

# Climate Change Action: How do we invest in it and what do we need to keep in mind?

By Foresight Analytics | December 2020 | Blog Post

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## **An introduction**

Climate change action is an urgent effort required by international, national and private sectors. In the investment sector, ESG investing frameworks enable fund managers and asset owners to make socially responsible decisions that simultaneously create return and impact. Investing in climate action has typically revolved around reducing carbon risks in various funds and portfolios and investing in green companies to develop the infrastructure needed for addressing climate change. These investment decisions significantly leverage the commitment required from investors, particularly in increasing the availability and use of green technologies, in order to create a real climate change in the future.

## **What are green companies?**

Green companies are companies that decarbonise, and reduce climate risks through their operations, processes, innovations and product and services. Green companies invest in energy efficient processes, waste reduction initiatives and develop green technologies that address some of the key pillars of climate action: emission, pollution and waste reduction, affordable clean energy and biodiversity. Investors who care about climate impact, can allocate capital to such companies to ensure that businesses have the means to enable climate-friendly technologies and that we are paving the footpath of right climate infrastructure to see real reductions in emissions, surface temperatures and risks of biodiversity extinction. That said, for investors to make real impact, their shareholder engagement with green companies is required alongside their selective capital allocation. This includes engaging in shareholder voting and appealing to part listed companies about important climate issues through requests for reform for example. These practises enable investors to place pressure on portfolio companies that need capital for climate action.

### **What should investors keep in mind when making climate impact?**

While the right mechanism of investor impact is crucial, so is the understanding of how green, the green companies truly are. When making ESG investment decisions, investors are required to be proficient in their knowledge of a portfolio company's intentionality on climate impact and integration of climate action. By undertaking thorough due diligence, investors are able to detect climate risks like poor intentionality and misalignment, both of which are characteristics of greenwashing. This in turn, enables investors to make effective and competitive decisions backed by the weight of the evidence.

### **What does Foresight do to help investors make climate impact?**

At Foresight, our data-driven forensic, and human-insight based analytical tools combine to enable thorough due diligence of funds, as well as to develop the right ESG investment strategy for investors. Our combination of tools allows investors to have a financial, as well as a human understanding of climate impact, preventing climate risks like poor intentionality and misalignment. For investors interested in developing the right framework for their ESG investments, our tools provide an important blueprint for optimising return, growth and sustainable impact.

## About Foresight Analytics

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Foresight is a data-driven investment research, analytics and consulting firm. As an independent employee owned firm, Foresight does not have any affiliation with product manufacturers or distributors. Using its innovative evidence-based framework, Foresight provides analytical, predictive and market intelligence solutions to leading investment management companies, superannuation funds and wealth groups. Foresight's capabilities are underpinned by leading data and technology infrastructure that blends statistical, fundamental and behavioural insights.

Foresight's fiduciary solutions include quality and risk-based investment research, global economic and market analyses, forensic validation of manager skill in active funds, portfolio risk aggregation and factor-based portfolio construction. Foresight's fund strategy solutions include competitive advantage analysis, fund industry intelligence and competitive benchmarking, behavioural alpha analysis, sustainability analytics and integration as well as strategic investment process review and development.

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