NEI

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WORKING TOGETHER, GOING FURTHER

A conversation about climate change in the lead-up to COP26, featuring NEI Chief Investment Officer John Bai and Director of Corporate Engagement Jamie Bonham

WHAT'S INSIDE

The 26th UN Climate Change Conference of the Parties, known as COP26, takes place in Glasgow from October 31 to November 12, 2021. It's the most important climate conference of the last five years—if not also the next five.

To prepare for this landmark gathering of global players, NEI Chief Investment Officer John Bai and Director of Corporate Engagement Jamie Bonham sat down to discuss expectations, key themes, investment opportunities and more. Jamie and John will be in Glasgow during the conference as guests of NEI sub-advisor Federated Hermes.

Throughout their wide-ranging conversation, one word rises above all others: collaboration. Collaboration is at the heart of every relationship required for us to achieve a successful transition to a low-carbon future.

Here is just a snapshot of what you'll discover inside:

- There are opportunities specific to the Canadian context, including reconciliation with Indigenous peoples as related to nature-based climate solutions; nascent carbon capture and utilization technologies; and the project management expertise owned by the country's traditional energy companies
- There is a need for developed economies to better support their developing peers not only by living up to existing commitments, but by pushing ahead with more aggressive ones
- Investment managers have a critical role to play as intermediaries within a complex ecosystem that includes investors, advisors, regulators, standard-setters, governments, and of course, other investment managers
- Corporate engagement is likely to be more successful when investment managers and other like-minded groups band together to talk to companies with one voice
- Advisors have a tremendous opportunity to participate with clients on the journey to net zero, mobilizing capital toward the twin goals of a secure financial future and a healthier planet

Want to learn more about COP26 right from the source? Visit www.ukcop26.org and download the brochure *COP26 Explained* (pdf).

And, be sure to follow NEI Investments on social media for updates and insights into responsible investing.

NOW LET'S GET THIS CONVERSATION STARTED...

JOHN BAI
Chief Investment Officer

I think it will help set the stage for our conversation about what we'd like to see—what we need to see out of COP26, if we understand a bit of the context and how we got here.

We're talking about the next major step after the Paris Agreement, which was agreed to at COP21 in 2015. Now this is a *legally binding* international treaty, adopted by almost 200 countries. The goal is to limit global warming to below 2 degrees Celsius as a requirement, with 1.5 degrees as a preferred target.

There have been other COPs since that one, but the Paris Agreement works on a 5-year cycle. 2020 would have been the milestone, but because of the pandemic, COP26 was pushed to this year. By 2020, countries were to have submitted their plans for climate action, where they outline steps they will take to reduce greenhouse gas emissions to reach the Paris goals.

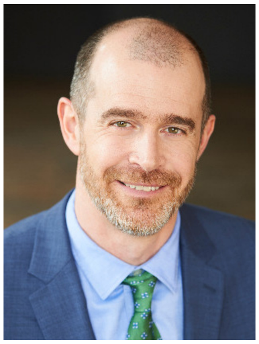
Glasgow is all about upping the ante. We need to accelerate our actions, deepen commitments, track progress, hold each other accountable. What does 2050 really look like? And what will it take to get there?

The Paris Agreement is foundational, that's certain, but the problem with it—and what we're aiming to overcome in Glasgow—is that Paris is largely aspirational. Everyone agreed the problem needed to be tackled. It was a way to identify the goal, and to galvanize action around that goal, but in the years since, we've fallen short of what we need to do.

Glasgow is all about upping the ante. We need to accelerate our actions, deepen commitments, track progress, hold each other accountable. What does 2050 *really* look like? And what will it take to get there?

Three critical reports have really put a spotlight on this. The first is the IPCC report, the Intergovernmental Panel on Climate Change, which said we're far off track in meeting the Paris goals and that bold and urgent action is needed. Perhaps obvious, but it still needed to be said by a credible, authoritative voice. The second report is *Net Zero by 2050*, by the International Energy Agency, which for the first time quantified the investment needed to make this possible. And it is still possible, but it will require us ramping up investments in energy infrastructure to $3 to $5 billion annually. By 2030 however, the IEA says the number soars to $5 *trillion*, per *year*. And so, obviously, that's not just going to come from the public pocketbook—from the government. That needs to be a joint venture between public and private sources. We're not going to solve this unless we get private industry involved. This is where companies come in, asset managers, investors—everyone. The key word is collaboration, and it's one of the four main pillars identified by COP26 organizers.

The third report is an update from the Climate Action Tracker. CAT is very interesting—you can find it on the web at www.climateactiontracker.org. It's an independent scientific analysis that tracks government climate action and measures it against the Paris goals. Most countries are ranked as either "highly insufficient" or "insufficient." Only one, The Gambia, is identified as already "compatible." It's certainly a wake-up call for Canada. We are the only G7 country ranked as highly insufficient, sandwiched, alphabetically, between Brazil and China. But the importance of the CAT update is they said momentum toward 2030 climate targets has flat-lined, with no major emitters putting forward stronger targets since May this year. That's very worrisome.



JAMIE BONHAM
Director, Corporate Engagement

Just to pick up on that word, collaboration—this really is what it's all about. No one country can do this alone—but shoutout to The Gambia for already hitting its targets! This is the whole point of COP, that this is a shared, global problem, and it needs shared solutions and shared ambition across all countries.

The best-case scenario from COP26 is that we cement that kind of global collaboration and commitment, because without it there's no chance. Maybe "best case" is a misnomer—it's best case, worst case, and base case all rolled into one.

The recent push by the U.S. and the European Union to craft a global agreement on methane reductions is a great example of what is needed. The Global Methane Pledge—which Canada has signed—commits signatories to a 30% reduction in methane by 2030. The IPCC report that John spoke to specifically points to methane as a critical near-term priority. The pledge will be officially launched at COP26, and there will be a push to increase the number of companies signing up.

But to drill down into other specific outcomes, one thing I'd like to see is more aggressive commitments and plans for developed nations to support developing countries in their transition, and to boost their resiliency. The IPCC report made it very clear that we're not going to avoid the impacts of climate change, that ship has sailed. We *may* be able to avoid the very worst of it—that's the best we can do at this stage and it is a goal very worth striving for.

There is a commitment right now of providing $100 billion in climate finance annually to developing countries. Already, it has not been lived up to. And because of that failure of developed countries to provide support, developing countries are understandably resistant to increasing their targets, nevermind making the required changes to meet the original ones. Developed countries are saying, "Ok, we understand you need to improve your quality of life, and that means more energy use," but we're also saying, "You can't do it the way we did it. You've got to find another way—a cleaner way." I think that's ok, but it means we—the developed countries—need to support that transition. And that means money, because we're the ones largely responsible for putting us all in the situation we're now in. Canada is one of two countries, along with Germany, that has been tasked with convincing developed nations to close the gap between their original commitment and the current level of support. This is an extremely important role and will be a huge factor in whether we consider COP26 a success or not.

> *Another area where I want to see progress at COP is nature-based solutions. Rainforests offer natural carbon sequestration and are critical to any credible path to net zero. And where are rainforests located? Often, in developing countries. How can we help maintain and support those sources of natural sequestration, and the countries that host them?*

Another area where I want to see progress at COP is nature-based solutions. This is why we talk about "net zero." It's not possible for us to get to zero emissions by 2050. That is not the goal. To reach *net* zero emissions, we need to remove carbon from the environment to balance whatever volume of carbon we continue to emit. How do we do that? Certainly there are technology solutions, and we can talk about that later, because it's a significant source of investment opportunity. But what I want to key on here is nature-based solutions. Rainforests offer natural carbon sequestration and are critical to any credible path to net zero. And where are rainforests located? Often, in developing countries. How can we help maintain and support those sources of natural sequestration, and the countries that host them? There is a big overlap here between the global need to preserve biodiversity and the climate crisis. Developed countries have a role to play.

Canada has an opportunity for leadership here that ties directly to Indigenous reconciliation. We can put the stewardship of our country's boreal forest, for example, into the hands of the people that are most familiar with it and who know best how to care for it. The boreal forest is a massive carbon sink. We *know* that. Canada cannot achieve net zero without maintaining its forests. Environmental stewardship is an economic opportunity that is absolutely aligned with Indigenous peoples' traditional way of life.

> *The Indigenous Guardians is a program in Canada that already exists to protect the boreal forest. It's Indigenous-led, they already have a plan, the government has committed a few hundred million dollars... let's just ramp that up and get it done, show the world how to do it right. That's a huge contribution Canada can make to the global commitment.*

It's not that there's going to be *no* development. It doesn't mean we're never going to have a mine again. It means the mine will be developed with Indigenous communities and monitored by them for impact, employing Indigenous people, where the equity of the project is owned by them too. In this way, we can see how our movement toward reconciliation *is* a climate strategy.

But we need to invest. We need to support such initiatives through sustainable finance. The Indigenous Guardians is a program in Canada that already exists to protect the boreal forest. It's Indigenous-led, they already have a plan, the government has committed a few hundred million dollars... let's just ramp that up and get it done, show the world how to do it right. That's a huge contribution Canada can make to the global commitment.

JOHN: I'm glad were talking about our own country here, because there is a lot to consider when it comes to climate risks and opportunities.

Canadians may not be as aware of the country's exposures as they should be. Average temperatures in Canada are rising at about twice the global rate annually, according to a government report called *Canada in a Changing Climate* published earlier this year. In northern Canada, the average increase is three times the global average. Three times! As one would imagine, this is having a significant impact on our Arctic exposure, more than other parts of the world.

And according to the Organization for Economic Cooperation and Development, we're also the only G7 country that's had a meaningful rise in our carbon footprint since 1990. We're going in the wrong direction. That's the context, and that's the urgency, for *us*, as Canadians.

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So, what it boils down to—setting aside the physical climate risks we're all aware of—is this: The race to net zero has begun, and other countries are prioritizing the energy transition. If Canada continues to rely on fossil fuels as a key driver of our economy, our competitive advantages will be eroded and we will fall significantly behind the rest of the world. Companies will become irrelevant, workers will not have the skills and education they need, and we'll have to import technology and solutions from countries that are doing this faster and better, compounding the negative impact on our economy and honestly, our social fabric.

But here's the flipside of that—and as investors, as *responsible* investors, this is all tremendously exciting. Using the IEA numbers, there is a $5 trillion opportunity annually for countries and companies that want to be part of the solution and not part of the problem. Canada enters this transition in a position of strength. The country is home to vast amounts of renewable and non-renewable energy. Canada ranked second in the 2021 Global Cleantech Innovation Index. We also have proven, global expertise in the energy sector, and if the world is going to get to net zero, *everyone* will need that expertise. People who understand energy infrastructure, large-scale project management, working in harsh environments. We've got that. If we can move our economy in that direction, boldly, decisively, we will generate well-paying jobs with high global demand, quality exports, stronger growth, and ultimately, a resilient and sustainable economy.

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JAMIE: The train is only going in one direction, right? And it's moving faster and faster—or at least, it should be—and as a country, we can either get on it, maybe even help lead and steer it, or we can fall behind it.

JOHN: I want to talk about the larger role of asset managers as climate change collaborators. Advisors and individual investors are in the mix too, but we can get into that more later.

Let's start by revisiting a basic definition of responsible investing. Responsible investing is an investment approach that integrates long-term environmental, social and governance criteria into investment and ownership decision-making with the objective of generating superior risk-adjusted returns.

The investment case for responsible investing is well founded. There have been literally thousands of academic studies on the topic. In a seminal 2015 study that reviewed over 2200 studies, the authors concluded "investing in ESG pays financially." More recent studies have been even more conclusive. A 2020 study that looked at research published during 2015 and 2020 shows that improved financial performance due to ESG considerations becomes more marked over longer time periods. That same study found that ESG investing provides better downside protection, especially during social or economic crises.

But how does one incorporate climate impact into their investment portfolios? We can discuss three ways. First, investors can choose to invest only in companies with a low-carbon footprint and divest of all other holdings such as fossil fuel companies. Second, they can choose to invest with an asset manager that uses corporate engagement as a tool to help companies reduce their carbon footprint. Third, investors can choose to invest in companies that are intentionally working on providing solutions for climate change. A joint study by Chicago, Harvard and Trento (pdf) found that corporate engagement is a more successful way to get companies to act on climate change versus boycotting or divesting.

We imagine a world where all companies and investors will embed climate change into all of their strategic and financial decisions. But we're not there yet. It's still very much in the hands of the investment managers to take in the ESG data that's available to them, assess it, engage the portfolio companies and influence them to do better, measure the impact of their investments, and adjust as needed.

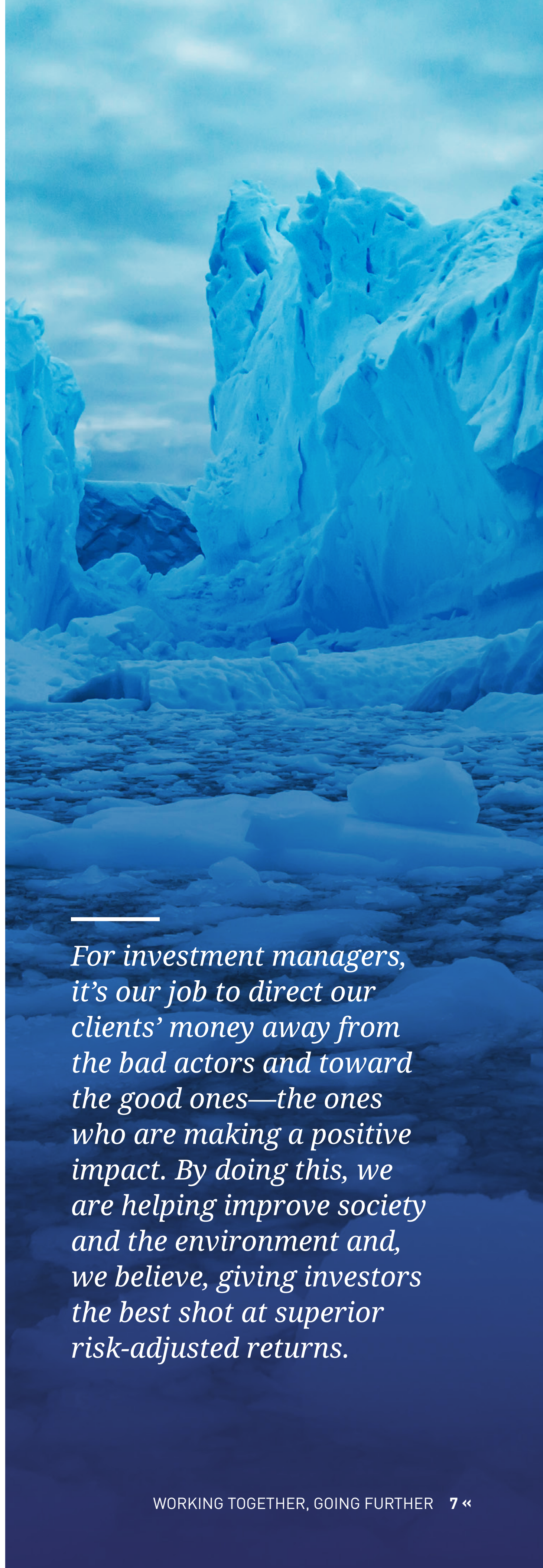
The phrase that's getting used in the industry and by COP organizers is "mobilize capital." For investment managers, it's our job to direct our clients' money away from the bad actors and toward the good ones—the ones who are making a positive impact. By doing this, we are helping improve society and the environment and, we believe, giving investors the best shot at superior risk-adjusted returns.

I mentioned the $5 trillion figure earlier—if no country can do it alone, how could a single asset manager? We need that collaboration, across industry, across investor and investee, across public and private.

One of the things we need specifically in the investment industry is more commonality among our taxonomy, reporting frameworks, standards, disclosure, regulations, data—the list is long.

I like to refer to four "C's." *Consistent*, standardized definitions of disclosure and data; *comparable* across companies, industries, and countries; *credible*, that investors should be able to rely on this to make investment decisions; and finally, the word we're already talking about, *collaborative*.

We have to get started, we have to move—we cannot let perfection get in the way of good enough. We can continue to iterate and make our frameworks more robust and effective over time, and we'll get there. But we need to start, together.



For investment managers, it's our job to direct our clients' money away from the bad actors and toward the good ones—the ones who are making a positive impact. By doing this, we are helping improve society and the environment and, we believe, giving investors the best shot at superior risk-adjusted returns.

JAMIE: I feel like investment managers are in a privileged position. It's not an easy one, and it comes with a lot of responsibility and accountability. We are between investors and the companies they are investing in. It's extremely difficult for an individual investor to push for the kind of change that's required of companies. It's much more realistic that an investment manager, with its pooled capital and larger equity stake, not to mention experience, network, influence and so forth, can drive that change *on behalf* of its investors. That's our role, that's every investment manager's role as an active owner.

But it's not just companies we're able to influence on investors' behalf, it's also standard-setters, regulators, and other groups that are part of the ecosystem. We're like this axis, this hub, among these actors. We're empowered—for good *and* for bad—by money, crass as it may sound, but it's true. We are in a position to mobilize *a lot* of investors' money. *They* want us to use it for good, *we* want to use it for good, the world *needs* us to use it for good... I'd say we're generally pretty well aligned.

We have to get started, we have to move—we cannot let perfection get in the way of good enough. We can continue to iterate and make our frameworks more robust and effective over time, and we'll get there. But we need to start, together.

I don't want to make it seem like collaboration among asset managers is such a new thing, we've been working with like-minded responsible investors for many, many years. Climate Action 100 is a great example. Investors got together, acknowledged there was a problem bigger than what could be solved alone, and set an action plan toward common goals. Now that model has been copied in a Canada-specific context, with the Climate Engagement Canada group that launched in October. We are a founding member of that group.

A couple of key benefits of collaboration I want to touch on are improved efficiency and enhanced clarity. When we get together as a group, the group is able speak with a single voice. So, when you look at corporate engagement, a group of investors carries a lot more weight, and it makes it simpler for the company, in that they're not fielding engagement requests from every direction from investors with different agendas. This makes it more likely they'll respond, and with a positive attitude. And we *need* these companies to be receptive to us, not confused, or frazzled, or antagonistic. As more investment firms launch engagement programs, the pressure on companies to respond to all these players is only going to rise. So we strongly encourage more investors to work in groups—in other words, collaborate!

JOHN: Let's take this talk of collaboration even further—to the advisor level, and then right down to the individual investor. Because, you know, that notion of the "single voice," as you called it, is very powerful. Individual investors, and advisors with books of business that might seem like small amounts in the grand scheme of what's needed to make this change—it all starts with them, and I'm not sure they really understand how much power they have, and how critical they are to making this happen.

Deloitte came out with a really interesting study called *2021 Climate Check: Business views on environmental sustainability*. Eighty per cent of the executives they talked to agreed they should be acting on climate change, and so the question is really, "Okay, well, you already believe it, so what would push you into more action on climate change?" The number one answer was shareholder demand. Not increased societal and employee action, not intensification of climate-related disasters, which were second and third. *Shareholder demand*. That was the thing CEOs said was most likely to spur them to action.

Perhaps even more interesting was what were identified as the most ineffective things. When you go to the bottom of the list you see government action and punitive damages, as well as competitive pressure. And then at the very bottom, CEOs said boycott of our business by consumers. And I suspect that's counterintuitive for most people, who would imagine their most effective tool for driving a company to change is the decision to buy or not to buy. But the

evidence here shows that from the corporation's perspective, it's the least likely tool to force change. Canadians have much more power as *investors* than they do as *consumers*, but my guess is, most have absolutely no idea that's the case. So there is a tremendous amount of education required for people to understand their rights as active owners, and how they can use those rights for positive change.

Who's going to teach them? Who's going to bring those individual investors together under one roof, to get to that "single voice"? Advisors can do it. Advisors have this wonderful opportunity—and they really should consider looking at it this way, I believe. They have this opportunity to mobilize their clients' capital toward investments that are working toward common goals. This could take the form of, first, recommending investment funds managed by asset owners that use their rights such as proxy voting or engagement to get companies to move more urgently to a net-zero world. Second, advisors could recommend funds that are oriented toward climate solutions, whether equity or fixed income. Third, it could manifest in the advisor's security selection process, if that's part of what they do. In doing so, every building block in the portfolio construction process, whether it be funds or individual securities, can be selected through an ESG lens—and climate change is just one consideration among many. And then advisors can add that up across their book, across dealers, across the country, around the world—and that's how we mobilize capital.

JAMIE: I'd emphasize the importance of transparency as a key consideration for advisors. Advisors are in a position to talk directly with their clients about where the client's money is going and what impact that money is having—but they have to get that information first from the investment firm, or from the company itself. And increasingly, as investors get a taste for this, and recognize their rights, their power, they're going to want to see the results. Investment firms, advisors, companies—they'll all be accountable at some level for giving investors a view into the change they're driving.

There's a storytelling aspect to this. Just like companies and investment firms are telling stories about how they're making a difference, advisors can be telling stories to clients about where their money is going and the difference it's making.

Corporate engagement successes, proxy voting data and rationale, impact reports—advisors can use all of these sources of storytelling material with their clients to link up their investment progress with progress toward a low-carbon future. It's just such a natural fit for the advisor-client relationship, and in my view, it behooves us all to support that relationship, because it's an essential node of collaboration. The more investors are saying, "I want my money to go here and not here," the more capital we're able to mobilize away from problem areas and toward solutions.

JOHN: Yeah, so, what sort of solutions are we talking about here? Because we can get more specific. We are, after all, investing clients' capital in businesses that are doing concrete things in the real world. Jamie I'd like to hear your thoughts on what we need to see from companies, and then I'll share some of my ideas.

JAMIE: Sure. I would start with strategy. The biggest change we'd like to see, and it's one of the biggest changes we are *starting* to see, is moving the conversation from, "Here's a business strategy," and then, separately, "Here's our sustainability strategy." They have traditionally been parallel, I'll say, at the best of times, and I think we've seen that just does not work, especially when we're talking about something as transformational as climate change and how to be resilient in a low-carbon future.

We used to get this division, where the CEO or the CFO would talk business strategy, the most senior people. And then who is talking about sustainability? Oh, it's the Director of ESG or something like that, right? Not as high ranking. Now, you're starting to see that when you talk to very senior people about where the sustainability conversation is happening, it is happening at the board level, it is happening at the senior executive level, it is in the strategy conversation—where it belongs. The sustainability strategy *is* the business strategy.

Now, you're starting to see that when you talk to very senior people about where the sustainability conversation is happening, it is happening at the board level, it is happening at the senior executive level, it is in the strategy conversation—where it belongs.

For a company like Suncor—and we're quite familiar with their approach and their progress after years of engagement—this conversation around scenario analysis happens at their top-level strategy session. It's where they talk about the implications of scenario analysis and how their strategy fits (or doesn't) into a 1.5-degree world. That's a conversation for the executive team at the strategy session, and that's where it has to be. Unfortunately, that kind of approach is still nascent for a lot of companies. But they're getting there.

I do think you can really tell if a company has thought about this based on their response to the simple question, "Do you have a plan?" And they say, "Yes, we have a plan." If they walk you through that plan, you can quickly tell whether it is linked to how they actually make money and where they see their strengths, and the business opportunities that come from those strengths, or whether it's just something that somebody has done independent of the 5- or 10-year plan and someone from senior leadership simply signed off on it to say, "Yeah, okay, I agree with that. That's fine," as opposed to being intimately involved in the conversation. So, as always, a sound strategy is key to business success, no matter what the specific opportunity is.

I also want to emphasize, and we have touched on it a little bit, the Canadian context. Because we have significant advantages and opportunities here, but they may feel hidden, or counterintuitive, because of a surface-level emphasis on the traditional fossil fuel industry. Investors need to see past the headlines, the images of the oil sands and the trucks and the derricks.

Take carbon capture, utilization, and storage—CCUS. There is a lot of distrust around the use of carbon capture. People see it as a way just to keep the oil and gas companies running, to justify their continued existence instead of dealing with the problem of getting off fossil fuels. There is also a great deal of skepticism that it will ever be economical.

And I do think that's something to be aware of. But we need to move this technology forward, to bring these net-zero scenarios to life. It wasn't that long ago that industry and investors were saying that renewables would never compete on cost or reliability.

There is a lot of work that needs to be done to make carbon capture something we can actually do, and to create the utilization part of that, which I think is the real and interesting opportunity. We can capture CO_2, but what do we do with it? If you're able to do something with it and turn it into an economic product, something that has financial value that you can sell, then you have created a massive incentive to suck carbon out of the air and to do something with it, right? Or to take it out of industrial processes and do something with it. That is a big opportunity. But here's the thing—right now, the only industries

that have the economic incentive to really invest in how to do this well are the heavy-emitting sectors. The IEA net-zero scenario that John spoke about earlier specifically calls out the oil and gas industry as being vital to making CCUS economical, and scalable. And so, I feel like that is a role they can play in the near-term to drive this technology to scale, so we can use it for the parts of our economy where you have no other options, such as steel, such as concrete.

So, I think that's a big opportunity that the world needs, and Canada is extremely well-positioned to meet the need. We sit on top of these huge basins where carbon storage is possible, and we have this condensed industrial footprint in Alberta, and we've actually been utilizing the technology for years. All those things coming together makes for the perfect microcosm to really drive this technology.

The flipside of that is hydrogen, blue hydrogen. One of the things that we're going to have to come to grips with is the size and the northern exposure Canada has, and transportation considerations. It's not a great fit for electric vehicles, especially in the cold climate, whereas hydrogen seems like a really good fit, and that's a nut we have to crack. And we're ideally positioned because right now, the oil sands players are among the biggest producers of hydrogen in Canada. They just do it in a bad way in the sense that it's "grey," it's creating a lot of emissions. If they can find a way to significantly reduce that footprint—through CCUS—they can create this hydrogen economy and then we can move more green sources of hydrogen into that. Another big opportunity, but not one that will happen without taking some chances.

Stand back and look at the skill sets of the companies operating in the oil sands, and just the sheer size and complexity of projects they have accomplished within a very harsh environment. That ability to manage major project developments is a huge asset when we talk about the infrastructure we need to build for a low-carbon future. I see that as a real relative strength that we can leverage. Any kind of industrial project tasked with creating the infrastructure we need, Canadian oil sands companies have proven they can do that in a ridiculously challenging environment. A domestic and export opportunity for the knowledge-based economy.

JOHN: Excellent, yes. I think I would start off by saying, by adding to that, the kinds of companies we would want to specifically avoid. And that's really companies that, as you mentioned, have no strategic plan to contribute to a low-carbon world. The ones moving much too slowly, or worse, ignoring it. The cost of capital for many of these companies is already going up. Banks are tightening the purse strings from a lending perspective. They want to see plans, they want to understand their clients' commitment to net zero before they finance their businesses.

It's easy to pick on the oil and gas sector, but again, another education point for investors, climate risk goes far beyond that. If you have a real estate company that's making no plans to, a), understand its physical climate risks and b) account for them—to *do* something about it, then you have investment risk. If they have buildings in areas that are more prone to flooding or forest fires, extreme heat, drought, and they're not taking any proactive, mitigating steps, the level of risk in those assets will be higher than for a real estate company that is cognizant of physical climate risk.

That's just real estate, but you can go and say this for every sector of the economy. Take food retail, grocers, how is climate change affecting their supply chain and how are they mitigating that? And how is that affecting their customers? It just goes on and on, reaching all parts of society and the economy.

It's really less a matter of sector and more of an attitudinal thing, like any strategy, back to what Jamie said earlier. As a comparison, look at the digital revolution, right? We all knew the world was digitizing, is still digitizing, and many companies didn't have a robust digitization plan. But look what happened when COVID-19 struck. Everyone's digitization plans got massively accelerated. A 5-year plan became a 5-month plan. And for those that didn't have a good plan, they were left scrambling, and those that were at the forefront really, really benefitted. The journey to a low-carbon world will create winners and losers much the same way—and what happens if we get a major upset, as we got with the pandemic? What will happen to the companies that are not prepared? And how will that impact your portfolio?

We're focused on climate change for this conversation, but it should be said, the world is re-orienting around social and governance factors as well, not just the environmental ones, and companies are all in a similar boat. They need action plans. How are you making a fair and positive contribution to society? How are you managing your CEO and employee pay gap? How are you improving diversity and inclusion? Companies must move on all these fronts. This is a time of intense transition.

Companies that are proactively dealing with these issues are reducing the probability of negative shocks to their shareholders by strengthening their risk management and increasing their resilience. This is a critical part of creating long-term value for all stakeholders in the company.

Now just to bring the conversation back around and stick a bow on this thing…

I think I can reasonably speak for everyone on the investment and ESG teams at NEI when I say we have high hopes, high expectations, for COP26. While it is not a financial-sector event specifically, we do expect to see plenty of news on sustainable finance issues. That could include updates on the creation of a new International Sustainability Standards Board, which would go a long way in establishing global standards for ESG-related disclosures, with the first priority being climate. These standards would help provide investors like us with consistent, comparable data to aid the investment decision-making process. There are bound to be plenty of announcements around net-zero initiatives in the banking and asset management industry, either at the individual company level or through alliances. But as I mentioned earlier, climate change affects all areas of the economy, thus I suspect there will be pledges from all industry sectors and all levels of government, as well as various investor alliances.

We recognize there is a lot of work ahead of us on a global scale that has never, when you come right down to it, been attempted before—let alone achieved. We are excited, we are positive, we are committed. We are open for collaboration and ready to take our long-held role as responsible investors to the next level. We wish everyone attending the conference all the best in their conversations and negotiations, and we look forward to seeing the results.

Talk to your advisor today about
responsible investment solutions from NEI.

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