



Finding infrastructure winners with data

Financial data of companies is certainly not the only thing that portfolio managers look at in their search for the right companies to include in their strategy. Other datasets also play an important role – particularly when integrating material sustainability factors into the investment process. With tangible, physical assets on their hands, portfolio managers in our Global Listed Infrastructure strategy team find themselves asking questions like ‘is the wind blowing in the right place at the right speed?’

Our managers are constantly looking for the best fit for their portfolio. The aim is to pick out companies which prove to be good investments in the longer term. This means companies which are well-positioned to take advantage of the changes which are taking place right now, like the transition to renewable energy sources. These are the companies which can, we believe, emerge as ‘winners’ from the energy transition.

Geographical and meteorological risks for physical assets

One major part of the infrastructure sector is assets which are used to produce renewable energy, where a lot of money is currently being invested. This is the sector where the energy transition is happening. Taking this sector as an example, the importance of location data becomes incredibly relevant. Comparing companies, portfolio managers find that one location for solar panels may be far better suited to catch the most sun than another. And there are locations where there is more wind and would be far better locations for windmill parks. The investment team therefore combines fundamental data with data from NASA on wind speeds in different regions.

As well as location, weather conditions are analysed: climate change leads to more extreme weather conditions - think floods, forest fires and hurricanes - which can pose major threats to companies with physical assets that are not prepared. Portfolio managers will look at what risks the weather characteristics of geographical locations pose to the companies there, and to what extent the companies can mitigate those risks. If the answer to the latter is insufficient, we engage with company management on measures to improve.

The impact of carbon pricing

Location also plays a role in integrating other types of data, which are used to assess the impact of the energy transition on a company’s (financial) performance. CO²-pricing is coming in more and more locations around the world. Companies, or even sectors, with material emissions, can be affected significantly by this, whether in the near future or longer term.

To map how big the impact will be and which companies will be hit hardest by carbon pricing, we have designed a framework in which different datasets on the decarbonisation (reducing CO² emissions) of companies, both planned or already achieved, are included.



Our aim is to pick out companies that can emerge as winners from the energy transition.

Decarbonisation of US utilities

Recently, the Infrastructure team used this framework for the US utilities sector: companies which are mainly active in the supply of gas and generation of electricity. It is a sector with relatively high emissions, which could be significantly affected by carbon pricing.

Using the framework, the team analysed data covering 479 facilities across the US: data on current emissions, announced coal and gas plant closures, conversions from coal to gas, and current plans for gas plants to be built over the next 30 years. This way, the team could forecast the change in greenhouse gas emissions from each facility and aggregate this to company level for the next 10 years. A forward looking view is important in order to properly assess the value of a company in the longer term.



We believe that in all major producing countries the ‘polluter pays’ principle will come in to play.

To avoid greenwashing, the team took a conservative approach to assessing the decarbonisation plans. For example, companies which announced the closure of coal-fired power plants but did not provide information on how this will be achieved, or lacked a timetable or concrete targets, were not credited for decarbonisation. The same applied to companies which promised to move power plants from baseload to backup capacity. No credit was given, since it would only be a small step to ramp the plant back up to full capacity.

The financial implications

Carbon pricing is a reality in Europe, and only seen in some US states. We believe however, that here as well, as in other major producing countries such as China, the ‘polluter pays’ principle will come in to play, and this represents a foreseeable expense in the near/medium term for utility companies. In short, this means that a company’s emissions will increasingly come to impact their earnings power, and hence value.

To calculate the cost for US utilities, our Infrastructure team therefore used the European system as a proxy, and projected that onto the (estimated) emissions of US companies. This way, it was possible to calculate the impact of carbon pricing on a broader range of companies and their costs. This in turn affects profitability and hence the valuation of the company in question. Ultimately, this also impacts the attractiveness of the company for investors.

The result

Several types of datasets therefore play an important role in portfolio managers’ assessment of companies. Location, weather conditions, climate change and carbon emissions can all influence earnings potential and valuations. Integrating ESG data and factors into the investment process therefore directly impacts the search for the long-term ‘winners’ in an investment portfolio.

Author:

Jags Walia
Head of Global Listed
Infrastructure



Van Lanschot Kempen Investment Management NV,
Beethovenstraat 300,
1088 WZ Amsterdam, The Netherlands.

Disclaimer Van Lanschot Kempen Investment Management (VLK IM) is licensed as a manager of various UCITS and AIFs and authorised to provide investment services and as such is subject to supervision by the Netherlands Authority for the Financial Markets. This document is for information purposes only and provides insufficient information for an investment decision. This document does not contain investment advice, no investment recommendation, no research, or an invitation to buy or sell any financial instruments, and should not be interpreted as such. The opinions expressed in this document are our opinions and views as of such date only. These may be subject to change at any given time, without prior notice.

Listed Infrastructure: general risks to take into account when investing in Listed Infrastructure strategies. Please note that all investments are subject to market fluctuations. Investing in a Listed Infrastructure strategy may be subject to country risk and equity market risks and risks specific to the infrastructure market, which could negatively affect the performance. Under unusual market conditions the specific risks can increase significantly. Historic data for similar investment vehicles indicates that the strategy can carry an aggressive level of risk.

Potential Investors should be aware that changes in the actual and perceived fundamentals of a company may result in changes for the market value of the shares of such company. The strategy is allowed to invest in financial derivatives and (short-term) money market instruments. Currency exposures may be hedged.

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested. Past performance provides no guarantee for the future.

Profile of the typical investor in Listed Infrastructure strategies: The strategy may be suitable as a core or supplemental investment for those:

- interested in a convenient way of gaining exposure to global listed infrastructure companies (international equity markets);
- seeking long-term growth of their investment (5 years or longer); who can bear the possibility of significant losses, especially in the short term.