

# ARDINALL

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INVESTMENT MANAGEMENT

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# Executive Summary

## The World's Decarbonization Journey:

- ❖ In every forecasted scenario out to 2050, the world will be using hydrocarbons for many more decades to come
- ❖ Even in IEA's aggressive NZE scenario, we are still looking at 24mmbpd of oil demand in 2050 (\$25/bbl oil price, \$200/ton CO2 prices)
- ❖ Net zero does not mean zero hydrocarbons

## Hydrocarbons Compatible with Net Zero:

- ❖ Low cost
- ❖ Low emissions
- ❖ Financially stable entities
- ❖ Politically secure geographies
- ❖ Further considerations: energy security considerations and geopolitics

## Is ESG Going to Help or Hurt the Optimal Road to Net Zero?

- ❖ Financial markets stepping to replace the void in policy
- ❖ Be careful of unintended consequences

# The Drive Towards ESG Has Many Forms

## Investor and other financial player groups:

- ❖ Net Zero Asset Owners' Alliance
- ❖ Net Zero Asset Managers' Alliance
- ❖ Net Zero Banking Alliance

## ESG-oriented capital:

- ❖ Divestment
- ❖ Full engagement
- ❖ Hybrid

## ESG Impact Varies Depending on the Type of Oil Companies:

- ❖ Publicly-listed energy companies
- ❖ Privately-held energy companies
- ❖ National oil companies

# ESG Considerations

## Show credible path to decarbonization:

- ❖ Scope 1
  - ❖ Scope 2
  - ❖ Scope 3
- } **table stakes**
- tbd**

## Show materials progress along the way:

- ❖ Methane emissions
- ❖ Intermediate or mid-term scope 1 and 2 reduction targets

## ESG needs to show more flexibility:

- ❖ Allow for hydrocarbon investments to continue until we have a credible replacement
- ❖ Developing nations need to have a different path
- ❖ National oil companies have different stakeholders

# Examples of ESG Impact in Public Market Companies

## Recent Cyclical Downturn (2015/2016 and 2020):

- ❖ Energy sector de-rating
- ❖ Newfound capital discipline:
  - ❖ Production flat or growing moderately
  - ❖ Increased capex efficiency
  - ❖ Return capital to shareholders (dividends, share buybacks)
- ❖ Additional sources of higher enterprise value:
  - ❖ Short-term: addressing methane flaring and fugitive emissions
  - ❖ Medium-term: scope 1 and 2 emissions
  - ❖ Long-term: pivot into new business models (carbon capture)
- ❖ Potential re-rating paths (best in class companies or entire sector)

# Final Considerations

1. All Footprints Will Eventually Matter: supply chain, full LCA analysis incorporated into price of goods

2. Take Control of Your Narrative: engage with ESG investors and show transparency

3. Focus on Value Creation: build trust and prove divesters wrong

❖ Trust: consistent strategy and execution

4. Education and messaging: focus on science-based evidence, define the “common enemy”

❖ Enemy: emissions, not hydrocarbon producers

5. Petro-diplomacy works: extend international cooperation to ESG principles

6. Think ESG wholistically: focus on not just the “E” but also on the “S” and the “G” in ESG

“Climate Solutions Need Women at the Center”

“Real transformation for both climate resilience and gender equality will happen when companies tackle the structural and systemic barriers women face and involve women in solutions—putting women at the center of their climate strategies.”

BSR™ (Business for Financial Responsibility)

“If we took away the barriers to women’s leadership, we would solve the climate change problem a lot faster”

Mary Robinson,  
former President of Ireland



Thank you!