Q&A-Energy stock gains temporary; carbon credit market vital but not permanent solution for most industries: Zach Stein, Carbon Collective

The 2022 rise in stocks of traditional energy companies is temporary as these companies still face short-term volatility and long-term headwinds, **Zach Stein, chief investment officer of Carbon Collective** told the Reuters Global Markets Forum on Thursday, September 22.

"Should we truly enter a recession, history shows that we could expect a sudden drop in oil prices and an equally sharp fall in these company's stock prices. ..long term…they are being outcompeted by economically superior techs in their two core markets: transportation and electricity," Stein said.

He added that while strong and verified carbon credit markets will be vital for industries that cannot decarbonize quickly, most companies should pair use of these tools with concrete plans to switch entirely to renewable power.

Following are edited excerpts from the conversation:

Q: Could you run us through Carbon Collective's focus?

A: We are in investment advisor that helps individuals, families, and businesses invest in public portfolios that are aligned with solving climate change.

Q: Obviously there's been a lot of debate over the past few years about what should actually constitute an "ESG" company. How do you evaluate the companies you invest in?

A: To us, climate is the #1 risk and opportunity facing our planet and economic system. We build our strategy based upon what the leading science tells us must happen in order to avoid catastrophic global warming. We need to stop investing in new fossil fuel expansion -- yes, we have enough. The shortage right now is a distribution problem, not production. More importantly, we need to dramatically increase investments into climate solutions. From renewables, to EVs (electric vehicles), to batteries, to electrified, energy-efficient buildings, annual investments into climate solutions must increase by 7 to 8 times if we are to get on track to avoiding some pretty scary climate scenarios.

Therefore for our strategies, we use what a company builds as the main driver for inclusion. It's an admittedly cheesy rhyme, but simple to remember. Our equity strategy is "Divest, Reinvest, Pressure the Rest." Divest from the companies whose core business cannot exist in a post-carbon world without some miracle breakthrough in technology (~20%) of the US stock market. Reinvest that 20% into the companies building climate solutions. Broadly hold the remainder to pressure them to adopt solutions like renewable energy and electric fleets.

Q: In a year as rocky as this, energy's performing a lot better than other sectors. Does this set back ESG efforts of the last couple years? Have your clients expressed any concerns over this, and how are you addressing those?

A: We work with over 600 individuals and families at this point on our individual advisory platform. To date, we've lost just one client due to market performance. Our strategies are all built for long term investing and our clients get that.

Overall, we believe that, while fossil fuels stocks are having a resurgent 18 months, the long term trend is certainly downward. Looking back, if you had divested from the S&P 500 from the year I was born – 1989 -- until today, you would have made more money. Looking forward, the energy industry is facing significant headwinds. In the short term, it is extremely volatile and highly tied to the overall economy. Should we truly enter a recession, history shows that we could expect a sudden drop in oil prices and an equally sharp fall in these company's stock prices. I'll share one more note on the long term headwinds facing O&G (oil and gas) companies. They are being outcompeted by economically superior techs in their two core markets: transportation and electricity. In 2010, electric cars represented 0.01% of global car sales. In 2022, it'll be over 10%. Why? EVs are just better cars. They are faster, safer, roomier, quieter, far more cost efficient to fuel and maintain. And in 5 years, they'll be cheaper to buy up front. That's a simply

better tech coming. If you're looking to make a quick buck, you can probably still can in O&G, but if you're waiting 20 years till retirement it's hard to see where the capital gains will be coming from. Instead hold the industries that are replacing them.

Q: If Big oil companies were to ramp up climate friendly investments and research, would that change your investment view for them? Or is it too little, too late?

A: We would love nothing more than for big oil companies to take the necessary steps to be included in our portfolios. They hold critical expertise in areas that will be critical for solving climate change, such as deep boring for geothermal energy. For them to be included, however, we would need to see far more than talk or "Net Zero by 2050" resolutions. We look at what a company does ---- revenue -- not what a company says. So when Exxon is generating more than 50% of its revenue from climate-friendly energy products, we'll excitedly invest in them. Until then, we do not believe it makes sense to hold them and instead want to focus on their customers to pressure them to adopt cleaner, cheaper energy options for electricity and their vehicle fleets.

Q: How can companies better use carbon credits to reach sustainability goals, instead of using it as a means to 'greenwash' their activities? What type of guidelines need to be in place?

A: A strong, verifiable carbon credit market is critical. Some industries like cement, steel, and airlines cannot be quickly decarbonized and they aren't going to just disappear. But carbon credits cannot be simply a purchased "indulgence" without being paired with clear climate action. Every company in the world needs to switch its electricity source to 100% renewable. It's often economically superior. Same for their fleets. Actions like these in an accelerated timeline should be done ASAP with credits being purchased only for any truly difficult area to decarbonize.

Q: What are some of the companies or sectors you like in the space right now, especially those that you think are flying under the radar?

A: We believe that climate solutions are a new sector of companies that are poised for broad economic takeover. As alluded to earlier, the economics for technologies like EVs, batteries, solar, and wind are simply better than their dirty predecessors.

Q: When supply chains are diverse -- in terms of numbers and the locations they are based in-- how can companies try to reduce their scope 3 emissions? What successful methods have you seen in play?

A: Scope 3 emissions are tricky. The math quickly gets complicated, and it can become easy for companies to throw the "hot potato" elsewhere. A big tech company that wants to lower its overall emissions can divest from the emitting branch and outsource it. We think that instead of pressuring on Scope 3, we should hold as much of the market as we can and pressure the supply chain itself on their own Scope 1 & 2. It's far more tangible for those companies. Instead of pressuring Walmart to get FedEx to reduce FedEx's emissions, hold FedEx to pressure them directly. This admittedly does not address one part of Scope 3, the lifetime emissions of products that are purchased by consumers, such as automobiles. But this type of purchasing behavior is driven by large changes in consumer preference and evolving tech, like EVs.

Q: Zach, any final thoughts for us?

A: One note, I will leave. If you are looking to invest into climate solutions, Carbon Collective launched its first ETF (exchange traded fund) this week, CCSO. Carbon Collective US Climate Solutions ETF.

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