

A forward-looking approach to sustainability

When we're deciding which firms to invest in for our global listed infrastructure strategy we focus on three criteria, placing equal emphasis on each: the quality of the assets they own, the quality of their management team and their ESG credentials. With ESG as a key part of our investment process, we aim to invest in companies that are making a difference, which in turn helps us generate sustainable investment returns for our clients and create a better world.

Let's take a look at our approach to ESG.

Always forward-looking

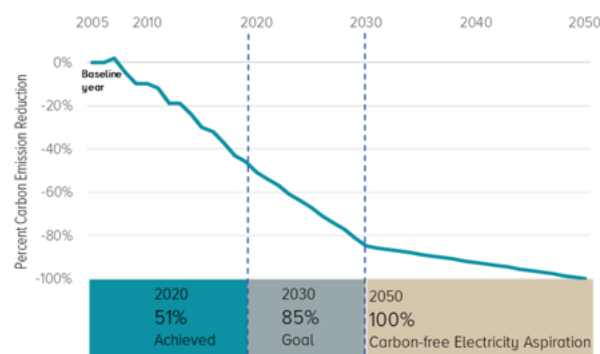
Our global listed infrastructure strategy invests in companies involved in three main areas: energy, transport and communications. Energy utilities clearly have a big role to play in the energy transition, as recent US data show that 25% of CO₂ emissions are from utilities¹, so allocating capital appropriately can result in significant reductions in carbon emissions.

While many asset managers are now focusing on ESG issues, we believe we stand out from the crowd in the way we look into the future and recognise the sustainability journey that companies are on rather than adopting a short-sighted focus on the current situation. Recognizing the CO₂ trajectory, and holding management accountable, will make a difference, while we believe this also helps us generate sustainable financial outperformance over the long term.

A good example of this approach is Xcel Energy. According to EU Taxonomy definitions this US utility wouldn't currently be considered a sustainable investment due to the proportion of energy it produces from burning coal. However, we wouldn't rule it out as an opportunity as we believe its current emission profile doesn't paint an accurate picture of the firm's sustainability journey.

That's because Xcel Energy has already demonstrated its ability to reduce its emissions from 2005 levels, and it has a clear roadmap to decarbonise further: it has plans in place to reduce CO₂ emissions by 85% by 2035 and to be net-zero by 2050. This is to be achieved by closing down coal facilities and replacing them with renewables. These targets form an important part of its management team's long-term incentive plan and the company is providing good visibility about its future plans.

Figure 1: Xcel Energy Carbon Reduction Trajectory



Source: Xcel's investor presentation, Feb-2021

Not just focusing on the E

With the world in the midst of a climate crisis, it's unsurprising that many investors are focusing on the E of ESG at present. But we believe this is a mistake – the social side in particular is also very important.

Utilities such as Xcel Energy that are transitioning away from fossil fuels are going to need to fund their investments in renewables, and that inevitably means higher energy bills for their customers. So it's important that these firms spread out the increases over several years to limit the impact, especially on their most vulnerable customers.

Another consideration is that the transition to renewables is going to affect employment: wind and solar farms need fewer staff to operate them than coal-burning power stations. We engage with the firms involved to make sure they have plans in place to help employees move to different roles within their company or receive training to help them find alternative employment.

The power of engagement

At Kempen, ESG isn't just a box-ticking exercise: we also engage with companies to urge them to improve their practices. We focus primarily on sector-wide engagements, but there are some good examples of how we've persuaded individual firms not to invest in coal facilities.

For instance, at the start of 2019, CLP Holdings, one of the largest investor-owned power businesses in Asia-Pacific, announced plans to build two new coal facilities in Vietnam. We engaged with the firm, urging it to focus on alternatives like building renewables facilities or return capital to shareholders if there were no good opportunities to do so. We were delighted that at the end of 2019, the firm announced a new decarbonisation roadmap and confirmed that it would not construct the new coal facilities.

Tune into our webinar

To find out more about how sustainability forms an integral part of our global listed infrastructure strategy along with details of how we run our portfolio and our outlook for where the best opportunities lie, please register [here](#) for our webinar on Friday 2 July.

1. <https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions>, 2019

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