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“Climate Solutions Investments”

George Serafeim, Professor of Business Administration at Harvard Business School and Academic Partner at State Street Associates

“The world needs to reduce carbon emissions pretty significantly. Net zero targets will not be achievable without innovation.”

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Executive Summary

The path to a low-carbon economy may seem long and bumpy, but with great innovation and strategic investment it is achievable, argues George Serafeim, Professor of Business Administration at Harvard Business School and Academic Partner at State Street Associates

Net zero targets will not be achievable without continuous innovation, he said during the State Street LIVE Research Retreat in Boston, the last stop of this global event that began in London earlier this year. He explained how ESG investors can build a climate solutions portfolio that will deliver optimal results for both investors and society.

Technologies and solutions today can reduce a large amount of carbon emission, but they are not enough to meet the required emissions reductions. Therefore, new technologies, products and services will be critical. But far too often when thinking of climate change solutions that are not yet on the market investors think of risk. Serafeim argues investors stand to benefit greatly from identifying companies and key areas that are central to tackling climate change well into the future.

Serafeim’s research identified 10 business areas and more than 900 publicly-traded firms worldwide that are making an impact. He examined “pure-play” climate solutions companies, where 90% of revenues are coming from the climate solutions products. His analysis revealed that much of that innovation is happening in emerging markets in sectors like:

- Agriculture and food
- Building and housing
- Transportation
- Energy generation

Though ESG investors have had trouble keeping pace with the recent high prices and profits of energy, some climate change solutions themes, like batteries, energy and transportation, have experienced growth in market value. Still, Serafeim underscored the importance of creating a diverse portfolio across many sectors.

Finally, though climate change solutions portfolios are often characterized by high growth and high investments but low profitability and high risk, understanding the long-term trajectory of economies and the opportunities being created by innovation is far more important, he said.

Conclusion

The mission to decarbonize the economy is arduous but achievable through innovation, said Serafeim. The technologies and solutions available today are helping reduce carbon emissions but won't suffice to bring the world to zero. The path to a green economy is a continuous journey that requires new technologies, products and services well into the future. Therefore, identifying and accessing those companies and sectors now is important not only for investors but for society.