

Video Segment 4: Climate Change As an Economic Issue

“The problem with negative screening is that when you screen out a “bad” company it doesn’t really inspire that company to change their behavior.” - David Swift

NOTE-TAKING GUIDE

In his argument that environmental issues are economic issues, David Swift, Chief Operating Officer of Engine No. 1, says that the investment community has responded in different ways to try to lessen the risk that climate change poses to their investments. Explain these concepts, how investors use these strategies, and how Engine No. 1 is “shifting the narrative.”

Environmental, Social and Governance:

Active Ownership:

Pushing Materiality:

David Swift says, “The way we think about companies today and the way we think about investment decisions is that companies really sit on the right side of transformation or the wrong side of transformation.” Explain:

If you’re on the “wrong side of transformation,” the key pressures you will face as a business are:

1.

2.

3.

4.

Referring to influencing companies’ decisions about making sound environmental choices, David Swift says, “By making it an economic conversation and not an ideological conversation, you get the response you’re looking for.”

In other words, money talks more to businesses than "because it's the right thing to do." Still, strengthening social impact is a key motivator for Engine No. 1 and other investors. These days, many investors lead with their ideology or their beliefs when making investment decisions. They want to invest their money based on personal values, whether it be socially responsible investing, ESG, or impact investing. Do you believe personal values have a place in investment decision-making and in the business conversation about climate change? What role do they have? If you're an investor, share your personal experiences.

THE LANGUAGE OF BUSINESS

[CEO \(Chief Executive Officer\)](#)

[Regulatory Restrictions](#)

[Company](#)

[Revenues](#)

[Economics](#)

[Shareholder](#)

[Government Regulation](#)

[Sustainability](#)

[Investor](#)

[Valuations](#)

Active Ownership: When shareholders that own equity in a business advocate for good corporate governance and actions that will improve the company's value.

BlackRock: An American multinational investment management corporation.

Cash Flows: The money being transferred into and out of a business.

Climate Change: The long-term shifts in temperatures and weather patterns that are increasingly caused by human activity, like the burning of fossil fuels that releases greenhouse gases into the atmosphere.

Core Business: The part of a business that is considered its essential activity and generates most of its value.

Earnings Pressure: The Chief Executive Officer might feel pressure to meet or beat the expectations that an analyst has for how much money their company will earn in a month, quarter or a year.

Economic Issue: An issue related to profitability or how much money a company makes.

Electric Vehicles (EV): Vehicles, like cars, that are either partially or fully powered on electric power.

Engine No. 1: A hedge fund that is part of a new breed of shareholder activists believing that social good is important to a company's value and impacts the bottom line. Founded in 2020, Engine No. 1 is all about active ownership of the companies in which it invests. It is perhaps most well-known for buying a stake in ExxonMobil, an international oil and gas company, and advocating for climate policy.

ESG Strategies: ESG stands for Environmental, Social and Governance and refers to a system for how to measure the sustainability of a company. It is an evaluation of a firm's beliefs and attitudes about social and environmental factors. Companies are thinking hard about how to incorporate ESG factors into their business strategy to appeal to investors, customers and other stakeholders. Investors are turning to ESG rating firms to screen their investments on these various factors.

Fiduciary Responsibility: Acting in a way that will benefit someone financially.

Fossil Fuels: Carbon-rich fuels that are burned for energy, including coal, crude oil and natural gas.

General Motors: An American company that manufactures automobiles.

Growth Rate: How much a company grows (often financially) in a month, quarter or year.

Ideological Conversation: A conversation based on your ideas or principles. For example, encouraging a company to become net zero because you believe it's the right thing to do.

Larry Fink: Chairman and CEO of BlackRock.

Market: Where buyers and sellers meet to handle the exchange or transaction of goods and services.

Material Risk: Risks that could impact a company's business performance.

Materiality: A concept in business that defines why or how an issue is important for a company because of its impact on its finances, reputation or other factors.

Multiple Compression: When a company's earnings go up, but its stock price does not increase or possibly even goes down, often due to investors' questions about its growth prospects.

Multiples: Different indicators that can be used to determine the value of a stock.

Negative Screening Approach: When investors choose securities by excluding companies or industries that they consider "bad" or morally unsuitable.

Net Zero Targets: The goals a company or other entity sets to reach net zero, when their emissions are equal to the amount of carbon they take out of the atmosphere.

Recruiting and Retaining: The process of attracting employees to work for a company and then putting practices in place to keep them there.

Technological Innovation: A novel technology.

Terminal Value: An important financial concept in investing that looks at the value of an investment beyond a forecast period.

EXPLORE MORE IN OUR ONLINE BUSINESS JOURNAL

[How the Next Generation Can Add Value to ESG Investing](#)