



PAX CHRISTI SCOTLAND



A moral approach to climate-friendly investing

As Pax Christi International emphasises the growing links between nuclear weapons, climate change and peace, Dr Quintin Rayer, DPhil, FInstP, Chartered FCSI, SIPC, Chartered Wealth Manager, & Head of Research and Ethical Investing at **P1 Investment Management**, takes a moral approach to climate-friendly investing

Climate remains a significant theme in ethical and sustainable investing. Global warming may be the greatest threat that humanity, and our planet, face today [1].

One response has been to divest from the fossil fuel companies responsible for the source of harmful emissions [2]. Recent emphasis has been on the need to be carbon-neutral or achieve net-zero emissions. It makes sense: accumulated carbon dioxide and other greenhouse gas emissions drive climate change. Global warming currently stands at 1.2°C above pre-industrial levels, against the 1.5°C limit recommended by climate scientists[1]. Net-zero emissions are required to stabilise climate [3].

So how can investors manage their money in a climate-friendly way?

Today, much current emphasis is on net-zero by 2050 as approximately consistent with keeping warming within the 1.5°C recommended by climate scientists [4]. The recommendations for carbon-neutrality by 2050 from the UK Climate Change Committee may seem ambitious [5]. Still, many climate scientists advise more decisive action.

It is always easier to delay action, hoping that some new technology will solve climate challenges. However, some experts believe we already have all the technologies we need; it is a matter of willingness to adopt them [6]. Others point out the moral case for taking more straightforward actions immediately to limit current rates of climate damage [7].

Against this background, it seems surprising that more sustainable fund managers are not fossil divested – refusing to invest in firms that extract or produce coal, oil, or gas. Many managers remaining invested in fossil fuel firms argue the case for engagement instead of divestment. However, as fossil extractors have known about the climate damage their activities were causing since the 1960s and reacted with denial [8], there is a robust moral argument for divestment [9].

Many responsible or sustainable investment approaches focus on the climate risk to the investor. They aim to protect the investor from financial consequences as global warming occurs rather than seeking to prevent it. Such approaches lack altruistic intent. In moral terms, they aim for the investor to protect themselves, but not to help

others. To paraphrase Aristotle, such investors are not friends towards the climate, but only to their own profit [10].

Within our firm, we believe that sustainable investment should also be ethical. The moral intent to try and prevent (or at least reduce) climate change is crucial. We think that this does not undermine investment performance [11]. Doing the right thing also manages climate risk for our clients.

Our current climate-friendly investment approach is three-fold. Firstly, our ethical and sustainable portfolios and fund are fully fossil divested. Following the arguments above and expanded on in an earlier blog post [9], we see this as necessary. Second, we promote renewable energy. We reason that humanity has the required technology but needs to roll it out.

Thirdly, we have developed a focus on promoting carbon-neutrality by 2030. Fund managers running over £8 billion of assets have adopted our investor target to encourage carbon-neutrality by 2030[2]. We require that an increasing proportion of our fund follows this target, an equivalent, or better.

Overall, we see this as a triple-pronged approach to climate-friendly investing. Fossil-divestment with renewable energy to reduce carbon emissions and our 2030 net-zero target promoting an effective movement towards climate stability.

The moral philosopher Henry Shue argues that the responsibility for the vast bulk of emissions since the 1960s lies with the fossil fuel extractors and producers due to their failure to reduce harm [7]. Further, global warming denial by fossil fuel extractors and producers appears to compound their responsibility [8].

At P1, we see it as a moral position that investors should work to prevent (or at least reduce) global warming and, by doing so, be friends to the climate.

References

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[1] <https://globalwarmingindex.org/>

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