GUEST ARTICLES

INVESTING IN SUSTAINABILITY

Myles Watkiss, Senior Analyst, Stenham Asset Management

At the core of sustainable investing is the necessity to decarbonise the world to avoid temperatures rising by more than 2°C, in line with the Paris Agreement. This requires, at a minimum, achieving net zero global emissions by 2050, and to do this the world needs to undergo an energy transformation, which focuses on three core areas:

- Decarbonisation of power generation
- Electrification of energy use
- Increased efficiency of consumption

This transition is a megatrend that we believe will represent the largest investment cycle in technology, energy and industry of our generation, spanning multiple decades and leaving almost no sector untouched. The Intergovernmental Panel on Climate Change (IPCC) has estimated that the economic damage from a 2°C rise in temperatures could be as much as $69tn. What is more worrying is that global temperatures have already risen by 1.2°C and even the most "ambitious" current global initiatives are projected to limit heating to 2.4°C.

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The energy value chain will witness the biggest disruption and, while we see a need for renewables generation capacity to increase by around 14x, there are even more exciting opportunities deep within the value chain, including transmission, distribution and storage. It is not all about energy though, and we see interesting investments in clean mobility, circular economy and changing consumer habits. Sustainable agriculture and forestry will play a key role, with the industry currently accounting for 18.4% of emissions, as will efficiency of all kinds from resource efficiency to the efficiency of renewable generation and storage. We also see opportunities in uncorrelated assets and strategies. Carbon credits will play an important role in encouraging companies to decarbonise and commodities, such as copper, lithium and nickel, are seeing hugely increased demand while extra supply can be hard to come by as quickly.

We believe that now is the time to act for three reasons: 1) renewable energy is now cost competitive to fossil energy on a levelized basis, meaning that this transition makes economic sense and hence is inevitable; 2) regulation will become an important tailwind, penalising legacy companies and incentivising sustainable companies; and finally 3) the financial and societal costs of inaction are building every year and if we delay too long, mitigation may become impossible.

We are still early in this transition and the opportunities/risks of being on the right/wrong side are still great, but the complexity involved in technological innovation, together with the high pace and breadth of disruption, makes specialist knowledge a necessity. For this reason, at Stenham we work extensively to identify true specialists in a broad range of strategies, from energy and utilities all the way through to growth equities, carbon markets and commodities. We are also finding that the insights gained from these specialist managers is helping to inform the investment decisions across our broader portfolios. It is becoming increasingly evident and inevitable that understanding ESG and energy transition is critical to achieving investment success in the coming decades.