Meaningful action urgently needed to clean up the energy system

By John Green

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As we add impetus to the global move to a cleaner, more sustainable energy system, perhaps the greatest obstacle we face is the enormous financing requirement that this step change in our economies will face.

John Green, chief commercial officer, Ninety One

Experts like the Climate Finance Leadership Initiative tell us that the financing required to clean up our supply side energy system over the next 30 years is anything between $100tn and $150tn. If we go with $100tn, that amounts to around $3.5tn a year. Achieving this mission is, therefore, not about marginal change, waiting, overanalysing or seeking out the perfect data set. It is about taking meaningful and significant action now.

At previous annual Climate Finance Summits, the key players in the climate finance industry have come together to debate the climate issue. There have always been question marks – is it real? Do we need to take it that seriously? How can we quantify the risk? How can we understand and capture the prospective returns?

Debate largely over

At last, I believe this debate is largely over. Everything that is going on in the world now has galvanised all parts of society to take action. We must not underestimate our power to make an impact. In addition, the available investment opportunities are profound and it is increasingly clear that we do not have to sacrifice returns to do the right thing.

To this point, I would like to share a personal experience that has given me hope in humanity's ability to achieve the de-carbonisation mission. Our firm, Ninety One, has its African hub in Cape Town, which experienced a dramatic water crisis in 2018. After three consecutive years of drought, with rainfall two standard deviations below the norm, the city faced the approach of 'Day Zero': the day on which the taps would run dry. But Day Zero never came. Not because the rains came, but largely because the community took action. Water consumption dropped by almost 60% from 1.2-billion litres per day to approximately 500-million litres per day. The community understood the threat and acted. The crisis was averted.

My messages from this experience are relevant to all of us. The climate crisis is real. It is not distant science; it is not average world temperatures that never affect us; it is not an academic debate about whether divesting is right or wrong. It is here.

This example shows us that action can make an impact and that action starts with each of us asking ourselves what we need to do. If we take positive action, we can face down this challenge.

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Positive action critical to decarbonisation

In our view, too much of the decarbonisation debate and consequential implementation has focused on negative action. How do we divest? What should we exclude? How should we screen? But negative action is not enough; positive action is critical to achieving decarbonisation. As investors, positive action takes the form of the allocation of capital to businesses, assets and projects that deliver a decarbonisation outcome. This is not that difficult to achieve and could be a very significant driver of future returns.

The bad news is that progress in this regard has not been sufficient. The United Nations' Principles for Responsible Investment, a leading proponent of investment to combat climate change, has confirmed that of the approximately $100tn in global investment assets, only $1.3tn is allocated to positive action strategies. The ShareAction and Asset Owners Disclosure Project estimate that the world's 100 largest pension funds are investing only 1% of their assets in low carbon solutions. In 2018, the Climate Policy Initiative estimated a total of $579bn was invested to finance decarbonisation. This falls well short of the $3.5tn per annum we need.

So there is a lot for us all to do.

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Are we doing enough?

For all of the asset owners, pension funds, sovereign funds, insurance companies and individuals: consider whether you are doing enough to allocate capital specifically to investments which will support and benefit from decarbonisation. Exclusion is not enough!

For the asset consultants: do you have clear advice frameworks for pension funds which want to allocate more to positive action investment strategies? Have you considered these strategies and the role that they can play in fund portfolios fully?

A leading consultant recently suggested that on return prospects alone, a sample fund should be allocating up to 10% of their assets to positive action investment strategies. Asset consultants are a critical part of this mission, and they need a strong view on how investment positively supports decarbonisation.

For asset managers, the challenge will be to do more, and better. We have to understand and price climate and sustainability risk into all of our investments. We have to engage smartly to drive change constructively and effectively. We have to reject box ticking in favour of substance and develop investment strategies dedicated to positive action.

This is the kind of change that happens once in a generation in our industry. In the 1970s and 1980s, we saw a decline in direct ownership of equities by individual investors in favour of funds. In the 2000s, we saw the rise of diversification evidenced by a decline in home bias, as well as the growth of alternative investment strategies.

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Mobilising finance

In the coming years and decades, the defining issue will be to mobilise finance for the challenge of climate change. Financing decarbonisation is critical to our future as humanity. It is not going away. It will not cease to be relevant until climate change ceases to be relevant.

The good news is that, as was our experience as residents of Cape Town, if we all do our part, this is mission possible – not mission impossible.

I conclude with this quote by David Attenborough: *“This is not about saving our planet – it’s about saving ourselves. It’s not all doom and gloom, there is a chance for us to make amends… all we need is the will to do so.”*

ABOUT THE AUTHOR

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