

Invest in Environmental System Change and Save the Planet

Investors who consider environmental factors in their investments are making the world better. Many times, however, they reduce the symptoms rather than solving the fundamental cause of climate change and the impact is small. More investors are starting to focus on system change in selecting investments so that they identify the root causes of environmental problems and solve them in order to have a major impact.

Go Beyond ESG to Drive Systems Change

The fundamental issue, given the monumental challenges of climate change, is that tinkering around the edges is no longer enough. As Godeke Consulting founder Steven Godeke and Rockefeller Philanthropy Advisors senior advisor Patrick Briaud write in the new *Impact Investing Handbook*, “a growing number of impact investors are seeking to affect real systems change. Systems change is about addressing the root causes of social and environmental problems. It is an intentional process to alter the components and structures that cause the system to behave in a certain way.”

Investors need to consider whether they are putting money to work in response to problems they see, as the Palladium Group puts it, or whether they are addressing the root cause of the problems. The essential question is whether investors are fundamentally improving the systems that produced the problems in the first place or merely treating symptoms. To catalyse significant positive change, investors need to understand the whole system in which the environmental issues are occurring, identify causes, find high leverage points to catalyse significant change and invest capital.

While approaches such as addressing the SDGs and investing in ecosystem restoration are beneficial, Global System Change founder Frank Dixon similarly noted in GreenBiz, they still mainly focus on symptoms. The solution to climate change and deforestation, for example, requires resolving the systemic factors that created the problems rather than just planting trees. Systems change investing (SCI) switches the focus from company change and symptoms, Dixon explained, to system change and root causes.

How to Invest

While it is difficult for many individuals to find companies to invest in that are actually changing systems, the range of opportunities and resources to understand the issues are growing. Venture capital firms, impact investors, angel investors and even mutual funds are beginning to focus on system change.

These investors are seeking to analyse the root causes of environmental problems and find companies working on solutions to eliminate the problems. By investing in firms that resolve the fundamental problem, investors can help create real and positive change for the environment.

Venture capital firm At One Ventures offers an example of how this works in practice. It says it finds, funds and grows teams to catalyse a world where humanity is a net positive to nature. “We back early-stage companies that are using disruptive deep tech to upend the unit economics of established industries while dramatically reducing their planetary footprint. We also look for companies that are pioneering new industries that are actively regenerative to planetary health.” One example is Alchemie Technology, which uses spray nozzles to replace immersion dyeing, resulting in near-complete elimination of wastewater from the process while creating dyed textiles at 2-3 times lower cost. Textile dyeing is the second largest cause of industrial water pollution globally, At One Ventures notes.

Another approach, Dixon suggests, is to rate companies on system change performance and use the results for positive or negative screening. “SCI represents the first investment approach that has the potential to achieve the SDGs because it focuses on root causes,” he opined. Whereas the frame of reference for ESG is largely in mitigating negative corporate impacts, the SCI frame of reference ultimately is the whole earth system.

A new book, *21st Century Investing: Redirecting Financial Strategies to Drive Systems Change* by consultant William Burckart and Investment Integration Project founder Steve Lydenberg, provides clear examples. Investors can get on the “systems highway” when they shift their approach from being portfolio-centric to trying to “fundamentally solve a problem by investing with an awareness that capital allocations can have big impacts on environmental systems,” Burckart told *Penta*. The approach is distinct from simply investing in companies with the best environmental practices, which may make positive incremental changes yet not resolve the cause of the environmental problem.

The investment management industry seems to be starting a slow shift towards system change too. The Net Zero Asset Managers initiative, formed in December 2020, now includes 87 signatories that manage nearly \$37 trillion in assets. “The accelerating growth of the Net Zero Asset Managers initiative signals a great awakening in the finance sector,” Ceres CEO Mindy Lubber told *The Investor Agenda*. “The largest financial leaders in the world are increasingly embracing the inescapable reality that climate change is a systemic risk.” While many of these managers still just focus on ESG, Lubber’s statement indicates that they might start to focus on systems changes to resolve systemic risks before long.

Admittedly, using system change as a framework for personal or even institutional investing isn’t easy yet and opportunities may seem limited. Still, starting to focus on it now will be beneficial and there opportunities available. As Dixon sees it, “SCI provides substantial profit, growth and leadership opportunities for the financial community.”