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Økt ESG fokus – konsekvenser for aksjer og for miljøet

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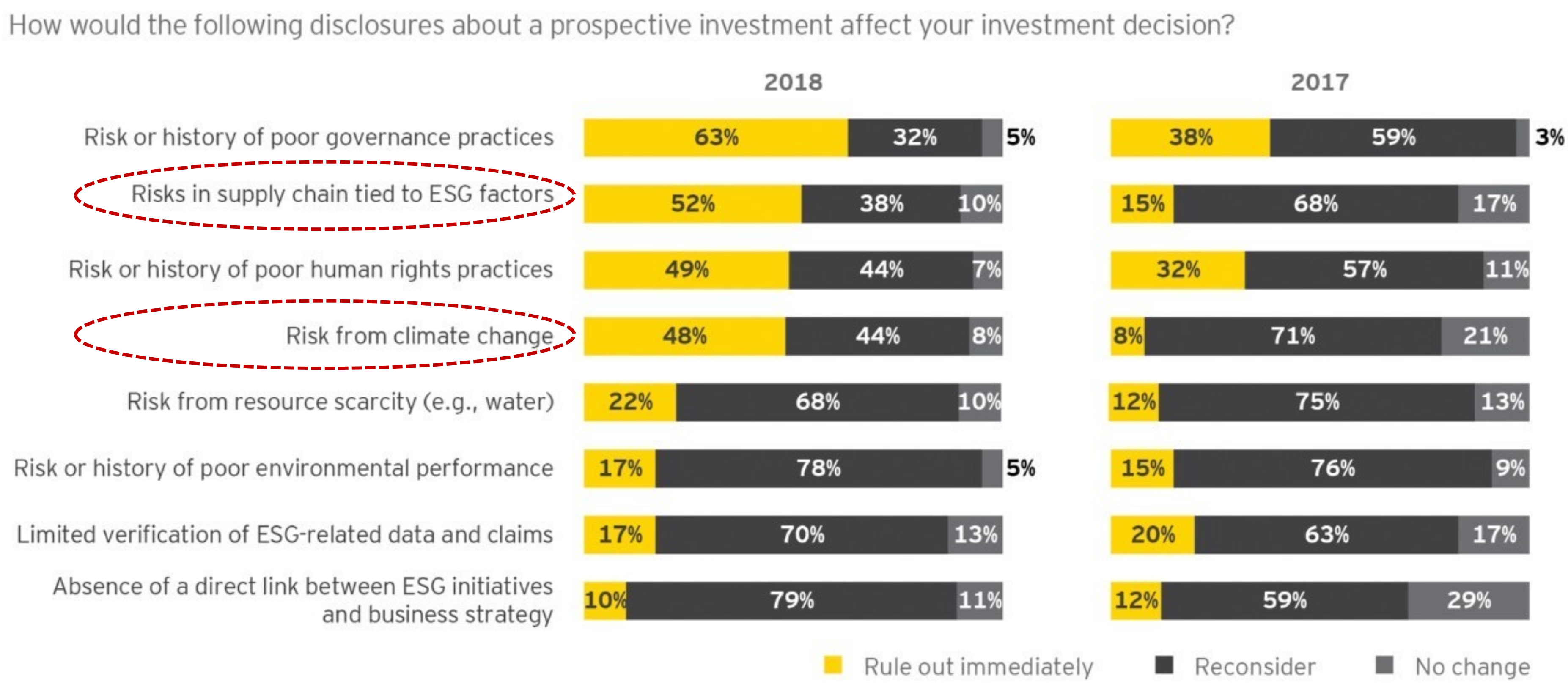
ESG represents the biggest change in investor perspective since dot.com

You are not respectable if you don’t invest responsibly. Started in 2018

EY survey of 260 institutional investors: 50% of investors say they ‘rule out immediately’ investments that ‘disclose risks from climate change’. Up from 8% in 2017. Presumably includes Energy shares?



Source: EY Survey (260 institutional investors globally), SB1 Markets

Increasing peer / customer pressure on managers that don't take action

FT 5/10-20

Ethical and responsible investment + Add to myFT

BlackRock criticised over drop in climate votes

Rivals including JPMorgan are increasingly backing environmental resolutions at annual meetings

The world's largest asset manager backed fewer environmental votes at annual meetings this year than last © Jeenah Moon/Bloomberg

Attracta Mooney in London OCTOBER 4 2020

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BlackRock backed fewer environmental votes at annual meetings this year than last, despite chief executive Larry Fink's warning in January that climate change represented a risk to markets unlike any previous crisis.

Many of its biggest rivals, including JPMorgan Investment Management and Wellington Management, hugely increased their support of environmental resolutions this year on the back of growing concerns that efforts to tackle climate change could hit investment returns.

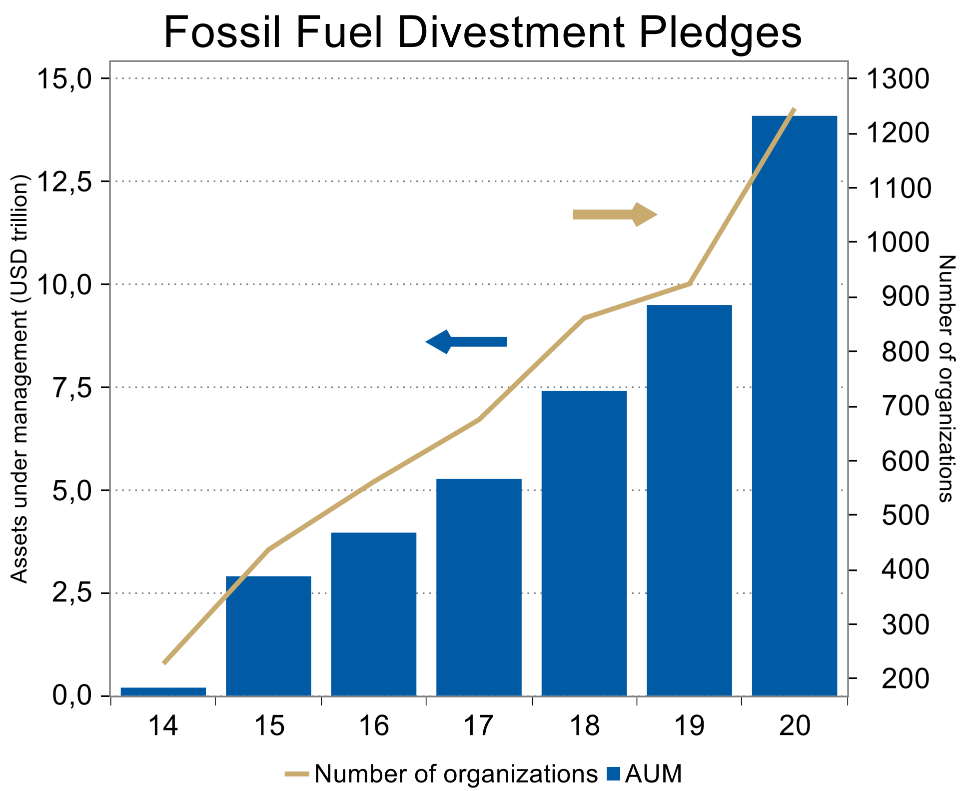
Fund managers responded to customer demands, and increased ESG focus

KLP, DNB and Storebrand abt. 3-5 dedicated ESG managers, around 10-20% of the team. But all portfolio managers work with ESG issues

Activity	Example	End result
Reporting	Emissions/kg produced. Scope 3.	Better information and decision support
Standard setting	Best practice emission / kg	Minimum requirements
Active ownership	Voting, election committee, dialogue with the companies	Company changes behavior, or new board members
Investor cooperation	Carbon 100+ (40% of global AUM). Best effect when **local and** large owners	Changed reporting or behavior
Exclusions	Exclude companies with unsustainable business practices	Exclusion list, ref. NBIM. Offer no-carbon index funds
ESG integration	Cooperation between dedicated ESG analyst and fund manager	Lower valuation of weak-ESG companies due to exp. cost of future requirements
Thematic investments	Invest in companies that actively work for a more sustainable world	Storebrand Global ESG, ESG+, Global Solutions

Exclude: Large share of investors has pledged to exclude fossil fuels

1250 institutions with $14 tn in assets have pledged to cease new investment, divest within 3-5 years and invest more in 'climate solutions'. Global Assets Under Management are ~ $80-90 tn.

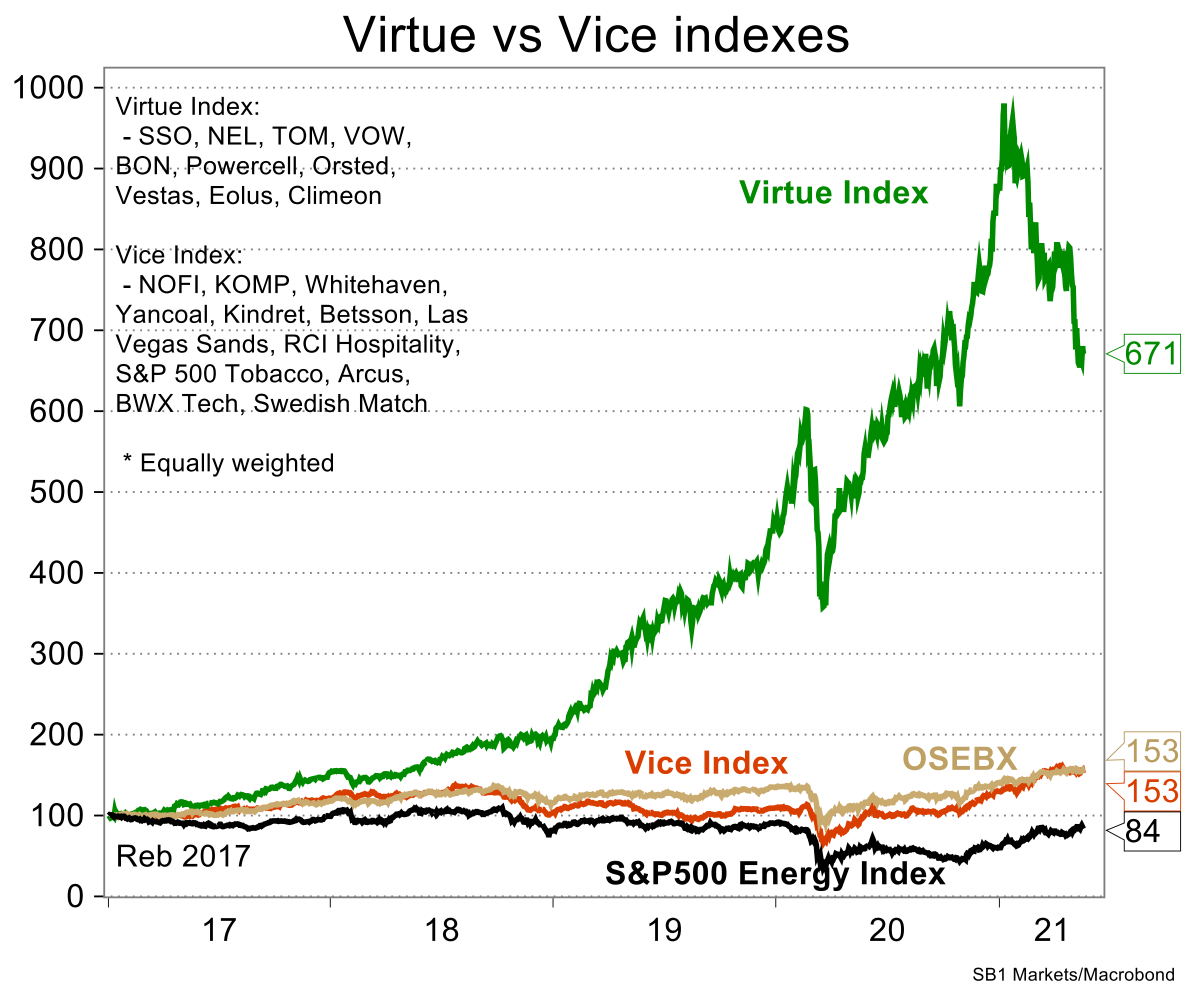


Source: DivestInvest, The Guardian, British Columbia University, CNBC, Dagsavisen

- **Black Rock to** exit coal etc, launch index funds that exclude fossil fuels and use as default in mixed products ex-US retirement ($7tn, Jan 20). Joined…
- **…Climate Action 100+** ($ 41tn incl Black Rock) pushing for disclosure and emission reductions
- **New York City**: Decided to divest pension fund from fossil fuels ($200bn, Jan 18)
- **University of California**: Divestment from the fossil fuel industry (Sep 19)
- **Ireland:** National investment fund required to sell all investments in coal, oil, gas and peat «as soon as is practicable» (€ 8bn)
- **University of Oslo**: To stop all investments in fossil fuel (NOK 1bn, Oct. 19)
- Impossible to find **Norwegian Index Funds** that track full indexes: All exclude some shares
- **Fossil free funds** have assets of more than USD 100bn
- **NBIM** to sell upstream E&P + coal, set aside $10bn for renewables,
- **EIB** to invest $1000bn in renewables by 2030
- **Storebrand** to exit some E&Ps on climate concerns
- **Cambridge University** to divest endowment fund from fossil fuel by 2030 (£7bn, Oct 20)
- Mayors of **12 cities (NY, LA, LON…)** representing

Invest: This resulted in a lot of money chasing the same few "virtue shares"

While the horrendous Vice stocks get what they deserve, inv...Greenwashing the key driver, but also ESG Funds, retail momentum investors. Fossil Energy bottom of the heap



- **Virtue**: Based on Nordic companies with the strongest E profile (Actively doing good):
  Solar: Scatec Solar
  Wind Power: Bonheur, Ørsted,Eolus
  Wind Equipment: Vestas
  Hydrogen: NEL, Powercell
  Recycling, waste: Tomra, Scanship, Climeon

- **Vice:**
  Based on largest pure play companies, in or close to Norway:
  Coal: Yancoal and Whitehaven
  Betting: Kindred, Betsson and LVS
  Porn: RCI Hospitality
  Consumer banks: NOFI and KOMP
  Tobacco: S&P 500 Tobacco, Swedish Match
  Alcohol: Arcus
  Nuclear weapons: BWX Technologies

Indexes are equally weighted and rebalanced quarterly

You have to fight for intention if you are in the 'Vice' category

But of course not when SB1 Markets hosts…

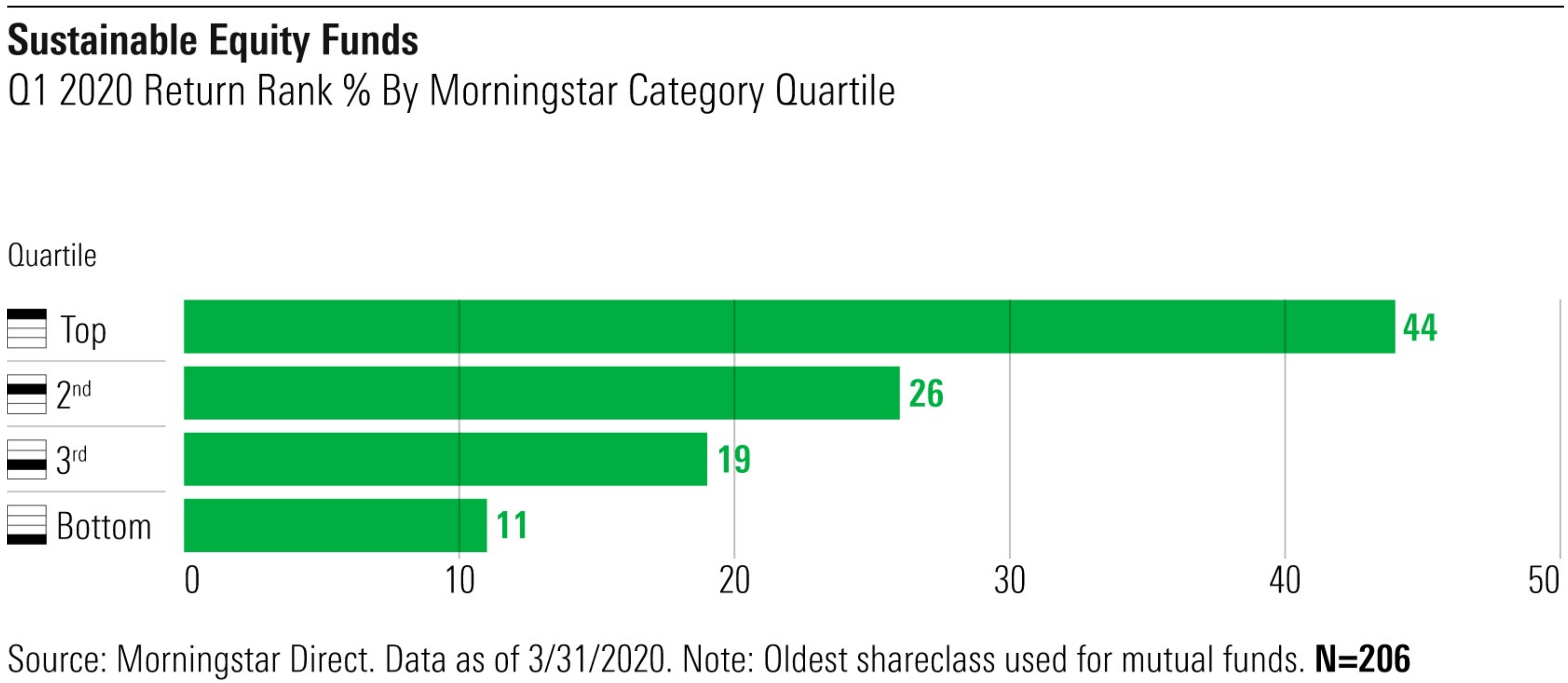
Virtue Ltd Company Presentation	Vice Ltd Company Presentation
	

Source: Planet Podium, Graham MFT, SB1 Markets.

Initially, a self reinforcing prophecy: ESG funds are becoming winners

More money in ESG funds = More buyers of ESG shares = higher ESG share prices = better ESG fund performance = even more money in ESG funds. Soon: “ESG not only morally sound, but also more profitable”

Sustainable funds are more likely to be top performers



Initially this was a Nordic phenomenon, now it's global:

From 2019: The Nordics are leading the way in repricing Virtue and Vice shares. But others are following, and should become more similar to the Nordics

Share price performance 2018-2019

Region	Virtue	Vice
Nordics		
Europe		
USA		

- Virtue share revaluation has been most prominent in the Nordics.
- Logically we should see Nordic Virtue companies acquire peers in the U.S.
- Vice revaluation has been more parallel, but more likely that U.S. Vice companies will buy European peers than Vice versa

Source: SB1 Markets

EU’s Taxonomy could prolong the green boom/bubble through 2021

The EU requires that fund managers and companies report green share. The EU bureaucrats will define which activities are green, not companies or fund managers

Company	Portfolio weight	‘Green’ revenue share	‘Green’ Capex share	Comment
Equinor	9%	1%	10%	Offshore wind qualifies
DNB	7%	0%	0	
Entra	5%	2%	2%	Class A buildings qualify – low emissions
Norsk Hydro	5%	30%	20%	Remelting with CO2 / kg alum below threshold level
Scatec	5%	60%	70%	Solar power, not yet hydropower
Yara	5%	20%	25%	Uncertain, depends on CO2 vs average
…	…	…		
….	….	…		
Share of portfolio	100%	8%	8%	Not required to show average share, but we expect this to be reported

Source: SB1 Markets

More granular green pricing. Could give a new boom towards 31/12-21.

But boom could end any time.

- 'Green share of portfolio' will probably be a key competitive parameter for sustainable funds. Important for other funds as well

- Should lead to even higher demand for green shares before 31/12-21.
  - » However, uncertain to what extent this is already discounted in share prices
  - » And if green share price momentum fades for any reason, retail investors may disappear fast
  - » If lobbying results in less strict requirements, greenness will be less scarce and green shares will suffer

- Should give a more granular pricing of each share, not just 'green / not green'
  - » Today shares are either to be 100% green or '100% not green'
  - » In the future, perceived 'greenness' will be more nuanced
  - » Winners: Not perceived as green now, but achieve a fairly high green score
  - » Losers: Perceived as green now, but achieve a moderate green score

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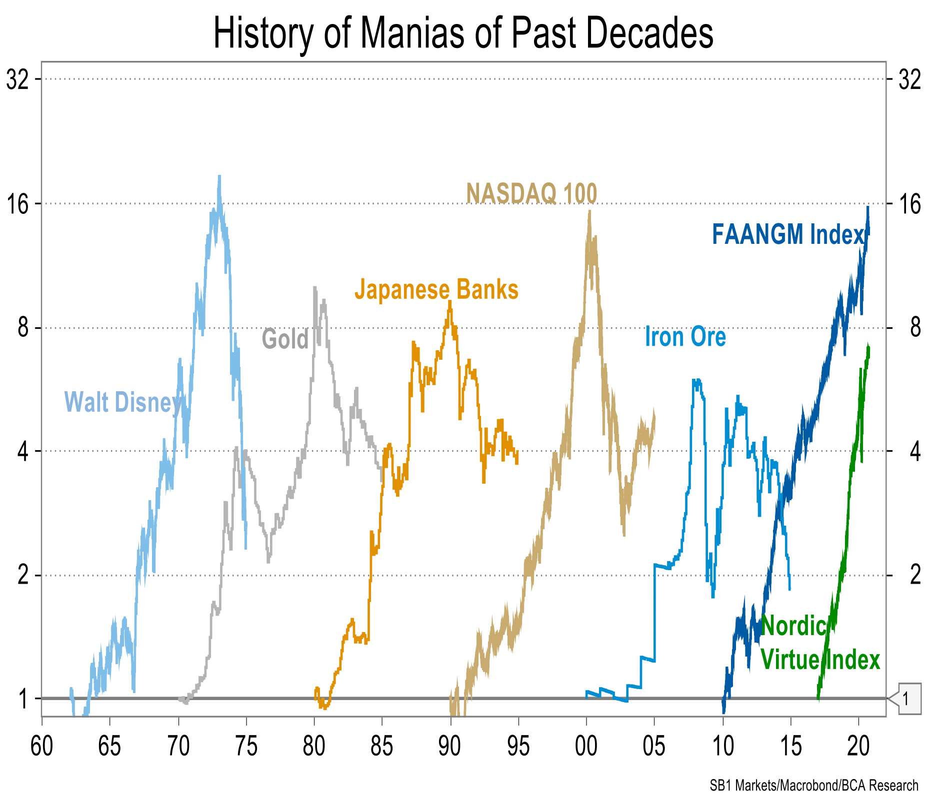
A green bubble? Sure seems like one

This is very similar to the dot.com boom around year 2000. Most companies failed, not due lack of demand but because they were outcompeted



Japan's economy has done OK since 1989

- But stock market collapsed. Too high valuation

The internet has conquered the world since 2000

- But only a handful of companies survived and became giants. The rest was outcompeted

China and India have kept growing fast since 2000

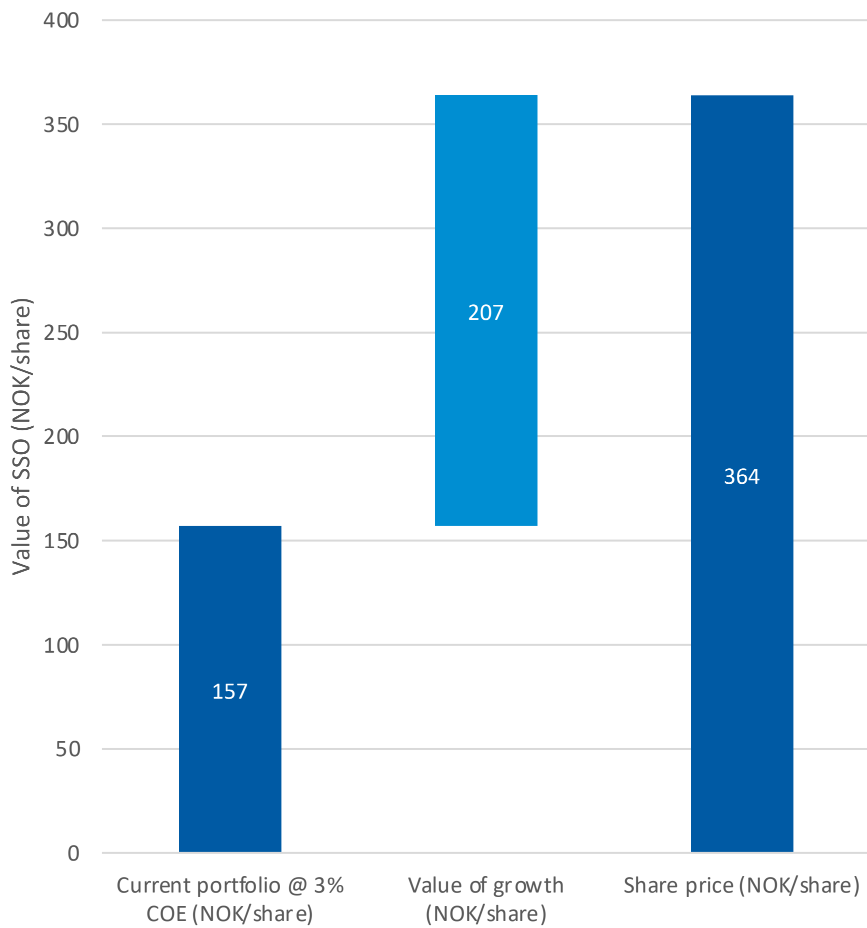
- But prices for raw materials collapsed as too high supply led to overcapacity

Renewables face very high demand growth for decades

- But that does not mean shareholders will benefit much, starting at current prices

Scatec valuation – feels a lot like dot.com

Value split at 3% cost of equity



Comment

- If we assume that the fair cost of equity is 3% (very low), SSO's current portfolio is worth c. NOK157/share, and the implicit value of growth is NOK207/share or NOK33bn
- Then we need the following to support the current share price:

1. All existing projects perform according to plan, with no counterpart default or PPA renegotiations
2. The hydro power plants from SN Power needs to deliver stable performance over the next 30 years versus 2019
3. The company need to grow by 2GW per annum in 2022, and thereafter have 10% growth in growth (i.e. 2.2GW in 2023, 2.42GW in 2024 and so on, all the way to 2030).
   » This compares to a total solar PV portfolio of 1.9GW today, which has been build over more than 10 years.

- In sum, the SSO share price includes both very low discount rates and very lofty growth assumptions, and we see more downside risk than upside potential

Source: SB1 Markets

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The Norwegian dot.com cases failed – even if demand grew fast

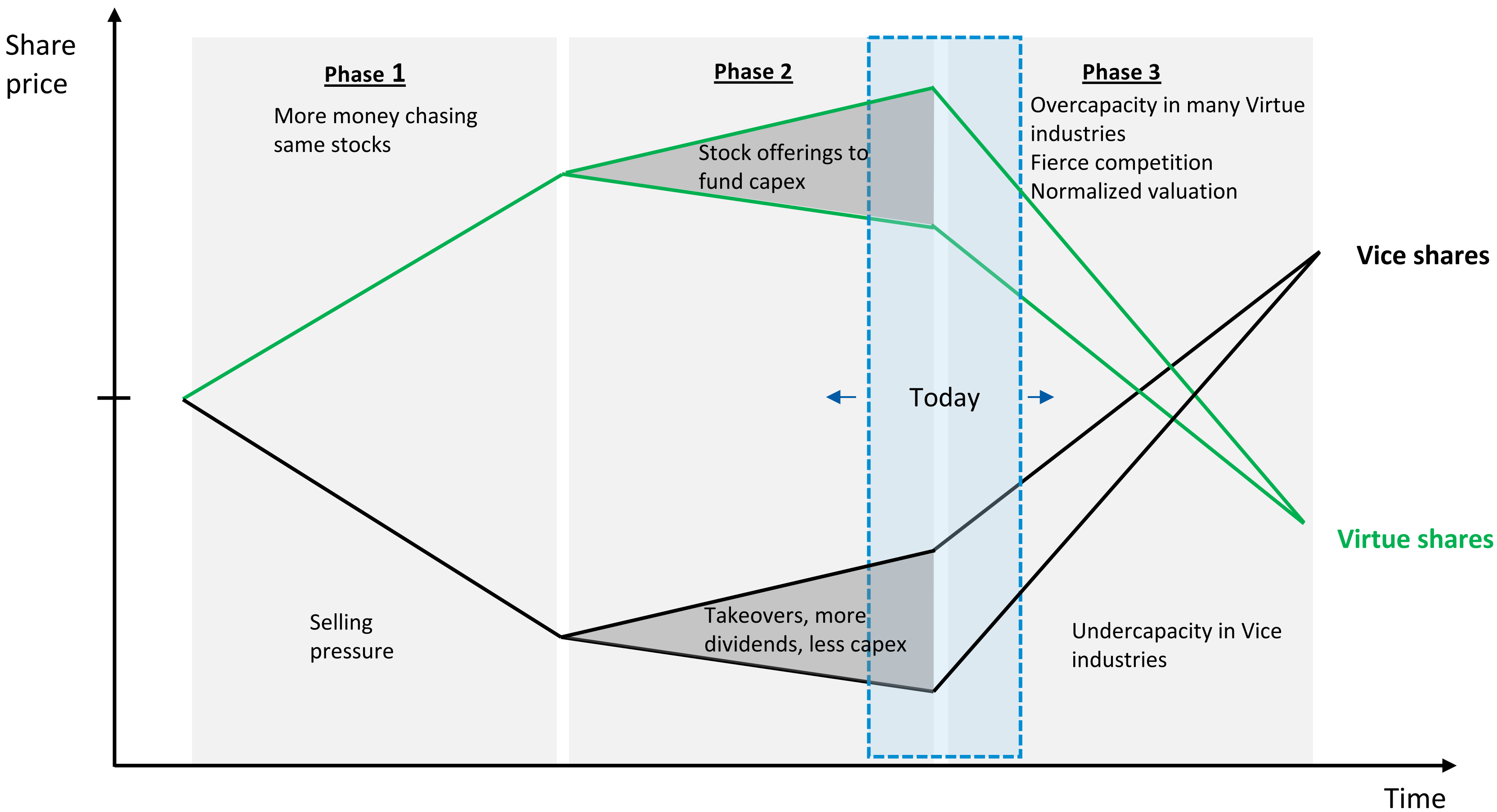
They were outcompeted, the technology didn't work

	Peak share of OSEBX	Industry	Case	Final Outcome, return from peak
Framfab (SW)	5%	Internet consulting	Growing demand. Price/head	Tough competition, only average profitability. -99%
StepStone	3.5%	Internet job ads	New large market, natural monopoly, first mover	Outcompeted by incum-bents: Finn, ADE etc. -99%
FAST	1%	Internet Search	New large market, world's fastest search engine	Outcompeted by Google but decent exit vs listing price
Telecomputing	3% (OTC)	Cloud computing	New large market, first mover	Commoditized, low margin market. -95%
Opticom	7%	Data storage	Growing market, unique technology	Technology failed: Not commercialized (TFE). -99%

These industries also had other failures: Jobline, Client Computing, Icon Medialab etc

Have we entered Phase 3 where too much money chases investments?

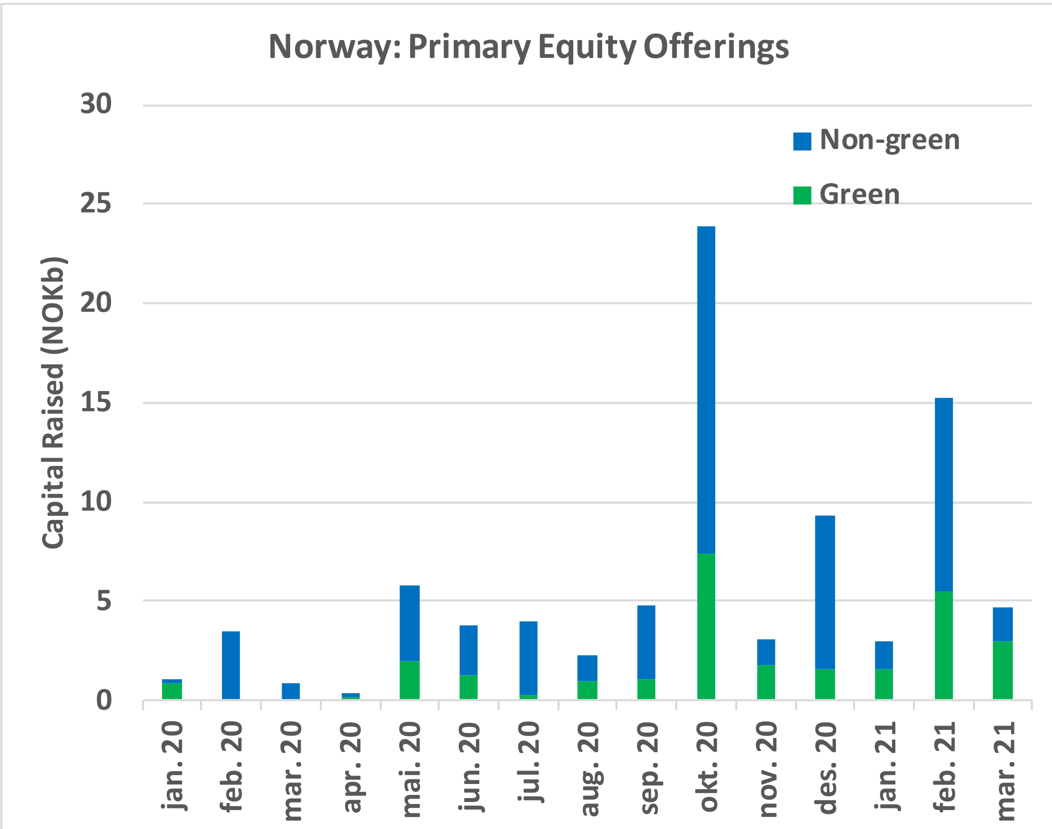
NBIM bought Offshore Wind at 1-2% I,RR. Etrion Japan divested at ~2% IRR.



Source: SB1 Markets

An explosion in fundraising for ESG companies, as expected.

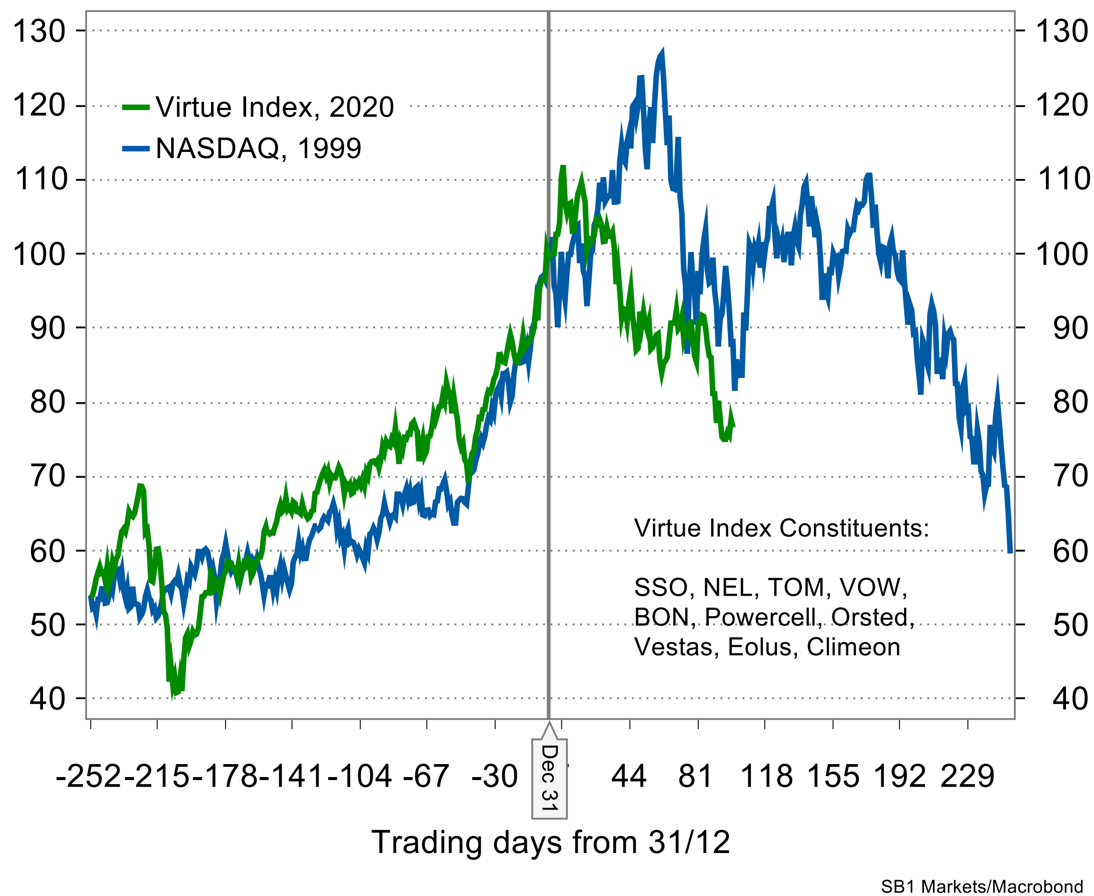
About 85 bn total capital, 27bn green capital. 6% and 2% of OSEBX values, respectively. 8 new green shares in 2021 vs. 5-7 total green shares in 2019! Free float OSEBX is 1480bn

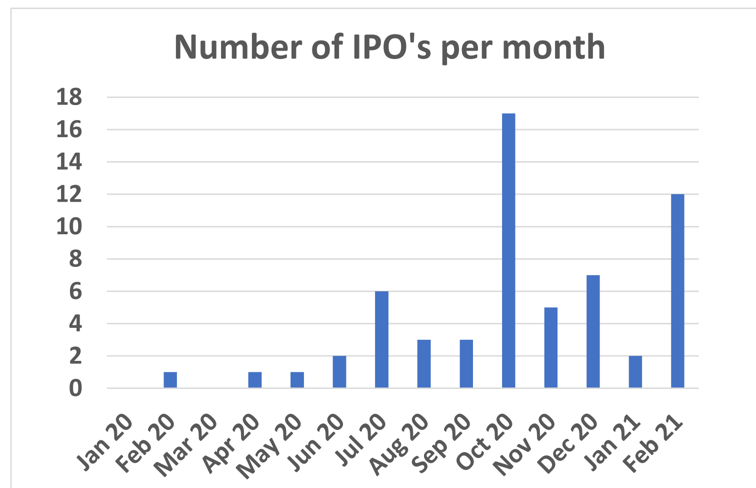


Name	Listing Date	IPO-Day 1 Close Return (%)	Day 1 Open to Day 2 Close Return (%)
Flyr	1.3.		
Rana Gruber	26.2.	33,1	6,2
Arctic Bioscience	24.2.	-11,3	7,5
Skandia Greenpower	22.2.	-0,3	-6,4
Arctic Fish Holding	19.2.	-6,9	-4,9
Otovo	19.2.	12,5	-10,0
Envipco Holding	18.2.	8,6	-15,0
Sonans Holding	17.2.	14,0	7,5
Huddly	16.2.	29,0	-5,0
CRC Holding	16.2.	44,5	-12,3
Cambi	9.2.	6,9	12,5
Proximar Seafood	3.2.	14,8	-3,9
Aker Horizons	1.2.	20,0	-13,2
Horisont Energi	27.1.	231,6	-14,2
MPC Energy Solutoins	22.1.	36,1	-2,5
Average		30,9	-3,8

Is the bubble bursting? Probably

Scrapping of old valuation models. Preference for shares without earnings. High willingness to believe in new technologies. Extreme rally for New Year's Rockets





Source: SB1 Markets, Macrobond

Should you avoid green investments? ABSOLUTELY NOT

You should maybe not invest in listed shares at 5X invested capital BUT

- Regulation and customers will keep favoring green investments
  - » Carbon tax
  - » Cap on maximum emissions to decline gradually (Shipping)
  - » Customer demand (Powerhouse Telemark)

- Your investors / owners will prefer green investments
  - » EU Taxonomy and customer demands
  - » Better long term earnings

- Current and prospective employees will prefer a green profile
  - » Hard to succeed in any business for an unattractive employer

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Which green investments should you prioritize

- Not mainly about where demand growth will be highest...
  - » Ample demand growth is everywhere in the green space

- ...but about where you can achieve a strong competitive position
  - » First mover advantage?
  - » Unique technology?
  - » Upgrade / refurbishing of existing businesses
  - » Avoid crowded free-for all markets, prioritize attractive niches

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