ICGN Seoul Conference – *Governance of Geopolitics in a New World Order*
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- **David Atkin, Chief Executive Officer, PRI**
- **Jane Diplock, Vice President, Abu Dhabi Global Market Appeals Panel, & Member Governing Council, ESG Exchange**
- **Ronald Wuijster, Member of the Executive Board, APG Group & Chairman of the Board, APG Asset Management**

- **Chaired by Patrick Dunne, Chair, Boardelta**

Jane Diplock:
My eclectic career ranges from investment banking, public service, to regulatory, as chair of New Zealand's Securities Commission, and for seven years, the International Organisation of Securities Commissions. I now work in sustainability, with the International Integrated Reporting Council's board, on the IIRC/SASB merger into the Value Reporting Foundation, and the Deal Team merging VRF into the IFRS Foundation, simplifying sustainability standard-setting frameworks. I've been involved in digitisation, chairing a group reporting on interoperability of sustainability taxonomies at COP26.

Ronald Wuijster:
We invest in real assets infrastructure in real estate, and I'm the CEO of APG Asset Management, managing roughly US $700 billion for Dutch pension funds.

David Atkin:
I'm CEO of the Principles for Responsible Investment, six principles global investors sign if they believe ESG is material to their investment strategy and approaches. With over 5,000 members worldwide, covering over US 120 trillion. I was previously CEO for asset owner pension funds and Deputy CEO for an Asset Manager in Australia.

Patrick Dunne:
The meaning of a divided world to the global economy is a difficult topic. Firstly, how is the world divided? There are seemingly many divisions: the division the Ambassador will outline, the division who feel an autocratic world is preferable to democratic. There are natural divisions in people's objectives, desires, generational views on climate change, scarcities in resources, race, religion, etc. All are rooted and driven by behaviours, and influenced by values, culture and history, visible when observing regions like Korea. Good governance and stewardship, given the importance of behaviours, is crucial and Jane will give in-depth views on what that means in practice.

In terms of economy, this can be split into different dimensions. Obviously, we've observed recently, bonds, equities, volatility, increased cost of capital due to increased risk perception. It's not simply a perception that there's a risk, but the risks are materialising, most notably around climate change and in Florida last week. Globally, we see big climatic events, but some are less obvious. Few would've recognised the term "liability driven investment" until recently, but it's become very pertinent. Some systemic things aren't obvious but contain risks which become more apparent.

Some can have mild effects and some fundamental. Spending much time in Africa and the Indian sub-continent, I feel strongly that we haven't factored in the impact of climate change related mass migration, conflict and economic migration. In Bangladesh, population around 200 million, half may have to move within our lifetime due to climate change. In Africa, in our lifetime, there will be a billion more people; where will they work? Many coastal cities will also be submerged.

Risk mindsets are shifting. With heightened or precepted risks, some boards become very risk adverse, but others feel, in the words of Bob Dylan, "If you ain't got nothing, you ain't got nothing to lose." People can dangerously increase their risk appetites because they've got nothing to lose. Both behaviours will probably be observed going forward. Board decisions are also changing. We're moving from a maps, to a GPS, world. Boards were previously rooted in rigid, inflexible, ritualised budgeting and strategic processes. We're now using more live data, making decisions closer to decision junctions. Companies able to adapt to more flexible, dynamic approaches, will cope better. Organisations must invest more in resilience, which dampen returns. It may create more sustainable and predictable returns. This happened after the financial crisis. More resilient investment created benefits.

It's also about politics. David, should we carry on focusing on investment strategies, stock picking and business management, or influence outcomes of our operating context? How do we create greater political harmony? Is it our fiduciary duty or should we simply observe what happens?

David Atkin:
Your introduction was very interesting and intelligent. From an institutional investors' perspective, markets need stability, but our world is currently unstable. Global markets and governments require international co-operation, peace and stability for efficient functioning. Political disharmony is bad for business and investors. It can also devastatingly impact human rights' protection and promotion, with forced civilian displacement and increased long-term environmental, social and economic risks. Conflict dynamics and disruption violate human rights, exacerbating social tensions and inequality, threatening climate action prospects. Regional disharmony quickly becomes international, as with Russia's invasion of Ukraine, causing implications for international markets and relations.

What role can investors play? Institutional capital has an immense influential voice, exercised partly through investment and ownership decisions, through an ESG lens. Without a collective global voice for investors, organisations like PRI are increasingly important. They can verbalise political disharmony's impact, conversely the positivity of political harmony on the economy. Institutions must also support investors, like PRI, aligning with investors' broad market directions. This will reinforce institutions' value, providing a counterbalance to regional political responses.

In addition to events such as these, PRI's formal consultation (PRI in a Changing World) has over 5,000 signatories, and I'm gathering views of signatories worldwide on the role of PRI in a changing world. Geopolitical events, evolving markets, different ESG voices, stakeholder pressure on investors, all create a formative time for global responsible investment. Feedback from investors worldwide through consultation is crucial. We discuss signatories' values and the issues they consider important. Being signatory led, PRI encourages all signatories' participation in governance and strategic direction, providing feedback on strategically important matters.

Through individual investor conversations, workshops, webinars and an upcoming global signatory survey, we're gathering interesting insights. Context and geography matter, markets operate with constraints, opportunities and risks. Understanding the context is important for PRI's orientation. Our signatories, despite differing environments, are global investors and value their role in a binding international investor community. Investors seek learning, networking, collaboration, identifying best practice, and feel the PRI is vital to harmonising global ESG, sustainability and responsible investment regulation. They desire a global level playing field around regulation, with the PRI influencing the alignment of this.

The six areas of consultation are around response to signatory needs, expectations from PRI for signatory accountability, expectations of responsible investors, regulation and outcome reporting, PRI governance and purpose and mission statements. We'll provide more information on this soon.

Why is it relevant to political harmony? Investors are vital for political harmony, sharing their voices, demonstrating their power through ownership and investment actions, in both developed and emerging markets. PRI's recent in-depth paper, "Closing the Funding Gap: A Case for ESG Integration and Sustainability Outcomes in Emerging Markets," found that the Paris Agreement and SDGs will only be met if developed and emerging market stakeholders, such as governments, investors, multilateral organisations and local communities, work towards this advancement, in turn, reflecting the importance of investor voices and actions across markets. All pieces interconnect and impact each other.

It's a pivotal point geopolitically and for responsible investment, and investors' roles have never been clearer.

Patrick Dunne:
We should get involved, but how is challenging. My grandmother, having no formal education, told me to "Never, ever, confuse worrying with thinking." We spend much time worrying, but should, instead, consider navigating these difficult situations. How can we influence this challenging world through governance and stewardship? Jane, coming from a relatively calm country, your views?

Jane Diplock:
Relatively, I'd agree. Building on David's points, one important thing in this poly-crisis, untrusted world, is trust. Without this, global harmony won't happen. We must consider what engenders greater trust around the world, to address the massive global issues. Edelman's Trust Barometer is a stakeholder survey, a highly respected index, in 80-90 countries worldwide, on trust. Trust in governments, media and institutions is at an all-time low, reflected in global disharmony. Business, as the most trusted, is expected to fill this void, but most feel business doesn't appropriately address societal problems, e.g., climate change, economic inequality, workforce

reskilling and trustworthy information. Companies aren't blind to this and promisingly, many are attempting to tackle the climate crisis. There's hope business action and nature and biodiversity loss will follow.

Societal leadership is a core business function. Employees want CEOs to speak on controversial issues, with 80% wanting visibility of CEOs when discussing public policy with external stakeholders, or their work to benefit society, particularly global warming, climate change, technology and automation. Opening the conference, the Vice Chairman said that corporate governance itself has transformed. On my first board, governance expectations and rules were much less complex. The primary focus was understanding accounting standards' application, reading balance sheets, corporate governance rules and securities laws.

Today, board members, Chief Executives, CFOs, Senior Management, need a more diverse skillset and understanding, particularly holistic value formation, integrated reporting, sustainability, climate and nature reporting and digitisation. The Edelman Trust Barometer demonstrates across every issue, people want more business engagement. 52% feel business doesn't do enough, whilst 9% feel they're overstepping. Business must recognise its societal role is here to stay.

How do board members participate and fulfil shareholder and stakeholder expectations in companies? Not all boards are fully equipped. They need appropriate education to equip themselves to ask the right questions, know when to push and in finding robust solutions, collaborate with those who lead climate change, learning from them, pushing the board's ambitions and raising the bar for positive action. It's a decisive decade for accelerating climate change action. The threat to us is existential. With the threat of nuclear war still around, floods in Florida, Pakistan and Bangladesh, what can we do? The choices of corporate leaders now will impact us in coming centuries. We must advocate for climate change, addressing it in our organisations. Shareholders and stakeholders see United Nations SDGs as a guidance map to indicate relevant social and environmental focus areas in disclosures.

The measurement and management are some mechanisms we must discharge in responsibility to shareholders and stakeholders. The digital and climate change/sustainability revolutions are intersecting. This can assist corporations in the massive task of measuring and accounting greenhouse gas emissions and sustainability. Digitised systems facilitating and integrating financial reporting with sustainability and climate reporting is an important innovation and one which becomes a fiduciary duty for Directors and board members to operate, ensuring companies, through digitisation, have a clear, accessible understanding on the effects to their business. Adopting a holistic digital strategy, with appropriate software, enabling full understanding of sustainable impacts on a company's financial performance, is a duty of 21st Century Board and Management Teams.

Global standard use has significantly changed in sustainability. The ISSB has two standards out for consultation. The UN Convention convened a group of 74 institutional investors, Net Zero Asset Owners Alliance, which all companies should look at. The Mauri say, "We don't inherit the earth from our ancestors. We borrow it from our children." How do we plan to leave it?

Patrick Dunne:
Ronald, Holland is at the centre of many things, with innovative culture around sustainability, etc. Your thoughts, please.

Ronald Wuijster:
Companies are society's trusted force. We invest in them, but they must do more. I refuse to believe it's all doom and gloom. It's always difficult for investors, whether facing zero or negative interest rates, making returns difficult, with powerless Central Banks, or now, facing challenges with inflation and geopolitical crisis. Technology and meetings like this will prevent the end of the global world. There are some initial signs of a deglobalisation trend, with the media power structure between the two superpowers playing a role, but it's not the end.

Inflation is spiralling. Central Banks were too late, but it's fixable. Markets can no longer rely on them, starting with the Greenspan put, continuing for some time. During COVID markets relaxed, whilst Central Banks lowered interest rates and started purchasing programmes when markets increased. This no longer happens. Central Banks now battle inflation, partially caused by energy prices, etc. This aligns with politics, with governments supporting citizens experiencing difficulty paying high energy prices, the balance is difficult.

The UK recently experienced difficulties finding this balance, but maybe with changes, it has now been found. Fiscal support shouldn't be too large, because the counterbalancing effect to monetary policy is too big and we must fight inflation.

These are regular problems. Long-term investing in companies with good governance is essential, and they can offer solutions, alongside technology. Climate change strategies must combine adaptation and mitigation, because it's too late. Climate adaptation is needed, with quick mitigation towards Net Zero. Governance plays an important role. Companies can do more. They should become stronger, but listen to employees, stakeholders, etc.

Patrick Dunne:
Are business leaders equipped to become social leaders? Do you have any examples of instances where you've felt the need to show leadership?

Ronald Wuijster:
Today's leadership is more than just economic returns. Multistakeholder capitalism is here to stay, and we must consider different perspectives. Dutch people with pensions want a guaranteed pension but are willing to forego some return to build a sustainable world.

David Atkin:
Leaders must engage in debates. Absence from important public policy conversations is a leadership failure. At Cbus, Australia's Construction Worker pension fund, we began internalising investment programmes, a tenth of applicants were women. There was a 90% male membership. From a cognitive diversity, but also, an equality perspective, we strongly believed in advocating for more female investors. When I left, 40% of the Investment Team and senior leaders were women, partly due to proactive programmes and advocating and discussing the issue.

Patrick Dunne:
I was a member of the Higgs Review 20 years ago, in the UK. Our demographic analysis revealed very few women in the pipeline on boards, leading to the 30% Club. Progress has been made on gender, but very little in other diversity areas. Disabled people constitute 15% of many populations, but they aren't on boards. Many places fail to keep score. In UK and Europe, social diversity has gone

backwards. Very few FTSE 250 board members come from disadvantaged backgrounds, which may explain some of what we see. Commonly, diversity is viewed as simply gender or race.

Jane Diplock:
There is a narrow gender focus, and there is still a way to go on this. In New Zealand, our treaty with our Indigenous people led to a strong movement towards proper representation on governing bodies and boards. We can definitely do more.

Scott Anderson:
For Asset Managers a big debate is integrating ESG sustainability into investment. Pushback has been on ESG as an outcome, rather than input. One problem is collective action, because integrating ESG as an outcome can be contrary to fiduciary duties. David's view is that long-term, they're existential issues and asset owners must be concerned, but an intellectual case can be made that it is not contrary to fiduciary responsibilities.

Patrick Dunne:
We had this discussion years ago at 3i, a private equity investor. As a mathematician, I understand that two thirds of value creation is from earnings growth, 20-25% multiple enhancement, selling a business at a higher multiple earnings than when bought, a small amount from financial engineering. ESG is multiple enhancing and whether you feel it's morally right, it's commercially advantageous to enhance multiples. Why not have better health and safety, environmental practice, no governance issues? The company becomes easier to sell, to IPO, and attract new investors.

David Atkin:
I agree. Institutional investors, particularly asset owners, with fiduciary responsibility to meet investment objectives of their beneficiaries, customers and members, from a pension fund perspective, must deliver value over time, not just one period. Value creation and destruction can happen over many time zones. Horizons and long-term cycles are very important. ESG and responsible investment is very important. It broadens the information assessed, impacting the bottom line.

Research at Ocean Tomo in 70s/80s investigated the value attribution of Fortune 500 companies. In the 70s, 80% was tangibles, 20% not, it's now the reverse. A company's valuation is their brand, IP, intangibles that mean you must have qualitative overlay, whilst considering your balance sheet's value differently. A responsible investment approach means identifying different issues impacting a company's profitability gradually, identifying risk and opportunity, protecting on the downside, but identifying companies with good strategies to navigate the issues.

Jane Diplock:
We have a fiduciary duty to make that assessment. It's almost a particle of political faith that people don't believe in climate change or a political action to articulate and address it. The SEC's Climate Standard is out to consultation and feedback shows a significant positive affirmation. Some industry organisations are opposed, but there's not a deep politicisation, which is contrary to the leaders' fiduciary duty.

Jana Jevcakova:
In Florida and Texas, investment funds were punished for not investing in oil and gas. Is this a short-term glitch or the start of a new era?

David Atkin:
We’re in a disappointing period. The pushback is testament to ESG’s success. It’s a party-political cultural war piece, but the issues don’t disappearing because you weaponize them. Legislature requiring ESG exclusion breaches fiduciary responsibility, causing pain to states following this path. We will have to address these issues at a later point.

Patrick Dunne:
When faced with conflict, there are five things you can do: compete, collaborate, compromise, avoid or accommodate. You generally do better when collaborating or compromising. Whether a small or major issue, we must decide which of these things to do. We may be highly competitive later, but sometimes patience is vital. Asian societies more successfully wait for the influential moment and mobilise people to reach the desired result.