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CALVERT INSIGHTS

Decarbonizing the Electric Grid: A Climate Transition Investment Framework

By: Calvert Research and Management | July 18, 2024

Content adapted from a white paper authored by Calvert Research and Management's Jonathan Prugel (Executive Director, Research), Henry Mason (Vice President, Research) and Anuj Goyal (Vice President, Research).

Investors who seek to deliver value both to clients and to society more broadly must develop a thoughtful investment framework for high-emitting sectors. This is no simple task, and indeed many sustainable investors have opted for divestment or exclusionary frameworks that direct capital away from large parts of the economy. We believe such approaches are inadequate in addressing the problem of greenhouse gas emissions and climate change. In our view, many frameworks simply wash their hands of the problem, content to engineer portfolios with low (and in many cases, artificially low) financed emissions —emissions reported by financial institutions when providing capital to another company. These approaches, in our view, risk not participating in the energy transition.

The energy transition is ambitious, complex, and, at times, downright uncomfortable for its many stakeholders. But the transition to a low-carbon business model is an economic imperative—the structural forces at work will continue to reshape the energy system, with asymmetric consequences for companies that cannot keep pace.

Calvert sees abundant investment opportunities and societal benefits in directly financing the transition to a low-carbon economy by prudently allocating capital where it is needed most: high-emitting sectors that have the capacity and willingness to decarbonize. As an experienced, responsible investor, Calvert seeks to leverage the breadth of the capital markets to finance the most compelling investment opportunities across asset classes in the energy transition.

In our white paper, [Decarbonizing the Electric Grid: A Climate Transition Investment Framework](#), we develop a climate-integrated investment framework for the utilities sector. Calvert's Energy Transition Investment Factor (ETIF) incorporates both sustainability and economic analysis, providing a robust climate-integrated investment framework that seeks to identify companies that we believe will generate the greatest shareholder value while simultaneously delivering the greatest societal impact.

We see a sector that is tantalizingly close to unlocking its decarbonization potential. The positive rate of change within the sector is impressive, and we see a compelling opportunity to underwrite the transition to a low-carbon economy with a transparent and financially material investment framework.

Bottom line: The energy transition will be complex, but we believe utilities are positioned to create significant value as the cornerstone of the electric economy. While the utilities sector is often shunned by sustainable investors, we offer up a different solution: focus on financing emission reductions.

Prior to making any investment decision, investors should carefully review the strategy's relevant offering document. For the complete content and important disclosures, refer to the white paper "Decarbonizing the Electric Grid: A Climate Transition Investment Framework", accessible [here](#)



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