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Investment Insight

Weekly Insight

Trump will not derail the march of sustainable investing

The US withdrawal from the Paris Climate Agreement has initiated a debate about whether the reversal in US policy will halt momentum within the sustainable economy. Although undoubtedly a disappointing development and one that will impact a number of industries, we argue that it will not derail the structural shift to a low carbon world. In our view, there are four powerful factors that will continue to drive innovation and development: policy and regulatory pressure; investment flows; technology; and demographic trends.

Policy and regulatory pressure

Historically, global and regulatory pressures have been key drivers behind efforts to reduce carbon emissions and combat climate change. We expect this trend will continue with or without President Trump's support.

The G20 meeting saw the 19 states still committed to the Paris Climate Treaty pledge to fully implement an "irreversible" agreement. In addition, the US itself was said to have affirmed "its strong commitment to an approach that lowers emissions while supporting economic growth and improving energy security needs". It is also telling that both New York and California, whose GDP combined would make it the fourth largest economy in the world, have both committed to support the low-carbon movement.

Clearly global policy is likely to remain a tailwind and this is reflected in the growth of the number of carbon and Environmental, Social and Governance (ESG) disclosure initiatives/requirements, which has increased from 90 to 365 in the past 10 years (MSCI Global Guide To Responsible Investment Regulation (December 2016)).

Investment flows

We continue to see momentum building in terms of investment flows, with global ESG investing growing 25% over the last 2 years (GSIA 2016 Global Sustainable Investment Review (March 2017)). This should continue as more investors start to incorporate ESG analysis as a way of better understanding a company. A Goldman Sachs study found that "Companies with above average performance on quantifiable ESG metrics outperformed regional sector peers by 247 bps over rolling 3-year time periods, on average, since 2010" (Goldman Sachs Global Investment Research (April 2017)).

Technology

Technology is going to be vital in driving change and innovation. The success of Tesla this year and the impressive growth of affordable renewable energy production are both testament to this point. On 10 April 2017, Tesla overtook General Motors to become the most valuable US car company, despite producing fewer than 1% as many vehicles last year (The Financial Times). Investors now firmly believe that electric cars are the future and this has shaken the rest of the car industry into action, with Volvo the most recent car manufacturer to announce a commitment to going electric.

Renewable energy production is another industry experiencing exponential growth, primarily as a result of technological advancements driving down the cost of production. Germany is a leader in this regard, with power generated by

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green sources jumping 10 percent in the first half of 2017 compared with a year ago (Federal Environment Office). In the US, the number of people employed in the Solar sector is now higher than those in the Oil & Gas extraction and Coal mining sectors (US Bureau of Labour Statistics). Renewable energy is becoming mainstream thanks to technological developments and regulatory support making it an economically viable source of energy.

Demographic trends

A difficult one to quantify, however according to a number of studies, millennials are more concerned about ESG issues than previous generations. This could have implications for future investment flows into the sustainable space as this generation builds wealth.

In conclusion, the trend in sustainable investment is only going to increase: governments will be held to account by their electorates on tackling climate change, companies will be increasingly measured on ESG criteria and investor demand will grow to meet the ethical preferences of the younger generation.

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