TD Asset Management

SHARING OF KNOWLEDGE
LEARNING SERIES **2022**

The Next Big Transformation: **Investment Opportunity Driven by Climate Change**

The Sharing of Knowledge Learning Series (SOKLS) offers current and prospective clients of TD Asset Management Inc. an opportunity to hear our thought leaders discuss some of the most important current topics in the world of investing. In light of the current environment, we once again held a virtual event this year – our third virtually and 19th overall.

Government regulation, nationally determined climate commitments, technology advances, and business and consumer preferences driven by climate change are reshaping how businesses operate. This disruption is creating significant investment opportunities through a seismic shift across all industries and is expected to require over $150 trillion of new investment by 2050. For institutional investors, this presents key risks and opportunities in portfolio construction and shareholder engagement.

The theme of this year's SOKLS was **The Next Big Transformation: Investment Opportunity Driven by Climate Change.** The bilingual live broadcast covered **the following key areas:**

Climate change's impact on investing

The physical impacts of changing weather patterns and extreme weather events as well as the investments needed for adaptation and resiliency are driving public spending, as well as corporate and investment strategies. The impact of climate change is the most serious long-term challenge investors face. It's not a risk on the horizon, but a systemic issue happening right now.

Unintended consequences and a just transition

As the world's economy responds to the climate crisis, it's crucial to consider a just transition for workers and communities, something which is highlighted in the preamble to the 2015 Paris Agreement. While the transition to a net-zero emissions economy will provide many benefits, there will also be transitional challenges for workers, communities and countries - particularly those countries that rely heavily on fossil fuel reserves to drive their economies or provide a source of employment.

Investment opportunities in global infrastructure

Infrastructure investments will play a key role in transitioning economies. Our use of energy is a key component of our emissions footprint, and the transition to low-carbon solutions is well underway. Over the next 30 years, our generation of electricity is expected to nearly triple, and 80% of that growth is expected to come from wind and solar.

Renewables are only part of the story, though. Trends such as the ongoing evolution of electrical grids, transportation's shift away from combustion engines, the ongoing search for low-carbon alternatives in agriculture, and continued advances in building materials are also expected to produce economic growth and significant investment opportunities in the field of infrastructure.

Investment opportunities in global equities

As a result of climate change, some businesses are expected to disappear in the medium- to long-term.

However, the transition to a fossil-free economy is expected to benefit other industries and companies. These include businesses exposed to the production of semiconductors, renewable energy/fuel, batteries, and electrical vehicles and parts for them. Producers of sustainable packaging and companies which use plants or biomass to blend into traditional petrochemicals to make plastics also stand to win from the transition to greater sustainability.

While the green transition will create attractive opportunities in every public equity sector, the trick will be to identify those companies which can benefit from the trend. Identifying those companies is no different than identifying companies within any other theme. It all goes back to the basics of investing – i.e., investing in companies whose Return on Invested Capital is greater than their Average Cost of Capital.

Cost of emissions and inflationary pressures

Carbon pricing is a key policy risk which is impacting and will continue to impact heavy-emitting industries. This is a crucial issue institutional investors need to consider because of its impact on their portfolios.

When thinking about environmental damage, many investors tend to focus on industries which have high operational emissions, such as the oil and gas sector. However, the demand side is seldom in the equation. It is therefore just as important to keep in mind industries that have low operational emissions but high indirect emissions which occur in their value chains.

As the focus shifts to consumption, companies with high indirect emissions will face serious transition risks as the world moves to a low-carbon economy. Unless they address their high indirect emissions, these companies could also see cash flow constraints due to public policies such as increases in carbon pricing.

Broadcast Speakers

Moderator: **Kim Parlee,**
Vice President, TD Wealth
and Host of MoneyTalk on BNN Bloomberg

Panelists:

Priti Shokeen,
Head of ESG Research
and Engagement, TDAM

Heather Greenman,
Vice President of Fundamental
Research, TDAM

Carl Elia,
Vice President and Director of
Infrastructure Investments, TDAM

Special guest speakers:

Bruce Cooper,
Chief Executive Officer, TDAM
and Senior Vice President, TD Bank Group

Tanya van Biesen,
Senior Vice President, Global Corporate
Engagement, Catalyst

Knowledge

If you would like to hear from us, please contact your **Relationship Manager** or **Mark Cestnik, Managing Director**.

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Wealth

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