Manulife

A climate-friendly approach to investing

New investment solutions favour companies with strong strategies to reduce carbon emissions.

Climate change is a subject that has consistently made global headlines in recent years. And while individuals may have different opinions about it, the topic won't be going away anytime soon. In fact, more than 190 countries, including Canada, have committed to reducing their carbon footprints by 2050 by joining the Paris Agreement.

The Paris Agreement

- Science-based framework designed to help governments drastically reduce carbon emissions by 2100
- Aims to address the fact that average global temperatures could rise by 2°C to 4°C by the end of the century, impacting ecosystems, food production and human health[1]
- Provides a roadmap for global climate action to keep that increase in temperature well below 2°C, preferably below 1.5°C
- Every country that has signed on must agree to set bolder targets for reducing carbon emissions every five years, on a path towards achieving a carbon neutral world by mid-century[2]

What can an investor do?

Reducing the effects of climate change is a challenge on a global scale, making it hard to imagine how the actions of individual investors can make a difference. However, choosing investments that support good corporate behaviour is a step in the right direction.

New solutions now make it easier to reward companies that are working to reduce their carbon emissions in line with the targets in the Paris Agreement. Importantly, skilled investment managers can align with progressive companies that display an active commitment to strong environmental policies, potentially reducing investment risk and enhancing returns.

The early adopters

Forward-looking companies across multiple industries aren't waiting for the regulations, such as carbon taxes, that many governments will likely need to implement to meet their targets. They're using the Paris Agreement framework to guide their own carbon emission reduction targets – starting right away. Based on the framework, they can chart a clearly defined path towards lower emissions, helping to prevent the worst impacts of climate change and future-proof their business growth. These early adopters are positioning themselves well to outperform the market and generate higher returns on invested capital.

Being on the leading edge has its benefits. Companies focused on reducing carbon emissions will, in many cases, need to embrace innovation, which can spur business growth. Good ideas in one part of a company can spread and help point the way towards opportunities and efficiencies in other areas. As companies start to pull away from competitors, they can become preferred partners for other businesses that may be influenced to take more targeted action against climate change as well. They can also attract like-minded customers who prefer to buy products and services from providers that are demonstrating their commitment to fighting climate change.

Making a difference

With growing consensus around the world that action is necessary to reduce carbon emissions and mitigate rising temperatures, the companies that are stepping up now are taking control of their future. Through investment solutions that focus on these businesses, investors too can make a positive difference to our planet's climate. Their investments can encourage innovation in the area of carbon emission reduction and progress towards Paris Agreement targets. And, by investing with an eye towards alleviating climate change, investors can share in the potential growth of companies that are planning for tomorrow today and enhance their potential long-term investment returns.

Speak with your advisor about climate-themed funds and how they can help support your financial and environmental goals.

A wave starts with a ripple

Change doesn't generally happen overnight. Industries, governments and individuals can take many years to adapt to evolving circumstances. However, when a few large companies take aggressive steps in an area such as reducing carbon emissions, they can create a ripple that turns into a wave. The innovators and early adopters at the start of that wave tend to benefit most. Those who are slower to act may become "stranded assets," rapidly losing value because of factors such as environmental challenges, new government regulations and litigation.

For investors, the key is awareness of global trends that may affect their investments and, when appropriate, to look for opportunities to become early adopters themselves. Being at the forefront of change means helping to support it rather than following the crowd after an emerging shift in behaviour becomes mainstream. It also helps them avoid investing in assets that may one day become stranded. Instead, they can concentrate on being a part of tomorrow's likely success stories.

What to look for in a climate-themed fund

To maximize their positive impact on efforts to reduce carbon emissions, investors can seek out investment solutions with:

- Experienced management that has a strong track record in responsible investing
- An approach that favours larger companies whose efforts to reduce carbon emissions will have a bigger effect and who have the scale to influence other companies
- Company assessment based on science-based targets and clarity of methodology, timeframe and metrics
- A commitment to engage businesses to encourage continuous improvement in environmental, social and governance (ESG) factors

[1] www.ipcc.ch/site/assets/uploads/2018/02/AR5_SYR_FINAL_SPM.pdf

[2] unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement