

Sustainable investing: a target for progress towards carbon- neutrality

By Dr Quintin Rayer, head of research and ethical investing, P1 Investment Management & Dr Pete Walton, research fellow, UK climate impacts programme, University of Oxford

Despite the growing sense of urgency around tackling climate change, not enough sustainable fund managers are challenging company boards on their net zero carbon emissions policies.

This is largely because they do not have a simple, systematic framework with which to begin the conversation. So, to help move the conversation forward, at P1 Investment Management we have devised the Net Zero Carbon 10 target (NZC10).

This allows fund managers to better align their investment policies to the requirement for carbon-neutrality, rather than just emissions reduction. The approach focuses on net zero emissions - firms can have some carbon dioxide (CO₂) emissions, so long as these are reliably offset.

The NZC10 target is defined as 10% or more of portfolio assets by value being in firms that are carbon neutral or have net zero carbon emissions. Or have realistic, credible strategies using currently available technologies to achieve net-zero carbon emissions by a defined target date no later than 2030. Or finally, the fund manager is actively engaging with the firms to achieve the above.

Investors are more acutely aware than ever of the increasing likelihood of extreme weather events associated with global warming, including heatwaves, rising sea levels and droughts.

While we can invest in adaptation measures, the primary focus must be on reducing greenhouse gas emissions, particularly CO₂.

Although the 2015 Paris Agreement targets limiting increases in global average temperatures to 'well below

We are pleased that Wherb's fund passes this challenge. However, much, much more is necessary, and we will be pushing the climate agenda more assertively with investee companies over the coming months

Seb Beloe

2°C above pre-industrial levels', current warming appears to be on track for at least 3°C by 2100. Emissions reductions of at least 40% by 2030 are needed to meet the 1.5°C goal, with net zero emissions necessary for global warming to stabilise.

To achieve this, companies must develop genuine strategies that contribute to a carbon-neutral economy, that is both

reducing the amount of CO₂ emitted while identifying ways to remove CO₂ already in the atmosphere.

COMMITTING TO CHANGE

These four asset managers have committed to ensuring their sustainable funds meet the NZC10 standard and we encourage all other fund firms to sign up to help deliver positive change.

Janus Henderson

Fund: Janus Henderson Global Sustainable Equity

Manager: Hamish Chamberlayne

CITYWIRE +

Size: £901.1 million

Launch date: August 1991

Since its 1991 launch, low carbon investing has been a central aspect of the Janus Henderson Global Sustainable Equity fund's philosophy.

Janus Henderson ESG analyst Ama Seery said: 'The fund already meets the NZC10 standard, which sets ambitious yet achievable targets for carbon reduction to help prevent the disastrous and irreversible consequences of climate change.'

'A key outcome has been the impact it has had on our engagement, galvanising our discussions with companies that have started a low carbon journey, but have no targets to achieve neutrality by 2030. This engagement has been positively received; strengthening our relationship and dialogue with the companies we invest in.'

Liontrust Asset Management

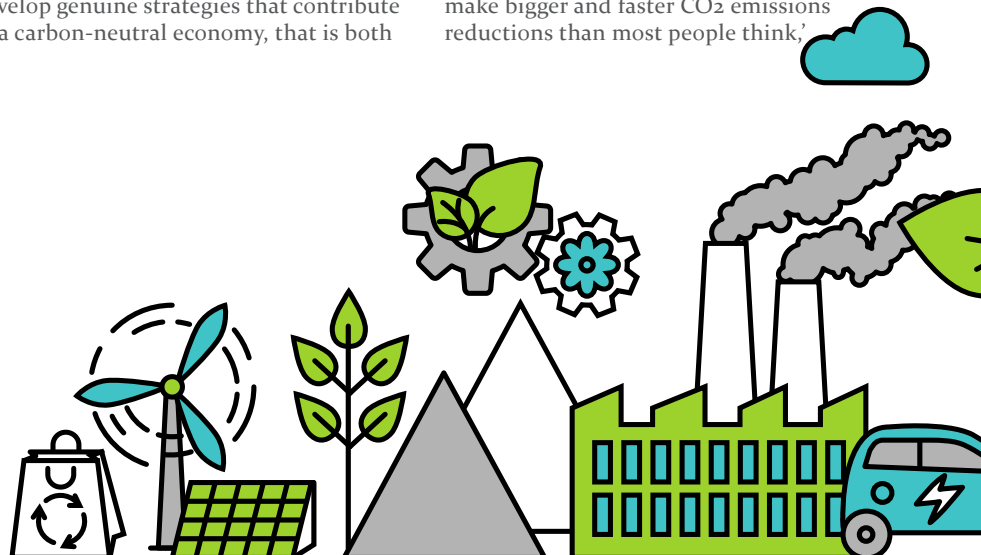
Fund: Liontrust Sustainable Future Corporate Bond

Managers: Stuart Steven, Kenny Watson, Aitken Ross, all **CITYWIRE** A

Size: £573.7 million

Launch date: February 2001

'Climate science is saying we need to make bigger and faster CO₂ emissions reductions than most people think.'





STUART STEVEN

said Liontrust investment manager Mike Appleby.

'This NZC10 initiative is a great challenge to investors and the companies they hold to concentrate on what this urgency means for their business over the next decade.

'The Liontrust Sustainable Future Corporate Bond fund is already skewed away from carbon-intensive businesses making it easier for these companies to approach carbon neutrality. But even the most progressive businesses still need to scale up their ambition to achieve net zero carbon in the next decade. We will continue to challenge them to do so.'

Montanaro Asset Management

Fund: Montanaro Better World fund
Manager: Charles Montanaro 
Size: £154 million
Launch date: April 2018

The Montanaro Better World fund has a global small cap focus and with smaller companies typically lagging on setting and reporting non-financial targets, this makes them ripe for impact, the firm believes.

'Just 44% of our companies currently report Scope 1 and 2 emissions and very few have net zero carbon strategies in place,' said Montanaro sustainable and impact investing specialist Ed Heaven.

'We engage with our investee companies to deliver impact. As long-term shareholders, our voice tends to be listened to. We are working with all of our companies to encourage them to set, and meet, net zero carbon targets within a reasonable timeframe.'

Wheb Group

Fund: Wheb Sustainability
Managers: Ty Lee and Ted Franks
Size: £334.9 million
Launch date: May 2009

Wheb head of listed equity research and partner Seb Beloe said it is now abundantly clear that the global economy is on an unsustainable trajectory, with new reports, seemingly every week, documenting the staggering impact that humans are having on the planet.

'The Wheb Sustainability fund only invests in companies that supply solutions to these pressing challenges. The NZC10



CHARLES MONTANARO

target is a demanding test of the extent to which fund managers are serious in their efforts to tackle climate change,' he said.

'We are pleased that Wheb's fund passes this challenge. However, much, much more is necessary, and we will be pushing the climate agenda more assertively with investee companies over the coming months.'

DRIVING CHANGE FORWARD

The fund managers above show how sustainable investing can contribute towards addressing climate change. Recent UK Climate Change Committee recommendations for carbon-neutrality by 2050 may seem ambitious, but many climate scientists advise even stronger action.

Sustainable fund managers can take leadership ahead of the wider investment and business communities on global warming. The NZC10 target provides a clear, systematic framework for investors to commence conversations with firms they hold.

The adoption of this target by commercial fund managers running portfolios with assets under management ranging from £154 million to £901.1 million - and just under £2 billion in total - demonstrates that it can be practically implemented in a real world context. •

