



# THE FINANCIAL TIMES & 12 HAY HILL DAVOS DEBRIEF 2020



## HIGHLIGHTS

Conceived at 12 Hay Hill, the FT - 12 Hay Hill Davos Debrief has become a highlight of the club's annual calendar.

As the home of 'club-working', we created it in partnership with the Financial Times as part of a programme of carefully curated events that have established us as the leading forum for discussion of all aspects of business and enterprise. It has been designed for members and guests who did not attend Davos, the flagship gathering of the World Economic Forum, or those who did and want to engage in the topics covered in greater depth.

The FT - 12 Hay Hill Davos Debrief featured some of the thought leaders and businesspeople who spoke at the summit alongside celebrated Financial Times journalists and commentators. They shared unrivalled analysis of what was discussed, who made waves, what was agreed and the implications for politics, economics, finance and business in 2020.

On the day, proceedings were streamed live within the Club and, responding to the enthusiastic feedback from attendees, the proceedings have now been made available online for all our members and guests to enjoy.

## VIEW FROM THE WORLD ECONOMIC FORUM WITH ADRIAN MONCK

Adrian Monck, Managing Director for Public Engagement at the World Economic Forum, told the session that organisers had put climate change 'front and centre' of discussions.

'Is Davos a success? It is never a success,' he said. 'We never get people to move as far as we would like on the issues we want them to. We always want people to push harder and faster, to do more on the things that we really think are important to the world. Those things include making sure that people in the poorest parts get as fair a deal as the people in the wealthiest; that people who are denied opportunity get opportunity, and that we actually turn the world's attention onto some of the things that matter. For me, this week in Davos, that was putting climate change front and centre of our discussions and making sure that people take it seriously because, if they don't, we will find it very difficult to do this in 20 years' time, in such lovely surroundings.'





## GEOPOLITICS

### MIDDLE EAST TENSIONS, THE US-CHINA TRADE WAR AND OTHER MAJOR DISRUPTIONS



THE biggest geopolitical risk facing the world in 2020 is the US presidential election which could create a 'huge crisis in democracy', the FT - 12 Hay Hill Davos Debrief was told.

In the first session of the day, Jeremy Shapiro, Research Director at the European Council on Foreign Relations, said that if President Trump was re-elected it would likely be with a 'huge deficit in the popular vote', higher than he was elected with in 2016.

He predicted that Trump could poll 'something of the order of 5, 6 or even 8 or 9 million votes' fewer than his rival but still be elected President for a second term because of the US's electoral college system.

'That means that the United States will be ruled by a minority President for the second straight term; a minority Senate, because the Republicans get many fewer votes in the Senate than the Democrats; by a Supreme Court that was nominated by the President who did not win the popular vote and these voters will be from the least productive and angriest elements of society, and geographically very split,' he said.

'It will reinforce a split in the United States between the productive coast that contributed to the economy and the rural interiors that effectively rule the country politically.

That is creating a huge crisis in democracy, and creating a sense that the political momentum – a second Trump administration – to satisfy its constituency, will have to move away from many of the things that are very popular and necessary for the business elites and for the productive classes on the coasts. We have already seen some of that in the first term and in the second term we will see much more, and that will be much more disruptive to the international economy than the geopolitical events we like to talk about.'



Mr Shapiro said the key point in trying to understand how Trump would behave during a second term was that 'the guardrails would be off'. He quoted a friend who described the administration as 'malevolence tempered by incompetence'. In a second term, there would be no 'reduction in malevolence but a reduction in incompetence because he's getting into place the people who can do what he wants to do'.

'What you'll see is a much harder push on the immigration piece, especially where he's been stymied a lot by his own government, a much harder push on the trade front,' he added. 'Taking on China... and, more importantly for this audience maybe, a much harder push of the European trade front where he's extremely dissatisfied and where they haven't even really begun to fight the battle because he's encountered so much opposition within his own administration.'



## GEOPOLITICS

### MIDDLE EAST TENSIONS, THE US-CHINA TRADE WAR AND OTHER MAJOR DISRUPTIONS



Tina Fordham, Partner and Head of Global Political Strategy at Avonhurst, told the audience that while a second Trump term was 'undoubtedly' the preferred outcome for markets, further efforts by the President to undermine global trading norms could result. She predicted 'a real effort to further erode the world's trading organisation and the global trading system', adding: 'I am not sure whether companies and investors are really prepared for the US to start to withdraw and fail to recognize WTO judgments, Basel accords and things like that because, if the US doesn't participate, why should anyone else?'

Ngaire Woods, Dean of the Blavatnik School of Government at Oxford University, said that the mood of corporate America represented at Davos was that Trump was 'unpredictable but purposeful'.

'This means that you can get behind him because you sort of know what will come. There is a narrative which says that the risk is what those leaders refer to as the "hard, extreme left" which, for Europeans, is slightly odd, because I don't think – perhaps with the exception of Bernie Sanders – that most Europeans would see the other candidates on the Democratic side as a hard, extreme left,' she added.

Trump had been 'the darling of this year's Davos', with people queueing an hour and a half to hear him speak.

She added: 'For me, the paradox this year was that the big theme was sustainability and climate change, but the previous year's darlings on that theme – Justin Trudeau, Emmanuel Macron, Jacinda Ardern from New Zealand – were not present because of populist tensions in their own countries, and because it is not politically okay for them to be seen at Davos.'

Mr Shapiro said that with Brexit, Britain had 'put itself in a very bad position at a very critical moment' because it would find the world 'a much more hostile place' outside of the EU.

'The US is, in theory, offering a lifeline, but in practice it will be negotiating a very, very difficult trade deal, which will be very hard particularly in areas like agriculture and pharmaceuticals,' he said.

'The EU is not in a mood to grant Britain any favours and the trends in British defence spending, the trends in British diplomatic spending, mean that it is not really in a good position to be able to punch above its weight as it has traditionally done. There is this very grand plan that we are hearing about from the government right now about 'global Britain'. It sounds great and has elements of imperial nostalgia, but I don't think there is anybody out there in the world who is waiting for it. I don't think the Commonwealth is waiting for it, I don't think the United States is waiting for it, and I don't think the European Union is waiting for it. This means that I think they will find that they are negotiating from a position of weakness with all of these different partners and they will have to be increasingly accepting various types of compromises that they don't like.'

Ms Fordham warned that people could be underestimating the potential threat to the world economy from the coronavirus outbreak, which started in Wuhan, China.

'This could actually be a bigger disrupter to global trade than even the US/China trade tensions last year, the market reaction around that is a reminder that is that if this goes on for more than a couple of months and it really does disrupt not only air travel but also trade, it could have a big impact on the global economy, and perhaps even be a trigger for the recession that markets feared last year,' she said.

## PROFIT WITH PURPOSE

### A CHANGING APPROACH TO BUSINESS

ANNA Turrell, the Head of Sustainability at Nestlé, the world's largest food and beverage manufacturer, told the audience there had been a 'step change' in the pace and scale of Environmental, Social, and Governance (ESG) in the last year and a half.

Ms Turrell said: 'I think the landscape has really shifted quite fundamentally in the last 12-18 months, but the speed, the pace of the change is just rapid, which brings huge opportunity as well as huge challenge as a business because you are having to respond to just a multitude of new frameworks, and indexes, and asks, and investor questions, and things like that, and you have to resource yourself in order to be able to do that.'

Brooke Masters, Opinion and Analysis Editor at the Financial Times, said: 'I think very few people will disagree that the temperature and tone about the way people talk about what business should be doing for the environment, the broader community, their employees, has radically changed in the last year or so. I think the most dramatic attention-grabbing was the business roundtable six months ago where they announced suddenly that it wasn't "investor first". That was greeted, I should point out, with a great deal of scepticism, but that plus Greta Thunberg and this genuine feeling that we are killing our planet, has genuinely changed the conversation in many boardrooms, in many investment meetings.

'We are here to talk about what can be done, what is being done, and how to hold people accountable when they make promises that sound really lovely.'

Ms Turrell said that what had been 'transformative' in the last year was investor conversations. 'They have really shifted, as in the investor community has also gone on its journey, so we are still having conversations around ESG, tell us what you are doing on plastic, tell us what you doing on climate,' she added.

'Sometimes those conversations are a little bit rudimentary and a bit clunky. It feels a bit of a nascent conversation, but we are so pleased and, personally, as a sustainability professional, I am thrilled to be able to have the opportunity where you get to dig into this stuff, but in the absence of having global, internationally recognised coherent frameworks for these conversations, for this data, and reporting disclosures, which we will come on to, is a massively important part of that.





## PROFIT WITH PURPOSE

### A CHANGING APPROACH TO BUSINESS



'It does mean that the burden on business to be able to respond to these changing, increasing expectations is quite significant, even for a company the size of Nestlé, and it does come down to almost personal interests. When I speak to investors and I speak to our stakeholders, some people will be super passionate about single use plastic, others will be super passionate about child labour in supply chains or diversity and inclusion in senior leadership positions. It is such a massive space. It is fantastic, loads of momentum, but we now need to move quite quickly into a space where we have greater coherence across both business, but also the investor community and government as well, in order to get a bit more efficient in how we manage this stuff.'

Jessica Fries, Executive Chairman of Accounting for Sustainability (A4S), said the fact that the UK is going to be hosting the next UN climate talks in Glasgow in November was 'hugely significant', as was the UK's announcement of a new target that will require the UK to bring all greenhouse gas emissions to net zero by 2050.

'If I just think of the CFOs in our leadership network, the government announcement around net zero now you can argue whether the timelines are right, what is the near-term action that is going to achieve that?' she asked. 'I think you are seeing more and more companies really thinking through how do they play their role in that transition, so not just in the UK, but I think particularly in response to the UK government announcement, we have really seen the UK companies we work with and the UK CFOs think through what is their response. That is not just the UK community, but the CFOs around the world, so at our annual summit, a group of those CFOs signed up to a CFO statement of support around how they were committing to support their organisation.'

'Of course CFOs play an important role in terms of allocation of the resources and the investments needed to achieve that, but also that whole question of how do you actually measure and track

progress, and make it something real, that is hardwired into how the business runs rather than something that might sit at the side or be nice words, but not actually turned into action.'

Ms Fries said there was a push towards global standards in the sustainable accounting area. 'The EU is planning to increase the regulation, the mandatory requirements on the kind of information that is reported, but also you are seeing a great deal of action by the ratings agencies but, importantly, you are seeing convergence globally, around those standards, and I would say that that is a "watch this space"', she added.

Natasha Landell-Mills, Head of Stewardship at Sarasin & Partners, said: 'It shouldn't be a side issue whether a company is effectively harming the planet.'

David Harris, Group Head of Sustainable Business at the London Stock Exchange Group, and head of sustainable investment at FTSE Russell, said: 'We need good data sources and frankly today, much of the data isn't up to scratch.'



## ECONOMICS AND MARKETS

### NAVIGATING VOLATILITY, GAUGING POLICY RESPONSES



IN a session on economics and markets, Diane Coyle, the Bennett Professor of Public Policy at Cambridge University, said lots of sectors of business were behaving in a way that meant they were 'losing their social licence to operate'.

'Some sectors are actually doing some deep carbonisation, others are not, but the damage from climate change is now starting to be felt... if current trends continue a quarter of the east of England will be under water in our children's lifetime, Australia burning, all of this, this is serious stuff, and I think now the pressure will really be on to do something about climate change, particularly through the finance sector, using its leverage,' she told the audience.

'Regulation will be coming. Companies can't employ and retain young workers, skilled workers if they don't take it seriously, so I think that's going to have to come.'

'As for the financial sector, to what extent are we sure that the kinds of issues that erupted in 2007 and 2008 couldn't occur again? Risk taking and leverage seem to me to be somewhat uncomfortable. The finance sector innovates for the benefit of itself and its rent extraction rather than for the benefit of its customers, so all of that is still there.'

'Take the food industry. The food industry is providing us with highly processed foods that are feeding us too much sugar, too much salt, too much fat, and it is making people ill and dying younger.'

'Big pharma can't be bothered to research new antibiotics because it thinks the profit margin isn't going to be big enough. 'Big tech invading our privacy, degrading the public's fear, not paying any tax. In fact, multinationals in general not paying enough tax.'

'If I were a chief executive in any of those sectors I would actually be pretty worried about what kinds of reactions could come back to bite me and what kind of regulation I would be seeing in the next couple of years.'

Martin Wolf, Chief Economics Commentator at the Financial Times, agreed that the politics of important societies had become 'destabilised' in a way that meant unpredictable government action was more possible than ever. But he said that while Professor Coyle had focused largely on a left of centre agenda, he believed the agenda of the right of centre was more important in global politics.



## ECONOMICS AND MARKETS

### NAVIGATING VOLATILITY, GAUGING POLICY RESPONSES

'They are winning, and that's what I call pluto-populism, but, anyway, it is tax cuts, nationalism and lots of public spending, a very interesting combination. We are seeing that all over the place,' he said.

'Once you've got the centre, the old centre of our political life nationally and internationally eroded massively and under great pressure, with these very strong forces on the left and right are demanding action of various kinds, often contradictory, political life just gets unpredictable. Anything starts to be possible, like Brexit, the election of Donald Trump, and maybe much more exciting things, and I think I am much less confident than Diane of where it is going to end up, I really don't know, but I think it is reasonable to assume that the underpinnings of the world's system that we were familiar with... will never return.'

Marek Lusztyn, President and CEO of Bank Pekao, told the session that central and eastern Europe represented a 'visible chunk' of economic growth in the EU – around 20 per cent of the total – and he saw potential for future outperformance of growth rates versus the western part of Europe.

'For central and eastern Europe we see 2020 still as a year that is going to be relatively okayish, but we are a bit afraid that rate of growth is going to slow down because of the worldwide effects,' he added. 'That is weakening global trade, likely slowdown in the US, no pick up in the Western European economy, and growing micro-economic imbalances, which are also impacting the economies in the central and eastern Europe.'





## INVESTOR INSIGHTS SPOTLIGHT ON PRIVATE EQUITY



MISSION-driven companies with a focus on environmental, social and corporate governance (ESG) are increasingly attractive to private equity investors, the final session at this year's FT - 12 Hay Hill Davos Debrief was told.

Arash Massoudi, Corporate Finance and Deals Editor, Financial Times, said that the biggest theme of this year's World Economic Forum was how the climate change and broader ESG agenda was affecting business practice.

Roni Elchahal, Managing Director of General Atlantic, said investors from some parts of the world such as Scandinavia had been pushing this agenda for 'ten-plus years'.

But she added: 'I'm hoping for everyone's sake we're reaching a tipping point with more and more - I don't know if it's the big issues we're seeing with the climate, the fires in Australia, bringing this attention to the issues, but I think you're definitely seeing it from the customer side of our business.'

'The other side is I think it's just we're seeing it increasingly as opportunity. We invested last year in a company here based in the UK called Depop, which is an app, a marketplace for selling second-hand clothes, targeted at the GenZ customers. The reason they've become successful and they're growing 100% year over year, doing incredibly well, is because the GenZ consumer wants to wear an outfit, take a picture, put it on Instagram, but they don't want to be seen again on Instagram with that same outfit, so they want to offload it, but they don't want to throw it away because you have this huge problem with textile waste growing in the world.'

'It's sort of the anti-Zara, anti-H&M fast fashion model where you buy something that's more expensive, nicer, but then you're selling it, making some money from that, and someone else is

getting to use that. These mission-driven companies, mission-driven entrepreneurs that have a sustainability focus, that built that in from the beginning into their business model, are doing really well, so we see that as an opportunity to make returns.'

Mr Elchahal said that increasingly, investors had to 'speak the language' of the 'mission-driven' ethic to persuade entrepreneurs to take their money and let them come into their company, rather than simply being a source of capital rather than any vision for the firm.

'Entrepreneurs nowadays, particularly in the growth space, given the maturation, the competitive intensity of the industry, have realised they have lots of different sources of capital, so they're kind of interviewing us more than we are interviewing them in many regards, and they have lots of different choices to make, so we have to convince them we're going to be the best partner, and that is definitely a key piece of it,' he said.



## INVESTOR INSIGHTS

### SPOTLIGHT ON PRIVATE EQUITY

Robin Marshall, Managing Director, Private Equity, Bain Capital, said the concept of more money coming into the industry was not new.

'I've been in the industry for 20 years and every single year, apart from two, there has been more dry powder to play with than there has been the year before,' he told the session. 'It is a growth industry, and it's now quite a significant industry, and therefore I think that what you see is that the level of accountability, of scrutiny, across all these big societal themes is impacting our industry like it is impacting others, and quite rightly so.'

'For some companies, or for some firms, I think that will represent bigger challenges. For others, like a growth equity firm - which I know Atlantic or Bain Capital who have always had at its heart some degree of value-based investing - I think we have to, frankly, address that. I think the industry needs to take on board some of these questions around transparency, diversity, environmental responsibility, and it's by no means there yet, nor is any industry, by the way. Any industry that tells you that it is, and it has the answer, I think is being somewhat disingenuous.'



Mr Elchahal added that it was 'easier than it has ever been before in history' to set up a business. 'It's so easy to start a company, an app, a website, and reach a global audience of billions of potential customers,' he said.

'The growth in emerging markets consumption has a massive tail-wind so we are doing more and more deals in China, India, South East Asia, Latin America, so those markets are increasingly contributing to overall global GDP growth. If you fast-forward 40-50 years, the majority of GDP growth and contributors are going to be the emerging economies. I think that's creating more opportunities for private capital.'





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