

CAPITAL MARKETS ESG INSIGHTS

OCTOBER 2022



WELCOME

In this latest iteration of the MHP Capital Markets' quarterly ESG Insights newsletter, we examine how the energy crisis in Europe has impacted the road to net zero. We discuss the anti-ESG rhetoric that is dominating headlines in the US, and explore the controversy surrounding HSBC's ex-Head of Sustainability, Stuart Kirk, and key learnings from this, particularly when it comes to corporate communications that touch upon controversial topics. We also feature Benchmark Holdings as our Client in Focus.

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

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ENERGY SECURITY VS NET ZERO

We have written previously in [this newsletter](#) about how the war in Ukraine has materially changed the perception of ESG, with potentially long-standing implications for its future. This has been particularly pertinent when it comes to the energy transition.

In recent years, concerns about the climate crisis have seen the focus on the E of ESG come to the fore, with companies and policy makers alike desperate to decarbonise the economy and move away from fossil fuels.

Germany's [Climate Action Plan](#), adopted in November 2015, saw it rapidly closing coal-fired power stations in order to reach its goal of phasing out all coal-generated electricity by 2038, having already embarked upon a nuclear phase-out in

2000 which aimed to decommission all German nuclear power by 2022. Similarly, the UK accelerated its own energy transition in June 2021, [bringing forward its deadline for the removal of unabated coal from the UK's energy mix](#) by a year to October 2024. The UK had already reduced the use of coal significantly, with it accounting for just 1.8% of the UK's electricity mix in 2020, compared with 40% almost a decade ago. As a leader in driving down emissions, the UK called on all nations to accelerate the phase out of coal power.

It appeared we were finally on track to reduce our reliance on burning fossil fuels and move towards a cleaner, cheaper utopia of renewable energy generation. However, we had not factored in the



SECTION 01

ENERGY SECURITY VS NET ZERO

fragility of our energy supply infrastructure. So, when Vladimir Putin declared war on Ukraine, he effectively also began waging an energy war on Europe.

In our haste to decarbonise, the West had largely ignored the small matter of energy security, and within a matter of weeks we were in the midst of an energy crisis, with Russia choking off supplies of cheap natural gas that the continent has been dependent on for years. The situation was exacerbated when Nord Stream 1 and 2, the main pipelines carrying gas to Germany, recently suffered mysterious damage resulting in gas leaks and indefinite closure. Gas and electricity prices skyrocketed, driving up inflation and putting the UK and Continental Europe at real risk of electricity blackouts this winter.

Unsurprisingly, policy makers responded swiftly. In September the EU Commission proposed a plan to redistribute windfall profits earned by energy

companies to stretched consumers, and impose exceptional electricity demand reduction measures through the winter months. Germany delayed its planned exit from nuclear power in order to shore up energy supply, and the UK signed its own series of deals to delay closures of coal-fired power stations.

But what does this mean for the road to net zero?

Clearly, the long-term intention is to transition away from fossil fuels, but this should not be at the expense of our safety, security and economic prosperity. The West's eagerness to decarbonise rapidly, without first shoring up alternative energy supplies, exposed the fundamental vulnerability of our energy infrastructure, which we are now desperately trying to address.

ESG Insights has previously referenced the increasing scepticism surrounding ESG as a concept. We concluded that, in the long term, factoring ESG into investment decisions and corporate governance is

undoubtedly a positive outcome for society. However, a more nuanced, pragmatic approach is required, and one lesson from the European energy crisis is that we should pursue a less single-minded approach to ESG, as there may be unintended consequences.

THE ANTI-ESG BACKLASH COULD COST THE US

As the saying goes, “Don’t Mess with Texas”. In August, Blackrock, UBS Group and eight other financial firms were notified that **Glen Hegar, the Republican state comptroller (treasurer of the Texas state government) named and shamed firms he considered to be “boycotting” the fossil fuel sector in favour of sustainable investing and financing goals, advising funds to avoid doing business with these companies.**

Blackrock, UBS, Schrodgers and Credit Suisse responded to the news, saying they would look to engage with the comptroller to resolve the matter, but that the decision was not “a fact based judgement”, with Blackrock calling the state’s targeting of it “opportunistic”, “anti-competitive” and “bad for business”.

AMERICA VS. ESG

Despite rising regulatory interest, a broadening acceptance of the need to tackle climate change and the role of ESG investment strategies in achieving this, an increasing number of states have proposed or adopted new legislation that would prohibit or significantly limit their governments from investing in ESG-aligned strategies, or from partnering with

financial firms that adopt specific ESG policies, a move which has also garnered interest from some in US Congress.

Whilst some might wonder at this development, which appears to be gaining momentum, the advent of such legislation also speaks to a heightening of Republican-led sentiment against ESG and the broader ‘anti-woke’ movement. Vivek Ramaswamy, a 36-year-old US entrepreneur and author of Woke, Inc., launched new venture Strive to oppose the “ideological cartel” formed by BlackRock and peers such as Vanguard and State Street. According to the Wall Street Journal, Ramaswamy’s Strive investment fund will only invest in companies that focus on maximising returns from their core profit-making purpose and will shun those who “espouse political beliefs”.

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THE ANTI-ESG BACKLASH COULD COST THE US

GREEN SHOOTS

Anti-ESG bills pose a headache for ESG-focused and generalist investment managers alike, who are seeking to ensure their financial products are appealing to investors.

Despite this, investors – whether private, retail or institutional – are not pressuring fund and asset managers to stop considering climate change and other ESG risks in their portfolios. Indeed, the vast majority of asset managers now incorporate explicit ESG metrics into their investment process – up to 82% of US-based asset managers, according to a survey by Russell Investments last year.

Asset managers, along with financial professionals more broadly, use ESG data because it gives them a more holistic picture of an investment asset, and it is their fiduciary duty to consider these aspects of an investment as well as solely financial metrics.

ESG PUSHES BACK

Echoing BlackRock, Morningstar’s director of ESG Research for the Americas, Jon Hale, observes, “the bottom line for asset managers and the companies in which they invest is that considering climate and other ESG-related risks and opportunities is about business, not ideology”.

The inability of fund managers, including state pension funds, to engage with major asset managers may also be to the detriment of the fiduciary duty of those managers seeking long-term opportunities for scheme members, to diversify portfolios and invest in green endeavours in order to protect the interests of both current and future pensioners.

With the passing of the US climate bill in August, which promised \$369bn dedicated to climate and clean energy programmes, Republican-led states may yet come to rue their decision to blacklist ESG, as market forces and

acceleration of the adoption of sustainability-related regulatory requirements further accelerate the transition towards a greener economy.

“the bottom line for asset managers and the companies in which they invest is that considering climate and other ESG-related risks and opportunities is about business, not ideology”

Jon Hale

director of ESG Research for the Americas,
Morningstar

STUART KIRK'S INFAMOUS SPEECH SHINES A LIGHT ON ESG POLARISATION

On Thursday 19th May, the [FT Moral Money Summit Europe conference](#) demonstrated how polarising the topic of ESG can be, with Stuart Kirk, the now ex-Head of Sustainability at HSBC, delivering a controversial speech which has drawn both criticism and support from numerous audiences including the media, industry leaders and other stakeholders.

The speech, entitled '*Why investors need not worry about climate risk*', sparked a wide-ranging ESG debate which resulted in many negative headlines for both Stuart and his employer, driven by a number of inflammatory comments made during the speech. Within a matter of days, Stuart was suspended by HSBC as the bank sought to distance itself from mounting criticism, stating that his views "*couldn't be further from HSBC's position*", despite it being reported that the speech had been internally approved ahead of time. Within two months, Stuart resigned from HSBC, calling out "*cancel culture*".



“There is no place for virtue signalling in finance. If companies believe in diversity and speaking up, they need to walk the talk. A cancel culture destroys wealth and progress”

Stuart Kirk
Ex-Head of Sustainability at HSBC

SECTION 03

STUART KIRK'S INFAMOUS SPEECH SHINES A LIGHT ON ESG POLARISATION

Stuart's comments clearly made for good headlines and played directly into the hands of the critics. "*Who cares if Miami is six metres under water in 100 years?*" was the most widely used quotation, and taken somewhat out of context, but there were a variety of others. A number of industry commentators were quick to express their dismay at the speech and question various aspects of it:

"Was not the right message, particularly for someone in that position"

"The bank must now explain how such offensive and inaccurate comments were signed off, to what extent other senior executives share Kirk's views and what sort of culture HSBC is breeding that allowed the comments to pass unchallenged"

"Part of his role must be to help his employer manage climate risk and help promote HSBC. It appears unlikely that he is committed to doing either"

Meanwhile others expressed support, saying his words were 'spot on' and 'fairly balanced':

"I can't believe he actually said what I and my peer group think"

"Kudos to Stuart Kirk of HSBC for telling the truth about anthropogenic climate change"

"[He has] done us a service [by] infusing a dose of honesty into a debate that is otherwise leading us nowhere"

SECTION 03

STUART KIRK'S INFAMOUS SPEECH SHINES A LIGHT ON ESG POLARISATION

A more recent opinion piece by Stuart in the FT suggests there were many **more that were surprised by the level of backlash** he received.

The call out of 'cancel culture' raises the question of how organisations should respond during such heated and polarising debates. On the one hand, opinions should be shared so that issues can be solved and advances made. On the other hand, views need to be measured, so as to not elicit a dramatic response from the media and other stakeholders and ultimately cause reputational damage.

The fear of cancel culture is growing as a mainstream concern, and as the events unfolded, the topic of freedom of speech came to the fore, with Bill Winters, Chief Executive of Standard Chartered, warning that **"it's increasingly difficult to speak out against anything"**.

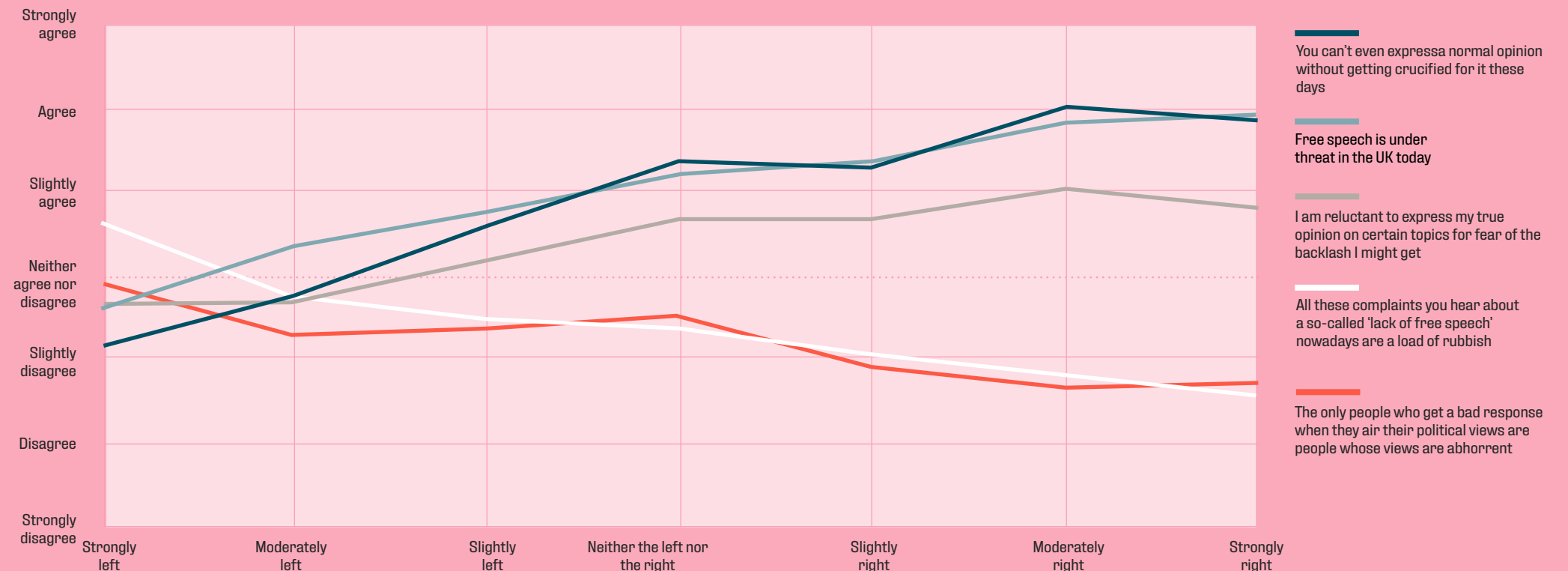
MHP's **Polarisation Tracker** for Q3, conducted by Cambridge University's Political Psychology Lab, showed that 70% of the population believe free speech is under threat and that expressing normal opinions can elicit a

harsh response. More than half express a reluctance to state their true views for fear of the response they might receive.

As ESG as a concept matures, unsurprisingly, the number of sceptics will increase and – as we pointed out in the last iteration of **this report** – media

scepticism in particular is on the rise. There is a clear need for constructive debate on ESG, but companies should be nuanced and pragmatic in their approach whilst being sensitive to a variety of stakeholders, especially when the topic is as polarising as ESG is currently.

Average position on free speech by left-right self-placement



CLIENT IN FOCUS – BENCHMARK HOLDINGS PLC

Benchmark is a leading aquaculture biotechnology company listed on AIM with a market cap of c£280m. Since its foundation in 2000, Benchmark's mission has been to drive sustainability in aquaculture food production. Following the implementation of a new ESG framework it issued its first green bond in September.

WHY AQUACULTURE?

Aquaculture plays an increasingly important role in safeguarding the world's food supply in a way that contributes to sustainable development. Aquaculture has surpassed wild fishing as the main provider of seafood globally; it now represents 53% of seafood production (FAO), a figure which is expected to continue growing. Seafood accounts for c.17% of animal protein consumed by the global population. Consumption has increased from 9kg to 21kg per capita in the last 30 years, with this increase supported by ongoing structural trends including population growth, a growing middle class and increased awareness of health and sustainability amongst consumers. The carbon footprint of farmed fish is around 20% that of beef, while that of farmed shrimp is about one-third¹.

¹Our World in Data, 2022.

ADDRESSING AQUACULTURE'S SUSTAINABILITY CHALLENGES

To grow sustainably, and meet the increasing demand, the aquaculture industry needs to address challenges including resource efficiency, fish welfare and antibiotic use. Benchmark's solutions in genetics, advanced nutrition and health make the aquaculture industry more efficient and sustainable by improving yield and animal welfare, while mitigating the environmental impact. For example, Benchmark provides the salmon farming industry with specialist salmon eggs carrying genetic traits, which result in salmon that grows faster, has better fillet yield and is more resilient to disease. This in turn improves animal welfare and survivability, as well as resource efficiency and a lower carbon footprint.

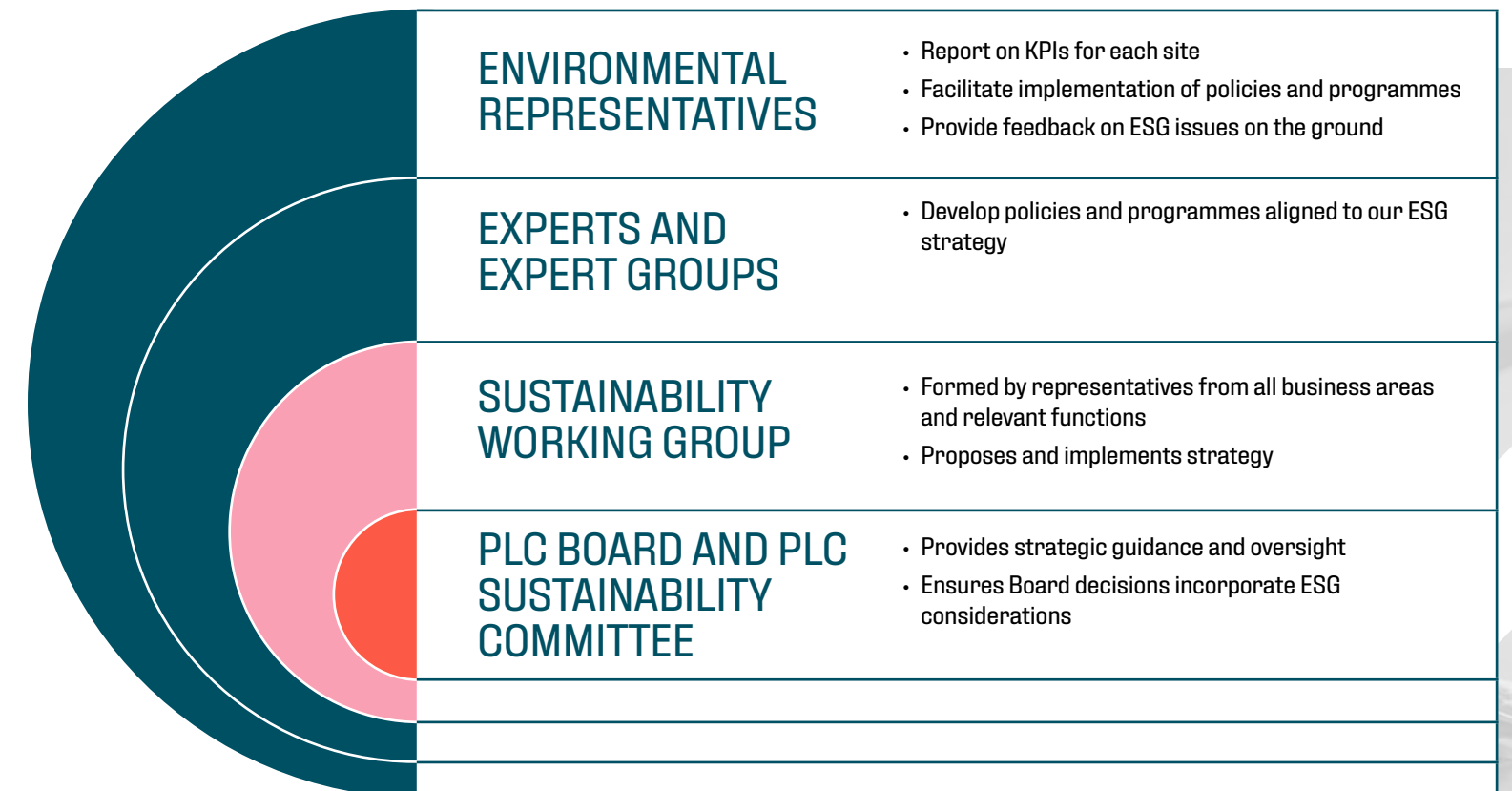


CLIENT IN FOCUS - BENCHMARK HOLDINGS

IN 2020 BENCHMARK IMPLEMENTED A NEW ESG FRAMEWORK THAT ALIGNS ITS MISSION WITH ITS STAKEHOLDER EXPECTATIONS

Sustainability has been at the core of Benchmark since its inception. In 2020, the Company implemented a new sustainability framework, KPIs, and a programme of work which incorporated market-leading standards, best practices and was future-proof. As part of this exercise, Benchmark conducted a thorough gap analysis, engaging with rating agencies, ESG investors and specialist advisers. The outcome was a meaningful revamp of policies and disclosures, and a redefinition of key focus areas, with objectives aligned to the UN’s Sustainable Development Goals (UN SDGs). This exercise set a clear direction for Benchmark’s sustainability effort, with support and engagement from the Board down to every level of the organisation.

BENCHMARK’S ESG OPERATING STRUCTURE



¹Our World in Data, 2022.

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CLIENT IN FOCUS - BENCHMARK HOLDINGS

SUSTAINABILITY HAPPENS ON THE GROUND

Ultimately, for an ESG and sustainability programme to have real impact it needs to be lived in an organisation’s day-to-day operations. With a manufacturing, R&D and commercial footprint around the world, spanning multiple disciplines and languages, finding ways to tailor Benchmark’s programme locally, and to engage colleagues was a key success factor.

COMMUNICATION, COMMUNICATION, COMMUNICATION

The first step was to translate “ESG speak” into “Benchmark speak”, creating a narrative centred around three elements of Benchmark’s ambition: **Proactive Industry Leader, Responsible Operator and Real Impact Across the Value Chain**. Benchmark conducted a materiality assessment using GRI’s (Global Reporting Initiative) materiality analysis recommendations and SASB’s (Sustainability Accounting Standards Board) Materiality Map, combined with feedback from internal and external stakeholders. This enabled identification of key focus areas, following which the Company set out a range of targets – aligned to the UN SDGs – and a programme of global and local actions to achieve them. Finally, through its programme of quarterly webinars, Benchmark maintained communication and created a space for colleagues to share and celebrate progress.



BENCHMARK MATERIALITY ASSESSMENT



CLIENT IN FOCUS - BENCHMARK HOLDINGS

OPENING THE DOOR TO GREEN FINANCE

Almost 24 months from the date that Benchmark launched its ESG strategy, it raised its first Green Bond in the Oslo market, despite turbulent capital markets. Its green credentials were validated by Cicero, who issued a Medium Green second party opinion, recognising Benchmark’s efforts to source sustainable raw ingredients, its Net Zero commitment and award winning innovations. While it is difficult to isolate contributing factors, Benchmark’s commitment to sustainability played a role in differentiating the Company as an issuer, helping it achieve an important refinancing event for the business.

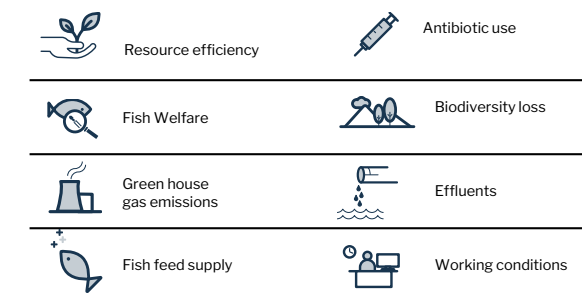
LOOKING TO THE FUTURE

Benchmark is excited about the opportunity to make a real difference in securing sustainable sources of seafood protein for a growing population across the globe. It is uniquely positioned to address the challenges ahead –bringing stakeholders together, investing in new technologies and promoting change in practices. Together with a long term commitment, this creates optimism for the future.

BENCHMARK’S INVESTOR COMMUNICATIONS ON SUSTAINABILITY

Challenges to sustainable growth

Benchmark’s focus



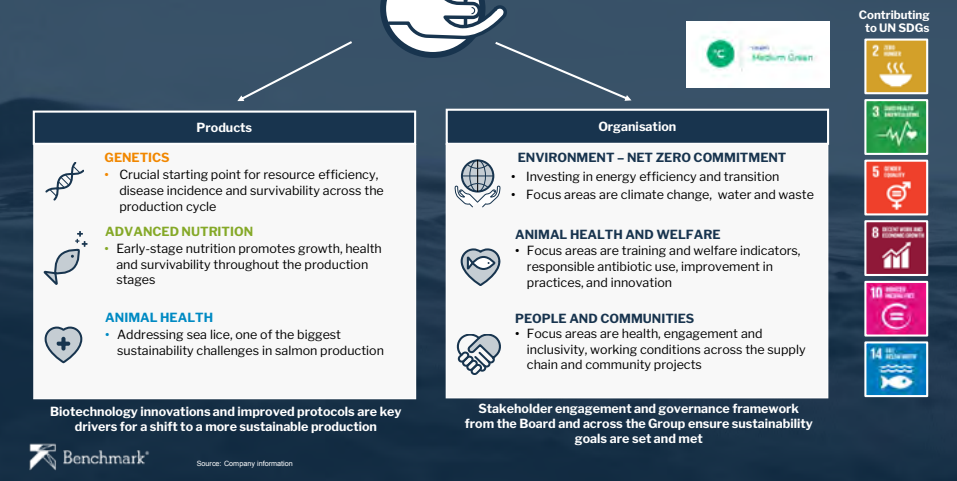
Catalysts of change represent positive drivers for Benchmark

- Stakeholder interests** – consumers, governments, shareholders
- New Technologies and investment**
 - Biotechnology
 - Smart farming
- Consolidation and professionalisation**
- Regulation/government commitments**
 - EU commitment to 50% antimicrobial reduction by 2030
 - Multinational commitment to manage waters sustainably with focus on ocean food



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Benchmark’s contribution and impact



Source: Company information

SECTION 05

IN CASE YOU MISSED IT...

On 20 September, [a report](#) co-authored by the International Energy Agency estimated that annual investments of \$1trn in renewables would be needed to supply clean power to the world's growing population and avoid the effects of climate change

On 15 September, Yvon Chouinard, billionaire founder of outdoor clothing company Patagonia, [transferred](#) his family's ownership to a trust and a non-profit organisation to channel profits to environmental causes and "help fight" climate change, with the company now expecting to give \$100m a year to the non-profit organisation. Writing in an open letter to shareholders, Chouinard wrote that "Earth is now our only shareholder"

On 14 September, European Commission president Ursula von der Leyen [announced](#) that the EU will create a new European Hydrogen Bank backed with an initial €3bn. The bank will offer a guaranteed price for hydrogen for up to ten years

On 8 August, the UK Government [announced](#) that it had allocated more than £44m to plant 2,300 hectares of new woodland in the UK, in a bid to improve biodiversity and respond to the climate crisis

On 5 August, a new [survey](#) of hundreds of small and medium-sized business owners found that 9 in 10 UK SMEs are taking action to cut emissions, with 44% believing their plans are aligned with net-zero commitments

On 2 August, [amendments](#) to the EU's Markets in Financial Instruments Directive (MiFID) came into force, introducing new requirements and standards on ESG disclosures from European fund managers

On 25 July, a new survey [found](#) that more than 4 in 10 UK SMEs have already switched at least one supplier contract from international to domestic, in an effort to reduce their impact on the climate

UPCOMING KEY EVENTS

| Event | Date |
|---------------------------------------------------|---------------------|
| Bloomberg Equality Summit, (London and Virtual) | 18 October 2022 |
| Reuters ESG Investment Europe 2022 | 20-21 October 2022 |
| Reuters Sustainability Reporting & Communications | 22-23 November 2022 |
| ESG Investment Europe 2022 | 22-23 November 2022 |
| IR Magazine ESG Integration Forum (London) | 22 November 2022 |
| Impact Investing World Forum 2022 | 7-8 December 2022 |

LINK TO PREVIOUS MHP CAPITAL MARKETS ESG CONTENT

[MHP ESG Insights: July 22](#)

[MHP ESG Insights: April 22](#)

[MHP ESG Insights: Supply Chains](#)

[MHP ESG Insights: January 22](#)

[MHP @ COP26: In Conversation with Mark Landler](#)

[MHP ESG Insights: COP26 Roundup](#)

[MHP ESG Insights: In Discussion with Mark Babington at the FRC](#)

[MHP ESG Insights: October 21](#)

[MHP ESG Insights: July 21](#)

[MHP ESG Insights: April 21](#)

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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