BNY MELLON

# 2021 Future First℠ Forum

## RECAP

### MAY 2021

BNY Mellon's inaugural *Future First*℠ Forum on May 12, 2021 brought together industry experts to discuss the innovations that are helping companies have a positive impact on people, communities and the planet while also driving long-term value. As BNY Mellon CEO Todd Gibbons noted in his opening remarks, the pandemic has accelerated the need for widespread adoption of environmental, social and governance (ESG) principles.

Responsible investing has become a bedrock for creating long-term value, and BNY Mellon research demonstrates that ESG equates to both moral imperatives and good business: Financial outperformance is 21% more likely in gender-diverse companies, and 33% more likely in ethnically diverse firms.

Over the course of the day, various perspectives pointed to a key theme: There is an urgent need for clarity, consistency and transparency in how the financial industry addresses ESG considerations — whether via predictable policy, more transparent ESG data or consistent frameworks for measuring impact.

It will take time, innovation and initiative to accelerate the evolution of ESG to deliver positive global impact. Now could be a transformative moment. To learn more about these vital insights that emerged over the course of the *Future First* Forum, watch any of the session recordings below.

### Moving from Disclosing Data to Measuring Impact

**Participants**

- **Andrew Karolyi,** Dean of the Cornell SC Johnson College of Business (Discussion Lead)
- **Corinne Neale**, Global Head of Business Applications at BNY Mellon
- **Dr. Leila Fourie,** Chief Executive Officer of the Johannesburg Stock Exchange
- **Jessica Fries,** Executive Chairman of The Prince's Accounting for Sustainability Project (A4S)

How can investors, asset owners and asset managers fully incorporate ESG risks into their mindset, and measure their impact? This panel discussed the critical sustainability information necessary to evaluate risk and return, as well as the emerging technologies that can create more meaningful, secure and replicable data. During the conversation, panelists noted the need for transparency between investors and asset managers to ensure that there is a good match between investors' sustainability objectives and the solutions they can access. The critical element of such transparency, of course, is consistent, reliable data. Corinne Neale commented, "That's a really important trend that we see in terms of technology supporting the need for better data, more punctual, more granular, more forward-looking data for institutional investors."

Jessica Fries agreed, adding, "You really are seeing market participants starting to shift the decisions that are being made and send very clear signals to CFOs in the real economy in terms of the need to present a very clear, very tangible picture of how something like climate risk and the transition to net zero. What are the action plans that are being taken? How can you really demonstrate that the investments that you are making now are future proofed?" For instance, the panelists noted, there is a need for clear forecast direction on capital expenditures, and how investors can use that to understand companies' future climate impact.

The panelists also discussed the potential long-term implications of greater transparency. Dr. Leila Fourie commented, "I see the evolution largely pointing to a much stronger linkage between the cost of credit and the cost of capital and sustainability outcomes… And overall, I believe that we will see an increase in regulation which points to governments helping to establish reference points for credibility."

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### ESG Materiality and Return: Cutting Through the Noise to Find Alpha

**Participants**

- **Hans Brown,** Head of Enterprise Innovation and Chief Innovation Officer for Corporate Technology, BNY Mellon (Discussion Lead)
- **Gallus Johannes Steiger,** Head of Investment Analytics, Swiss Re
- **Tensie Whelan,** Clinical Professor of Business and Society and Director of the NYU Stern Center for Sustainable Business
- **Rodolfo Araujo,** CFA, Senior Managing Director and Head of Corporate Governance and Activism, FTI Consulting

How can investors improve performance and integrate sustainability information to demonstrate returns? Our panelists were in full agreement on the connection between material ESG issues and financial performance.

Tensie Whelan noted, "We're seeing that there really is a strong payback for businesses when they invest in sustainability. And accordingly, when you've got a smart investment strategy that looks at companies with a good embedded corporate sustainability strategy, you can also see better returns." She shared the results of a meta-analysis conducted by the NYU Stern Center for Sustainable Business: "There was a 58% positive correlation with corporate financial performance and ESG, with only a negative correlation of about 8%. When we looked at the investor side of things, we found that there was a 33% alpha, in other words, outperformance, related with ESG, and then another 26% in terms of operating at a conventional rate of return... And there was only about 14% of the studies that had identified a negative correlation between ESG investing and financial performance."

Gallus Steiger took a complementary view, noting how strong ESG commitment protects shareholder value through risk management. He commented, "We actually think that sustainable actions will have an impact... mainly with respect to managing the downside risks. So what we have seen in our analysis is it's preventing us from large losses, like litigation losses. So it ultimately helps to improve the capital costs." Rodolfo Araujo concurred, noting that companies that don't manage ESG risk effectively will face risks in "access to capital, access to talent and access to business opportunities."

Click here for full discussion

## A Conversation with Mark Carney

**Participants**

- **Mark Carney,** Governor, Bank of England (2013-2020)
- **Hanneke Smits**, Chief Executive Officer, BNY Mellon Investment Management

In this lively and timely discussion, Mark Carney — United Nations Special Envoy on Climate action and finance; Finance Advisor on COP26 to the UK prime minister, and author of VALUE(S): Building a Better World for All — shared his thoughts on how we can harness the power of the market to help achieve the values of society.

Some compelling takeaways included:

- The need for society and the financial industry to adjust what we value: "What we're seeing in the COVID crisis are the values of society coming to the fore... And also potentially, and I hope actually, with our response to the climate crisis. Where we're moving from a situation where it was a trade-off between the short and the long term. Between planet and profit. To a hierarchy of values. A value of sustainability."
- The value of predictability: "if you have credible and predictable policy, the financial sector — and, most importantly, the real economy — will pull forward adjustment... It's the same in climate. It can be regulation; it can be requirements for fuel standards or emission standards. And even public investment in certain technologies such as hydrogen, such as aspects of carbon capture, which signal the importance or the opportunity that's there. All of those policies can help accelerate the investment that we need to get to where we need to go to."
- The importance of incentivizing investors to bet on future sustainability: "You may be in a position as an investment manager where you see an opportunity [with]

> a company that has the potential to decarbonize with a big investment… And at the point you make the investment, your carbon footprint as an investor goes up because you've invested in somebody who in a few years from now will be able to decarbonize… We need the infrastructures so that you are at a minimum not penalized for that."

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## Achieving Social Impact Goals and Transformation Powered by People

**Participants**

- **Andrew Parry,** Head of Sustainable Investment, Newton Investment Management (Discussion Lead)
- **Dan Esty,** Hillhouse Professor, Yale University and author of Values at Work
- **Erika Karp**, Executive Managing Director and Chief Impact Officer, Pathstone
- **Victor L. Hymes,** Founder and Managing Member of Legato Capital Management

In a shift away from shareholder primacy, which focuses on financial returns for owners, companies are embracing a new role of meeting the needs of a broad range of stakeholders. Structural inequities like income inequality appear to lead to underperformance. This panel made a strong case that we need to bring humanity back to capitalism, in a journey toward a strategic adjustment that aligns with evolving mainstream values.

The panel also delved into the concept of diversity, equity and inclusion efforts being a journey, with current methods of data reporting potentially failing to capture the improving or deteriorating momentum of corporate efforts in this space. Dan Esty commented, "I think what we're seeing now is a shift where companies are being asked to make sure they're in alignment with society's expectations around things like structural inequality, around the serious issues of racial injustice around diversity, beginning with gender parity but going much beyond that to the question of representation of underrepresented minorities on management teams and on boards."

Erica Karp agreed, noting, "One of the things that outrages me is that capitalism can be an incredible force for good. But it hasn't been because of the lack of participation and regeneration and inclusion. So I would suggest that these days, with more transparency, with social media, with big data, with a multitude of crises and more outrage, we can start to see the corporate world take a leadership position and use capitalism, again, as a force for good."

Victor L. Hymes concluded with a warning on greenwashing, noting, "Thoughtful people are thinking about, 'How can we create products that will transform the world?' People who are not thoughtful are saying, 'How can we create products and sell lots of stuff?' And we're going to call those people out. And there is a growing number of us who have the tools and the skills to do precisely that."

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## Market Infrastructure as a Catalyst for Scaling Sustainable Finance

**Participants**

- **Robin Vince,** Vice Chair of BNY Mellon and Chief Executive Officer of Global Markets Infrastructure (Discussion Lead)
- **Dr. Rhian-Mari Thomas OBE**, Chief Executive, Green Finance Institute
- **David Harris,** Global Head of Sustainable Finance, London Stock Exchange Group
- **David Lukas Rozumek,** Senior Financial Expert, International Monetary Fund (IMF)

Global market participants and a wide range of organizations across the financial services industry are putting significant thought and effort into the foundation of what is needed to spur progress around ESG adoption.

Dr. Rhian-Mari Thomas began by noting the potential of the financial industry to save the planet from catastrophe. "The climate models suggest that the worst extremities of the climate change fortunately aren't upon us yet," she explained. "When it comes to investment, that is what the markets do so well... we pull forward risk. And we're already seeing that when it comes to driving climate action, investors have emerged with this really leading role, pushing corporate management teams towards responding to that climate science."

It's critical, however, not to underestimate the need for action. David Rozumek discussed the importance of a robust and consistent pricing mechanism for climate-related financial risks, applied across markets and institutions — and the danger of fragmented and divergent approaches. He noted four broad areas essential to addressing climate change:

- Policy actions from governments and central banks
- Risk management practices of financial institutions, corporates and public entities
- Climate information infrastructure
- Disclosures, data and consistent taxonomies

David Harris noted also the need for policymakers to help accelerate standardization. "We need everybody to work together to make sure that these definition systems, they don't need to be directly the same, but they do need to be interoperable, they do need to better work together. And hopefully by all working together globally and making sure that the policymakers are, we can help get the data and the tools we need."

Click here for full discussion

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*Consider Everything*

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