

# How to invest without committing 'climate crime'

Rob Stock 05:00, Mar 25 2020



CHRIS MCKEEN/STUFF

Climate change is a "huge risk" for humanity, says fund manager Paul Brownsey.

Companies unprepared for a low-carbon society are taking unacceptable risks, Paul Brownsey of Pathfinder Asset Management tells ROB STOCK.

**Q. Pathfinder's CareSaver is the only KiwiSaver scheme to measure its funds' carbon footprints. Really? In this day and age?**

A. Unless we have missed the news, we are the only KiwiSaver to report the carbon footprint of their KiwiSaver, and measure how the companies we invest in will adapt to a low-carbon economy. This is a critical piece of risk management that is dangerous to ignore.

If an investment manager is investing without thinking about how companies heavily reliant on fossil fuels will survive and thrive in the low-carbon world we are clearly heading toward, then they are being reckless with your money.

We genuinely believe that climate change is a huge risk for humanity and our planet, and that the science around climate change is clear. We take a lot of flak from people for this stance, particularly on social media. But when

oil companies, like ExxonMobil and Shell, openly accept the reality of climate change and the need to reduce carbon emissions, then calling climate change a "scam" or a "hoax" simply doesn't hold water.

### **How do you decide which companies fail the carbon test and which are okay to invest in?**

Carbon intensity and carbon-transition risk are actually pretty good indicators of whether a company is a good investment. The reality is that we live in a society that still depends extensively on fossil fuels; however, consumer preferences, government regulation and technological change are forcing change on companies. If a company doesn't react to that change with a coherent plan to adapt to the new reality, then we believe that company is running unacceptable risks.

Take ExxonMobil for instance – the sixth largest listed company in the world by revenue and also single-handedly responsible for around 3.1 per cent of all CO<sub>2</sub> emissions since 1965. This is a dying company, they just haven't realised it yet. It is in an industry where demand is growing at less than 2 per cent per annum, and ... their output has dropped 7 per cent over the last 15 years, while their cost of extracting oil has grown by 40 per cent. Why would we risk our investors' money in a losing proposition like that?

### **Is CareSaver's climate awareness a strategic business move, or did it come from the heart?**

I lived overseas for many years and seeing the difference between life in New Zealand and countries overseas gave me an appreciation of how fortunate we are to live in a country with relatively good environmental standards, an appreciation of human rights and a general culture of just getting on with it and doing the right thing.

Our views on an issue like climate change shouldn't be that remarkable. We feel we have the ability to make a difference to the issue and also enrich our investors.

### **Do the investing public actually care about the carbon footprints of our funds?**

A large proportion of people care, but many KiwiSaver managers don't take their customers seriously. Surveys of KiwiSaver investors consistently show that more than 70 per cent of investors want to avoid investments in fossil-fuel companies, yet many KiwiSaver managers ignore this.

But it is important to note that managers still have an obligation to deliver the highest possible return. Fortunately, the average fossil-fuel company is just a lousy investment, so avoiding them is actually good for the retirement savings of our investors.

If we look at the last 10 years as an investor, the fossil-fuel sector in the US has returned around 2.6 per cent per annum. The overall US stock market though has returned a much better 14 per cent per annum. If you invested \$10,000 in the wider stock market 10 years ago that would now be worth \$37,000. If you had invested that same \$10,000 in the fossil-fuel sector 10 years ago, you would now have just \$12,900. You would be \$24,100 worse off!

Over the next 10 years I think you will see an even bigger performance difference.

### **Is it hypocritical to drive a car, and still invest in a fossil-fuel free KiwiSaver fund?**

I think it is important to be realistic. We still live in a society that is stuck in a dependency on fossil fuels. For instance, due to poor planning at local and national government level, many people just don't have reasonable access to public transport.

People shouldn't beat themselves up because they can't make big changes. Just make the changes you can. Be conscious when you spend or invest money. Businesses and governments will respond to economic pressure.

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