Purpose & Profit
Trending Topics from the 2020 World Economic Forum

2020 marked the 50th anniversary of the World Economic Forum and once again, Nexis Solutions had a special correspondent in Davos to cover the event. As in previous years, global policymakers, business leaders and others converged on the famous Swiss ski resort to discuss this year's theme: "Stakeholders for a Cohesive and Sustainable World."

While the event may still dominated by older men—only 18% of attendees were women—there were exceptions that signal the growing power of Millennial and Gen-Z voices. Among the attendees were Finland's Sanna Marin, who at 34 is the world's youngest serving prime minister and Greta Thunberg, the 17-year old recently named Time's "Person of the Year" for her climate activism.

Organizers had already expected climate change to dominate the agenda, given recent moves by global investment firms to more closely align to sustainable businesses. But video footage of Australia ablaze fanned the flames, lending a greater sense of urgency among speakers and attendees alike. What other topics captured attention? **Read on for a recap, including Q&A's with some of the leaders in attendance.**

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ESG tops agenda in Davos

World leaders, CEOs and academics came together in the Swiss resort of Davos for the annual World Economic Forum (WEF) from 21 to 24 January 2020. Nexis® Solutions had a reporter on the (snowy) ground, sending back highlights from the summit. First, we're looking at how the summit's programme and participant list reflected the rise of ESG issues to the top of the agenda.

The summit's agenda is a 66-page document listing the panel discussions and briefings during the WEF. The most common themes to emerge are Environmental, Social and Governance issues (ESG). Highlights included:

- Multiple sessions on the rise of sustainable investment. The programme notes: "With over $30 trillion in assets under management across sustainable investing strategies, the public appetite for companies creating stakeholder value is increasing."
- A panel warning CEOs that air pollution causes seven million deaths a year, which looks at how policies and practices can combat pollution.
- A session that makes the "business case for biodiversity", calling on companies to help to reverse nature loss and restore the planet's natural systems. Scientists estimate that half of all species face extinction by the end of the century unless urgent action is taken.

Discussions did not only focus on climate. Other social issues are also becoming more important:

- Three sessions looked at how companies can support employees who are LGBT, who suffer from mental ill health, or who have faced sexual harassment at work.
- A panel explored modern slavery and how forced labour recruitment is facilitated by digitization.
- An "SDG Lab" was held all week at the Hilton Garden Inn in Davos. It brought together representatives from the U.N., the World Bank, the EU and the private sector to discuss why it is important for companies to work towards the U.N Sustainable Development Goals (SDGs).

ESG also represented on the guest list

The participant list for the World Economic Forum in Davos was as long as ever, stretching to 125 pages of representatives corporate, government, NGO and academic institutions. This year's list had a different feel to previous years, with many delegates' job roles focusing in some way on the environment and climate change. This reflects the pressure being put on companies to commit to making a positive impact on ESG issues. Here are some highlights from the list:

- Governments sent their environment ministers, such as Sweden's Isabella Lövin and the UAE's Ahmed Al Zeyoudi.
- Many companies sent their ESG leads—for example, the German insurance firm Allianz was represented by its ESG investment manager.
- Financial correspondents typically attend, but this year the likes of *TIME*, *The New York Times* and *Die Welt* deployed environmental reporters, showing clear reputational risks for companies who ignore ESG issues.
- Greta Thunberg was in Davos, representing a global movement of young people who are demanding governments and companies take action to stop climate change.

Companies under pressure

This year's discussions at Davos put even more pressure on companies and governments to reduce their environmental impact. Greta's attendance, and the global media coverage it received, was a big part of that pressure. The Davos programme warned that "young people are mobilising and increasingly influencing today's most pressing political and environmental issues." If CEOs do not heed the warnings at Davos 2020, their firms face losing customers and ultimately going out of business.

Davos report shows reputational value of ESG

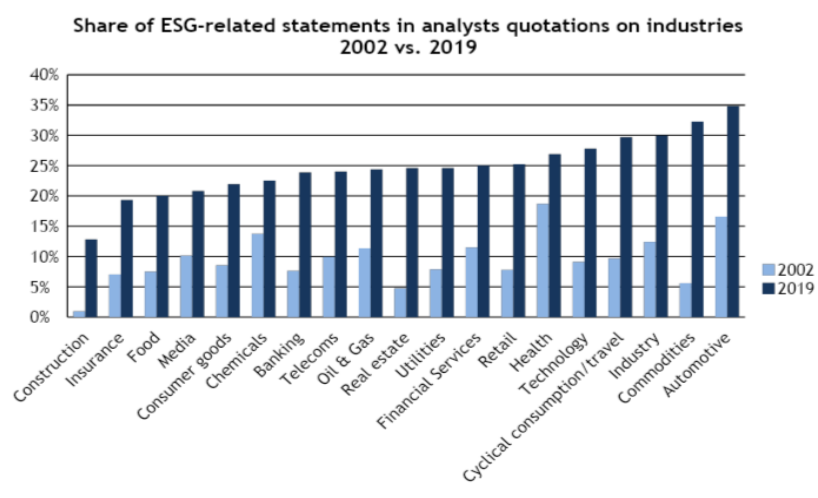
A report released at the World Economic Forum in January 2020 shows that up to 35% of statements by leading financial analysts mentioned ESG last year. The researchers show these analysts mention ESG issues significantly more often than they did in 2002 and predict this trend will continue in the future. Companies that fail to engage seriously in ESG face the risk of losing thousands of investors who take a lead from these analysts.

Over breakfast at the hotels here in Davos, executives are often seen reading *The Wall Street Journal* or the *Financial Times* with their coffee and muesli (the proper Swiss kind—not cereal). These newspapers have long influenced investment decisions. So, companies should pay attention to a new report released at this year's World Economic Forum (WEF), which reveals how the tone of reporting in these papers has changed over time.

The report, which was presented at the SDG Lab in Davos, analysed every published statement or comment written by financial analysts in the two newspapers last year and compared them to the same data in 2002. They broke the statements down into 19 industries, including telecoms, banking, retail and construction. One finding stood out from the rest—the proportion of analysts talking about Environmental, Social and Governance (ESG) issues has grown significantly. The proportion of comments mentioning ESG has increased in all sectors and trebled in eight of the 19. In one industry—construction—last year's analysts mentioned ESG thirteen times more than they did in 2002.

ESG matters in every sector

The report shows that every industry has woken up to the importance of ESG.



We spoke with Matthias Vollbracht, Head of Research at Media Tenor, who crunched the data to compile this report. He said these results show all companies will soon need to demonstrate their ESG credentials: "The financial market hasn't exactly been the place to find long-term thinking and a focus on sustainability for decades. But investors' focus is about to change dramatically."

"About 15 years ago, if you would talk to investors and say environmental, social and governance, they would look at you and say, like, what is it?", he said. "Today I find hardly anyone who is still not really at least discussing the issue and trying to make sense of what it means, and the data supports this. In the automotive industry 35% share of analysts quotes now deal with ESG stuff so this is a really relevant trend."

A warning for companies

The rise of ESG has been a dominant theme of this year's World Economic Forum. In the official agenda for the Forum, it notes: "With over $30 trillion in assets under management across sustainable investing strategies, the public appetite for companies creating stakeholder value is increasing." The effect of these developments at Davos will be more pressure than ever before on companies and governments to reduce their environmental impact.

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SDG fund returns 22% over three years

An eager crowd of investors, NGOs and policymakers crowded into Davos' SDG Lab during the Forum to hear the outcome of an interesting experiment. The speaker they were listening to, who happens to be the former president of NASDAQ, announced the three-year performance of a fund which invests only in firms that have made a legal commitment to the SDGs. The results were impressive: it has returned 22% over the three years since it was set up. This is an increase on its 14% return over its first two years and beats most major funds on the market.

The fund manager, former NASDAQ president and Obama advisor Alfred Berkeley, studies the annual reports of the world's 500 largest companies to determine which have made legal commitments to supporting the SDGs and other environmental, social and governance (ESG) criteria. The fund only invests in those which have committed to the goals in their annual report or can prove that they are making concrete moves in the direction of sustainability. We caught up with Mr. Berkeley for a short interview:

What does the SCR fund do?

We invest in companies that purport to implement one or more of the U.N. Sustainable Development Goals in their regulatory documents—in other words, they have made a legal commitment to do this. Then we apply some ESG criteria and put together a portfolio which would prove or disprove [that SDG investment can be profitable]. So far, we are producing results that are just as good as the market, and much better for the world in terms of social responsibility.

What data do you use to decide which companies to fund?

We developed a portfolio chosen from the 500 largest public companies in the world. We included companies that are legally committed in their reporting documents to an SDG or more than one, that meets certain ESG standards, and that meet the common sense of good investment criteria. The number of companies changes as different companies make new commitments in their regulatory documents or change their ESG as they get criticised for not [focusing on ESG].

What does your return of 22% over three years show?

That we are as good as the market, but we are giving a much better social impact for the holdings of your investor. If you are an investor who is interested in putting your money to work for social causes like the SDGs, the early returns show that we can make you at least as much money as the market makes. We don't have a long enough record, but we did cast back to 2001 and we have had good results.

What is your aim for the fund?

To make money, at least as much money as the market, and then reward companies with attention and praise for supporting the SDGs. It is a big decision for a company to go sustainable and many companies are only paying lip service, but more and more companies are actually delivering. There is no 'planet B' and we have a wonderful chance to change the world.

Why do companies have a role in meeting the SDGs?

It is easy for a politician to promise things in the future but very difficult for them to fund it. We have a wonderful chance as a western society, indeed the world, to take on the challenge of the U.N., to change our behaviour and up our game.

Davos warnings on risks of AI & data governance

Last year, CEOs excitedly heralded AI and big data as the future of their companies. This year, the focus has been on how companies manage data internally. We look at the main data risks tackled at Davos, including security, privacy and bias.

AI still top of the agenda

Last year, Artificial Intelligence (AI) and big data were the buzzwords at Davos—so much so that a major news outlet called AI "the real star of Davos." That trend continued at 2020's World Economic Forum, as companies, governments and academics presented their success stories of how they have used AI to solve problems and drive innovation. Ten years ago, companies sent their CEOs and finance directors to Davos. Now, they are not only sending their data and technology leads to Davos, but these people have seats at the companies' top tables. This trend is happening in all countries and industries, including:

- Chief Technology Officers attended from firms including Mitsubishi Heavy Industries, Volvo and Fujitsu.
- Deutsche Bank sent their director of technology, data and innovation to Davos; while PayPal sent their chief strategy, growth and data officer.

This year, we noticed an interesting trend among the participants of Davos. Many companies have moved from the initial adoption of AI and big data to the next phase of setting up internal functions which oversee their use of AI and big data. Big companies are setting up their own centres of excellence and creating codes of conduct. These centres might work with different parts of the company to solve problems and create new products, and to devise and implement a data strategy which covers the way data is collected and governed.

Warnings over AI security and data governance

In recent years, Davos has been full of excited chatter about the limitless possibilities of AI. But this year a more sanguine and cautious tone was struck in some of the panel discussions:

- On Wednesday, a session in the Congress Centre looked at the rise in governments using AI to provide services like traffic management and healthcare provision. The session warned that AI "poses new challenges of bias, privacy and transparency."
- Another session on Wednesday looked at how the growth of technology in China has "heightened security concerns."
- A session on Thursday looked at the problem of a lack of data on disabled people creating policies that are not inclusive.
- The CEO of a healthcare organisation warned that patient data and diagnostic results can be hacked and altered if strong security measures are not in place.
- A blog by the World Economic Forum prior to the summit said that "inclusive, transparent and representative AI governance structures could not be more important" and recommended that these systems are "built in" at the start "rather than patched in at a later date."
- Microsoft announced prior to Davos that they have appointed a "Responsible AI Champ" who will raise awareness of the risks of AI across the company, and work with teams so that ethical practices are implemented.

The lesson for firms is that they face reputational and strategic risks if they do not take data governance seriously before they implement AI and big data technologies.

Q&A: Mafalda Duarte, CEO of Climate Investment Funds

Mafalda Duarte is CEO of the World Bank's Climate Investment Funds. These funds have invested in more than 300 projects which implement low-carbon and resilient development in 72 countries, as well as support the U.N. Sustainable Development Goals. While many firms have only started ESG investment recently, the Climate Investment Funds have been running for 12 years. Over this time, they have not only provided a strong return for investors, but they have created 30 million hectares of sustainable forests and generated 26 Gigawatts in clean power capacity. Who better to explain why ESG investment matters?

What is your pitch to investors thinking about putting their money into projects which benefit the environment?

The pitch is one of urgency. Climate is not one of those areas where you can say okay, maybe we are not successful in the next two or three years but in the next five we may be successful. We cannot afford this time. We need to make use of impactful institutions and impactful models that can actually help us get to the pace to meet the scale that is needed. So, I tell investors, the problem is very large, we cannot wait, we are already behind.

Has ESG become a priority for investors more widely?

I'm always happy to have a conversation with the private sector or a group of investors and the issue I say is that either they are on the right side of history or the wrong side of history. That's one dimension.

Another dimension is that if companies do not realise that their products and services of the future need to align with the SDGs and climate goals, they will go bankrupt. These will not be the products and services of choice in the future. One is not saying it is going to happen from today or tomorrow, but we need to start seeing the shift and companies need to start making the transition. There is a way of screening which projects or investments you are going to make, but more fundamentally prior to that there is this understanding that this is where the boat is going so do you want to be in this boat or not?

How should investors make sure products really do benefit ESG?

Different types of investors will want to focus more on certain things than others. If they really want to focus on 'social,' they have to look at that side, or if they are more interested in the environment it's the same. Some people have peace as an objective. It really depends on what are the objectives of the investor.

But fundamentally the institutions they invest in need to have policies and mechanisms in place to make sure the money is going to those purposes. So, if investors want to be sure that their money is going to the purpose, they want it to be going to, one of the things that needs to happen is to look at the institutions they are going to invest in. What are the corporate policies they have in place and what are the mechanisms they have in place to make sure those policies are being followed? You have to monitor and verify.

What happens with a lot of institutions is if they are going to capital markets and issuing bonds, they have third-party verification, where there's a company coming in [to carry out verification]. I was involved in one of these processes in the past of helping a third-party verifier basically say," yes we can call these 'green bonds'."

A new definition of 'business as usual'

The 2020 World Economic Forum will be remembered for a handful of moments which piled pressure on companies to act more ethically. Greta Thunberg told companies and world leaders that "our house is still on fire" and they are to blame. Prince Charles urged attendees to lead a "paradigm shift." He urged companies to tackle the effects of climate change, create new sustainable products and services, and give consumers much greater transparency about supply chains.

Only time will tell what impact these warnings have on companies. But the signs were clear in Davos that companies are changing their approach to ethical investment. Most significantly, the chief executive of the world's biggest fund manager, BlackRock, declared climate change to be an "investment risk" and said that "we are on the edge of a fundamental reshaping of finance." Larry Fink also pledged to increase the number of sustainable funds the firm offers and removing some coal companies from its active funds.

BlackRock's move is part of a wider trend revealed in the interviews we conducted and sessions we attended at Davos 2020. All the evidence suggests corporate leaders are realising that investors, consumers and third parties expect them to act—and invest—in an ethical way which benefits society. Companies are realising that being purposeful can also be profitable.

Our experiences at this year's WEF have emboldened us to make a prediction. As the reaction to the BlackRock announcement shows, ESG and SDG commitments by companies still provoke surprised headlines. But by the time of next year's World Economic Forum, we are convinced that this kind of commitment from a company will have become business as usual. In fact, companies which refuse to make these commitments will be the ones who provoke surprised headlines. Companies must change their approach and invest in ESG and purpose now—before it's too late.

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