

Climate change concerns taking centre stage



George Latham, Head of SRI Investments at Henderson Global Investors, looks at the recent influx of climate change funds, and explains why SRI should be viewed as a significant long term sentiment shift, rather than a passing investment trend.

Suddenly climate change is the new rock and roll. The Live Earth concerts which took place in July marked a new tidemark in public awareness of the threat of climate change and the need for change. Whether such events actually have any lasting impact with the public remains open to debate. But this year it seems that mainstream investors have also reached a new level of awareness on the impact of climate change, and investment houses have been keen to make the most of the opportunity this presents. Performance of ethical and SRI funds has been accelerating, and in some cases overtaking, funds without any non-ethical credentials, demonstrating that investors with a social conscience do not necessarily have to sacrifice returns in the process.

This year a number of 'climate change' funds - that make great play of investing according to ethical, social and environmental concerns - have been brought to the market. Barclays is now even offering a climate change credit card that promises to donate a portion of its profits to low energy projects. But as the hot money starts to enter the investment sector, are clients being offered a range of compelling long-term investment propositions, or just being sold a lot of hot air?

An opportunity for change

The market for finding sustainable solutions to the world's energy and climate problems is clearly expanding. Human-induced climate change is now a reality to everyone except the most vehement global warming sceptic, and is set to intensify in the years ahead. Investors are broadening their perspectives and backing exploration into new fuels such as ethanol, fuel cells and advanced battery technology. Global efforts to reduce carbon dioxide emissions are already transforming the investment landscape, with \$100 billion raised for new energy companies last year and the global carbon market tripling to \$30 billion.

According to the *Financial Times*, more than \$70 billion of new money was invested globally in clean or renewable energy or clean technology last year, a 43 per cent increase on 2005. Clearly there are many investors and investment companies that would like to get on closer terms with that kind inflow. But just because a fund is being promoted with a green label, doesn't necessary mean that it can demonstrate a genuine commitment to providing sustainable solutions. Nor does it mean that the fund will be able to deliver a worthwhile return on your investment.

Those fund managers in charge of climate change funds will need to do their homework. As a result of finding themselves suddenly in the spotlight, the valuations of some companies involved in climate change and clean water development are now looking quite racy. Some of the more recently created funds have fairly high levels of risk, because they are investing in companies that are exploring and attempting to discover new sources of energy. It is a highly experimental sector that's prone to long-term disappointment and also subject to short-term oil price fluctuations. Investors will need to be aware that their investment is for the long term. As well as assessing the performance and skills of the manager, it is vital to choose a fund that suits your interests, whether they are in supporting new technology, promoting new sources of energy, or simply looking to avoid companies with a largely negative impact on their environment.

A sustainable and responsible investment approach

Henderson Global Investors has always taken a long term approach to investing for the future. We have been at the cutting edge of the investor response to climate change since the 1990s, and our SRI range has demonstrated that it can deliver consistent returns by moving on this issue ahead of the mainstream market.

An income fund that takes care of performance and the planet - it's happening at Henderson



We have a rigorous process of bottom-up stock selection that goes beyond ticking a box in order to prove a company's corporate worthiness. We look to analyse how companies perform on various ethical, social and environmental criteria, such as equal opportunities, employment policies, health and safety reporting and community involvement. The evaluation process frequently proffers insights ignored by conventional investors.

First, we seek out the best global companies providing solutions to climate change, what we call the Industries of the Future. These include the German clean energy pioneer, Solar World, the Hong Kong efficient lighting specialist Neo-Neon and British electric vehicle manufacturer, Tanfield.

Second, we incorporate climate change into our assessment of companies from across the wider UK market, selecting those with a leadership approach such as HSBC, Marks & Spencer and Scottish and Southern Energy.

Third, we encourage companies to improve their approach to climate change through our active engagement programme, supporting initiatives such as the Carbon Disclosure Project and the Institutional Investors Group on Climate Change.

Fourth, we report to our investors the climate change performance' of their funds, publishing carbon audits of the Global Care Income and Industries of the Future funds, to enable them to see that our strategy is developing real results in environmental as well as financial terms.

This four-point climate change strategy we believe makes us well-positioned to cope with the greater scrutiny surrounding SRI funds, and should continue to see us benefiting from the climate change imperative in the years to come.

That climate change is fast becoming a significant investment theme in today's marketplace can only be a good thing. But investors need to avoid funds that offer marketing message over investment substance. Clients should look closely at what these funds are looking to achieve over the longer-term, and consider whether they have the necessary experience in the sector and investment expertise to look beyond the current influx of hot money.

George Latham,
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