What if this summer's heatwave was a tipping point for sustainable investing?

Why increased awareness of environmental challenges is changing businesses for good

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The summer of 2018 will go down in history — and not only for the catchiness of its summer hits. Over just three months, the British Isles, much of Europe — and, more in general, the whole northern hemisphere — experienced a phenomenal heat wave, with temperature skyrocketing as high as 35.3°C in Faversham, a usually temperate market town in Kent. The sweltering climate caused droughts, crop failures, and – possibly — deaths among old and vulnerable people. Wildfires raged in every continent, exacting a disastrous toll of over 85 deaths in Greece; less catastrophically, but more worryingly, blazes occurred north of the Arctic Circle, as far as Russia and Scandinavia. This could have been the moment when the world woke up to the effects of climate change, which for the first time was manifesting itself in a truly palpable, visible, and destructive form. The question now is: will this have an impact on the way investors and entrepreneurs think about making business? Could entrepreneurs and investors start setting their sights on companies and investment opportunities which take into account the environment, clean energy solutions, and — more in general — sustainability and corporate social responsibility? Will considerations about long-term objectives and meaningful consequences supersede the grubby focus on short-term bottom line gains? In other words, could the heatwave end up becoming a tipping point for sustainable investing?

Luca Tobagi, CFA
Investment Strategist and Product Director, Invesco
What happened this summer, with visible evidence that even the ice close to the North pole was starting to crack and melt, might have been enough to convince even the most sceptical people that climate change is real. In that sense, the heatwave — although unfortunate for the world at large — might be considered probably a wake up call for society in general. I am not sure whether this will have an impact on sustainable investing. At Invesco, we have been embracing sustainable investing for a long time, and it is part of our culture; and, over the last decade, it became increasingly popular in the investment world to include different sorts of sustainability considerations, when investing. Sometimes this may have happened for marketing reasons, but I think overall we are past that stage and the interest is genuine. In general, I would not consider the heatwave a tipping point for the industry, but more for public opinion. On the other hand, I definitely think that if the world as a whole and society as a whole start paying more attention to things such as climate change, then the asset management industry can give quite a significant contribution as an engine for change.

In the past sustainable investing was primarily related to ethical considerations, and often a negative, subtractive process, that tended to work in a box-checking way — you looked whether there were reasons you wouldn't invest in a company, be them ethical, environmental or social. Today, you can include sustainable value-driven investment in a positive fashion: apart from focusing on companies which pay attention to environmental and ethical issues, one could decide to invest in companies with a very good governance. And investors should be willing to engage with these companies — and support them, in order to be real agents of positive change.

David Stevenson, *investment commentator*
Would a sensible infrastructure investor deploy money on new projects that could be burnt down in a heatwave, or submerged with rising sea levels? Equally, would a London based reinsurer underwriting catastrophic risks carry on insuring vulnerable properties affected by catastrophic fire, sea or wind events? Investors are waking up the idea that external costs frequently result in internalised investment losses and thus a new way of thinking is required. Investors can charge more for risk and demand a greater yield or they could start to demand a more sustainable approach to investing. The challenge though comes with defining both sustainability and risk. Is switching funding from oil businesses to natural gas outfits really reducing risk? And if Western investors simply stop funding whole categories of business, won't other less scrupulous players simply step up to the mark and fill the gap. The track record on tobacco stocks suggests this last challenge is very real.

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The integration of Environmental, Social and Governance (ESG) factors in investment decisions is inevitable. The world's biggest challenges, including the worsening environmental crisis, are in urgent need of scalable solutions. Business is one of the most powerful modern institutions that could generate such solutions and scale them up efficiently and profitably. Hence, recognition of ESG-related risks and growth opportunities through sustainable investing is pivotal. Indeed, the synergy between business and sustainable investing could be the most effective way to address the challenges we face.

Julie Hanna –
Executive Chairwoman, Kiva
A perfect storm of forces are conspiring to make us rethink the way we do business, and the form of capitalism we practice. The climate crisis is one of the leading factors that are mobilizing millennials, the largest generation ever, to invest in purpose-driven companies that are solving real world problems. The shift to sustainable investing will be about backing businesses that create enduring value for society and the planet over the long term. It signals a shift toward long-term value-creation for stakeholders vs. short-term gains for shareholders.