ESG CLARITY INTELLIGENCE

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# What climate questions should advisers ask fund houses?

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## CISI member and P1 Investment Management head of research and ethical investing Quintin Rayer explains how advisers can select climate-friendly investments

Increasingly clients are asking how their investments can help prevent global warming. Adviser-client conversations can explore global warming and investment recommendations addressing it.

But selecting suitable investments is harder. Many fund houses propose solutions, often using sophisticated approaches backed by compelling explanations about why their product is best.

So how can advisers ask good questions to select the most climate-friendly investments?

## Climate-friendly investment tools

Investment approaches seeking to address global warming include fossil divestment, engagement or divest-invest.

Fossil fuel divestment involves severing ties with firms that extract fossil fuel reserves, selling or refusing to own equities or bonds in fossil extractors and producers. It is an exclusion that focuses on keeping carbon reserves underground where they cannot damage the climate. Full divestment involves excluding companies that extract or produce coal, oil, or gas. Weaker variants of divestment only exclude firms that extract or produce coal or oil from tar sands.

***Question to ask: is there a written divestment policy, and what does it cover?***

Institutional investors often prefer engagement with fossil fuel companies. Equity ownership enables investors to engage with company management to promote change. Perhaps on renewable energy development and ceasing exploration for new reserves. But change has been slow. Fossil fuel companies appear reluctant to support the low-carbon energy transition despite being aware of climate issues since the mid-1960s or earlier.

***Question to ask: what concrete results have your engagements produced?***

Divest-invest extends divestment by reallocating resources from fossil fuel companies and investing them in climate solutions. Apart from fossil divestment, an investor adopting divest-invest would reinvest the proceeds raised into renewable energy companies to promote a low-carbon economy.

***Question to ask: what are the lifecycle $CO_2$ emissions of your renewable energy investments?***

There are also investor initiatives on climate change, including Climate Action 100+, Net-Zero Carbon investing and Science-Based Targets.

- Climate Action 100+ aims to ensure that corporate greenhouse gas emitters act on climate change. Targeted companies include 100 significant emitters that cause two-thirds of annual global industrial emissions. It asks companies to set objectives to reduce emissions by 45% by 2030 compared with 2010 levels.
- Net Zero Carbon 10 defines an investor framework for challenging company boards on their net-zero emissions strategies. Investors can better align their policies for carbon-neutrality rather than just emissions reduction. Companies are asked to develop realistic plans for net-zero emissions by 2030.
- Science-Based Targets offer companies future-proofed growth pathways by specifying how quickly to reduce emissions. Targets must align with climate requirements to meet the Paris Agreement goals to limit the increase in global average temperatures to 1.5°C above pre-industrial levels and well below 2°C.

## How this helps advisers

Clients increasingly wish to invest in a climate-friendly way. Younger people may give this a higher priority. Twice as many 18 to 34-year-olds feel their pensions should be ethically invested, than those above 45.

From March 2021, the European Securities and Markets Authority's Sustainable Finance Disclosure Regulation (SDFR) requires advisers to consider their clients' preferences regarding ethical and sustainable Investments. Despite Brexit, the Financial Conduct Authority is expected will follow suit in its Sustainable Finance Action Plan, which is in a post-consultation phase.

Advisers may have clients who are deeply concerned about global warming. Insight into climate science and investment tools to address it will help advisers better meet their clients' requirements.



## TAGS

CISI, Climate Change, Financial Advisers, Net zero, P1, SFDR

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