
Why Green Investors Should Think Thematically.

Jack Bogle, founder of Vanguard, revolutionized the investment management industry when he created index funds back in 1975, bringing to market price competitive strategies that allowed retail investors to follow broad indices like the S&P 500 or Dow Jones. Besides being an inexpensive product, funds tracking these benchmarks have added diversification to portfolios. Since then, passive investments have increased in popularity and in the past 40 years have competed for capital flow with the active strategies that try to beat the market and deliver excess returns. Index funds following broad markets have been a very popular strategy.

After the oil shocks of 1973 and 1979, fossil fuels became inexpensive and used extensively in industries from electricity to transportation and fertilizers to plastics. This also enabled a rapid increase in the mass-produced materials like cement and steel, to the great benefit of the new equity indices that represented a broad range of companies. However, what worked in the past now poses a lot of risk, as global economies begin to transition at differing speeds towards Net Zero.

For example, the S&P500 currently has about 20% of its weight represented by companies that are heavy carbon emitters, predominantly names in oil & gas, plastic packaging, automakers, gas utilities, trucking, gas distribution, and air freight.

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