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Rebecca Myatt
portfolio manager
First Sentier Investors

Infrastructure for good

First Sentier Investors is working to minimise the carbon footprint of listed infrastructure companies to the benefit of both the environment and investors.

Climate change and global warming pose systemic risks to society and the global economy. It impacts the availability of resources, the price and structure of the energy market, the vulnerability of infrastructure and the valuation of companies. Failure to take action on climate change has been ranked as the highest risk in terms of impact by the World Economic Forum, and in terms of likelihood it ranks second only to extreme weather. The level of decarbonisation required to meet a net zero outcome can only be achieved through decarbonising the power generation, transportation and industrial sectors.

It's for this reason that First Sentier Investors sees opportunity, Responsible Listed Infrastructure Fund portfolio manager Rebecca Myatt[01] says.

"Infrastructure assets are often characterised by large environmental footprints and social licenses to operate," she says.

"This gives them the scope to have a significant impact on both the planet and the people within it and makes them ideal candidates for this type of investing."

Continuing a strategy that first launched in Europe in 2017, the First Sentier Responsible Listed Infrastructure Fund aims to achieve capital growth and inflation-protected income by investing in a globally diversified portfolio of infrastructure securities, with a focus on companies First Sentier Investors believes can contribute to or benefit from sustainable development.

Among other things, it offers exposure to companies that are providing an essential service and are therefore less sensitive to the economic cycle and potential growth driven by themes such as the transition to renewable energies.

It also only invests in companies that are aligned with the United Nations' Sustainable Development Goals, rather than employing a specific sustainability metric.

"We like the UN Sustainable Development Goals because they acknowledge that achieving a sustainable future is a journey, and that every company has a role to play in getting us to the destination," Myatt says.

"As well as environmental criteria, the SDGs also target social criteria. These are particularly relevant to infrastructure assets, given that they provide essential services to large numbers of people."

Myatt says the decision to focus on the SDGs was made because focusing on a sole metric in isolation can fail to encapsulate broader goals, sometimes leading to perverse outcomes.

For example, Myatt says, achieving a lower carbon intensity metric can be done by removing energy infrastructure, or up-weighting a less carbon intensive sector within the portfolio. However, this delivers nothing towards climate action, because most emissions actually sit within the utility subsector.

"By focussing on SDG 7 (Affordable Clean Energy) and SDG 13 (Climate Action) there is a natural bias to owning utilities that can accelerate the build-out of renewables at the expense of more carbon intensive sources of energy," she explains.

"We believe the latter approach is more relevant, because it delivers meaningful change."

To illustrate, Myatt cites US-listed utility provider Alliant Energy, a holding in the fund.

Founded in 1917, Alliant Energy provides power – both electric and natural gas – to about 1.4 million customers in the US Midwest. One of its core values is to 'Act for tomorrow', meaning it uses resources wisely and considers the environmental impact of its operations.

In 2005, 44% of Alliant's generation mix came from coal and just 5% was derived from renewable sources.

Through constructive regulatory measures and significant renewable cost declines, the company has gradually decommissioned its coal fleet and replaced that capacity with renewables. Not only are its customers getting cleaner energy, but it's had a limited impact on their power bills, Myatt says.

"By 2030 we anticipate that over half of Alliant's generation capacity will come from renewables, and that the company will be well on track to meet net zero by 2050," she says.

"Through investing in Alliant Energy, we are delivering against SDG 7 (Affordable Clean Energy) and SDG 13 (Climate Action)."

It wasn't so long ago that the possibility of listed infrastructure assets operating on a net zero basis was a pipedream. While some may still feel that way, First Sentier Investors doesn't – but it is realistic about the hard work it will take to get there.

"Net zero will only be achieved via substantial investment into infrastructure assets," Myatt says.

First Sentier Investors anticipates that the 2020s will see the continued decarbonisation of the power generation sector, with an acceleration of renewables and further closures of coal plants. Further, beginning later this decade, the fund manager thinks the majority of new cars sold will be electric vehicles.

"To electrify this sector, further investment in renewables will be required along with investment in the transmission and distribution networks that the EV charging stations will connect to," Myatt says.

By the late 2030s and early 2040s, technologies such as hydrogen will have developed to the point that they have become cost competitive too, she adds.

"The development of such fledgling technologies will be imperative to decarbonising the hard-to-abate sectors such as industry, aviation, shipping and space heating," Myatt says.

"Utilities are investing today in order to make these technologies cost efficient by the time they will be most needed… without investment in infrastructure, net zero will be unattainable."

Much of this will rely on the actions of major investors. While many may feel that divestment is a key way to tackle climate change, there are also many who don't

Why?

"Because divestment, while appealing to some investors, does nothing to accelerate climate action," Myatt points out.

And while changing social expectations are a force for good, ruthless divestment could actually do more harm than good.

Given the returns assets such as these can generate, divesting just puts more valuable shares back into the marketplace.

"No tons of carbon are avoided, and the shares of a "bad" company are just traded in the market for another, less climate-aware investor to buy," Myatt reinforces.

"By engaging with companies both individually and collaboratively true change can occur. We believe that it is our fiduciary duty to do this on behalf of our investors." FS

The quote

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Watch the video on www.fsitv.com