Delivering a low carbon society: mobilizing the finance sector

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Jupiter Asset Management has been managing green and socially responsible investment funds for over 20 years with an experienced Socially Responsible Investment (SRI) team. Whilst our early funds do have negative screens (i.e. avoiding unethical investments like arms and tobacco), we have a strong focus on investing in performance-driven environmental themes.

Over the last two decades or so the key drivers underpinning growth of environmental investments have been: growing legislation and government support, increasing commitments of corporates to allocate capital expenditure to improving environmental performance and a change in consumer purchasing habits.

For instance, the UK Society of Motor Manufacturers and Traders recently announced that in 2007 the sale of large gas guzzling cars dropped by 15% whilst the sale of low emission vehicles in UK increased by 17%. It also predicted that sales of small, greener cars will outstrip large cars in 2008. This is due to a mix of factors such as concerns about increasing fuel costs and introduction of fiscal measures such as congestions charges. A utility company in the UK claimed that over 1.5 million households in UK wanted them to conduct energy audit of their houses in response to a mailed questionnaire survey. Such trends are yet to be factored in the valuations of stocks and investments.

Some indicators that point to increasing trends in low-carbon investments are:

- Total retail sales for ethical funds in the UK increased by 3.5 times during 2007
- Total inflows into European SRI funds increases by 43% during 2007
- Venture capital in the European Cleantech sector doubled from 2006 to 2007
- Money invested in clean energy increased by 35% from 2006 to 2007
- Carbon Disclosure Project (CDP), which has 385 investors with combined $ 57.5 trillion of assets, seeks information on business risks and opportunities presented by GHG emissions data from the world's largest companies
- Principles for Responsible Investment (PRI), an investor initiative in partnership with UNEP-FI and UN Global Compact, includes over 200 investors with more than $ 11 trillion in assets
- Enhanced Analytics Initiative (EAI), an international collaboration between asset owners and asset managers, encourages investment research that takes account of the impact of extra-financial issues on long-term investment, and represents total assets of Euro 1.85 trillion

The following are some results from the above-mentioned initiatives that are now visible:

- CDP: Morley Fund Management reports that of the 29 companies they are engaged with, 15 provided full answers to the CDP
- PRI: 88% of investment manager signatories to the PRI are conducting at least some shareholder engagement on ESG issues, while 82% of asset owners are doing so
- FairPensions: The Fund Manager Responsibility Survey by FairPensionsreveals that 75% of the top 20 fund managers do not disclose responsible investor policies that address environmental and social issues, such as climate change and human rights, as well as corporate governance matters

- EAI: Big mainstream financial companies like Citigroup, J P Morgan, Morgan Stanley, etc., have been evaluated as providing the best analytics of extra-financial issues

P8 initiative is an important initiative led by University of Cambridge Program for Industry (CPI) and representing over $ 2 trillion assets. It is made up of some of the largest global pension funds (of public money) and is looking at how to incorporate climate risks into investment strategies.

In conclustion, while there is significant investment opportunity in green and climate friendly options/businesses, there is a tension between short term investment objectives and long-term climate issues. Therefore there is a need for clear and strong signal from the government on the way policy is heading.