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Investing for a
world of change

Finance's evolving role in achieving net zero

2024 Investment Views: Sustainability

November 2023



Nazmeera Moola
Chief Sustainability
Officer

In a twisting macro landscape, where might we have seen some bright spots this year?

Let's start with something quite specific. Ninety One is a global business with primary offices in London and Cape Town and reducing our carbon footprint is a priority. Historically, the average carbon footprint of an employee in Cape Town has been three times that of an employee in London. This is thanks to the massive dependence on coal by the South African electricity utility, Eskom. We have been working with the Municipality of Cape Town over the last year to find a solution to this and in September became the first company in South Africa to enter into a virtual power purchase agreement across a municipal grid, which is a big step. We are paving the way for many others to do the same thing.



Ben Horsell
Head of Investment
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What exactly is a virtual power agreement?

Ninety One's Cape Town landlord owns a shopping centre 10 km away and installed additional solar panels on the roof of this centre. We are paying for the surplus power generated by these panels. As a result, we are using power equivalent to the amount being put onto the grid just down the road and the municipality has now developed a regulatory framework to allow that to happen.

This is important because, despite South Africa's fantastic solar resource, the penetration of rooftop solar is very low. By catalysing this development, we hope that not only are we lowering our own carbon footprint but also encouraging other companies in Cape Town, and, hopefully, the broader country, to do the same.

After COP27 there was a sense that emerging market companies were really progressing with tangible transition plans, often outpacing their own governments. Has this been another area of progress?

The short answer is yes. Take India, for example, which has a target to achieve net zero by 2070 and has set an ambitious goal to generate 500GW of power from non-fossil fuels by 2030, a substantial increase from the current 150GW. The private sector in India is playing a significant role in achieving this target. Across emerging markets many companies are transitioning their power procurements from fossil fuels into renewables. In South Africa for instance, Anglo American has partnered with EDF to develop 3-5 GW of renewable energy. This trend has continued throughout the year.

Since the Paris Agreement in 2015, the investment industry has been on a steep learning curve. What have been the lessons learned and how do you see this progressing in 2024?

Most people now agree that the 7% annual decarbonisation rate is essential, especially across the industrial sector, if we are to meet 2030 targets. A key lesson in recent years has been that imposing these same targets on the financial sector and on portfolios can sometimes result in unintended consequences. That's because it is often easier to achieve emissions reductions in a portfolio by divesting from high-emission assets, than by engaging with companies to reduce their emissions.

I think the financial sector's role in achieving a net-zero future is evolving. One of our focus areas this year centres on determining the biggest contribution that asset owners can make towards achieving net-zero targets in a universal portfolio. In this regard, there are two broad lessons. Firstly, engagement is vital, and this is something we are increasingly concentrating on to achieve real world outcomes. We have actively engaged with companies to develop comprehensive plans, and we are now actively holding them accountable for the successful execution of these plans.

The second lesson relates to thematic allocation. The potential impact of allocating resources to climate solutions through strategies like Global Environment or emerging market transition debt far outweighs that of simply tilting a core global equity portfolio, for example. Understanding how both approaches contribute to the goal of achieving net zero and determining where you can achieve the most substantial impact for your investments, is something we spend quite a bit of time on.

Are there other developments to keep an eye on into 2024?

There is a growing recognition that, while the energy transition offers an attractive investment prospect, there are other areas of sustainability that offer similar opportunities. Over the course of the year our Sustainable Equity team has developed metrics in areas such as financial inclusion, digital inclusion, healthcare, even climate adaptation. These thematic investments, we believe, present interesting investment opportunities over the medium-term. As we engage with clients around the world, we've seen that they are also grappling with identifying areas with commercial potential, and with developing the metrics for measurement. This has been another focus area for us.

And lastly, there has been tangible progress on biodiversity this year with the Taskforce on Nature-related Financial Disclosures (TNFD) launching its final recommendations. There is a lot to process but the ability for companies to assess and manage nature-related risks with consistency is something we will track closely.

What topic might we see rise to the top of sustainability agendas in 2024?

‘Sovereigns and sustainability’ is an area that people like talking about, but have not done much with, due to the perceived complexity. We have seen projects like ASCOR (Assessing Sovereign Climate-Related Opportunities and Risks) continue to develop. Additionally, in our strategies, such as Emerging Market Sustainable Blended Debt, we’ve found that considering sovereign sustainability issues can yield financial benefits. I believe that the easiest way to achieve sustainable outcomes is when they align with the commercial imperatives and incentives, and in the sovereign investing space, there is increasing evidence around this. I would expect that to be a growing theme in 2024.

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