

# Video Segment 6: Protecting Investors from Climate Change Risk

“In the housing and mortgage space there have been a lot of improvements in analytics around risk-assessment and climate risk...that’s a big step forward.”- Dr. Benjamin Keys

## NOTE-TAKING GUIDE

COO David Swift believes Engine No. 1’s investment framework is “the best way to underwrite the material risk that is climate change.” Explain Engine No. 1’s **Total Investment Framework**, including how it quantifies risk and value:

Progress around ESG is, in part, driven by stronger and harder-edged analytics. How are the following factors improving risk assessment for investors and other stakeholders who are exposed to climate risks?

**Data Accessibility:**

**Quantifying Datasets:**

The buzz around ESG is driven in large part by younger generations wanting a portfolio whose values appreciate as much as its value. However, the cautionary tale for investors is that a lot of ESG is still hype. What have you learned from this discussion of *ESG: Tackling the Climate Crisis* that suggests ESG is becoming more legitimate and a stronger way to understand the true picture of a business? What progress still has to be made?

# THE LANGUAGE OF BUSINESS

[Data](#)

[Revenues](#)

[Investment Portfolio](#)

[Risk Management](#)

[Investor](#)

[Shareholder](#)

[Operations](#)

**Analytics:** The analysis of data or statistics.

**Capital Allocation:** The process of figuring out the most efficient investment strategy for an organization's financial resources in order to maximize shareholder value.

**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.

**Democratization:** Making something accessible to everyone.

**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. And investors are turning to ESG rating firms and others to screen their investments on these various factors.

**Environmental Footprint:** The impact that a company's business operations and practices have on the environment. Characterized by David Swift as "the damages a company does to generate its profitability."

**Investment Framework:** Similar to an investment strategy, this is a framework that investors use to make their investment decisions. For example, David Swift alludes to Engine No. 1's Total Value Framework that it uses to make investment decisions.

**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.

**Private Equity Investor:** An investor who acquires a private company with the intent of strengthening the business and then selling it for a profit.

**Profitability:** The degree to which a company makes a profit or financial gain.

**Public Market Investments:** In the public markets, like the stock market, companies sell shares to the general population, who can then buy or sell those shares on a stock exchange.

**Risk:** In investing, risk is related to uncertainty about your investment that may ultimately cause you to lose money.

**Social Footprint:** As in ESG, a company's social footprint looks at its commitment to social issues, including hiring a diverse workforce and paying fair wages.

**Stakeholder:** A person with an interest or stake in something, especially a business. Investors are stakeholders, as are employees, managers and even customers.

**Underwrite:** Give money to support a business.

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