TRANSCRIPT | Financial Times Investing for Good USA panel: Opportunities in the Green Recovery (event replay)

MYLES MCCORMICK: Good afternoon. And you're very welcome back to the FT Investing for Good USA summit and, specifically, to this panel on opportunities in the green recovery. My name is Myles McCormick, I'm US Energy Reporter at the Financial Times. As economies across the world look to bounce back from the destruction caused by the COVID-19 pandemic, efforts to tackle climate change have been placed at the heart of rebuilding efforts. Here in the US, [00:00:30] President Joe Biden has made clear his desire to spark a transition away from fossil fuels, and climate spending has been a key component of recent multi-trillion dollar pieces of legislation. There were plenty of climate elements in the recently enacted infrastructure bill and the even bigger US$1.75 trillion Build Back Better spending bill, which is being chewed over in Congress and would include the largest investment to tackle climate change in US history. So what does this [00:01:00] shift in emphasis in Washington mean for the business community? Today's panel will look at the changing dynamic in the corporate and investment worlds, where things stand and where they are going. To discuss this topic, I'm delighted to be joined by three really great panelists. Jean Case is chairman of the National Geographic Society and chief executive of the Case Impact Network. Tensie Whelan is founder and [00:01:30] director of the Center for Sustainable Business at the NYU Stern School of Business. And Erika Murphy is investment director at Wellington Management's Climate Platform. Before we get started, a few small items of housekeeping. We want to hear from you, the audience. And there will be a dedicated Q & A session towards the end of the discussion. But please do submit your questions as we go and where appropriate, we'll pivot to them during the conversation and other ones [00:02:00] we'll address as we get to that dedicated section at the end. But please, any and all questions that you would like me to put to the panelists, just put them in the chat box. So without further ado, let's dive in. And I want to start by looking broadly at how things stand at the moment in terms of corporate engagement with climate change and sustainability. So there's obviously been this high level shift in narrative at policy level [00:02:30] in D.C. But how does that translate into what's happening in board rooms and what's happening in portfolios? Tensie, maybe I can start with you because I know you've done particular research on the corporate state of play. So, broadly speaking, to what extent is climate a priority for companies at the moment? And how is that dynamic changing?

TENSIE WHELAN: Well I think fortunately, climate is becoming more and more of a priority for companies, I mean, unfortunately, because there's real risk reasons why they're focusing on [00:03:00] this stuff. But there are also real business opportunities and that's one of the exciting things about it for both corporates and for investors. You know, I think we're seeing more and more companies support their nation's commitment around net zero, with making their own net-zero commitments to a 1.5 degree world, aligning with this the Science Based Targets initiative, making specific commitments around deforestation, methane, and other areas. [00:03:30] In terms of our research, what we're seeing is that there is a real business case for this. We looked at the 1,000+ academic studies that analyze the correlation between good ESG performance and good financial performance on the corporate side, and we found that 58% of the studies found a positive correlation. Approximately the same percentage when we looked at it solely in terms of climate change, similar outperformance. On the investor side, the data that we've found [00:04:00] was that about 33% of investment portfolios with a strong ESG performance also had a financial outperformance or alpha. And then when we applied the climate area, we increased that by about 10%. So climate is really, and ESG is really, driving better financial performance. We've looked at this then at a corporate level because that sort of correlation, we're looking more at causality and sort of trying to understand what's driving that better financial performance. So we looked at things like [00:04:30] deforestation through supply-chain commitments around beef in Brazil with McDonald's and Carrefour. And we found there that the sustainable agriculture and deforestation-free practices actually increased the productivity, the profitability, and the stability of the ranchers, which also then reduced risk and actually they improved, they produced higher-quality products. So not only did it reduce risk for the slaughterhouses and the retailers, but it actually also provided them with a higher-quality product that in the case [00:05:00] of Carrefour, for example, they could charge a premium for. Another example of how companies are looking at this issue, we worked with a Canadian utility who was looking to determine whether they should get out of coal earlier than being required by the government, which is 2030. And in doing that analysis, we found that really the reduction in cost of capital for them, if they, well, if they didn't get out of it early, they were likely to be penalized with a higher cost of capital. And therefore, [00:05:30] they actually decided to move ahead with getting out of coal earlier. The final point I'll raise now around our research is looking at whether boards are fit for purpose around this whole new set of ESG issues, including climate. There, we looked at 1,188 Fortune 100 board members and what we found is that only three of them had climate change credentials. Looking at other topics, we had, maybe eight had cybersecurity credentials. So out of 1,188, [00:06:00] that's pretty shocking. And we also see with boards that there isn't sufficient focus at a governance level in terms of enough of them having committees that focus on this full time, and so on. So while we do indeed have more ESG credential training now, so that's really useful, but I think there's a lot of work to be done there.

MYLES MCCORMICK: Okay. Well thanks very much for that, Tensie. Jean, I wonder if I could turn to you now. I know you're here wearing two hats but from the point of view, I suppose, of your work with the Case Impact [00:06:30] Network, where you're trying to push companies to be more conscious of various ESG factors, I wonder what you've found in your dealings of late. And I mean, Tensie laid out the kind of state of play there, that returns are there to be made, there's kind of a pivot happening, but to some degree, as she said, like three of 1,188 board members with climate credentials, there's still a gap there, as it was, in terms of how [00:07:00] seriously maybe companies are taking it. But what's your experience been, Jean, as you deal with companies in your role? Is there a growing appetite for intransitive kind of climate investments and climate engagement?

JEAN CASE: Yes, no question. And I'm super happy that we started with Tensie's work because I think she's doing some of the most important work in the space in bringing the data forward to inform us. I will say, I think it's a time of great opportunity and challenge [00:07:30] for ESG because as Tensie just pointed out, you know, while we're hearing much, much more about ESG these days, we're not necessarily seeing the momentum in terms of skilling up the right backgrounds of leadership to really take the time and commitments forward that we want to see. And I think that points to sort of a broader issue with, you know, really important as we kick off this conversation, to understand that today you can go under the label of ESG with no standards of measurement. Now, [00:08:00] we do have a number of measurement-reporting firms out there, but there's no regulation and, of course, we've seen the SEC in the United States, and many global policy and regulatory bodies like them, looking at this issue and really trying to come up with at least a baseline for, if you say ESG, you have to have some of these things. But, you know, generally speaking, I think it's a time of great momentum. One of the fun things we looked at in the last year was, you [00:08:30] know, two years ago, we looked at earnings calls and said, well how many of them are talking about ESG? And two years ago, it was like two or three. And this year, it was 152. Now, talk doesn't necessarily mean action, but I know we're going to talk a lot about the pressure coming from the investment world, which is very real, to make companies really pay attention and turn their talk into action.

MYLES MCCORMICK: Absolutely, absolutely. Well let me bring you in here [00:09:00] now, Erika, because I suppose you're at the coalface of what's happening from an investment perspective. As for the same broad question to you, what kind of shifts have you seen of late?

ERIKA MURPHY: It's been really dramatic from our perspective as an asset manager. And it's been great to see, to be honest. Because we do think that there are a lot of inefficiencies that the market doesn't yet grasp but [00:09:30] that will be very important to financial assets coming forward. So, you know, just in the last year alone, we've seen a doubling of the number of companies who have set, or committed to set, science-based targets with the

Science Based Targets initiative. And you know, we're seeing hundreds of asset managers, investment consultants, banks, and many other financial organizations now signing up to these net-zero initiatives. So I do agree [00:10:00] with what Jean was just saying that the stakeholders who now own, you know, the equities of these companies will be much more vocal going forward about expectations with regards to transparency and disclosure. And I think that is, it's just healthy for the markets to be able to have that additional information to then be able to better identify where the risks lie in the existing portfolios that we're managing for our clients. And then also to see where those opportunities could potentially come from [00:10:30] as well, which we think are numerous. Again, because we think that due to limited understanding of the risks in climate change, there are also opportunities that lie ahead, particularly with regards to the solution providers for some of the challenges that climate change faces in our economies broadly.

MYLES MCCORMICK: You mentioned the question of transparency, which is obviously something Jean touched on there as well. I mean, what can be done [00:11:00] to drive that? I mean how do you expedite that process?

ERIKA MURPHY: Yes, well so the SEC does have, you know, has opened up for comment, you know, input from the broader economy and market constituents to ask for feedback, and we've certainly been contributing to that dialogue, asking for more disclosures with regards to Scope 1, Scope 2, and Scope 3 emissions, but also with regards to physical location as well. So, many companies today [00:11:30] are not required to disclose where their key productivity sites are, and where their supply-chain risks are. And so that could potentially be very disruptive in a state where we see many more intense and more frequent climate events coming at us in coming years and decades. And so these are risks that are important to businesses and operations and, you know, being more full to regulators about what [00:12:00] the standard should be, acting, you know, as part of some of the initiatives that have formed in the recent years with regards to more climate-focused initiatives, all of that, I think, helps to engage company management teams and engage boards and try to influence them in the way that you know, we do see these climate risks as being material from the financial perspective. And sometimes it's actually [00:12:30] helpful to be able to bring in the data. So what's great, at Wellington, we have a great partnership with the Woodwell Climate Research Center, where we're able to learn more about what the future lies ahead of us. And so we've been able to see that over the next 30 years, unfortunately, the climate outlook is pretty dark. We're expecting to see significantly more intense and more [00:13:00] frequent events across the globe that are likely to be more disruptive to cities, and to consumers, to corporations. And by bringing those projections and showing where those risks actually lie, from a geographic perspective, to the table, it's oftentimes very influential for these companies who otherwise don't have access to that information to be able to learn more about those risks. And so through engagement and through having more transparency, [00:13:30] encouraging that transparency from the regulatory perspective, and also in corporate dialogue, I think can help move the needle.

MYLES MCCORMICK: Sure, sure.

JEAN CASE: I would love -

MYLES MCCORMICK: Please, please, I was going to turn back to you there, Jean, please.

JEAN CASE: Yeah, I mean, I think if we look at our future based on the standard bearers today, which are the big, in many cases, old companies, you can get pretty discouraged. But you know, I spend a lot of time hanging [00:14:00] out with entrepreneurs and I would say the next generation is not only driving sort of ESG interest and actions through their investing, but there's really a new generation of entrepreneurs who see a very different future and are building very a different kind of companies that are answering the call in a very different way. And I'll give you just couple of examples. You know, there's a company in, of all places, coal country, Appalachian Kentucky, that's started a company called AppHarvest, [00:14:30] and it is pretty much a warehouse-based, or greenhouse-based kind of growing company. The warehouse, or the greenhouse that I was in was nearly a mile long, growing a million tomato plants under one roof. Ninety percent less water used, thirty times the yield per acre. And the best news was some of the best tomatoes I'd ever tasted. So you know, and then we have a number of different companies, you know, there's a young entrepreneur in Texas who has something called [00:15:00] SparkChange, and he has mobile EV charging units, where he comes to you. So we're just seeing a whole generation of new entrepreneurs who are seeing ways to address the challenges we've left behind through more traditional means, and they're really finding a way forward with new products and services. And it's pretty encouraging. And I'll just add one more thing, you know big companies are not asleep at the wheel. I had the opportunity to interview the CEO of Chevron last month, [00:15:30] and one of the things we talked about was their accelerator, where they're putting a lot of investment into these new companies that are focused on things like hydrogen and nuclear and some other solutions that are renewable that often don't get enough attention in terms of the role they can play going forward.

MYLES MCCORMICK: Okay, okay. Well, that kind of pivots, I suppose, nicely into what I wanted to direct conversation to now. You mentioned some of these new technologies, and spending on renewables and that kind of thing. [00:16:00] That is something that the Biden administration is obviously trying to drive at the moment. As and when the Build Back Better bill is enacted or becomes law, there'll be huge, huge tax cuts, and for a long period of time, for wind and for solar and for carbon capture. I'm wondering what all of you see as kind of being the key policies, from the point of view of companies and [00:16:30] from the point of view of investors, that are kind of really making people sit up and take notice. Tensie, do you have any particular views? Are there any kind of specifics of what's going on in D.C. that are impacting companies and investors in a particular way?

TENSIE WHELAN: (INAUDIBLE)... in every single agency, right? So they're recognizing that this isn't you know, you don't just deal with climate by itself, it's part of our economy, it's part of the EPA, it's part of our energy strategy, it's part of our USDA strategy in terms of carbon capture and soil health practices. So and the economic council, you know, they've brought somebody in from BlackRock here, so there's sort of just a lot of BlackRock who worked on climate. So I think there's a real understanding that [00:17:30] there's a need to approach this in an integrated way, which is really the first I've seen that, so that's exciting. What's also interesting, so I, you know, hopefully we will get the Build Back Better. Even so, without that, there's been policy changes, there's also much more scrutiny now by the SEC on claims and they issued an investor alert around ESG, pointing out the many cases the emperor was [00:18:00] wearing no clothes, I think quite rightly in some cases. And there's been a, you know, I think a real focus by the SEC on both climate and diversity and equity and inclusion. So we will see more coming out of the SEC, which is very much needed. In terms of the subsidies and other types of incentives for business, I think those are really important and helpful, and I hope we see them come through. [00:18:30] However, what's interesting to me is that even during the Trump administration, we saw continued ratcheting up and scaling up of corporate investments and leadership on this. And even if we end up with a different administration in a couple of years who doesn't care about this, and even if we don't get Build Back Better, though I hope we do, I believe that the corporate leadership is there to move ahead with these investments, it's just that government policy will make us move faster. And we actually need to move faster, we've just got this decade. [00:19:00] So we really need it. But I would, and the other thing that I would say, quickly, is that I was talking to a company yesterday who said, you know, they're trying to figure out their pathway to net zero and that they can't really rely on whether the Biden administration is going to be around and how does that affect how they think about carbon fees, and sort of internal price on carbon, et cetera. And basically, I think where companies need to go is they need to say this is all happening regardless of who's in power because we're [00:20:00] dealing with real weather events that are going to have negative impacts on us. So we're just going to have to figure out a way forward. But hopefully the government can play an important role.

JEAN CASE: Yes, I think --

MYLES MCCORMICK: Well that's, I think, a key point. Sorry, did you want to, was that you, Jean? Did you want to come in?

JEAN CASE: Yes, I would just add that, you know, there's some Washington-related things but we don't think about them as much as Washington-related things, and that is, like you look at the New York Stock Exchange today, they are actually working on [00:20:00] building a new asset class called Natural Asset Companies, which allow creation of value in land like rainforest, like sustainable agriculture, et cetera, that the market can actually participate in. And you know, they're in front of the SEC with this asset class sort of development that's going on. And I would expect in 2022, we'll see that emerge as a new asset class, and we're super excited about that. But [00:20:30] that's a great example of a friendly regulatory environment that wants some of this disruption and revolution of new thinking and new ways to drive green that we're seeing take place right now. And you know, I have every reason to believe that if the SEC allows that, that it would be an enduring change, as Tensie just pointed out, about what will stay and you know, what can go with the new administration.

MYLES MCCORMICK: Yeah, absolutely. Absolutely. And I think that's a key point that you raised there, Jean, and Tensie [00:21:00] as well, just this question of durability. So I wonder if I could bring you in on that then, Erika. I mean, from your perspective, I mean, and from the perspective of investors broadly, how much hinges on kind of a climate/renewable-friendly dynamic in D.C.? Or how much, I mean, given, I mean, in the case of renewables, given the kind of plummet in costs that we've seen anyway, how [00:21:30] much of it is just kind of happening anyway? And as Tensie said, it's just a case of government expediting the process, rather than being key to it?

ERIKA MURPHY: Yes, I would agree with Tensie. I think that government can play a really important role to accelerate and to help us do things in a more standardized way. And yet, I think that a lot of the corporate initiatives right now are 30-year commitments that are, you know, would put companies in a very difficult position were they to [00:22:00] roll back from those commitments today. So I do think that that's certainly helpful. I also think that, you know, generationally, there's also a lot of structural tailwind to support, you know, climate-related solutions. And so I think not only do you have government-related support today, but you also have corporate support and consumer support. And I don't see the corporate support or the consumer support wavering in the next decade. And I do think that also, just to your prior question with regards to the Biden administration's legislation today, I don't think that this is the only legislation that we're going to see. I think we're going to see multiple Build Back Better bills in coming years as we're going to need to spend more on adaptation solutions. We're going to need to spend more on efficiency solutions in order to meet these aggressive objectives for 2030 and beyond. And so I do think that [00:23:00] this is just sort of a first step in the right direction. And you know, we're seeing progress coming out of Europe with the Green Deal, and I expect COP26 will continue to see, you know, more countries sort of jumping on this bandwagon and what might not yet be fully appreciated is that this isn't the last of the bills, but it's just one of many that we'll have to have in order to just make sure that we're, citizens, are protected from the risks of climate change.

MYLES MCCORMICK: Sure, sure. Yes, so very much kind of the beginning as it were, [00:23:30] of something bigger. Just a reminder to our audience, please do send in any and all questions you have. We're keen to hear from you and, yes, if there's anything in particular you want me to ask the panelists, please, please do let us know. I want to move on to a slightly different topic now, one that we touched on a little bit earlier, that Jean mentioned. That's the role of the next generation of younger people in kind of pushing some of this change as we move forward. [00:24:00] There's obviously been a groundswell of youth activism lately, personified perhaps by Greta Thunberg and her Fridays for Future movement. And youth pressure groups, like Sunrise Movement, played a big role in kind of pushing some of the policies that the administration in D.C. is now trying to enact. Given you brought up this topic a little bit earlier, Jean, I wonder if I could come to you first. I mean, how much of a role [00:24:30] do younger people play in kind of changing this dynamic, both through activism and their kind of wider behavior?

JEAN CASE: Sure. Well first of all, I think we have to make it clear that depending on your definition of a young person, you know, the oldest millennial today is in his or her early 40s.

And millennial and Gen Z combined, today represent the largest workforce in history. They're saving [00:25:00] more than any young generation before, with one out of four having over US$100,000 in savings. That obviously matters as they turn to investing. And they're investing more and earlier than any generation. They have been, they, combined with women as a demographic, have been really central to the ESG movement more broadly. SO I think sometimes we still think of someone like in a hoodie when we're talking about the young generation, but they're out there, they're growing [00:25:30] economic power in a really big way. And in the time I spend with corporate CEOs, what they know is, you know, I mentioned they're the largest workforce, they want to continue to attract the best and the brightest. And if they're not good actors on many of these ESG-related fronts, they know, you know, that they're going to lose the best and the brightest talent or maybe not ever be able to acquire them in the first place. You know, we did a 10-year study about this generation, to look at their attitudes [00:26:00] and beliefs around social good. And it's very, very clear that they first emerged as conscious consumers. Now, they're emerging as a conscious investors. And it's having a tremendous impact on the investing world. We're not even close to where we need to be, but I think the investing world feels that coming in. Of course, Myles, you know, there's this long understood wealth transfer that's going to go to the two groups as well, which will be tens of trillions of dollars, which is already underway, [00:26:30] really representing even more economic power from these demographic segments.

MYLES MCCORMICK: Sure, sure. Tensie, I wonder, can I bring you in on that same point. I don't know if this is something that's come up in your research, but I mean, to what extent is this kind of next generation changing the narrative a bit?

TENSIE WHELAN: Well, I'll speak to them in terms of their role as conscious consumers. So we have been undertaking [00:27:00] research annually with IRI, which collects all of our barcode data at retail for consumer packaged goods. So this is Mom-and-Pop shops to Amazon and Target. And we looked at, over five years, we looked at 73,000 different products in 36 of 40 consumer packaged goods categories. What we found is that 55% percent of the growth in

CPG came from sustainability-marketed products. And that millennials [00:27:30] over-index, right? So in other words, for yogurt, 70% of all yogurt has some type of sustainable claim on it. And so, you know, millennials may actually even purchase more than 70%. What's interesting as well is even when you have that kind of saturation of 70% yogurt, the conventional yogurt is at -10% growth and the sustainable is at +10% growth. So even when you think, well, at 70%, right, how much more growth could there be, well there is! So I think, you know, as we see millennials begin to have more spending power, and they already do, as Jean pointed out, we're going to see more and more shift. And Generation Z is right behind them with this kind of focus. The other thing that I just wanted to add on the consumer research side is that last year, in 2020, for the first time we saw the emergence of carbon-labeled products, US$1.3 billion worth of carbon-labelled products, there. And then, you know, finally I would say on the, you know, I teach [00:28:30] you know, Generation Z and millennials and I think that they are pretty aware of the challenges that our generation is leaving them and not terribly happy about it, like, "OK boomer," sort of thing, but also recognize that they need to, they need to bring that in to their work, and want to, right? They want to play a proactive role in tackling these issues.

MYLES MCCORMICK: Okay, okay. [00:29:00] And I suppose that's kind of a perfect pivot across to you, then, Erika, I mean in terms of playing a proactive role in tackling issues. I mean, in terms of where younger people put their money or how they invest, what sort of a difference is there? I mean are they a lot more conscious of factors like ESG and climate?

ERIKA MURPHY: Yeah, I mean, I would certainly agree with what Jean and Tensie have already shared. They're definitely more expert in the demographic research. [00:29:30] But I do think that from an investment perspective, we expect those types of consumers to particularly gravitate toward the energy efficiency and mitigation solutions that will increasingly grow over time. And so as we see smart home solutions, you know, growing in popularity, I think that is a demographic that will certainly be supporting that. And then to Jean's earlier point as well, innovation, I think in the private markets we're seeing a lot of [00:30:00] innovation happening and you know, these, this generation oftentimes is at the helm of these business ideas. And so, you know it's great to see that their beliefs are actually translating into solutions, and we're starting to see some of those grow into scale more. So I think they can be part of the solution and I also think that they will help accelerate the demand.

MYLES MCCORMICK: Alright. Okay, brilliant.

JEAN CASE: Yeah, Myles, a little data --

MYLES MCCORMICK: Please.

JEAN CASE: -- to add to this conversation, [00:30:30] 95% of Next Gen have said they're interested in socially conscious investing. And we're seeing this play out in very different ways. 57% of them have sold a stock when they think the company isn't a good actor. In fact, this has been, like, such an area of passion for me and around our businesses that we've introduced a new newsletter specifically targeting Next Gen because one thing they're really honest about is yes, they're in early, yes, they're trying things, yes, they have these areas of ESG [00:31:00] that they're really passionate about. But they're also very quick to say they don't have the confidence they desire and they don't have the knowledge they think they need. So part of the reason we introduced the new newsletter, For What It's Worth, which comes out, you know, every Thursday, it's a five minute, jargon-free read, is to really kind of bring down the barriers of understanding the opportunities for new and young investors. And you know, I think it, I'm hoping it's a call, and I know that my two other colleagues on this panel feel this way as well, I think it's a call we all [00:31:30] want to kind of heed. Because I think there is an opportunity to use their economic power and as they become leaders, to really educate them early and build up their knowledge and confidence factor as they go into the market.

MYLES MCCORMICK: Absolutely. Absolutely. And I certainly echo that sentiment. Alright, another topic I want to move onto, and before I do, as I say, any and all questions, please do keep them coming in, either related to the topics we're on, [00:32:00] or if there's something else you would like us to chat about towards the end of the conversation, please form your questions and we will do our best to address them. Okay another topic I wanted to touch on a little bit was the engagement versus divestment base. And I suppose from the youth perspective, there's often among youth activists, kind of a push towards the latter, towards divestment. [00:32:30] But there's obviously quite a nuanced discussion in the space around this. Erika, maybe I could start with you. What's your perspective in terms of how the debate is being carried out, and the kind of case to either stay in there and engage with companies that are "greening," or push them to green, or to get out of more [00:33:00] problematic sectors like fossil fuels.

ERIKA MURPHY: Thanks, Myles. This is a nuanced topic, I agree with that, and so I guess the, a few things to just be wary of if a divestment strategy is actually being pursued is oftentimes, divestment strategies are based off of how a company is operating at a point in time, and not always fully informed on how the company might have expressed intentions to [00:33:30] transform its business model going forward. And so I think in any case, divestment should be considered to be potentially like a last resort, after due diligence-ing a company and its profile and understanding its forward-looking intentions. And so not to say that it doesn't have a role, but divestment certainly, it can be an effective way to decarbonize a portfolio and yet [00:34:00] it doesn't guarantee that any company that would be divested would stop emitting after it was sold from a portfolio. And so by retaining a seat at the table as a stakeholder, and maintaining some position in companies, despite having a higher emissions profile, you know, stakeholders have the opportunity to then be an influencer and articulate how important it would be for companies to start to transition their businesses away from higher fossil fuel sources of energy and into something that is [00:34:30] more sustainable and environmentally friendly. That being said, there's also some nuances associated with certain types of energy and fossil fuel producers that are oftentimes divested or excluded. So natural gas can sometimes be included in broad fossil fuel exclusions and that can be a tricky one, in that natural gas has actually played a very important role in the [00:35:00] US and China now increasingly so, moving away from coal and oil and becoming sort of a, or adopting a lower greenhouse gas emissions footprint. And that was largely attributable to natural gas.

And so it is thought to have a powerful role to play in the transition. There are still plenty of problems associated with natural gas, including leakage in the pipelines and great news out of COP26, more countries are now focused [00:35:30] on trying to mitigate the negative effects from that pipeline leakage, and yet, you know, I think excluding it entirely could potentially damage certain communities and the social aspects, without retraining and thinking through the just transition dimensions. And oil sands is another example. Our research is now showing that there are some companies operating in certain countries who are trying to be more forward thinking and explore new research projects associated with [00:36:00] carbon capture and storage. And so what might look like on the surface a very offensive company, as labeled as an oil sands company, actually might be planting seeds to position themselves as a very important player in the future of our energy transition through certain technologies. And so again, not to say that the divestment strategies shouldn't be implemented, I would just caution folks not to use divestment in a black and white way, and really think about using engagement [00:36:30] first, to understand the forward-looking intentions and the future opportunity that each company might have with regards to how they could play a role in the transition.

MYLES MCCORMICK: Mm-hmm. Okay. Okay. Well bring in our other panelists. And Tensie, maybe turning to you on this question, the engagement versus divestment debate. Do you think divestment can be a useful tool in terms of cutting emissions, in terms of transition, or is it a little bit of a blunt [00:37:00] instrument? Is maintaining a seat at the table preferable?

TENSIE WHELAN: I agree with Erika that you need both. One of the negatives that we've seen with engagement is that engagement needs to be really rigorous. And so there's a lot of skepticism because some of the engagement has not been that rigorous, has not resulted in change at those oil and gas companies, right? You look at Exxon, you know, it took a board takeover for them to begin to pay attention to these issues. On the other hand, on the plus side with engagement, for example, I'm concerned about the ideas we're hearing around dividing up a company up like Shell and having the clean assets and the dirty assets, and the dirty assets go get bought by P, and now that nobody can influence them anymore or they get bought by a company from another jurisdiction, that doesn't have as much pressure on it in terms of ESG. So I do think that [00:38:00] we can't, in many cases, we can't walk away. We need to stay engaged. But that engagement needs to have teeth. It needs to be rigorous. It needs to show progress, right? And that's been, I think, a fatal flaw in some of the engagement in the past and why there's so much skepticism about it today. And then I think on the divestment side, one of the useful things about some institutions continuing to divest is it shoots up the cost of capital and makes this real for these [00:38:30] companies, that they recognize they actually have to come to the table and engage because if they don't, the consequences are negative, or pretty, or you know, very negative. So I do think we need to keep up some divestment activity as well to make sure that people understand there's a big club there.

MYLES MCCORMICK: Yes. Okay. Jean, maybe if I come to you on this. It, do you have any particular take on this? Would you agree with the other panelists that there needs to be some kind of balance between the two or would you [00:39:00] err more towards one or the other?

JEAN CASE: I think both added a lot to the conversation in the sense that it probably needs to be all of the above, as was articulated. I will say a couple things. On our work on Next Gen, you know, as they emerged as conscious consumers, what was very different about their generation than those that came before them was they were into what we call "buycotting," not boycotting, you know, whereas generations that came before them, and boycotting, of course, would be analogous to divestiture. And I think as investors, we're seeing something similar, which is they're really more about, you know, being all in on things that they actually want versus too focused on things that they have to cut out. Now of course, it's got to be both as they plan their portfolios but I'm just saying the nature of the generation is much more about what we want. The other thing I did want to point out is, you know, [00:40:00] a point Tensie touched on, you know, there isn't a lot of attention paid to the growth in private equity over the last couple of decades. And you know, public markets were created for a reason and we saw that happen with Exxon, and we're seeing it every day, just, you know, this week with the Microsoft vote around transparency around the, you know, sexual harassment claims, et cetera. So you know, I think it's really important that we do have stakeholders, as Erika [00:40:30] pointed out, shareholders. And it's the reason I made the point earlier about, you know, I do think there's activism, I just don't think it necessarily will go so far as to actually be divestiture in many cases. But no doubt about it, this generation sees using their economic power as a form of activism unlike other generations before them have.

MYLES MCCORMICK: Okay. Okay. We've got just under five minutes left and we do [00:41:00] have a few questions coming in from our audience that I'd like to put to some of the panelists. One audience member writes in in relation to the topic we were just discussing there, the engagement versus divestment debate. I might put this to you, Erika, so the audience members asks, they say, "Finance is touted versus divestment because of corporate conflicts. Given the lack of accountability of engagement strategies, why shouldn't investors pursue divestments, [00:41:30] maybe of passive funds and activist engagement for impact?"

ERIKA MURPHY: Thank you for that question. So I think in terms of, gosh, I would just encourage folks to not think of it in a black and white way. Ultimately, as asset managers, we're fiduciaries on behalf of our clients. And so what we're trying to get to is the best risk-adjusted return for our clients, and oftentimes engagement can be a great way to try to [00:42:00] better understand the risks and future opportunities of a company, accounting for a variety of different, of influences on that company. And so, you know, there are certainly escalation strategies that we try to incorporate over time, so, you know, engaging with companies on the topic of transition risk, if they don't have a well thought out and credible transition risk, that's an immediate flag. [00:42:30] If they are, you know, and if they are choosing not to engage with us, it's also a flag. So our escalation policy typically is first engaging with company management, reaching out to board directors, independent lead director, potentially participating in shareholder resolutions, voting, and then potentially divesting. Now that process can be multiyear in nature, actually. And through that process, as fundamental investors, we tend to [00:43:00] learn a lot about company management, the quality of company management, the credibility of their assessments, of their capital allocation decisions and their public commitments. And so all of those insights are gleaned through this engagement process and it helps reinforce our fundamental view and ultimately helps us get a better assessment of that risk and return. And so going through that process is really important, as a fiduciary, to make sure that we do understand the whole mosaic of risk and return. Again, it's not to say that we wouldn't divest [00:43:30] because we think that there is poor transition risk management there and there are sort of more harmful ESG dynamics to a company, but we wouldn't necessarily put a blanket divestment strategy on top of it because it, because there are companies that we have found to be responsive to our engagement and to actually be trying to plant seeds to transform their business models going forward. And there are some companies who have been executing well on that thus far. And so, you know, if the data doesn't fully tell the story, [00:44:00] oftentimes the conversations that you can have, you know, company management team to investor, can be very productive and receptive. That's something that, you know, doesn't always happen but we tend to see that happening more often than not.

MYLES MCCORMICK: Sure. Sure. We are unfortunately running out of time. But I think this is kind of an interesting point to tie things up on. So thank [00:44:30] you. Thank you very much to our panelists, to Tensie, to Erika, and to Jean, and to all of you, our audience, for joining us today. Next up, my colleague Simon Mundy will be talking impact investing with former tennis pro Andre Agassi and Bobby Turner of Turner Impact Capital, so don't miss that one. Thank you all again very much for joining us, take care, and hope to see you all soon.

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