MHP Group

Capital Markets ESG *Insights*

October 2023

Welcome

In this latest iteration of the MHP Capital Markets' quarterly ESG Insights newsletter, we take a look at recent political developments impacting the UK's green agenda, following Rishi Sunak's move to slow down the UK's transition to a low carbon economy. We examine corporate and political reactions and potential implications from a communications perspective, drawing on insights from MHP's recently published Polarisation Tracker.

We also summarise the upcoming key developments in the ESG space, including what to expect from COP28, and the regulatory frameworks being introduced, including the Sustainable Finance Disclosures Regulation (SFDR) and Sustainability Disclosure Requirements (SDR), along with the Corporate Sustainability Reporting Directive (CSRD). We also feature Stewart Investors, a global leader in sustainable investing, as our Client in Focus.

For any questions or feedback please contact us at esg@mhpgroup.com.

The future of the green agenda: *where do we go from here?*

Towards the end of September, the UN General Assembly gathered in New York, where leaders from governments, business, cities and regions, civil society and finance were called upon to present "credible, serious and new climate action and nature-based solutions that will move the needle forward and respond to the urgency of the climate crisis" at its annual Climate Week events.

Amid this backdrop and across the Atlantic, Prime Minister Rishi Sunak skipped the event, staying at home to deliver ***a speech that promised a "more pragmatic approach" to achieving a transition to a low carbon economy*** in order to "ease the burden on working people".

Sunak's speech amounted to a watering down of the UK's commitments to tackle climate change ***set by his predecessor Theresa May in 2019***, delaying targets for the phasing out of fossil fuel vehicles and domestic heating, among other climate targets.

The Prime Minister has justified this policy rollback by stating that if the government continued its previous net zero trajectory, "we risk losing the consent of the people". However, Sunak may risk losing the support of the business and industry figures needed to facilitate the major infrastructure changes and the switch to renewable energy, electric cars, and heat exchangers to meet net zero emissions.

Rollback reaction

Rishi Sunak's speech was instantly condemned by industry, business leaders and investors, particularly those impacted by the most significant rollbacks, such as the delay to the deadline for phasing out the sale of new petrol and diesel cars, from 2030 to 2035.

Reacting to the rollback, ***Lisa Brankin, the Chair of Ford UK, said,*** "our business needs three things from the UK government: ambition, commitment and consistency. A relaxation of 2030 would undermine all three".

Carmakers have invested hundreds of millions of pounds in electric vehicle manufacturing over the last few years in preparation for the 2030 deadline. The news will create uncertainty for UK-listed manufacturers and EV-technology companies such as Equipmake and Volex, whose share prices have suffered since the Prime Minister's announcements, adding to the headwinds of ***higher interest rates negatively impacting share price performance in the sector***.

Investor groups have also condemned the latest rollback on net zero policies by the UK government. While Sunak argued that it was not right that Westminster "impose such significant costs on working people", Rose Easton, Interim Chief RI Ecosystems Officer at the PRI, said that ***"transitioning to meet net-zero goals could reduce costs for the economy, attract £10bn ($12.2bn) per year of investment into the UK and create 600,000 new green, decent jobs by 2030***".

Uncertainty ahead

The government backtracking on its net zero commitments may exacerbate the general feeling of uncertainty and lack of trust in policymakers to keep their promises and maintain an environment that facilitates business investment in the green transition.

Adding to the broader criticism of the Prime Minister's approach, the former Bank of England Governor Mark Carney later warned that delaying net zero deadlines and approving new oil and gas drilling would harm investment into the UK, saying that ***Britain had been "forging a consensus around net zero" but "the Government has now fallen back a bit".***

With the Prime Minister reinforcing his commitment to watering down the government's net zero commitments in his keynote speech at the Conservative Party Conference in early October, uncertainty towards the government and its backing for businesses investing and operating in the green economy will persist.

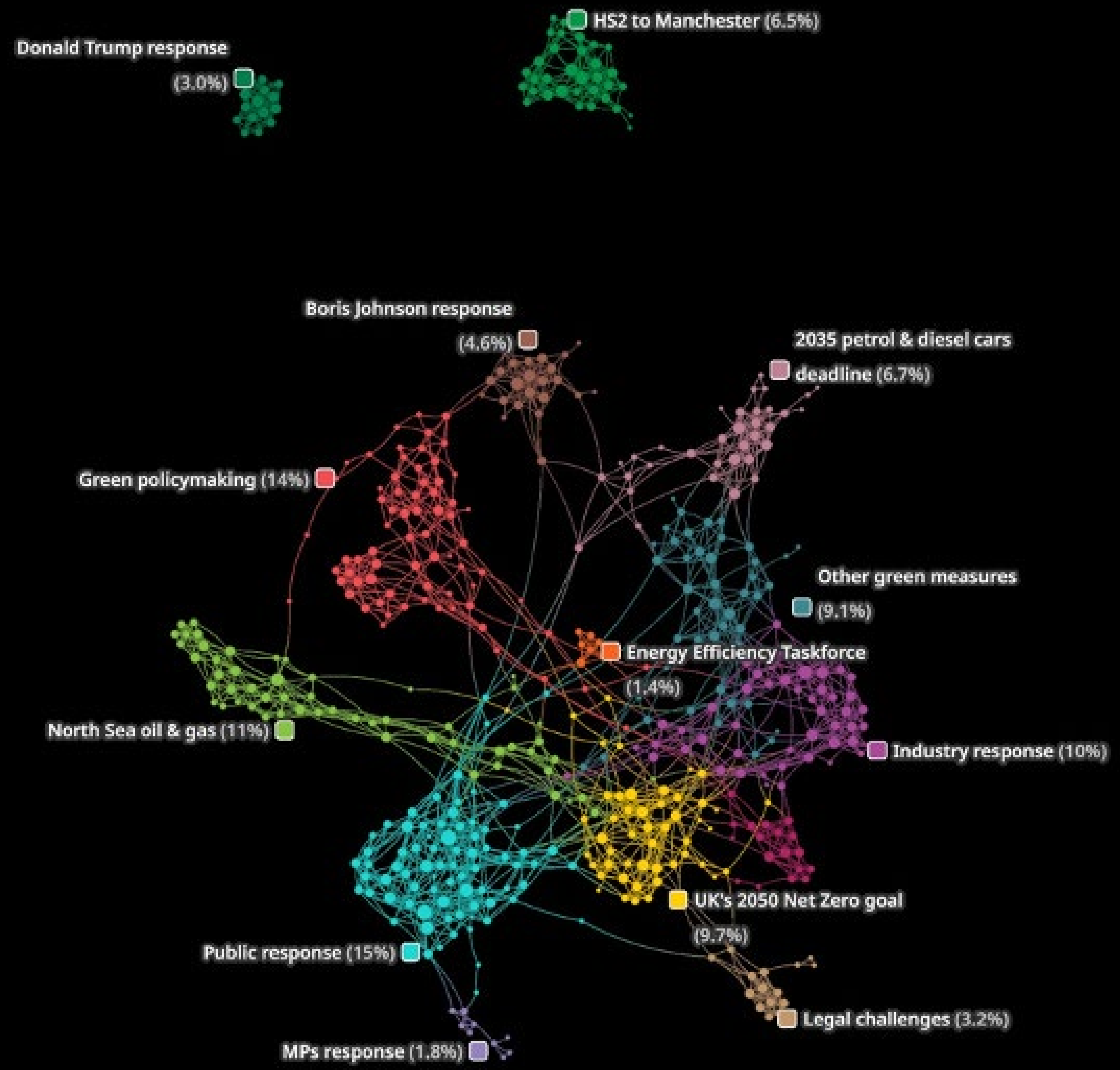
While the true effect of this U-turn is yet to be felt, what is evident is that clear and transparent communication from corporates impacted by this change is critical, to ensure that investors, employees and other stakeholders understand how policy decisions might impact the trajectory of corporate strategy – and investment in net zero more broadly.

Delving deeper into the media reaction

We have used Quid, an AI-powered media intelligence tool with access to over 1 billion articles from more than 3.6 million global news and blog sources, to take a deeper dive into the responses to the announcement in the weeks following the Prime Minister's speech.

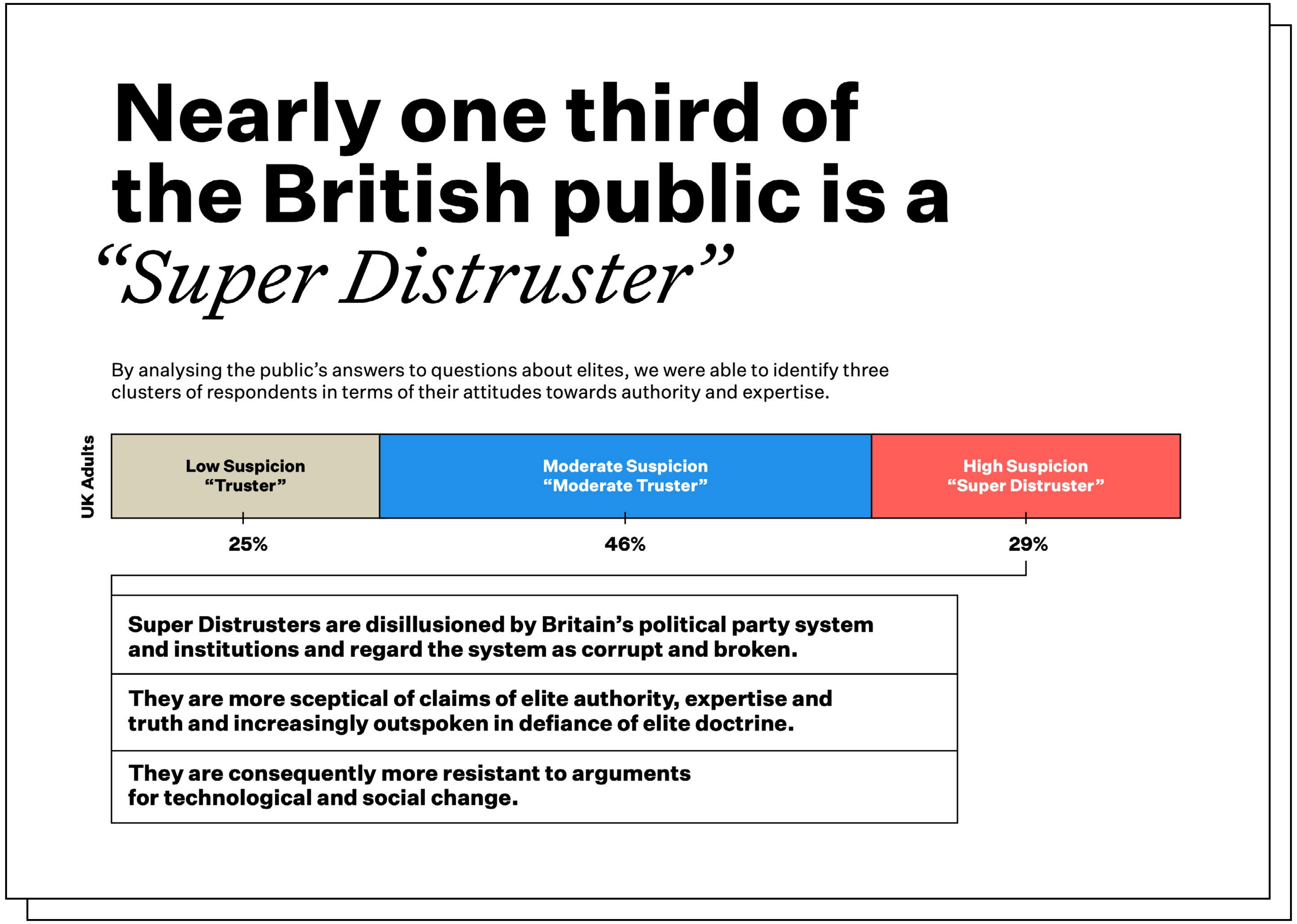
Over 6,000 articles have been analysed and a sample of which has been used to create an interactive map, categorising the drivers of conversation into distinct categories.

We can see that public response was the largest driver of conversation, highlighting the media's focus on how the measures will play into polling sentiment ahead of the next General Election. This is closely followed by commentary surrounding green policymaking, reflections on the UK's overall 2050 Net Zero goal, and the future of the North Sea's oil and gas industry.



The rise of the Super Distruster

The political flip-flopping on the UK's decarbonisation journey plays into the hands of an increasingly polarised public. The latest update – Wave 6 – of ***MHP's biannual Polarisation Tracker*** hones in on a specific trend: the rise of the Super Distruster. According to the research – produced in partnership with The Cambridge University Political Psychology Lab – nearly one third of the British public is a "Super Distruster": people from every walk of life and of every political hue, who regard the system as broken and are highly suspicious of the people they think have broken it. As a result, they are more likely to think Britain's leaders are failing, and see institutions as elite and untrustworthy.



MHP Polarisation Tracker Wave 6

Accounting for approximately 16 million people in the UK and comprising a huge and diverse population, the Super Distrusters are a powerful force in politics and business, and therefore should not be ignored. So when it comes to corporate communications strategies, how should businesses look to engage with this cohort? Our research concludes that a new approach is needed, and identifies three important tactics:

1

Super Distrusters are increasingly motivated and organised, supported by counter-elites and listened to by politicians. Communicators need to address their strongest arguments before presenting robust counterarguments, using a dialogical approach → **Business needs to engage critics beyond the media bubble in order to build trust.**

2

The vandalism of hundreds of surveillance cameras designed to enforce London's expanded Ultra Low Emissions Zone was the result of a backlash from Super Distrusters of all political stripes. Before deploying new digital tech at speed, leaders should encourage more open debate about risks and safeguards, rather than casting critics as luddites → **Technology storytelling needs to emphasise individual empowerment rather than systemic efficiency.**

3

In the era of stakeholder capitalism, government, business, the media and civil society increasingly talk in terms of partnership and shared values, while disagreements have been played down. Within our research, we found business criticism of government policy was broadly welcomed, even by supporters of the governing party; people appreciate such arguments being aired in the open → **Brands that are more transparent about their motives, and challenge government on behalf of the consumer will reap dividends.**

Implications for the route to net zero

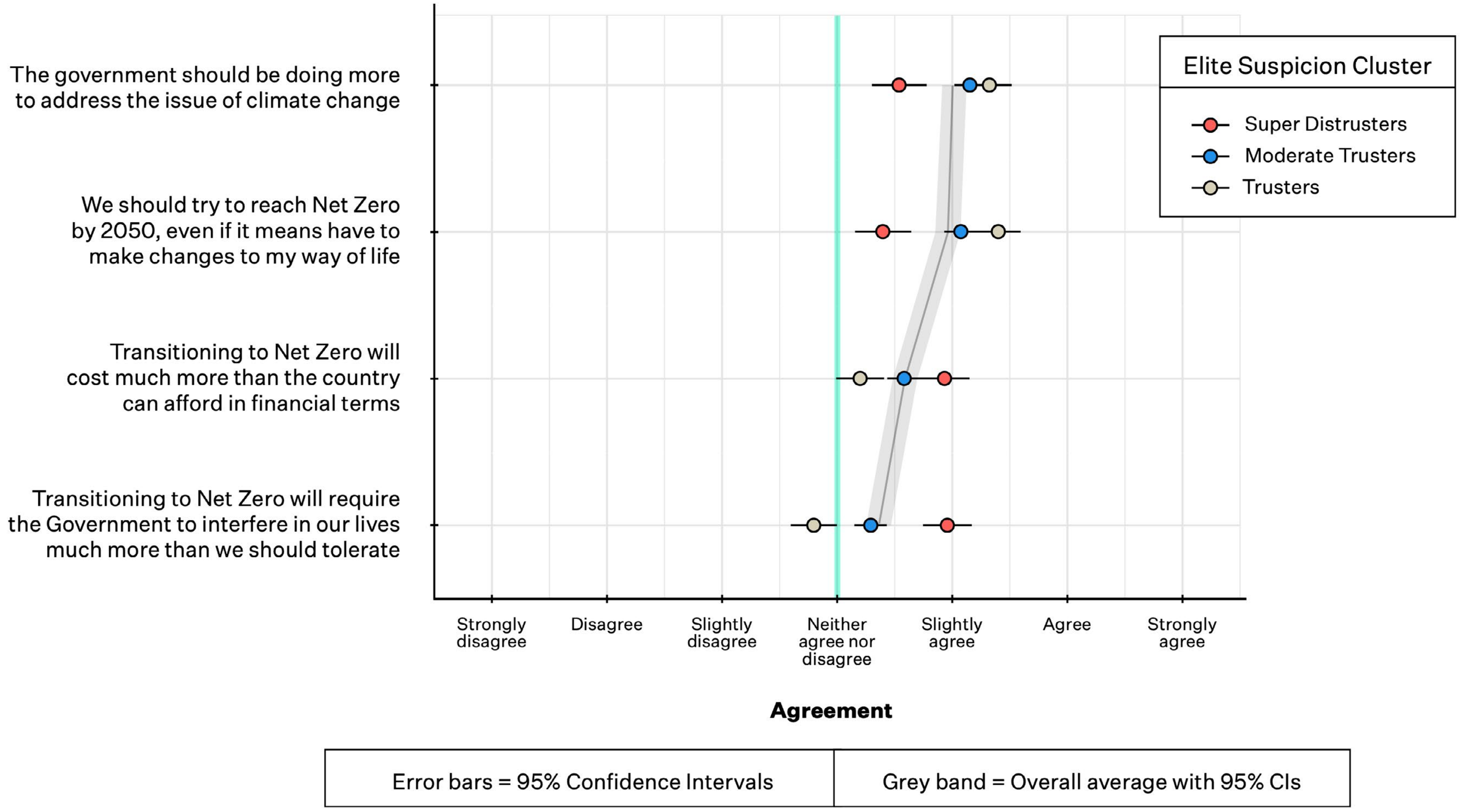
When it comes to the country's climate ambitions, Super Distrusters present a major challenge. They are less likely to support net zero measures, and more likely to believe that the dangers of climate change are overstated, whilst simultaneously being concerned about the potentially negative consequences of net zero policies.

Taking this into account, businesses are having to navigate conflicting priorities from their stakeholders, with regulators, investors, customers and suppliers – and now an increasingly sceptical public – holding increasingly diverse views.

To address these challenges, the overriding conclusion from our findings is that businesses should engage openly and actively with their stakeholders, welcome challenge and discussion, and show conviction and pragmatism when it comes to their own sustainability and decarbonisation agendas.

1 Net Zero

Super Distrusters are **less supportive of action and more worried about the potentially negative consequences of Net Zero policies.**



MHP Polarisation Tracker Wave 6

Key things to look out for *in Q4*

COP 28

As the UN's annual climate change conference fast approaches, we take a brief look at what is likely to dominate discussions at COP28 in Dubai.

This year's event takes place against the backdrop of some of the most extreme weather ever witnessed. In 2023 alone, we have seen record high temperatures, wildfires, floods, storms, and droughts across the globe, bringing the goals of the Paris Agreement even more sharply into focus. The results of the first ***global stocktake*** (GST), the formal assessment of progress against these goals, are therefore likely to be front of mind. While there is much movement in the right direction, it will be no surprise that progress is not being made quickly enough.

Many see this year's COP as a key opportunity for governments to formulate new plans and solutions to get back on track when it comes to climate action.

COP28 also represents an opportunity to drive progress on commitments made at previous events, including the loss and damage fund, and unlocking finance required to accelerate energy transition and broader climate action.

Scheduled programming across the event, which is designed to unite stakeholders on a common path forward, will be thematic across the following areas: Technology & Innovation, Inclusion, Frontline Communities and Finance, setting the tone for speakers and content across the two-week period.

SFDR and SDR

On 14th September, the European Commission published ***a consultation on the EU Sustainable Finance Disclosures Regulation*** (SFDR). It is seeking views on whether to establish a new product categorisation system, shifting away from a hierarchical labelling system.

This comes as the FCA is expected to ***publish the final draft of its sustainability disclosure requirements*** before the end of the year, which would also consist of a product categorisation system, potentially creating alignment between the UK and EU regimes. The FCA has said it hopes the new regime will help investors distinguish between different financial products and combat greenwashing.

CSRD

The introduction of the ***Corporate Sustainability Reporting Directive (CSRD)*** aims to bring sustainability reporting in line with financial reporting, and will be rolled out in a phased approach from 1 January 2024. The new framework builds on previous corporate reporting requirements under the ***2014 Non-Financial Reporting Directive (NFRD)***, and requires companies to report on how sustainability issues, such as climate change, impact their business, and how their operations also impact people and planet.

The CSRD will be mandatory for all large European companies and companies listed on EU regulated markets, including EU subsidiaries of non-EU parent companies, and will require external auditing. The aim of the CSRD is to ensure a broader set of companies report on sustainability, enabling investors and other stakeholders to assess the impact of corporates on people and the environment, as well as – over time – harmonising the data reported.

Client in Focus: Stewart Investors

Stewart Investors is an active, long-only equity specialist and global leader in sustainable investing. It focuses on investing in high-quality companies with exceptional cultures, strong franchises and resilient financials.

With its first strategy launched in 1988 and its first dedicated sustainability strategy launched in 2005, the Group manages funds investing in Asia (including and excluding Japan), Global Emerging Markets (GEM), Europe (including and excluding the UK), the Indian Subcontinent and Worldwide.

A unique investment philosophy

As an investor, Stewart Investors seeks to understand the contributions individual companies make to sustainable development from the bottom-up, investing in companies contributing to solutions, while engaging and voting for positive change.

Sustainability is core to its investment philosophy and integrated into its investment process. It defines an investment as sustainable if it furthers human development and has an ecological footprint that respects planetary boundaries. All members of the investment team sign a Hippocratic Oath, pledging to uphold the principle of stewardship.

Issues such as climate change, biodiversity and water scarcity, human rights and modern slavery, and diversity and inclusion are all integrated into the investment selection, engagement and voting processes.

Pushing back against ESG scores

Setting itself apart from industry peers, Stewart Investors has no proprietary model or tick boxes for assessing sustainable development, preferring to analyse a broad range of quantitative and qualitative factors.

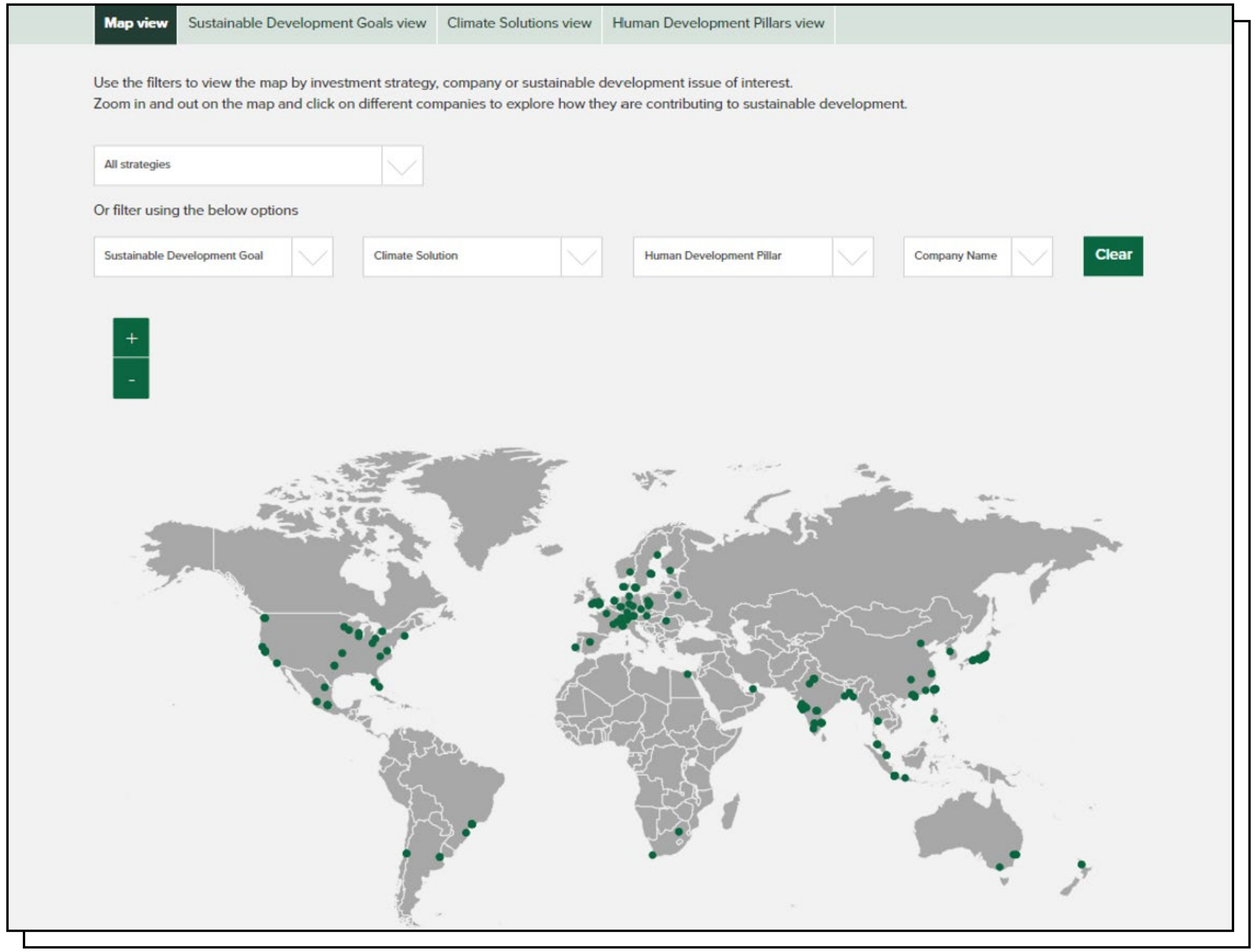
The business believes that ESG data suffers from a multitude of flaws, and does not focus on the areas that matter. In its view, ESG scoring methodologies tend to focus on how well companies manage their internal processes, rather than the real-world impacts of their products and services.

Instead, its investment team spends a significant amount of time building conviction in each investment's quality of management; investing in companies with poor management, it believes, is one of the fastest ways to lose money. For example, analysts at Stewart Investors spend time reading accounts and industry reports, seeing themselves as part historians, part investigative journalists.

Using various sources, such as reputation checks, conversations with independent directors, interactions with journalists, studies of past behaviour, as well as direct meetings, it can build a picture of the integrity, competence and alignment of management teams and company owners.

Investment transparency

Stewart Investors embraces transparency by regularly updating its interactive Portfolio Explorer tool, which tells the stories of the companies it invests in across its strategies. The stories have been written by the investment team, so that clients and other stakeholders can understand why the companies it invests in have attracted their interest, and how they each contribute to climate solutions recognised by ***Project Drawdown***, or align with the ***UN's Sustainable Development Goals***.



Project Drawdown is the world's leading resource for climate solutions. Its mission is to help the world stop climate change – as quickly, safely, and equitably as possible. From individual action to international finance and beyond, Project Drawdown is accelerating the adoption of climate solutions around the world in partnership with corporate leaders, investors, philanthropists, policymakers, educators, community change makers, and more. A 501(c)(3) nonprofit organization, Project Drawdown is funded by individual and institutional donations.

Company engagement in practice

Stewart Investors recently partnered with the Access to Medicine Foundation, an independent non-profit organisation that seeks to mobilise companies to expand access to their essential healthcare products in low- and middle-income countries (LMICs). The two organisations co-hosted a multi-stakeholder launch event in Mumbai at the start of October to mark the publication of a ***landmark report*** assessing five generic and biosimilar medicine manufacturers' actions on expanding access to their products in LMICs.

Generic and biosimilar medicines have the potential to be lifelines for millions, offering the same therapeutic and clinical benefits as the original medicines, but often at significantly lower prices. However, even if a product is comparatively cheaper, payers may still be unable to afford it, which is especially the case for those living in low-income countries or from vulnerable populations.

For several years, Stewart Investors has invested in and subsequently engaged with pharmaceuticals companies that are seeking to provide affordable and innovative medicines. For example, ***Dr. Reddy's*** Laboratories is a global pharmaceutical company headquartered in Hyderabad, India. Established in 1984, it is committed to providing access to affordable and innovative medicines. Driven by its purpose of 'Good Health Can't Wait', it offers a wide portfolio of products including active pharmaceutical ingredients (API), custom pharmaceutical services, generics and biosimilar.

Stewart Investors believes that the provision of affordable healthcare in both developed and developing markets provides Dr. Reddy's with a long runway of growth and, under a new CEO, the balance sheet has improved, and the business is increasingly focusing on parts of the market where it can create significant value. However, Stewart Investors is actively engaging with the business to improve the quality of its manufacturing process and to encourage it to set more ambitious environmental targets.

Dr. Reddy's renewed commitment to best-in-class manufacturing standards and improved levels of cash flow means that Stewart Investors is confident the business will continue to grow over the long term and provide reliable, low-cost medicines to more populations around the world.

In case you *missed it...*

On 6th July, the ***European Securities and Markets Authority (ESMA) announced that it was launching a Common Supervisory Action (CSA)*** with EU National Competent Authorities (NCAs) on sustainability-related disclosures and the integration of sustainability risks, a process which will run until Q3 2024. The aim of the CSA is to assess whether asset managers are adhering to applicable rules and standards in practice; to gather further information on greenwashing risks in the investment management sector; and to identify any further relevant supervisory or regulatory intervention needed to address the issue.

On July 12th, there was a significant win for biodiversity, with the European Parliament adopting its position on the ***Nature Restoration Law***. The regulation is set to introduce a framework of measures that restore at least 20% of the EU's land and sea by 2030, and all ecosystems in need of restoration by 2050. Specific targets cover: improvement and re-establishment of biodiverse habitats; reversing the decline of pollinating insect populations; maintaining green urban space; restoring drained peatland under agricultural use; and restoring marine habitats, among others.

Further, on 12th July, Treasury Minister, ***Andrew Griffith and Defence Minister James Cartlidge published an op-ed*** arguing that ESG investing is harming the British defence industry and wider economy, as it is leading to the 'shunning' of defence companies.

On 2nd August, the UK Government's Department for Business and Trade announced that the ***UK Sustainability Disclosure Standards (UK SDS)***, which will be based on the IFRS Sustainability Disclosure Standards, will be created by July 2024.

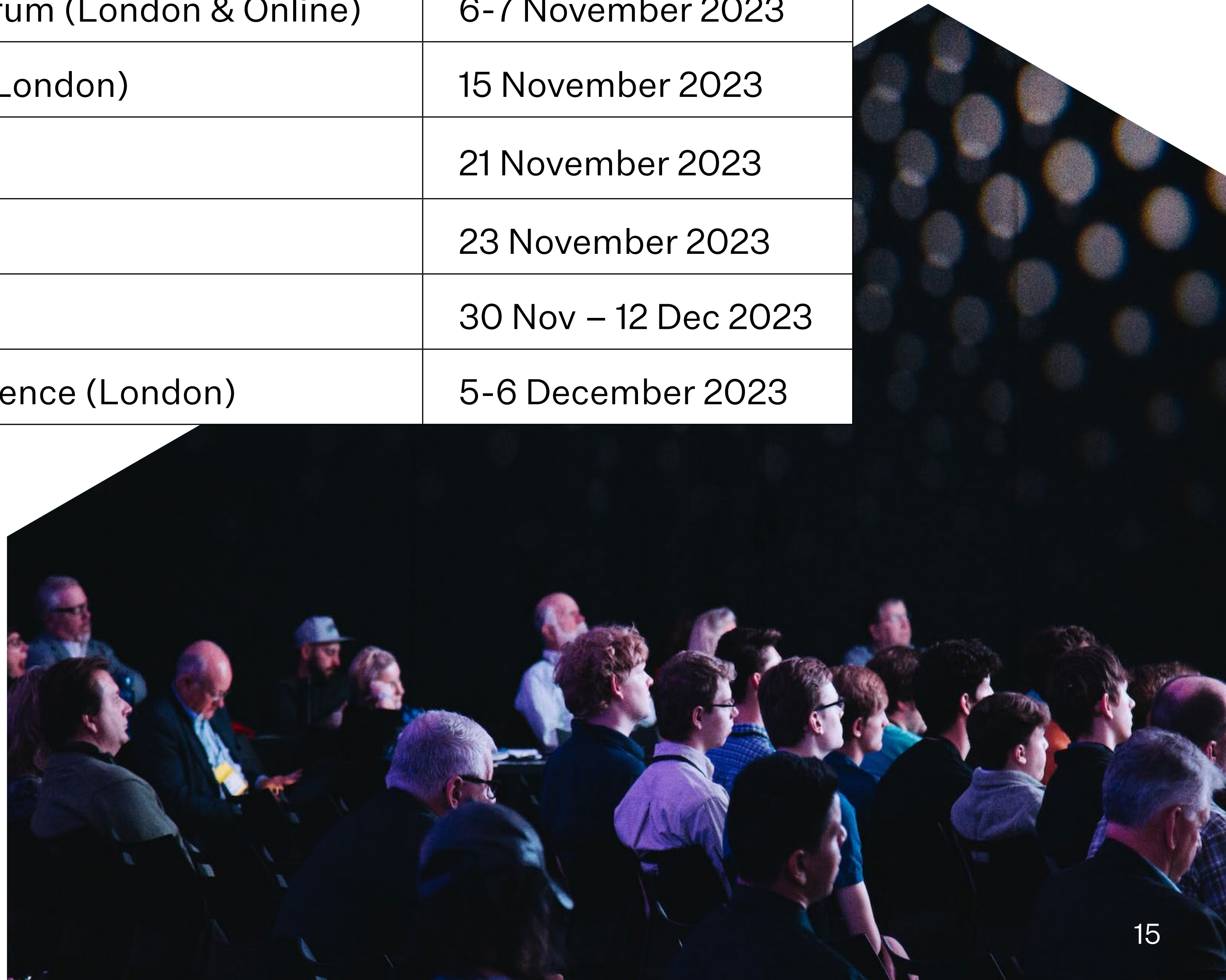
The UK SDS will form the basis of any future requirements in UK legislation or regulation for companies to report on risks and opportunities relating to sustainability matters, including risks and opportunities arising from climate change.

In the US, ***California legislators passed the Climate Corporate Data Accountability Act*** on September 12th, sending the bill to California Governor Newsom, who signed it into law on October 7th. The act would force companies with revenues greater than $1 billion to disclose scope 1, 2 & 3 climate emissions and climate related financial risk. The California bill is expected to act as a precursor to SEC proposed changes to disclosure rules, which are expected to be finalised before the US election season begins.

On 19th September, the Taskforce on ***Nature-related Financial Disclosures***, announced that it was recommending four disclosure pillars, Governance, Strategy, Risk & Impact management, and metrics and targets as part of its proposed framework for Nature-related financial disclosing. These pillars are consistent with the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB).

Upcoming *key events*

Event	Date
Scotland Sustainability Summit 2023 (Glasgow)	24 October 2023
Scotland Renewable Energy Event 2023 (Glasgow)	24 October 2023
ESG Week 2023: Energy and Mining Forum (London & Online)	6-7 November 2023
Net Zero Nations Projects Conference (London)	15 November 2023
ACT ESG Conference (London)	21 November 2023
ESG Integration Forum (London)	23 November 2023
COP28 (Dubai, UAE)	30 Nov – 12 Dec 2023
Impact Investment Banking ESG Conference (London)	5-6 December 2023



Link to previous

MHP Capital Markets ESG content

MHP ESG Insights: July 23

MHP ESG Insights: April 23

MHP ESG Insights: January 23

MHP ESG Insights: October 22

MHP ESG Insights: July 22

MHP ESG Insights: April 22

MHP ESG Insights: January 22

MHP Capital Markets

MHP Capital Markets provides strategic financial communications advice to private and public companies across a range of sectors. We advise companies on all aspects of their engagement with the capital markets, from financial reporting, M&A, IPOs and fundraisings to corporate profile-raising activity, ESG communications and reputation management.

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MHP Group

MHP Group is an integrated communications agency built for the Networked Age – a world that's increasingly connected, complex, polarised and activist.

We lead the way in the application of behavioural science to solve communications challenges. We create strategies and multichannel campaigns to engage every audience, from consumer to policy maker, and from stakeholder to shareholder. With 200 specialists in London and San Francisco, we are trusted by many of the world's leading businesses and brands.

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