

## Opportunities in Global Sustainable Equity



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Hamish Chamberlayne, Portfolio Manager for Janus Henderson Horizon Global Sustainable Equity, discusses recent developments affecting the world of sustainable and responsible investment (SRI).

### Key Takeaways

- Despite recent reports highlighting the need for immediate climate action, most countries' commitments toward decarbonization remain far short of what is necessary.
- Given the urgency of these issues and the lack of response globally, we believe investors should consider making decarbonization a central piece of their investment process. To that end, investors may want to look for investment strategies that take an active approach to engaging with companies about decarbonization goals.
- In our opinion, firms focused on sustainability often benefit from resilient growth characteristics that can weather turbulent markets.

Climate change, by definition, continues to evolve, but recent data suggest the trajectory is not a positive one. Earlier this fall, the United Nations (UN) released a report highlighting that, due to melting ice in polar regions, sea levels are rising faster than scientists had predicted. The melting is disrupting global fisheries and putting hundreds of millions of people who live in low-lying areas at risk of extreme flooding over the coming decades.

Meanwhile, in South America, there has been a greater than 75%\* increase in the number of fires in the Amazon rainforest this year, with more than 40,000 fires reported in Brazil's Legal Amazon (BLA) area. (BLA is a socio-geographic division in Brazil that consists of the nine states that make up the Amazon basin.) It is estimated that more than 9,000 square kilometers of virgin forest have been lost.

And in August, Aon released its 2019 Insurance Market report, which found that natural disasters caused \$225 billion in economic losses globally in 2018 – the second highest year on record and 50% higher than the annual average between 2000 and 2017. The worst year on record was 2017, with \$358 billion of economic losses due to catastrophe.

### Commitment to Carbon Reduction Falls Short

One would have expected these events to galvanize attendees at the UN Climate Action Summit in September to make more ambitious commitments toward decarbonization, but the reality is that most countries' pledges are still far short of what is necessary. Furthermore, some of the largest carbon-emitting countries are not making any firm pledges with respect to carbon reduction targets or timelines.

Given the urgency of these issues and the lack of response globally, we believe investors should consider making decarbonization a central piece to the investment process, including researching if and how companies are executing on carbon reduction plans and the timeline for reaching net zero emissions.

## **Sustainability Focus Uncovers Opportunities Amid Uncertainty**

Looking around the world, it is not hard to find causes for concern on multiple fronts. Slowing economic growth, the ongoing U.S./China trade war and Brexit are heavy burdens on business and investor sentiment, and we understand why many people are arguing for caution when it comes to equities. We are, however, becoming incrementally more constructive on the outlook for equities.

We have now had several quarters of industrial and manufacturing weakness, and there are signs that the stock-building cycle and industrial momentum may be close to bottoming. The semiconductor sector is often a lead economic indicator, and in the last quarter we have seen evidence of stabilization in memory prices, with management teams commenting that they expect to see a recovery in 2020. Furthermore, the shift by central banks toward more accommodative monetary policy is highly supportive of growth equities, and we still see substantial upside potential there.

Given this backdrop, we believe making sustainability a key tenet of building a diversified equity portfolio can help investors navigate uncertainty. It may not always be obvious how companies are addressing climate change or planning to do so: Individual investors may not be able to engage directly with management teams about their firms' decarbonization goals. But active investment managers can. We believe such an approach can help uncover investment opportunities with resilient growth characteristics that we feel could compound wealth through periods of economic turbulence.

\* Source: <https://www.bbc.co.uk/news/world-latin-america-49415973>

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