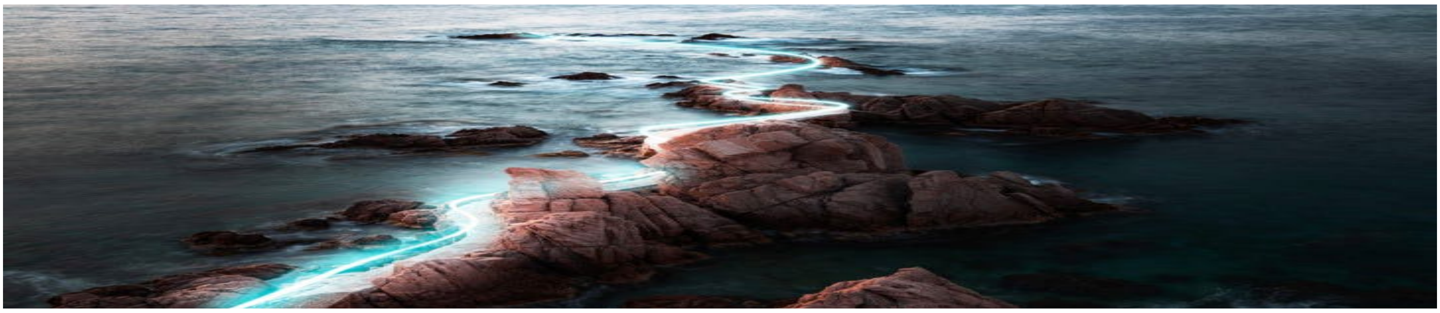
FLASH NOTE

01.02.2021



Rethinking the pathway to energy transition

Length

2 minute(s) read

As the demand for Environmental, Social and Governance (ESG) investments has grown, concern is growing that asset management companies jumping on the 'E for Environment' bandwagon is muddying the waters for investors and preventing meaningful long-term change.

As things stand, the chances of us achieving the Paris Agreement target of limiting global warming to 2°C by the end of the century do not look good – at all. As of today, most 'green' investments which aim at reducing greenhouse gas emissions are allocated to renewable energies, electric vehicles and energy storage. It goes without saying that **investing in 'clean' industries is essential for climate change mitigation, but it is not enough to make a significant impact over the long run**; they are only the tip of the iceberg. As investors, we must take a long-term view, and this means reviewing our understanding of the entire renewable energy and industrial value chain.

> The development of renewable energies is inextricably linked with the development of metals and mining

The development of renewable energies is inextricably linked with the development of metals and mining. For example, copper, steel and nickel are essential for manufacturing electric vehicles and wind turbines and therefore for reducing the consumption of fossil fuels. Hence, excluding mineral extraction on the grounds that it is a high carbon-emitting activity runs counter to long-term climate interests. We should instead be **selecting companies within the metals and mining industry that have the best growth prospects** – because they will provide the products and services that enable other businesses to reduce their carbon emissions.

> We should select high carbon emitting companies which have or intend to have commitments to move to cleaner energy sources

Similarly, **companies with the greatest potential to reduce carbon emissions are those that are the most carbon-intensive**; whether it is from their operations or use of their products. Ruling out investing in the economic spheres that rely most on carbon, again runs counter to long-term climate interests. We should instead be selecting high carbon emitting companies which have or intend to have commitments to move to cleaner energy sources and improve the energy efficiency of their operations – because as shareholders of these companies, we can work with them to achieve their targets.

Climate change presents an existential threat to all of us. **We, investors, can become key players in promoting a more environment-friendly economy**. For this, our good intentions must be reinforced with concrete, meaningful actions and we need to think more deeply about the longer-term consequences of our decisions. At Carmignac, we are ready to take our share of responsibility and play an active role by investing in a way that supports energy transition. This almost goes without saying as it allows us to fulfil our remit: **providing long-term value to our clients.**

Do sustainable funds offer potential in a post-Covid environment? Read our article to find out more:

Sustainable investing, the new ‘safe-haven’?