FII INSTITUTE SERIES
THE NEO-RENAISSANCE: MOBILIZING ESG FOR A SUSTAINABLE FUTURE

POST-EVENT REPORT

EVENT HIGHLIGHTS

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CALLS TO IMPACT

1 Markets need to tackle 'greenwashing' and opaque ESG ratings by building rigorous frameworks.

2 ESG should incentivise equitable and inclusive social and environmental change. A nuanced and context-appropriate application of ESG that does not penalise companies in emerging markets or adversely impact the transition to a sustainable future is needed.

3 Institutional and retail investors, corporations, stock exchanges and governments have more power than ever to influence capital allocation dynamics – they need to exercise that power responsibly.

4 The FII Institute will establish a standardized corporate rating methodology to address the challenges facing ESG today.

THE IMPERATIVE OF INCLUSIVE ESG STANDARDS

RICHARD ATTIAS, CEO, FII INSTITUTE

With the beginning of economic recovery in sight, attention is turning to the kind of future we want to live in. We have an unprecedented opportunity to build a sustainable world characterized by just and inclusive growth.

The environmental, social and governance (ESG) agenda was already growing in popularity prior to COVID-19. The events of 2020 only strengthened momentum, further revealing the interrelatedness between the environment and our own wellbeing. It also showed that companies with better ESG performance outperform the market thanks to their superior levels of agility, good governance and innovation.

Over the last decade, the ESG movement moved from the margins to become mainstream, with ESG fund assets hitting $1.7 trillion in 2020 according to Morningstar. ESG is an important value driver in emerging market investments.

But we need to rethink our approach to ESG to ensure it achieves its desired effects. Measuring and managing ESG requires rigorous frameworks inclusive of a diverse range of perspectives, especially from emerging economies which have, so far, played a limited role in shaping these important frameworks.

Achieving the Sustainable Development Goals (SDGs) requires that all emerging economies flourish, which will require capital, including to countries that may be at an earlier stage of development. The very drive to achieve net zero requires expertise in areas like carbon capture, in which oil and gas companies have critical insights and experience.

To tackle these problems, we at the FII Institute were delighted to convene a virtual event bringing together a select group of decision makers, corporate leaders, investors and regulators to share insights into the strengths and weaknesses of current "ESG system" and explore ways to boost the participation of emerging markets. We are also delighted to release our new report **"Redefining ESG: Towards achieving inclusive global sustainable development,"** which charts a way towards a new and improved ESG system that is inclusive and one that rewards companies which generate positive impact. Thank you to the experts who have shared their time and insights to help us begin this important new chapter in our mission.

Richard Attis

RICHARD ATTIAS
CEO, FII Institute

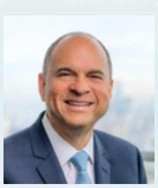
REDEFINING ESG

ESG tools have proliferated in recent years driven by rising investor interest, with over 80 different frameworks and reporting standards covering different sustainability dimensions. How should we rate ESG performance, and encourage wider participation?

Expert panellists at the FII Institute virtual event pointed out a range of limitations and side-effects bedevilling ESG. One is the lack of context, which shapes which environmental and social dynamics matter most.

"In North America, one can take business ethics, anti-corruption and taxation systems for granted, you don't need to spend that much energy on it, but instead you should focus on diversity, inclusion and equity", said Rishi Kapoor, Co-CEO, Investcorp, Bahrain. "In India, on the other hand, those same factors you take for granted in North America and Europe may not apply. Your focus should be on ensuring ethical procurement, labour standards and human rights, transparent disclosure and so on."

Multiple panellists expressed concern that ESG was biased against emerging markets. "Some would argue that ESG ratings are rewarding privileged markets" said Hawazen Nassief, ESG Advisor, FII Institute, who moderated a panel on redefining ESG. Of course, there will be some companies that will be "major winners and attract more capital than developed markets," according to Henry A. Fernandez, Chairman & CEO, MSCI, USA, including in areas like green energy and transportation. However, ESG frameworks could lead to retraction of capital overall. Emerging markets may have an economic reliance on sectors with a weaker environmental profile, but those countries must be supported to transition if ESG is to have a meaningful impact.

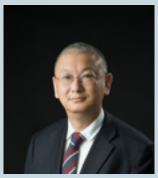


"There is a danger of applying ESG criteria too strictly, excluding companies that operate in sectors where developing countries have comparative advantages or in countries where the business environment is such that it would be impossible to achieve on day one," said H.E. Dr. Bandar Hajjar, President, Islamic Development Bank.

The world cannot achieve the SDGs without investment in emerging markets, yet those very countries may struggle to attract capital due to ESG frameworks that fail to account for their unique conditions - or their minimal contribution to the environmental crisis in the first place. Africa's contribution to global emissions is around 3%, according to Our World in Data, and the continent is already suffering from the impact of climate change on increasing temperatures and rising sea levels. The continent relies on key industries in sectors like mining and infrastructure that may be penalised by current ESG ratings, even while commodities like lithium and manganese are critical to sectors like green mobility and next-generation batteries. The continent needs and deserves more capital to deal with the impact of climate change. **"**This is doubly unfair to Africa," said Ayaan Z. Adam, Senior Director and CEO, AFC Capital Partners, Nigeria. "ESG should preserve investments that will create jobs in Africa."

Henry Fernandez at MSCI calls for a nuanced approach.

"There are different judgements needed on materiality. How do you weigh social as opposed to climate issues? There is no silver bullet to have everyone conforming to, because everyone is starting with different data and methodologies and judgements on materiality," he said. "Investors should not be looking for convergence of ratings. They need choice and richness of information as to the judgements of materiality."



LI ZHENGGUO
PRESIDENT & CEO, LONGI GREEN ENERGY TECHNOLOGY CO. LTD., CHINA

"The attitude, ability and achievements of enterprises to solve environmental and social issues constitute the proposition and value of the brand."

MURRAY ROOS
CEO, CAPITAL MARKETS, LONDON STOCK EXCHANGE GROUP, UK

"Issuers and investors need clear, transparent, robust methodologies to prevent greenwashing. That transparency and spotlight is critical."

ESG SHOULD DRIVE TRANSITION

Current ESG integration approaches tend to exclude sectors that are carbon-intensive and generally receive low ESG ratings, but this does not catalyse progress as it deprives key industries of the capital required to invest in technology that facilitates innovation and advances towards sustainable, equitable growth.

Panellists called for a shift from an 'exclusionary' approach that removes companies to a more dynamic one that backs progress.

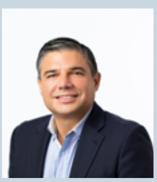
"ESG should be about value creation rather than penalising," said H.E. Yasir Al-Rumayyan, Governor, PIF & Chairman, FII Institute, KSA.

ESG frameworks should encourage the allocation of capital towards areas like infrastructure, which could allow emerging markets to build new industries and service sectors and transition from extractive commodities-based economies. It should also support the financing of innovations like carbon reduction, which requires participation from oil and gas companies which are best placed to drive innovation.

Noel Quinn, CEO, HSBC, UK, anticipates billions of dollars of financing in helping companies transition their business models in the next decade - and this will include helping "high-emitting sectors invent the new technologies to bring down their carbon footprint and transition their existing business models, whether it's power generation or transportation, to change the way they do business. Walking away from the 'old' sectors does not necessarily achieve transition, it doesn't achieve the goal of the Paris accord," he said.

A similar observation was made by Jeff Ubben, Founder & Managing Partner, Inclusive Capital Partners, USA, and a critic of 'business as usual' in the finance industry. "Renewable energy is already cost-competitive thanks to the cost curve of photovoltaics, wind turbines and so on. The hard stuff, like carbon capture, is where the focus needs to be. To deal with that, you need the oil companies which have the experience and skills." Ubben says the current ESG movement "worries me because it's been commodified. It is a way for asset managers and owners to own what they always were going to own - Apple, Amazon, Facebook."

Jennifer L.C. Wu, Global Head of Sustainable Investing, JP Morgan Asset Management, USA, also argued for a more active ESG agenda that backs the ideas of tomorrow, rather than penalises on the basis of yesterday. "Historically, when we think about ESG investing, it was just about excluding companies whereas now, you want to lean in, you want to reward companies doing a good job, invest in companies which are transitioning, such that you have a seat at the table and can push those companies."



LORENZO SIMONELLI

CHAIRMAN & CEO, BAKER HUGHES, USA

"Oil and gas players are key stakeholders in making net zero a success. We need to make hydrocarbons cleaner, and drive innovation in carbon capture and new ecosystems like hydrogen."

STUART MARTIN

CEO, SATELLITE APPLICATIONS CATAPULT, UK

"We see satellite data increasingly being used to support sustainable financial decision-making because of the unique way it provides assurance and validation on top of existing self-reporting mechanisms. It is an obejctive source of information and enables insights to be constructed bottom–up and at the level of individual assets."

LET THE CAPITAL TALK

Panellists were optimistic that today, the power of capital-holders is no longer limited to institutional investors and high-net worth individuals. As the dramatic GameStop stock market surge shows, ordinary investors have significant power to shape markets. Those same dynamics can be deployed to pushing the ESG agenda.

"Retail investors have a huge power. They can choose investment solutions, focusing on listed companies which contribute to the UN Sustainable Development Goals and sending a powerful message to shift flows towards these companies," said Isabelle Millat, Head, Sustainable Investment Solutions, Global Markets, Société Générale, France.

Retail investors care about companies making a difference and they have the low-cost financial tools to take shares in firms they believe in. Yet, experts call for more standardisation about how funds and financial products are constructed and more reporting consistency on ESG to support decision-making.

"For retail investors, one of the most important things is a standardised taxonomy on how corporations disclose this information so that all players can have access to consistent data. We need a framework around what would constitute ESG or sustainable product labelling rules," according to Jennifer L.C. Wu, Global Head of Sustainable Investing, JP Morgan Asset Management, USA. Isabelle Millat at Société Générale, agrees. "Transparency is key, and it starts with companies and the data they report, so that retail investors have a common vocabulary to ensure ESG is accessible."

Stock exchanges, large institutional players and investors are also critical. "There are concerns by regulators about ESG disclosures, and we're seeing more and more focus in the EU and the SEC is beginning to look at this," said Professor Tensie Whelan, Director of the Center for Sustainable Business at NYU, who moderated a panel of leading figures from exchanges from Malaysia and Kenya to London, each of whom outlined measures they are taking.

Bursa Malaysia, the Kuala Lumpur-based exchange, is encouraging fund managers and local institutional investors to hold companies to account through their voting power and at AGMs, according to Datuk Muhamad Umar Swift, CEO, Bursa Malaysia Berhad, Malaysia, whose exchange is working as a partner on the FTSE for Good Index. Malaysia's capital markets regulator is also working on guiding principles for Socially Responsible Investment (SRI) taxonomy.

The London Stock Exchange (LSE) has taken several steps, including introducing a green economy mark with nearly 100 issuers signed up, according to Murray Roos, CEO, Capital Markets, London Stock Exchange Group, UK. In 2015 "we became the first exchange to set up a green bond segment, which allows for issuers with over 90% of green revenues to display their bond on that segment." The LSE now has 450 ESG metrics across 10,000 companies, helping customers conduct rigorous analysis. All of this is having a meaningful impact on outcomes, says Roos at the London Stock Exchange Group. "We see our institutional investors leading the way, making specific allocations for green investments and shying away from brown investments."

LET THE CAPITAL TALK

There is growing engagement from emerging market stock exchanges too. Across Africa, they are aligning with the UN Sustainable Stock Exchange Initiative and working together to harmonise their approaches as part of the broader shift towards greater economic integration on the continent. "Across African exchanges we are trying to standardise our issuance regulations and guidelines so investors can clearly understand how to guide their clients," said **Geoffrey Odundo, Chief Executive, Nairobi Securities Exchange, Kenya**. He calls for more rigour around regulation so sustainable assets are aligned to global reporting standards and indicators - and more encouragement to increase impact investing.

MOHAMMAD AL HASHIMY

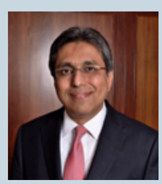
DEPUTY GROUP GENERAL COUNSEL & COMPANY SECRETARY, DP WORLD, UAE

"We recognise monumental action for change cannot happen in isolation, so we seek partners to protect and enhance the life chances of communities and planet, in areas including ecosystem preservation and female empowerment."

DR. GUO PEIYUAN

CHAIRMAN, SYNTAO GREEN FINANCE, CHINA

"We expect to see more ESG ratings and academic research in China in the years ahead. We also expect more financial institutions adopting ESG frameworks to understand their climate risk."



DR. ANISH SHAH

MANAGING DIRECTOR & CEO, MAHINDRA & MAHINDRA, INDIA

"The COVID period has reminded us that the planet is very important and efforts from companies must be accelerated."

SUSTAINING MOMENTUM: ANNOUNCING THE FII INSTITUTE-AMUNDI PARTNERSHIP

At the close of the event, Richard Attias announced a Memorandum of Understanding (MoU) with Amundi, to begin work on an ambitious new research program focusing on ESG in emerging markets. The effort is based on a belief that without an inclusive and equitable ESG system, the SDGs cannot be attained. “We share an ambition with the FII Institute to create research on ESG in emerging markets and ensure a more diversified approach,” said Jean-Jacques Barbéris, Member of the Executive Committee & Head of Institutional Clients Coverage and ESG, Amundi, France, at the signing the agreement live. “This MoU is an effort to contribute to the intellectual equipment on ESG in emerging countries”.

FII INSTITUTE Future Investment Initiative Institute | Impact on Humanity

ABOUT THE INSTITUTE

The FII Institute is a new generation of not-for-profit foundation that ensures the world's brightest ideas find their way to materialize, scale and create positive sustainable impact on humanity. With an ambitious vision to empower the brightest minds to shape a better future for ALL and with ALL, the FII Institute will bring together global leaders and experts to collectively curate and enable concrete ideas that can solve today's most pressing societal issues, while creating long-term platforms to reshape the future of humanity sustainably.

The mandate of the FII Institute revolves around 4 IMPACT areas:

HEALTHCARE

Leverage new dynamic applications of technology to disrupt the traditional healthcare industry.

SUSTAINABILITY

Deploy technologies to ensure development meets the needs of the present while considering needs of future generations.

ARTIFICIAL INTELLIGENCE

Teach machines to think and act like humans to take over an increasing share of "human work."

ROBOTICS

Design, construct and operate robots and computer systems based on their control, sensory feedback and information processing.

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SAVE THE DATE:

FUTURE INVESTMENT INITIATIVE 5TH EDITION

RIYADH, SAUDI ARABIA

OCTOBER 25-28, 2021