

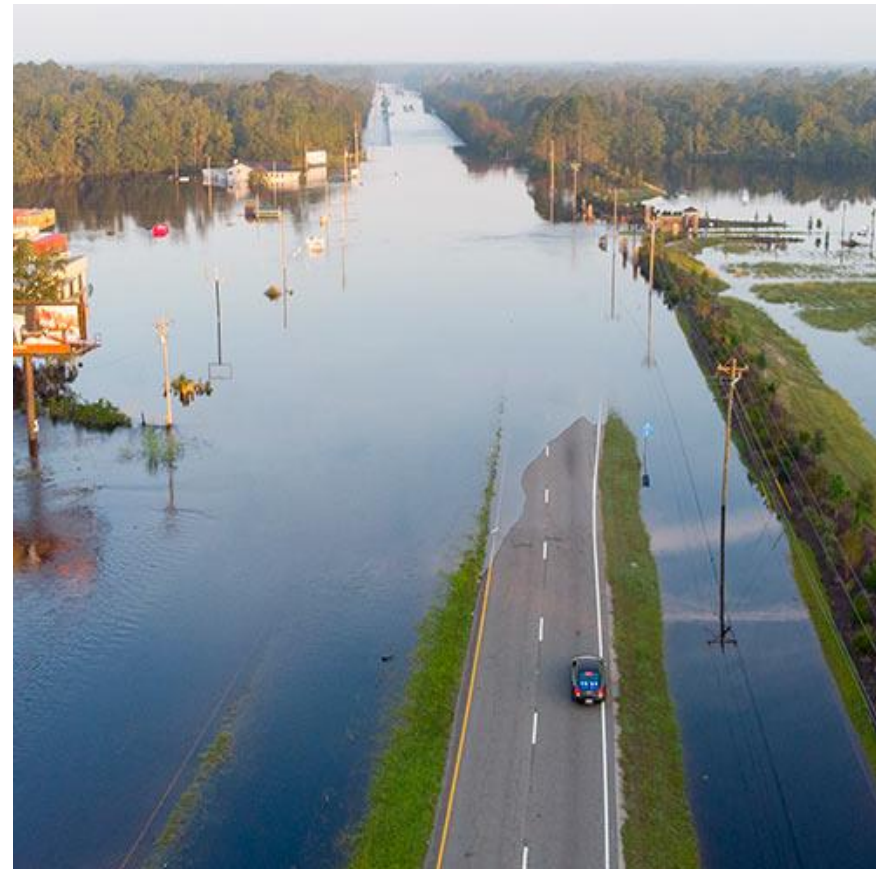


CREATING CLIMATE VALUE

THE BUSINESS OF CLIMATE CHANGE

April 2019 | Roger Ballentine, President of Green Strategies, Inc.

**“CLIMATE CHANGE” IS AN ECOLOGICAL,
POLITICAL, SOCIAL AND ECONOMIC **DISRUPTER**
OF UNPRECEDENTED SCALE**



*INVESTORS OR COMPANIES THAT FAIL TO
MANAGE IT DO SO AT THEIR PERIL*

INCORPORATING CLIMATE INTO VALUE-CREATION IS NOT OPTIONAL



"INNOVATE OR DIE"

(OR AT LEAST)

"INCORPORATE OR LOSE"

CLIMATE ANALOGIES ?



Internet



Globalization



Digitization



#MeToo



Civil Rights

EVERYONE WOULD AGREE THESE MUST BE INCORPORATED INTO BUSINESS STRATEGY, OPERATIONS, AND VALUES

THE EVOLVING REALTIONASHIP BETWEEN THE ENVIRONMENT AND BUSINESS

- Disregard
- Public awakening
- The regulatory state: command and control
- The compliance "ceiling" and the centrality of counsel
- The Gingrich Revolution and the new Green Partisan Divide
- Enter the lobbyists and the loot
- Choose your side: the environment or business

THE EVOLUTION OF CLIMATE POLITICS

1980 – 2000 . . .

- Debut on the national stage
- George HW Bush and the Earth Summit
- Earth in the Balance (Gore)
- Kyoto and its fatal flaw
- Bipartisan partisanship
- Industry organizes in the dark



Fmr Vice President Gore and Fmr President Clinton

... BUSH TO OBAMA

- Dick Cheney
- The rise and recession of John McCain
- Corporate crossover
- Obama, Waxman-Markey, and the power of the President



Fmr Vice President Dick Cheney



Fmr President Barack Obama

CLIMATE POLITICS & POLICY TODAY

WE ARE LIVING WITH NEW SOCIO-ECONOMIC REALITIES...

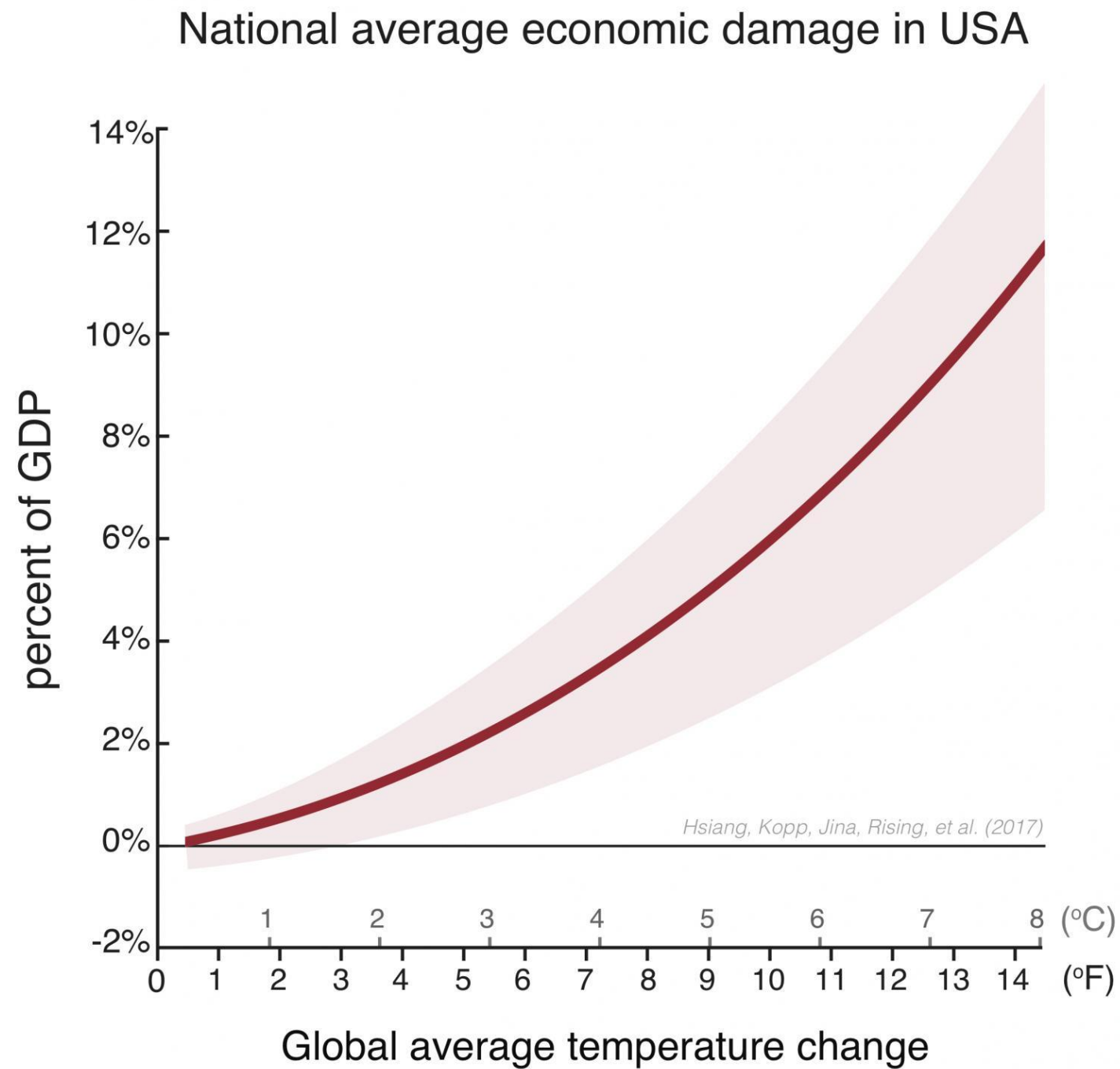
- Unprecedented economic inequality, social anxiety about a shrinking "winner's circle"
- Globalization
- Unprecedented partisanship
- Real news, fake news, and damned fake news
- A crisis of trust

...AND THEY MAKE POLICYMAKING VERY HARD

AND NEW CLIMATE-RELATED MARKET TRENDS

- Carbon pricing – implicit, voluntary, mandatory
- Electrification, automation
- An evolving grid: “inversion”, intermittency, elevation of the customer, technology-enabled rethinking of energy services, carbon value, and cloud-based energy consumption
- Heightened focus on security, reliability, and resilience of energy and energy-reliant assets
- Ford and Edison conspiring against Rockefeller
- The pace of change is outrunning existing rulebooks

MOTHER NATURE AT BAT: THE IMPACTS OF CLIMATE CHANGE



SO FAR, 2019 HAS SEEN THE ELEVATION OF CLIMATE AS A NATIONAL POLICY ISSUE

- New House majority and the Green New Deal
- Special Committee on the Climate Crisis
- Republican and Democratic governors taking action
- Bipartisan carbon tax proposals
- Center-Right evolution: is a bipartisan majority within sight?



*Fmr Sec of State George Schultz and
Fmr Chief of Staff James Baker*



*Rep. Ocasio-Cortez (D-NY) at a GND sit-in at the
office of Sen. Pelosi (D-CA)*

CAPITALISM AND CLIMATE CHANGE

In some circles, capitalism is becoming a dirty word – and there is some fair criticism:

- Capitalism has greatly contributed to the climate problem
- Prices have not reflected costs, which led to massive misallocations of carbon
- Climate change is the greatest market failure in the history of capitalism

But what if the awesome power of capitalism and the profit/value motive could be directed from causing to solving the problem?



CLIMATE CAPITALISM IS A TWO-SIDED COIN

1. SOCIAL VALUE: Tool for addressing climate change
2. PRIVATE VALUE: Tool for creating corporate value

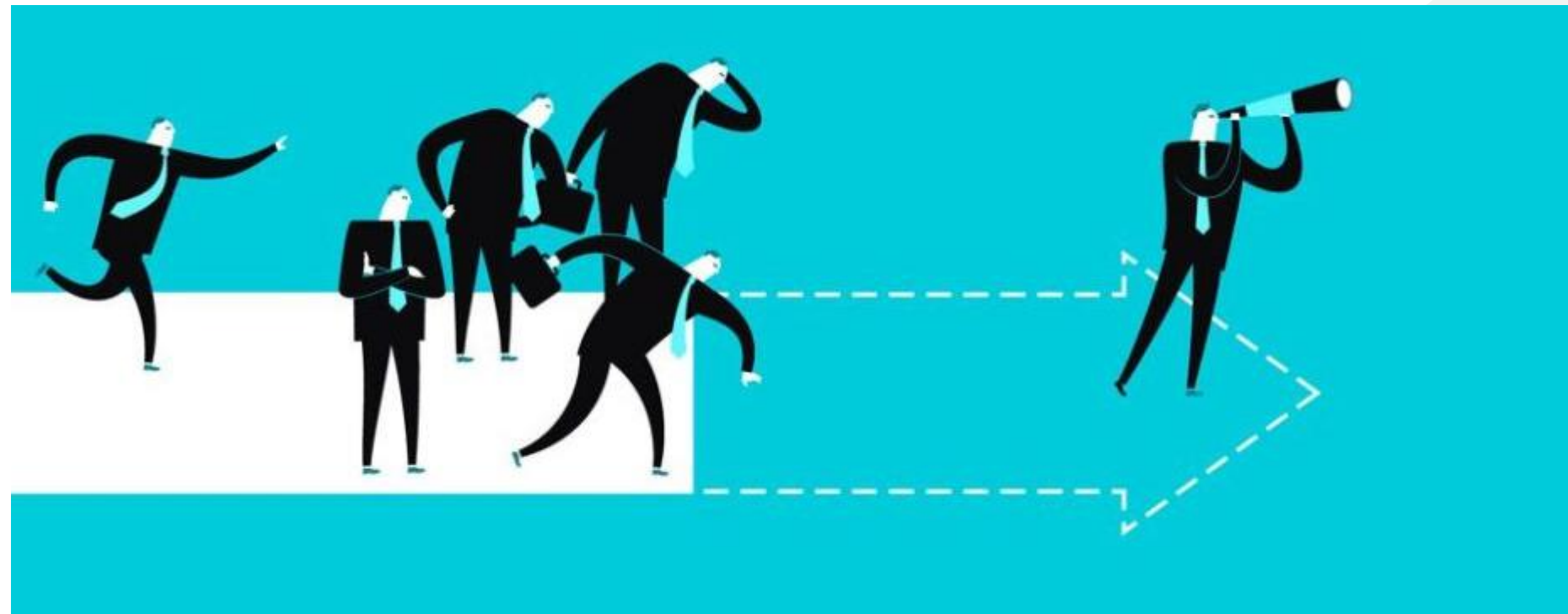
**MAXIMIZING
VALUE AND PROFIT
WITH CLIMATE
CAPITALISM**

WHAT I DO FOR A LIVING



Help companies out-compete their peers and become more valuable by providing solutions to the climate challenge, by reducing their climate impact, and by incorporating climate into business strategy.

THE NEW VALUE PROPOSITION IS IN ADDRESSING CLIMATE CHANGE, NOT CONTRIBUTING TO IT



Climate requires all companies to rethink, adjust, and adapt enterprise strategy for revenue and value creation.

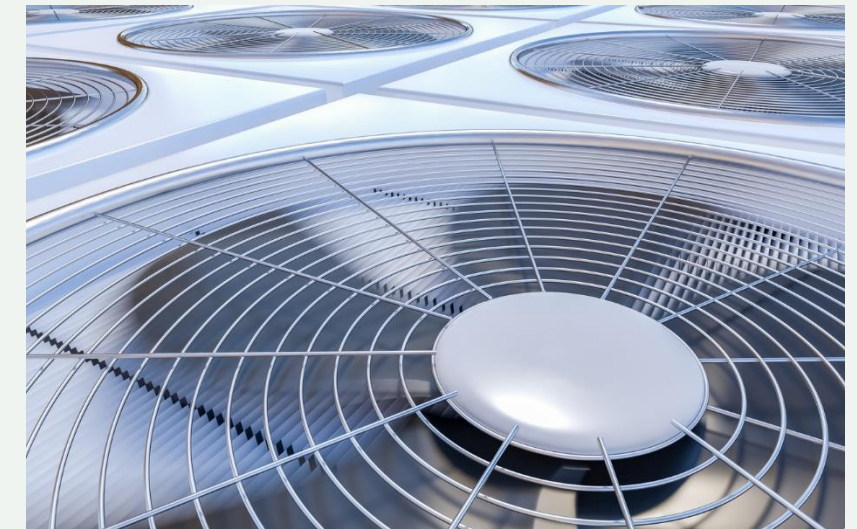
These are not the same thing

COMPANIES FALL INTO ONE OR BOTH OF TWO CATEGORIES

TOPLINE OPPORTUNITY: THE "SOLUTIONS" MARKET

We are approaching the point where there is more money to be made in solving the problem than continuing to make it worse.

- Renewable energy
- Energy efficiency
- Sustainable mobility
- HVAC
- Adaptation
- Etc.



BUT ALL COMPANIES CAN CREATE VALUE THROUGH A CLIMATE CAPITALISM LENS

- Bottom-line savings from efficiency, waste reduction, zero-fuel-cost energy
(6.5 GW of corporate contracted RE in 2018; one-fourth to one-third of total new RE capacity).
- Risk mitigation
- Brand and reputation enhancement
- Social license expansion
- More talent recruited/stronger human capital (millennials)
- "Street cred": evidence of management quality

YOU DON'T HAVE TO OUTRUN THE BEAR



You just have to out-compete and out-perform your peers by incorporating Climate Capitalism into your strategy

**INVESTORS, CAPITAL MARKETS,
AND CLIMATE CHANGE:
FOLLOW THE MONEY**

INVESTOR EVOLUTION



SOCIALLY RESPONSIBLE INVESTING (SRI)

Your grandfather's climate-conscious investors



ENVIRO, SOCIAL, GOVERNANCE (ESG)

Est. at over \$20 trillion in AUM (Forbes)

Climate is becoming first among equals: E, S, and G

ESG growth reflects/is a proxy for corporate value criteria



NO BRAINER INVESTING ("NBI")

Unless you are a day trader or buy and sell reflexively on quarterly earnings, the market will force all investors to consider climate change and Climate Capitalism

SO, HOW'S THE INVESTOR EVOLUTION GOING?

"CARBON CLEAN 200" (AS YOU SOW, CORPORATE KNIGHTS)

- An index approach meant to show that "clean" companies outperform "dirty" companies (and they did – 13% vs. 11% CAGR vs. Forbes 2000)
- Pure SRI approach. Negative screens (fossil fuels, "non-green" utilities, but also for-profit prisons, tobacco, weapons). Required >50% "green" revenue. *(But I agree with at least one!)*

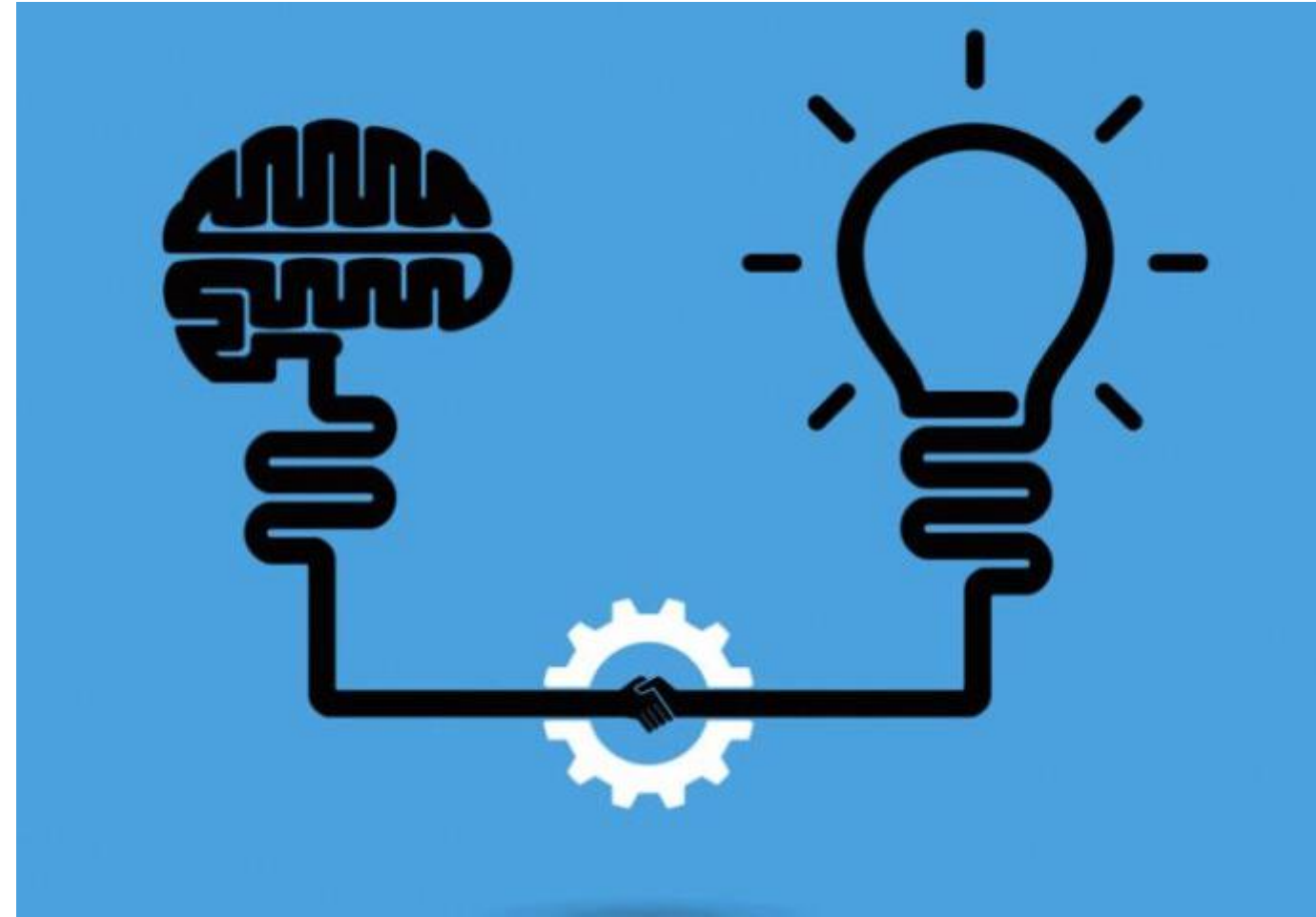
THIS APPROACH MISSES OPPORTUNITIES ON BOTH SIDES OF CLIMATE CAPITALISM "COIN": IMPACT AND VALUE

- Impact: e.g. Walmart/Ingersoll-Rand
- Value: any climate-strategic company will be less risky, have stronger social license, enjoy a more valuable reputation, recruit and employ better talent than peers regardless of sector or "green" revenue
- Yes, this approach is harder; data scattered and not uniform. But who ever said making money was supposed to be easy?

INVESTOR DOLLARS CAN REWARD THE LEADERS (AND THEMSELVES); INVESTOR ACTIVISM RAISES THE FLOOR

- EOG RESOURCES INC. Trillium Asset Management filed resolution seeking methane reduction targets. Company agreed to set targets and resolution was withdrawn.
- EXXONMOBIL. \$9.5 *trillion* worth of investors filed resolution to require plan for meeting Paris-level reduction targets. Before SEC. In 2017, investors filed resolution demanding disclosure of climate risks. 62% of shareholders supported. Company issued the report.

A WORD ON “INNOVATION”



“ P O L Y - I N N O V A T I O N ”

Technology - Political - Social -
Business Model - Corporate Strategy

TECHNOLOGICAL

will help us reduce costs and increase opportunities for both climate mitigation and adaptation (but problem is often more about not using the innovation we already have).

POLITICAL

is needed to create the foundation and pathway for a national-level climate response

SOCIAL

is needed to equitably include all in the benefits of the transition to a low-carbon economy

BUSINESS MODEL

can allow companies to adapt to carbon constraints and climate-based competition

CORPORATE STRATEGY

as discussed, can help all companies contribute to solving the climate challenge while creating new and more sustainable value in a hotter, wetter, drier, carbon-constrained world



Roger Ballentine
greenstrategies.com

816 Connecticut Ave NW
Suite 200
Washington, D.C. 20006