AllianceBernstein

Q&A

Taking an Active Role in Low-Carbon Investing

AllianceBernstein (AB) deeply cares about how environmental, social and governance (ESG) issues impact the world and our clients' financial interests. AB's **Kent Hargis, Sammy Suzuki and Roy Maslen** discuss how responsible investing is the bedrock of our low-carbon strategies and why more investors appreciate its benefits.

Q. What was the origin of your low-carbon investing strategies?

Sammy Suzuki: They stem from investors' desire to align financial goals with helping the environment, and the strategies are in lockstep with our firmwide responsible investing vision. Low-carbon investing is critical to addressing the dire consequences of climate change, and the evidence is clear. For example, we've seen five of the planet's hottest days in each of the past five years alone.

Roy Maslen: The impact of global warming on communities and investments alike is profound. It's already being priced into markets, as governments combat climate change and as companies step up to change their ways. So, if we are to effectively manage the capital growth and risk needs of our clients, climate change must be part of any individual or institutional investor's risk assessment today.

Q. How is climate change shifting the investment conversation?

Kent Hargis: It's changing the mind-set, not just the conversation. Low-carbon considerations should be part of almost every investing approach. More investors want to make a positive impact on the world, but they still want solid return potential while managing volatility. We believe all three are possible—and you don't need to give up one to get the other. But it takes an active, fundamentals-based approach to equity selection to get it right.

Q. What drives a combined strategy of climate resiliency and return potential?

Kent Hargis: We take an active, bottom-up approach to selecting companies. We also engage directly with management teams to assess risk exposure to climate change and their long-term capacity to decarbonize. Climate change and carbon risk are still generally misunderstood by investors, so both are often mispriced. We think this creates an anomaly and opens opportunities for us as responsible investors to generate better performance along with a lower carbon footprint.

Sammy Suzuki: By focusing on companies that are decarbonizing, we can aim to reduce carbon emissions in our strategies by 90%. We layer this with quantitative and in-depth fundamental research to maximize return and help manage the downside. Beyond the numbers, however, our active engagement with companies helps encourage better business behavior, whether toward a cleaner environment, fairer social practices or stronger governance.

Q. How does your active engagement help companies pursue ESG goals?

Kent Hargis: We can uncover many things that help influence behavior. For instance, we supported a manufacturer's new carbon emissions labeling on its consumer products, and we encouraged a big-box retailer to source more carbon-efficient goods, which it later did.

Roy Maslen: Engagement is far-reaching. For instance, if we can help a company take more responsibility for carbon emissions, it helps that firm attract and retain quality talent. One CEO shared that when his annual store manager forum turned to responsibility goals and climate strategy, the applause was never louder. As is the case with many companies, his young management team is among the next wave of leaders who want to do their part to fight climate change. We help with that.

Q. How do you gauge a company's carbon footprint and its impact on valuation?

Kent Hargis: It's impacted by the price of carbon, which has direct cost implications for a company's bottom line. For example, a euro area–imposed carbon tax could pose a financial burden and should be reflected in current valuations of firms affected. We also gauge transition and physical risks, such as keeping up with industry changes, facility upgrades, or supply chain sourcing challenges forced by climate change. All these inputs contribute to a company's valuation, which gives us an apples-to-apples comparison across sectors and industries before we delve even further.

Roy Maslen: To set a price on carbon, we also use an uncommon measurement approach that combines three scopes of every company's emissions. They range from burning fossil fuels like coal or gas and consuming electricity to producing fossil fuels that aren't yet consumed. Including all of them gives us the most accurate carbon footprint and potential impact on company valuations and outlook.

Q. Which questions help you vet a company's carbon footprint?

Roy Maslen: We dig into more than just the company itself. We examine aspects like its supply chains, other stakeholders, government and political winds, and technology providers.

Sammy Suzuki: We also surface the indirect or delayed impact of climate change. For example, a real estate company could own waterfront property. That may be a strong asset, but will it be submerged sometime in the future? Similarly, a strongly rated insurance company could have a

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solid book of business. But has anyone asked if its coverage lines include catastrophic losses that could be exacerbated by climate change?

Q. What types of companies do you invest in?

Kent Hargis: Our equity exposure is broadly spread across four buckets, starting with companies that are natural low-carbon emitters. The second bucket contains firms that are measurably reducing carbon in their products. Third, we want companies that are helping to decarbonize their supply chains, from sourcing to selling. And fourth, we want businesses offering products that help other companies reduce their own carbon emissions.

Q. How does your partnership with Columbia University's Earth Institute tie in?

Sammy Suzuki: Our investment teams go through the Institute's training program, which is critical in deepening our climate change knowledge. Columbia has climate researchers and specialists in global warming, but they're not as able to translate this to the impact on companies. Conversely, we understand the dollars and cents, but not so much the magnitude of climate change. Our partnership bridges these two worlds.

Q. In what ways do your strategies differ from other ESG-style investments?

Kent Hargis: Most ESG-leaning strategies are considered niche allocations. Our Global Low Carbon strategy is managed as a core investment, addressing low carbon while also mitigating risk. We take the time to evaluate and consider the individual company, rather than dismissing offhand certain business models or industry types.

Sammy Suzukiis: We actively incorporate the risks surrounding carbon, but we never outright eliminate companies based just on that score. All the while, we fully expect to generate attractive risk-return characteristics with a 90% reduction in carbon emissions, which is quite bold in the industry.

Q. Where does low-carbon investing go from here?

Roy Maslen: Climate change is moving from a fringe research topic to a seismic force impacting whole countries, industries and asset prices. There is a long way to go, but as climate change envelops mainstream thinking, it will also shift to the heart of all investing awareness, as it should.

Sammy Suzuki: I think more investors will appreciate why low-carbon investing is about more than just the environment. There's a direct link between global climate change and economic vitality. This interconnectedness is in full view with COVID-19. The virus is a regretfully deadly health crisis but also with severe, lasting impact to global economies and more. A similar through line exists for climate change, which won't disappear any time soon. I think more investors are starting to understand this path and make decisions that help, not harm, the greater good.

For more information about how we can help you achieve your responsible investing goals, please contact your AB representative.

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