

# ZERO TOLERANCE

STUDY ROOM

Climate, environmental and ethical investment specialists tell us how the Net-Zero Carbon 10 target is helping sustainable investors to target carbon neutrality

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Many advisers and their clients are acutely aware of global warming with threats including extreme weather events, heatwaves, sea-level rise and droughts. While we can invest in adaptation measures, the primary focus must be on reducing greenhouse gas emissions, particularly carbon dioxide (CO<sub>2</sub>).

Despite the 2015 Paris Agreement, current warming appears to be heading for at least 3°C by 2100, well ahead of the 1.5-2.0°C goal. Emissions reductions of at least 40% by 2030 are needed, with net-zero emissions necessary for global warming to stabilise.

Companies will need to develop strategies contributing to a carbon-neutral economy, both reducing CO<sub>2</sub> emissions and identifying solutions to remove CO<sub>2</sub> already in the atmosphere.

## THE NZC10 TARGET

Few sustainable fund managers currently challenge company boards on their strategy to achieve net-zero carbon emissions, mainly because they lack a systematic framework to begin the conversation.

The Net-Zero Carbon 10 target (NZC10) allows fund managers to better align their investment policies to the requirement for carbon neutrality, rather than just emissions reduction. This focuses on net-zero emissions, so firms can have some CO<sub>2</sub> emissions, providing these are reliably offset.

The target is currently defined as 10% or more of portfolio assets invested in firms that are carbon neutral (net-zero carbon emissions); or have realistic strategies using current technologies to achieve net-zero carbon emissions by 2030; or that the fund manager is actively engaging with firms to achieve this. Future plans are to tighten standards to raise this bar.

## JANUS HENDERSON *Ama Seery*

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

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 *Mike Appleby*

Climate science is saying we need to make bigger and faster CO<sub>2</sub> emissions reductions than most people think. This NZC10 initiative is a great challenge to investors and the companies they hold to concentrate on what this urgency means for their business during 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 *Ed Heaven*

The Montanaro Better World Fund invests globally in smaller companies with the potential to deliver positive impact alongside attractive returns. Small companies typically lag on setting and reporting non-financial targets, making them ripe for impact.

For example, just 44% of our companies currently report Scope 1 and Scope 2 emissions. Very few have net-zero carbon strategies in place.

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 *Seb Beloe*

It is now abundantly clear that the global economy is on an unsustainable trajectory.

New reports, seemingly every week, document the staggering impacts that humans are wreaking on the planet.

The WHEB Sustainability fund only invests in companies that supply solutions to these pressing challenges. The NZC10 target is a demanding test of the extent to which fund managers are serious in their efforts to tackle climate change. 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 during the coming months.

## CONCLUSION

The participating managers show how investing can help address climate change. Recent UK Climate Change Committee recommendations for carbon neutrality by 2050 seem ambitious, but many climate scientists advise stronger action.

The managers felt the target provided an excellent framework for investee firm engagement on carbon neutrality. Company discussions included acceleration of strategies to achieve neutrality by 2030 rather than 2050. The managers are keen to raise the target above the initial 10%, which will follow the developing climate science under the guidance of P1's external ethical oversight committee.

Sustainable fund managers can demonstrate leadership on global warming in the broader investment and business communities. The NZC10 target provides a clear, systematic framework for investors for conversations with firms they hold. The adoption of this target by commercial fund managers with assets under management from £160m to £900m (£2bn in total) demonstrates its value in a real-world context. ●

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