets, one at **Jack in the Box** ([JACK](#)) on plastic packaging, which earned 95.4% of the vote, and one at **Walt Disney** ([DIS](#)) on gender and minority pay disparity.

Sustainable Investment Institute 2022



“There is only one social responsibility of business, and that is to increase its profits”
The Milton Friedman Doctrine September 1960



BOARD OVERSIGHT MUST CHANGE TO INCLUDE ESG

A top strategic priority

Boards must ensure full integration, target setting and monitoring of ESG across strategy, operations and stakeholder engagement of the company

Failing to consider ESG is seen as a breach of **fiduciary duty** in the EU, and thus AGM elected board members are required to ensure a high level of ESG performance and oversight



YOUNG PEOPLE DEMAND CHANGE

Nearly **40%** of millennials have chosen a job because of company sustainability. Less than a quarter of gen X respondents said the same, and **17%** of baby boomers.

Nearly **70%** said that if a company had a strong sustainability plan, it would affect their decision to stay with that company long term.

Another **30%** said that they've left a job in the past because of the company's lack of a sustainability plan.*

* Fast Company survey, February 2019



“Millenials are 2X as likely as the overall investor population to invest in companies targeting social or environmental goals.”

Morgan Stanley



STAKEHOLDER CAPITALISM AND THE ROLE OF INVESTORS

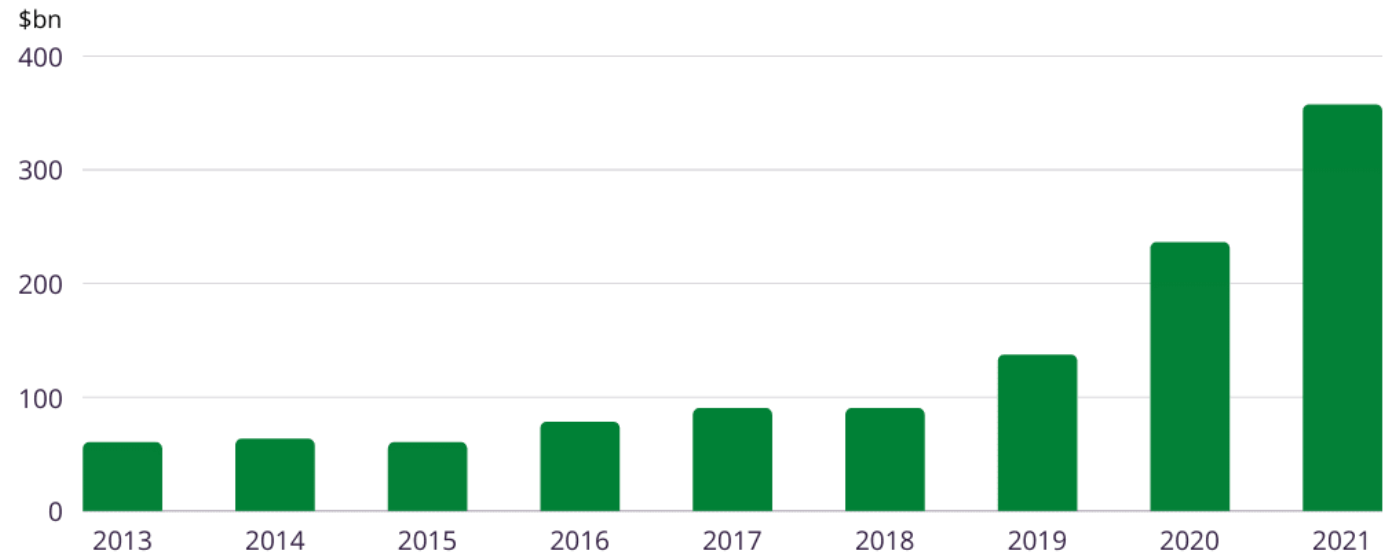


FINANCIAL FLOWS ARE CHANGING

- The EU Green Deal makes €1 trillion available
- US President Biden signed the Inflation Reduction Act of 2022, ushering a new decade of \$370 billion in climate and energy spending, mandating a nationwide reduction of carbon emissions by roughly 40% in 2030

ESG funds gain momentum

U.S. sustainable fund assets grew to \$357 billion in December 2021



Source: Morningstar Direct



INVESTING IN RENEWABLE ENERGY IS A CLIMATE AND SECURITY PRIORITY

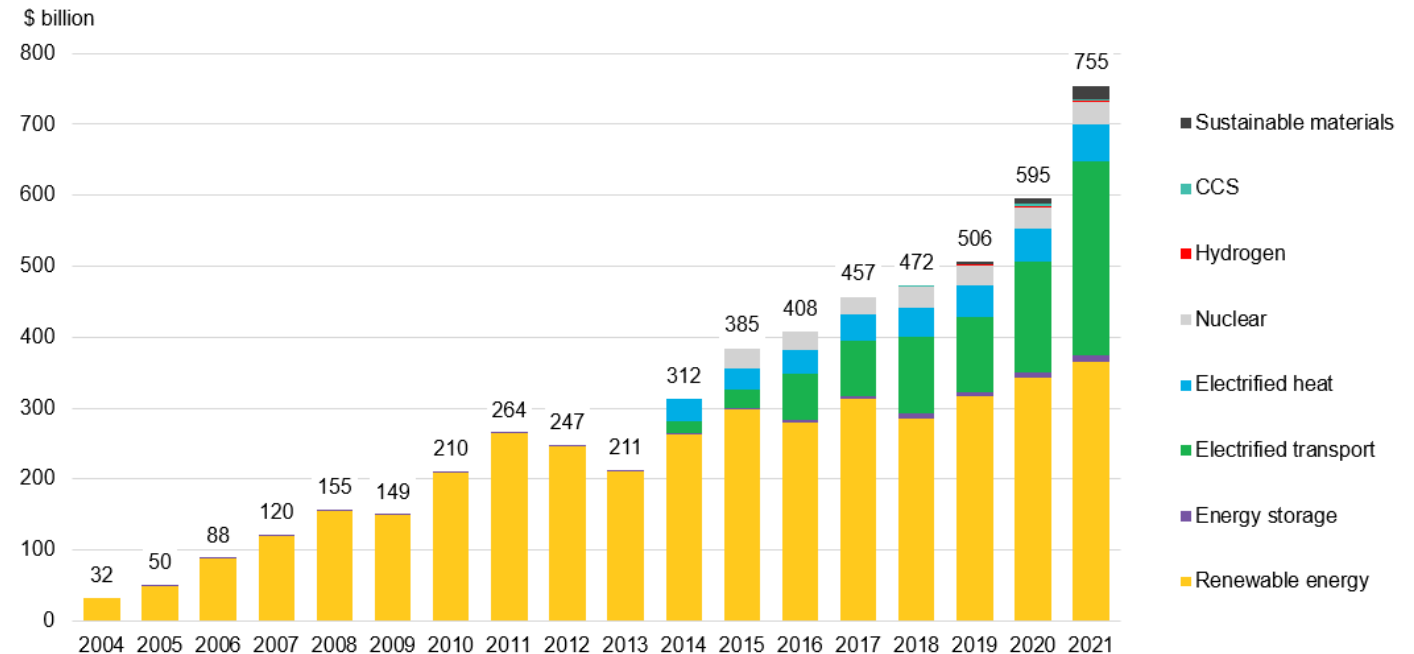
Global investment in the energy transition totalled \$755 billion in 2021 – a new record, and a 21% increase from 2020 with almost half the investment occurring in Asia

Energy Transition’s Big Dollars and Big Themes, Bloomberg NEF

Delivering the REPowerEU objectives requires an **additional investment of €210 billion** between now and 2027. This is a down-payment on our independence and security.

European Commission

Global investment in energy transition by sector



Source: BloombergNEF. Note: start-years differ by sector but all sectors are present from 2019 onward; see Appendix for more detail.

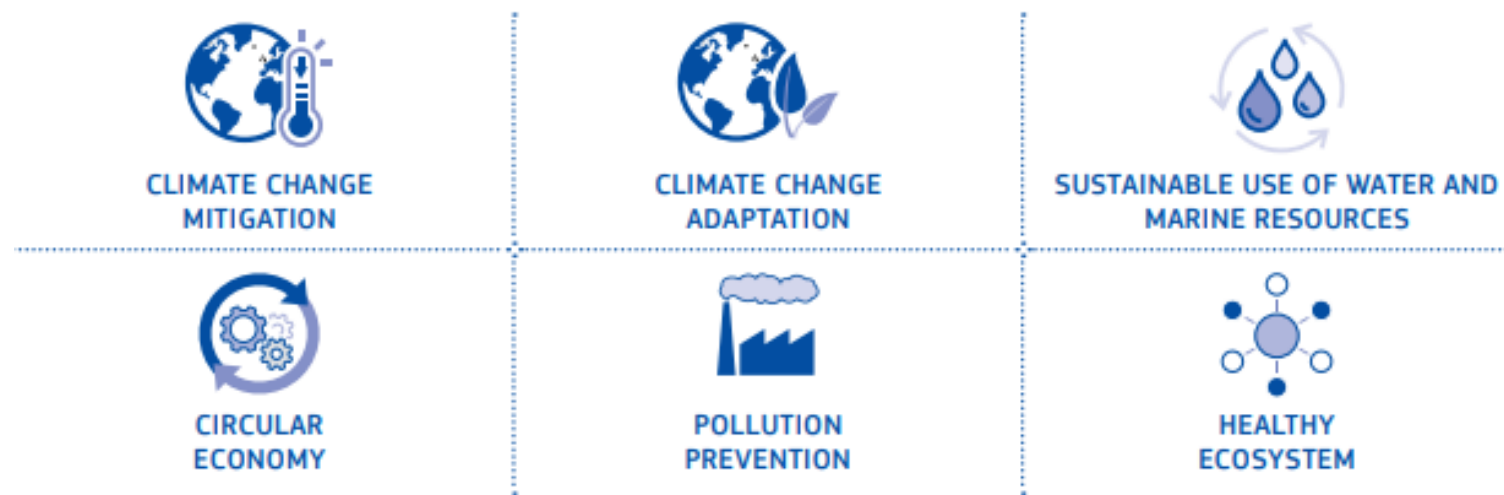
BloombergNEF

“Clean energy should be considered the energy of freedom”
 (Germany plans to cut its dependence on Russian energy imports by accelerating renewables and reaching 100% clean power by 2035)

Christian Lindner, finance minister of Germany



EU TAXONOMY IS ONLY THE BEGINNING



- Banks, insurance companies, and public listed companies with more than 500 employees and similar balance sheet totals and net turnover are required to use the EU Taxonomy to report on alignment with EU Taxonomy in their non-financial reporting by Q1 2022 over the financial year of 2021
- Currently focused on environmental factors but likely to broaden to social issues in future iterations
- The EU Commission proposes that all large EU companies with **over 250 employees and/or with a balance sheet total of EUR 20 million and/or a net turnover of EUR 40 million and listed-small and medium enterprises (SMEs)** will have to divulge which of their economic activities are environmentally sustainable under the EU Taxonomy



THE FINANCIAL SECTOR MUST CONTINUE ITS ESG FOCUS





“Who cares if Miami is six metres underwater in 100 years? -- **There's always some nut job telling me about the end of the world.** -- Climate change is not a financial risk that we need to worry about. --- Unsubstantiated, shrill, partisan, self-serving, apocalyptic warnings are ALWAYS wrong”

Stuart Kirk, Global Head of Responsible Investment, HSBC, who was suspended after making controversial remarks at FT Moral Money Summit Europe

 [Noel Quinn](#)  • 2nd [+ Follow](#) 
Group Chief Executive at HSBC
1d • 

I do not agree – at all – with the remarks made at last week’s FT Moral Money Summit. They are inconsistent with HSBC’s strategy and do not reflect the views of the senior leadership of [HSBC](#) or [HSBC Asset Management](#). Our ambition is to be the leading bank supporting the global economy in the transition to net zero. I hope my colleagues, customers and others will all know, from our work and my public comments, that HSBC is absolutely committed to a net zero future. Given our global reach and capabilities we have an obligation to lead. I want HSBC to be

 [Nuno Matos](#) • 2nd 1d 
Chief Executive Officer, Wealth and Personal Banking at HSBC

In complete agreement with [Noel Quinn](#) – the transition to net zero is of utmost importance to us and we will strive for ways to help our clients on this journey.



EMPOWERING INVESTORS WITH VOTING CHOISES



Blackrock expands their investor voting choice with the vision that it will include all investors, May 15 2022

Most Important Environmental, Social, and Governance (ESG) Factor According to US Institutional Investors vs. Investment Decision-Makers, Nov 2021

% of respondents

Environmental factors



Governance factors



Social factors



■ Investment decision-makers ■ Total investors

Source: Benchmark ESG, "The 2021 Benchmark ESG Survey: Investor Attitudes on Company ESG Data" in collaboration with ClearPath Strategies, Feb 8, 2022

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InsiderIntelligence.com



CALL FOR RENEWED FOCUS ON ESG AGENDA

“We are observing the backlash against ESG in some places in America. Despite times being volatile in financial markets and increasingly in the economy, we think it’s more important than ever to retain the focus on these extremely important matters”

Nicolai Tangen, head of the Norwegian Sovereign Wealth Fund to the FT.



Founded in 1996, the sovereign wealth fund invests revenue from Norway's oil and gas sector and holds stakes in more than 9,300 companies globally, owning 1.3% of all listed stocks. Its \$1.3 trillion valuation equates roughly to the size of the Mexican economy, the world's 16th largest, according to some measures



DON'T TURN AROUND IN THE MIDDLE OF THE RIVER

