

# What is net zero and why does it matter?

By [Philip Robotham](#)

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Net zero is more than just a buzzword. But what does it actually mean and why is it important?



Source: 123RF.

Simply put, net zero is achieving the balance between greenhouse gases produced and those removed from the atmosphere.

Imagine it as a bath that's about to overflow. How do you fix that? You can turn down the taps to reduce the water (the emissions), or you can drain out some of the water (much like removing emissions).

But, in reality, it's not quite that straightforward.

Radical changes are needed across sectors, societies and financial systems, and everyone is involved.

Since 2015, 190 countries have signed up to the United Nations Paris Agreement, with a goal to limit global warming to well below 1.5 degrees by 2050.

## Why should investors care?

There are huge implications for investors: Physical risks such as heatwaves, floods, and rising sea levels. And transition risks, which are business-related risks and costs associated with the transition, from new regulation to new technology. If these risks are not well managed, they could bring down investment valuations.

An active approach to investing is one way to help this. By asking questions about a company's exposure to climate risk and its path to net zero, you hold the company to account. And in turn you encourage the company to develop robust transition plans.



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But it's not all about risk. There will be opportunities too. In the race to net zero, companies can become more competitive and more attractive to investors. And fund managers can channel capital into innovative solutions, products and services that support a reduction in emissions.

Setting net-zero targets is arguably the easy part. Active investors are looking for the answers.

Schroders has committed to transition all assets under management to net zero by 2050 or sooner. Our target: to align 100% of our assets to 1.5 degrees by 2040 was validated by the Science Based Targets initiative (SBTi) in February 2022, and in 2021 we published our Climate Transition Action Plan, which sets out how we plan to reach these goals.

## ABOUT THE AUTHOR

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