Janus Henderson
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Global sustainable investing: news & opportunities

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Hamish Chamberlayne, Portfolio Manager and Head of Global Sustainable Equities, highlights key sustainable news stories for the third quarter of 2020.

KEY TAKEAWAYS

- Both the European Union (EU) and the Chinese government have announced further steps towards carbon reduction, with the EU outlining their intention to reduce carbon emissions by 55% by 2030 and China targeting carbon neutrality by 2060.
- Over the quarter the MSCI World Index saw the information technology sector outperform while the energy sector plummeted by more than 15%.
- Rapid adoption of digital trends is contributing to a reduction in some of the negative environmental impacts caused by economic activity, but we believe there is still an urgent need to accelerate investment in the low carbon energy transition.

During the lockdown it has been hard at times to comprehend the monumental effect COVID-19 has had on the global economy by driving us indoors and online at a rate never before seen. While digitalisation has been a major investment trend for us for several years, the pandemic has undeniably accelerated it and we believe digitalisation will be one of the dominant drivers of investment returns over the next decade. Closely linked to digitalisation is the transition towards low carbon energy. This trend has also been supported this year with political commitment towards investment in renewable energy, electrification of transport, energy efficient technologies and sustainable infrastructure. We have been encouraged to see governmental fiscal stimulus targeted towards green projects that align with our investment philosophy of sustainable development, innovation and long-term compounding growth.

Political steps towards a low carbon world

The European Union (EU) has earmarked 30% of its €750 billion COVID-19 recovery package to go towards sustainable projects including renewable energy and storage, sustainable buildings and public transport[1]. There was further positive momentum from the incoming EU President who outlined ambitions to reduce emissions by at least 55% by 2030 instead of the 40% previously targeted[2]. In other welcome news, China committed to peaking its carbon emissions by 2030 and achieving carbon neutrality by 2060[3]. China is the world's second largest economy[4] and the largest emitter of CO_2[5] so the announcement is a huge step towards a sustainable global economy and we hope these goals can be quickly met and surpassed.

We have also seen more than 20 countries implement end dates for the sale of internal combustion engines. There is a broad trend to bring forward decarbonisation goals from a vague mid-century point towards a highly visible 2030 target date which sets us up for a decade of innovation.

The third quarter saw economic activity around the world begin to thaw as governments were required to balance the need to reopen countries with the COVID-19 pandemic. Against this backdrop, global equity markets ended the quarter higher; the MSCI World Index delivered a total return of 7.9%[6] in US dollar terms. The best performing sectors were information technology (IT), consumer discretionary and industrials, whereas the energy, financial and real estate sectors underperformed, with the energy sector falling by more than 15%[6].

Alignment to low carbon energy transition driving outperformance

While our sector positioning was beneficial to performance – having an overweight stance towards IT and an underweight position to energy – our stock selection was the most important factor contributing to the performance over the quarter[6]. Of particular note was the fact that in the list of our top ten contributors there was only one technology stock, which demonstrates the diversity and breadth of our investment. We saw strong performance from companies that are exposed to the low carbon energy transition, including renewable energy developers, efficient electric motor company, low carbon building material manufacturer, and water technology and infrastructure company.

Strong performance also came from some companies in quality of life theme which have capitalised on the shift to ecommerce and direct digital distribution.

Can digitalisation reduce the environmental harm caused by economic activity?

The world's struggle to ease lockdown restrictions is continuing to impact on parts of the economy reliant on getting people together physically. Counter to that we are seeing that digitalisation is accelerating. While spurred on by COVID-19 we expect that many of these digital trends will persist as people embrace the ease of use, enhanced productivity and efficiency that digitalisation offers.

Despite the encouraging adoption of digital trends, which we regard as being complementary to reducing the negative environmental impacts of economic activity, the increasing frequency and severity of climate-related events reminds us of the urgent need to accelerate investment in the low carbon energy transition. Fortunately, the pandemic does not appear to have had a significant negative impact. There is real momentum building behind this transition thanks to exciting business innovation in clean energy technologies combined with strong regulatory support from many governments.

Nowhere was this innovation more evident than in Tesla's recent update as an example, which mapped out a clear investment plan to accelerate adoption of electric vehicles and clean energy. By 2030 Tesla's goal is to have multiple terawatts of battery production in place to allow 20 million affordable electric vehicles to be produced annually as well as large scale energy storage installations to support renewable energy systems[7]. We anticipate that Tesla's ambitious vision will catalyse a further step up in investment across the whole automotive and energy industries.

2020 has been a challenging year but we are optimistic that the global economy will emerge from this pandemic more resilient, and on a more sustainable trajectory, than before. Instead of undermining it, we are hopeful that this crisis will serve to underline the attractiveness of sustainable investing and how it leads to better outcomes, not only for investors but also for the environment and society.

Footnotes:

1 Reuters, EU makes world's biggest 'green recovery' pledge - but will it hit the mark?, 22 July 2020.
2 European Commission, Press release, 17 September 2020
3 BBC, Climate change: China aims for 'carbon neutrality by 2060', 22 September 2020.
4 Investopedia, 18 March 2020
5 Investopedia, 14 November 2020
6 Morningstar, Janus Henderson Investors, 30 June – 30 September 2020. Past performance cannot guarantee future
7 The Wall Street Journal, 23 September 2020

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