pi ESG CLUB

Impact investing has become a respected investment strategy that seeks to generate a return from making a measurable and positive difference to society and our planet. In this month's ESG feature, we take a closer look at how such strategies have matured.

OCTOBER 2022

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Martin Buttle is head of good work at ShareAction, a charity promoting responsible investing

ETHNICITY PAY GAP REPORTING IS ESSENTIAL TO DRIVE CHANGE

Earlier this year, ShareAction launched its ethnicity pay gap campaign, calling on FTSE100 companies to report these gaps to raise awareness of and help address racial inequality in the workplace.

The first year of the programme will target financial services companies, before expanding to other sectors such as retail and facilities management. The initial focus on financial services is due to their role – not only are they corporate entities, but they are critical to capital allocations which underpin the overall system. Targeting capital allocators in the first instance can influence broader value chains and make our work easier as we progress to different sectors.

To date, ShareAction has asked 16 questions at AGMs during the proxy season on this issue. All companies have welcomed the questions, with Abrdn, Hiscox and Schroders committing to publish their ethnicity pay data once their disclosure rate has increased.

There are a few early adopters, such as Barclays, HSBC and Natwest, but more work needs to be done to ensure a standardised approach with ethnicity representation and pay gaps reported each quartile.

For those already reporting in some capacity, we are essentially asking, and supporting them, to make incremental improvements – such as further granularity by desegregated ethnic categories based on the Office of National Statistic's classifications.

Disclosure rates and self ID

One of the primary barriers often raised by companies to reporting their ethnicity pay gap is the internal disclosure rate of self-identification (ID). The higher the disclosure rate, the more accurate the ethnicity pay gap disclosures can be. But increasing the disclosure rate to the necessary level has been a challenge to many. A key issue in the collection of this data seems to be employee reluctance or inertia. Most companies we have spoken to have verbally committed to publishing their ethnicity pay gap, once they reach a 75% to 80% self-disclosure rate. There are several initiatives at financial services companies to try and increase the self-disclosure rates such as:

- Ensuring they have leaders within the business championing diversity, equity and inclusion (DE&I)
- Explaining to employees why they need the data, and how they will protect confidentiality
- Collecting the data at different points in the employment lifecycle
- Working with employee networks and forums
- Developing specialist apps to streamline data collection

The good news is that disclosure rates are rising. We expect more financial companies to report their ethnicity pay gap by 2023.

Why pay gap reporting?

Reporting on pay improves diversity within the workplace because of transparency. An ethnicity pay gap report would help identify the exact location and causation of gaps and allow firms to provide an analysis of the gaps and put in place a targeted action plan to reduce any gaps.

Ethnicity pay gap is an important metric to help uncover and showcase the diversity of a business at different levels. Reporting will also help reveal some of the fundamental nuances of DE&I by disaggregating the data by different minority groups, as making this clear and transparent is the first step towards progress.

Without metrics like ethnicity pay gap reporting it is difficult for shareholders, investors and broader society to have a baseline of DE&I to monitor progress.

Next steps

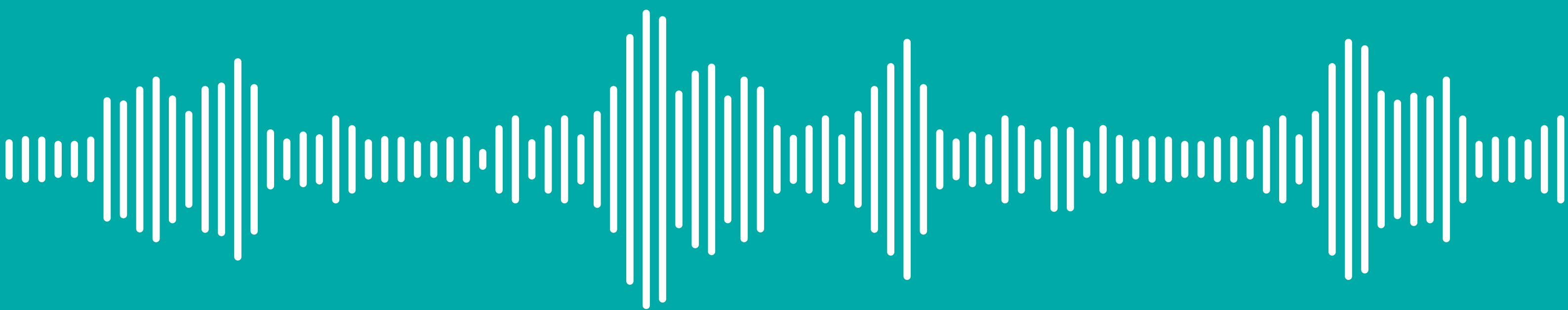
The campaign is a three-year process, while we are targeting financial services companies in the first instance, we will move on to other sectors as time goes on in the hope of increasing voluntary disclosures across the FTSE100.

As part of the campaign, we have teamed up with the CIPD – the professional body for HR and people development – alongside ethnic minority-led organisations including the Runnymede Trust, #Ethnicitypaygapcampaign, Project Speak Up and Reboot. We have other expert bodies – such as the Living Wage Foundation, 30% Club and Race Equality Group – to give guidance and advice throughout the campaign lifecycle.

We will also be bringing together 46 investors from our Good Work investor coalition, which has £3.8trn of assets under management, to support where possible.

M&G Investments

THE INVESTMENT PODCAST



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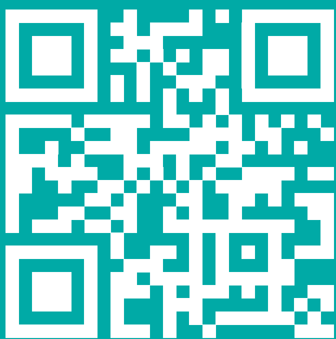

For investment professionals only

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ESG: YOU CAN GO YOUR OWN WAY

Could unbundling the E, the S and the G improve non-financial outcomes? *Andrew Holt* finds out.

It is time to unbundle environmental, social and governance criteria in the ESG framework, a report by data company Util has concluded. “Each represents a suite of different, even conflicting, objectives,” the report said, adding: “An acronym or catchall concept obscures valuable information and misdirects flows.”

Taking the temperature of such a concept, *portfolio institutional* found that investors and industry players have a range of views on this.

Peter Mennie, chief sustainable investment officer at Manulife Investment Management, broadly welcomed the idea. “In principle, it would be ideal to separate the various issues in sustainability to enable portfolios to focus on certain areas and avoid harm in other areas.”

This is not the only reason he supports the idea. “It’s important to recognise that frameworks for disclosure are not as mature across the subject areas.”

The approach also receives a thumbs-up from Jacqueline Jackson, head of responsible investment at local government pension pool London CIV. “I welcome Util’s approach and believe that highlighting the complexity of trade-offs within different industries, across the 17 Sustainable Development Goals (SDGs), which themselves define a total of 169 targets, will be useful information for investors.

“Impacts can be unpredictable,” she added, “and understanding where hotspots of risk and opportunity lie across different investments may help put impact back under the microscope, instead of resigning it to soundbites.”

Serious sustainability

But Ben Constable-Maxwell, head of sustainable and impact investing at M&G, said bundling has given ESG’s concepts some weight within the investment world. “ESG as a triumvirate of issues has been highly effective in getting sustainability risks taken seriously by mainstream investors,” he said.

Expanding on this, Constable-Maxwell added: “Bundling the ‘E’ and ‘S’ with the ‘G’ of governance gave sustainability a degree of credibility with those companies and investors who had hitherto been sceptical about its relevance and got these issues onto the agendas of corporate boards and investment committees.”

And for Peter Uhlenbruch, director of financial sector standards at responsible investment campaigning charity ShareAction, the connection between the component ESG parts is important. “The complex interactions between environmental and social issues, including climate change, nature loss, governance and social inequality requires responsible investors to understand and respond to trade-offs, both at levels of financial risk and real-world impact.

“For example,” Uhlenbruch added, “a myopic focus on emissions overlooks the critical role of corporate governance and of human resources from a just transition perspective in the context of achieving a 1.5-degree aligned outcome.

“Responsible investment frameworks should aim to capture all factors pertaining to ESG, their inter-connection, how materiality is defined and assessed and how trade-offs are resolved in a way that achieves positive net impact across ESG factors.”

Data debate

Mennie said this is the time to stress the importance of data in the ESG debate. “We are beginning to have more accurate and actionable data, for example, on a company’s impact on climate change in its operations, but we have far less insight in other crucial areas such as impact on biodiversity loss.”

Likewise, Mennie added, it is important to distinguish between what is known about the negative impacts, such as pollution through emissions, versus the positive impacts. “There is limited data about how many companies’ goods and services may make a positive contribution because it is not a requirement and even if data exists it may not be comparable across companies or subject to the same scrutiny as audited data.”

Supporting the argument, Constable-Maxwell said how greater clarity is needed within the ESG universe. “Greater definitional clarity is clearly needed in this area. ESG is not the same as impact; however, both deal broadly with the same underlying sustainability issues.

“ESG’s modus operandi is to focus on risk – how investors can understand and manage ESG or non-financial risks in their portfolios; impact investing focuses on tackling major societal challenges by financing the solutions to those challenges.”

This is where impact investing has a big role to play, according to Constable-Maxwell. “Financing those companies providing the solutions to seminal issues like climate change, pollution or inequality is what impact investing was created to do.”

Jackson is convinced an even wider basis of thinking about ESG should take place. “If we’re going to be assessing ESG factors, economic performance should not sit as a priority which undermines the barely visible externalities which have a negative impact on the quality of lives all over the world,” she said.

“It’s not that companies shouldn’t strive for growth but it’s time to look at processes and operations, find new business models and products in the journey to revolutionary financial and economic models which actually work, for everyone.”

And Jackson warned about the aims of merely shifting the approach to ESG. “Minor tweaks to existing models will not fix the climate crisis, nor solve the SDGs,” she said.

Allspring

Investing in the Age of Climate Change.

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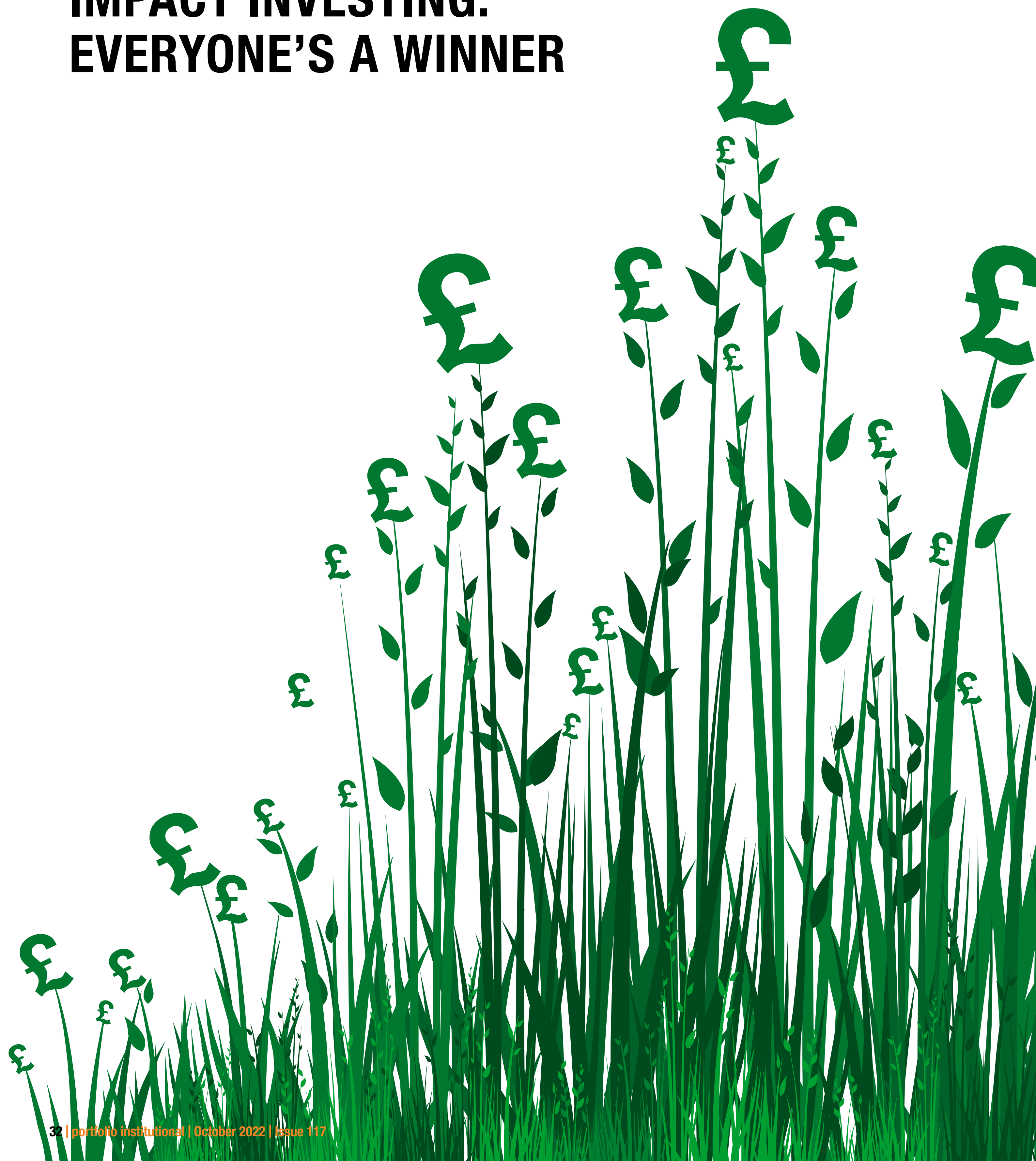
IMPACT INVESTING: EVERYONE'S A WINNER



Impacting investing is stepping out of ESG's shadow to be considered an investment strategy in its own right, but can it deliver? *Mark Dunne* reports.

Investors are people with needs and wants: they need to make money to pay their members' benefits and more and more of them want to make the world a better place while doing it. Enter impact investing, which is designed to achieve both, and is looking less like a niche strategy.

Indeed, £58bn is working to make positive impacts in the UK, according to research by accountancy giant EY and the Impact Investing Institute, an organisation that promotes such investment strategies.

Impact investing should not be confused with ESG, says Sarah Gordon, the Impact Investing Institute's chief executive.

ESG identifies risks to a company's financial health, while impact investing targets a financial return from making positive and measurable changes in society and the environment.

"ESG is often passive, with a focus on avoidance, whereas impact investing intentionally seeks to deliver a positive benefit," Gordon says.

Eric Cooperström, managing director of impact investing at Manulife Investment Management, describes the strategy as a "sub-set" of ESG that focuses on producing "desirable ecological or social outcomes".

"ESG and impact investing are not separate asset classes," he adds. "They are investment strategies and styles that overlay existing asset classes like private equity, public equities, timberland, etc..."

Gordon advises that those looking to adopt an impact strategy to define the outcome they want to achieve, which can be measured "to hold yourself to account".

"There is a rapidly growing number of investors, including large asset owners, who want their investments to contribute to solutions to, for example, the climate crisis, which is extremely encouraging," Gordon says. "Measuring, managing and reporting impact is vital to create positive change for people and the planet."

And more capital is being allocated to this goal than ever before. The assets held by European impact funds grew by 50% during 2021. Absolute flows to impact funds in Europe increased 44% to €31.6bn (£28.2bn) during 2021, up from €21.9bn (£19.5bn) the previous year. This, according to a report published by Morningstar and Zeb, a consultancy, is in response to rising greenwashing in the sustainable fund market.

These funds would have traditionally flown into equities, but exposure to debt is growing. The share of fixed income within the impact fund sector increased to 24% in 2021 up from 20% a year earlier, according to the Association of the Luxembourg Fund Industry.

Coming of age

Impact investing looks very different today compared to when Cooperström started working in the industry almost 15 years

ago. "I have seen investor interest, and importantly pipeline opportunities, evolve in scale to become much more mainstream," he says.

In the early days, family offices, foundations and small institutional investors were investing in small-scale projects, such as social housing and eco-tourism. These strategies are now targeting a wider range of asset classes and industries, while the types of investors seeking to make positive impacts has also changed. "The largest private equity groups in the world often have billion dollar-plus impact investment funds," Cooperström says. "Clean tech investment is seeing a second wave of popularity. Sustainability is quickly becoming, if it has not already, table stakes [the norm] for investing in many asset classes and industries."

Impact investing has traditionally been a strategy where investors work to make a difference in a particular geographic area. For Cooperström, this is another element of the investment strategy that has evolved.

"Through my career, I've seen impact strategies evolve from smaller, often local opportunities like low-income housing to touch on a variety of asset classes that have more of a regional or even global impact," he says.

Manulife Investment Management's work in timber and agriculture is an example. Everything within these sectors, whether it be a forest or farm, starts at a local level. "Given natural capital and natural assets importance to fighting climate change, the work we are doing here has regional and global impacts from carbon sequestration and biodiversity perspectives," Cooperström says.

Another aspect of these strategies that has matured has been access to adequate projects. "10 to 15 years ago, deal-flow was much more sporadic and not of institutional quality," Cooperström says.

The returns on offer were another deterrent, as was the lack of sufficient data monitoring the progress of investments that were not just seeking a financial return. "Once you get into a variety of impacts that might be more qualitative, that data tracking and management becomes a bit more complicated," Cooperström says. "Again, we have seen a broad evolution here."

Strong pipelines

The impact pipeline is more institutional-friendly these days and Cooperström is optimistic that this trend will continue. "Individual deals have scaled in terms of size and quality," he says. "When I look at how investors might be remunerated for investing in impact, I see a lot of tailwinds.

"For instance, in forestry, the protocols and the registries to provide structure for carbon returns have been established and evolved for 20-plus years," he adds.

Measuring, managing and reporting impact is vital to create positive change for people and the planet.

Sarah Gordon, Impact Investing Institute

Cooperström is also seeing new markets emerge that have impact as a core focus, such as biodiversity. "The British and Australian governments have emerging programmes that could provide biodiversity crediting and payments to managers. We are seeing a broad evolution of how investors realise impact returns," he adds.

What's in it for me?

Many asset managers have told me that one of the most common questions they are asked by asset owners when setting an ESG strategy is "will I have to sacrifice return?" Yet one of the reasons to pursue an impact strategy is to earn a return. It is part of the deal, but, like all investments, it is not guaranteed.

Returns investors can collect from investing for impact vary, Cooperström says. "That's reflective of the diversity of asset classes and strategies that could fall under impact investing.

"Historically, there was more of a trade-off between returns and impact, especially given the smaller scale and less institutional focus of past deals," he adds. "Now the lines have been blurred between impact and returns."

Cooperström uses the firm's work in forestry as an example. "We have been sustainably managing timberlands for more than 35 years. As we have expanded into impact investments, which have a more intentional focus on carbon sequestration, it's not a clear trade-off because you are changing the risk-return profile as carbon prices, not timber value, are the main value driver.

"Depending on where carbon prices go in the future, you could have a different range of potential returns compared to traditional timber investing. And those returns could also be higher," he adds.

And for one pension scheme, their impact returns are indeed higher. Clwyd Pension Fund had £2.4bn in assets under management in March, with 4% of those allocated to impact investments. The returns from the impact portfolio were more than three times greater than the fund average in the first quarter.

Its total assets and private market assets returned 13.3% and 26.4%, respectively, while the fund's impact investments yielded 40.3%.

Guiding light

On the data side, more frameworks are being developed to help managers' report on impact's progress and outcomes. The UN's Sustainable Development Goals feature heavily in these frameworks. There is GIIN's (Global Impact Investment Networks) IRIS standard, the Global Reporting Initiative, the Sustainable Accounting Standards Board and the Task Force for Climate-related Financial Disclosures. "We are seeing more consistency in the data reporting," Cooperström says.

The increasing capital flowing into impact funds, larger players entering the market and the growing number of frameworks show that the market has matured and is on its way to being a mainstream strategy.

"The trend clearly shows that we are moving away from traditional investing focusing on returns only, towards impact investing focusing on positive environmental and social outcomes as well as financial returns," Gordon says.

When I look at how investors might be remunerated for investing in impact, I see a lot of tailwinds.

Eric Cooperström, Manulife Investment Management

Cleaning up

To create real change, impacts have to be made in the sectors and companies which are most responsible for harming the ecosystem and the climate as well as making people's lives harder. And investors are working to make impacts in unethical sectors, Cooperström says, adding that they are trying to influence change through the threat of divestment in an attempt to make capital raising more difficult and ultimately more expensive.

Gordon is also seeing shareholders using their influence to create change in the extraction industries. "Companies in these sectors require investors to support and drive their transition out of fossil fuels, and shareholders have a huge responsibility here," she says. "We believe that divestment is a "last resort" after other methods of engaging with investee companies to drive change have proved unsuccessful. But, of course, policymakers and regulators have an even more important role to play here. It is only by acting together that we will drive the change in these industries that needs to happen."

Other approaches include investors pursuing direct shareholder activism through voting for who sits on the board, while others try to harness the skills and equipment within industries like oil and gas to help make a positive change.

Extraction companies have the expertise and technologies needed to build a sustainable future, such as offshore operations which could be used to expand wind power in the energy mix. "We are seeing some of that already," Cooperström says. "There is a willingness to either promote investment outcomes through certain strategies like divestment or to work with those companies directly."

Heading into the mainstream

Cooperström has seen impact investing become a more established approach for institutional investors over the past 10 to 15 years and he is seeing signs that this is likely to continue.

"We are seeing an influx of high caliber talent into the impact investing space," he says. "That is in part reflective of younger professionals wanting to have an impact component integrated with their career."

For Gordon, these trends are part of what she believes is a move to impact investing becoming the norm.

"Impact investing acknowledges the shortcomings of an approach to investing that is under high scrutiny and is addressing them," she says.

"Of course, there is still a lot of work to do, but we believe that in the future, all investments will eventually become impact investments as companies will have to report and be held accountable for their positive and negative impacts."

THREE QUESTIONS ON IMPACT INVESTING

Bérénice Lasfargues and Sophie Mechin,
BNP Paribas Asset Management

Are impact investors sacrificing returns?

While numerous investors pursue responsible and sustainable goals through their allocations, many also find the financial attractiveness of impact investing relative to other investment strategies 'at least somewhat important', seeking risk-adjusted, market-rate returns for their assets.

This shows the notion of an inherent trade-off between impact and financial performance is not valid.

Impact investing offers a range of investment strategies, with different types of financial and impact risk-return profiles from which investors can choose, depending on their objectives.

What are core characteristics of impact investing?

Adding an impact objective to the investment process affects what you invest in and how you invest.

It influences the nature of the investment process and requires resources and skills that are different from traditional investing.

There are three core characteristics that set impact investing apart from other investment strategies:

1. Intentionality – Capital should be invested with the explicit **intention** of solving an issue of sustainable development. It should contribute to a positive social and/or environmental impact which is aligned with the UN Sustainable Development Goals (SDGs), or other widely accepted sustainability goals.

2. Additionality – The investment actively adds to the impact, for example, through engagement, by providing technical assistance or helping to scale the impact by attracting other pools of capital.

An impact investor should be able to demonstrate that as a result of the integration of impact considerations in the investment selection process (through the use of impact metrics, for instance), the investment universe of the portfolio differs materially from a standard universe.

3. Measurement – The investor should set **measurable**, realistic, evidence-based goals for what the investments should achieve over a defined time horizon before making the investment.

The goals are used to manage and measure impact performance throughout the investment process and are the basis for transparent, public and regular reporting.[1]

Regarding embedding impact in investment processes, standards are emerging. One such standard is the Impact Principles, to which BNP Paribas Asset Management is a founding signatory.

We are developing an internal framework for impact investing based on the Impact Principles and the three core characteristics of impact investing outlined above.

What is behind the rise of impact investing?

More and more sustainability-linked risks can have a negative impact on countries or industries. These include extreme weather, environmental damage linked to human activities, infectious diseases and biodiversity loss.

Fortunately, these risks are increasingly being recognised by governments, the private sector, civil society, academia, etc. That recognition includes the awareness of the need for system-level responses involving multiple stakeholders and sectors.

Solutions are estimated to cost \$5trn to \$7trn (£4.3trn-£6trn) annually[2]. It is clear that the public sector does not have the means to address these challenges. Investors have a role to play.

In parallel, since these sustainability challenges are transforming economic sectors, investors must take them into account from a risk perspective, not only in their scenarios and outlooks, but also in their assessments of the investment strategies, assets and issuers they invest in.

Apart from an awareness of the need for active asset selection, investors are also increasingly taking on the role of engaged stewards.

Addressing the sustainability challenges presents business opportunities. It is estimated that investment in the SDGs could unlock opportunities worth about \$12trn (£10.3trn) and create 380 million jobs a year by 2030[3]. There are economically viable and attractive ways to address these challenges. That also attracts investors.

Finally, on the demand side, there is growing appetite for responsible investment products, and, more importantly, for products with a positive impact, from the general public. This is a sign of changing consumer behaviour, which is promoted by governments. All of this is driving the rise of impact investing.

1) IMPACT INVESTING – A DEMANDING DEFINITION FOR LISTED AND NON-LISTED PRODUCTS (frenchsif.org)
2) Business and the SDGs | United Nations Development Programme (undp.org)
3) Release: Sustainable Business Can Unlock at Least US$12 Trillion in New Market Value, and Repair Economic System

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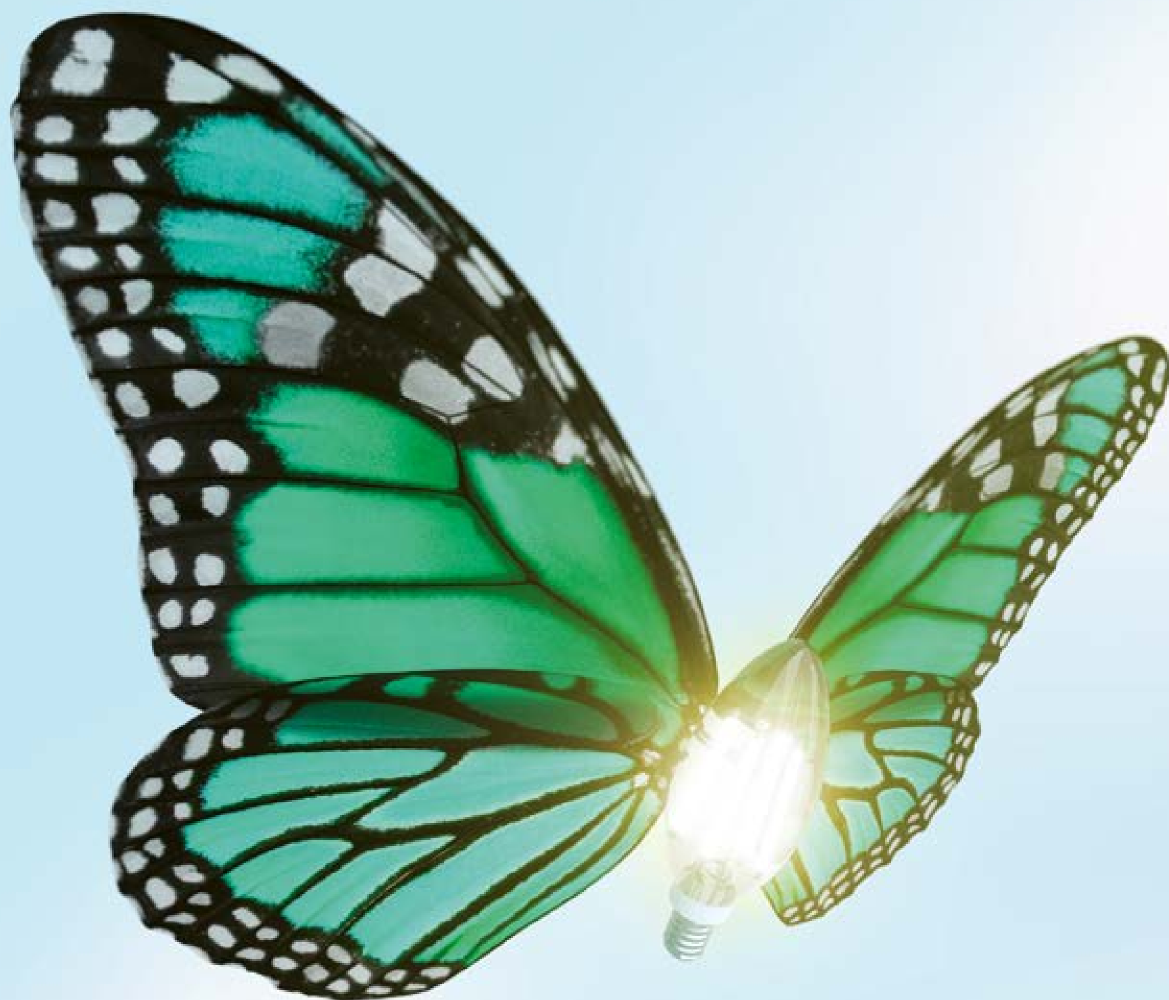

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Fadi Zaher is head of index solutions and investment specialist at Legal & General Investment Management

STRIVING TO MAKE INDEX STRATEGIES NET-ZERO HEROES

Index strategies can offer clearly defined decarbonisation pathways that may help to avoid climate risks. We pull back the curtain on how they work.

Investors around the world are integrating climate considerations into their portfolios in the hope of avoiding the worst-case scenarios for global warming. Many seek to do this via alignment to a net-zero trajectory, across a variety of investment styles and strategies.

Reaching net-zero emissions by 2050 is considered the safest way to limit global temperature rises to 1.5-degrees above pre-industrial levels, avoiding some of the worst impacts of climate change.[1] As a result, many investors are looking to reduce carbon emissions exposure within their index strategies. This process requires a decarbonisation pathway that could align to a 1.5-degree scenario.

There are different avenues to delivering a decarbonised index strategy with net-zero ambitions. Here, we focus on the exclusion and capital allocation methods, as well as a combination of the two.

The role of exclusions

The exclusion approach has been used to avoid having specific stocks or industries in an index. The most prominent exclusions have tended to cover companies involved in tobacco, alcohol, gambling, fossil fuels and controversial weapons.

As the level of exclusions increases, however, the adjusted index often strays from its parent benchmark, deviating from delivering a market-like, risk-return profile. The index may then incur unintended active risk as compared to its benchmark. There is a role for exclusions in a net-zero approach, for example, to remove companies that are highly misaligned and have little likelihood of being willing or able to transition. But relying solely on an exclusionary approach to achieve net-zero portfolios may not always address the real-world decarbonisation requirements and may remove the possibility of the asset owner engaging with investee companies to change their behaviour and address specific sustainability risks.

Re-allocation of capital

A common decarbonisation pathway, based on recommendations from the Intergovernmental Panel on Climate Change (IPCC) and the EU Paris-aligned Benchmarks (PAB), is to reduce carbon emissions intensity by a fixed percentage relative to a parent benchmark.

The chart below shows different decarbonisation objectives that investors may choose from to embark on a net-zero pathway.

Depending on the initial decarbonisation rate, the integration of the yearly carbon-reduction mechanism should bring convergence between the different portfolios by 2050.

The goal here is to re-allocate and adjust the exposure from high-carbon intensive to low-carbon intensive stocks, subject to various investment constraints which may include security or sector deviations from the parent benchmark. As a result, a decarbonised index may have different constituents and/or a different number of holdings than its parent benchmark.

Decarbonisation rates versus tracking error

It is possible to decarbonise a global index with a low tracking error; our analysis indicates that a 50% carbon intensity reduction may be achieved with around 15 basis points of tracking error. However, the tracking error rises sharply when the decarbonisation increases beyond 50%. The results may vary for specific regions and more concentrated indices.

Capital allocation and minimal exclusions

In our view, effective decarbonisation of index portfolios could involve a combination of minimal exclusion standards and greater re-allocation of capital between climate 'winners' and 'laggards'.

We expect to see continued demand from investors seeking to align portfolios with a net-zero pathway, who recognise that potential financial and climate risks are different across different regions and industry sectors.

1) Intergovernmental Panel on Climate Change: Special Report on Global Warming of 1.5°C (2018)

Our research paper on decarbonisation strategies for indices explores this topic in more detail and can be accessed at www.lgim.com. The above information does not constitute a recommendation to buy or sell any security.

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KEEPING THE LIGHTS SWITCHED ON

The acute energy crisis in Europe has highlighted the need for countries to increase their clean-energy efforts – not only owing to the climate imperative, but also because of the close links to national security.

The invasion of Ukraine and resulting sanctions have highlighted the geopolitical risks associated with the import and export of energy. Therefore, although the energy crisis may have negative effects on the environment in the short term, we believe that it is likely to accelerate the transition towards alternative energy sources in the medium and long term.

In the short term, we believe that power generation from sources other than gas in Europe will stand to benefit from the cut-off of Russian gas. Operators of power generation that are not subject to fuel supply from global markets, such as domestic coal or nuclear energy, could provide short-term relief from gas shortages.

However, although non-gas power producers are theoretically well positioned, they may face additional taxes or have caps imposed on the price at which they can sell electricity in order to combat the rise in consumer bills.

Use of coal and (to an extent) biofuels is not aligned with the climate-change ambitions of the EU, but in the short term this is likely to be overlooked out of necessity. Nuclear power is always controversial, though we think that it would be imprudent to decommission nuclear before a fully decarbonised grid has been built out. Therefore, we expect that nuclear facilities are likely to remain in operation for quite some time yet.

We believe that there is also an opportunity in liquefied natural gas (LNG) storage, transportation and production as the EU looks to build extra resilience into the existing energy system. Nevertheless, there should be one eye on the exit strategy, to make sure we are not locked into more decades of burning carbon.

Power generation is, in principle, the simplest sector to decarbonise, given established technologies in wind and solar. We believe that investment opportunities will emerge across the supply chain, from developers of renewables to manufacturers of components used in renewables. A grid based on intermittent power is going to require significant upgrades, combining energy storage in the form of batteries and hydrogen with ultra-high-voltage cross-continental interconnectors.

According to the International Energy Agency (IEA), the buildings and building construction sectors combined are responsible for almost a third of global final energy consumption,[1] and we believe this is addressable in two ways.

One is to accelerate the renovation and insulation of the current building stock and increase energy efficiency requirements for new buildings. The second is to speed up the rollout of heat pumps to replace gas and oil boilers. The introduction of heat pumps needs to go in tandem with improvements in building insulation in order to work effectively.

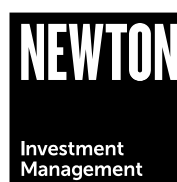
Smart home control systems can also save a surprising amount of energy. At an EU level, reducing building heating by just 1 degree can save 10bcm of gas per year,[2] out of a total 450bcm gas demand.[3]

Transportation accounts for 37% of CO_2 emissions from end-use sectors, according to the IEA.[4] This sector presents a mixed picture; light vehicle transport is easily replaced with battery electric vehicles, the technology for which has already been proven. We are seeing investment opportunities in the electric-vehicle supply chain and charging infrastructure.

On the other hand, heavy road transport, shipping and aviation are much more expensive to decarbonise. This area is likely to start to see investment but may not be the main area of focus in the near term.

The manufacturing industry, by nature of its focus on producing products at the lowest possible cost, is already fairly efficient; however, the current high electricity prices make the payback period for installing more energy-efficient components like compressors much shorter, and therefore may accelerate investment.

1) IEA, Buildings, accessed 1 August 2022: www.iea.org/topics/buildings
2) IEA, 10-Point Plan to Reduce the European Union's Reliance on Russian Natural Gas, March 2022
3) Statista, Natural gas consumption in the European Union from 1998 to 2021, 19 July 2022
4) IEA, Transport, accessed 1 August 2022: https://www.iea.org/topics/transport



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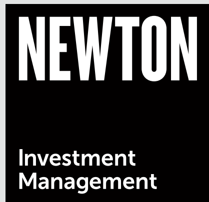

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