# Doing well by doing good:
## Why sustainability delivers a double bottom line

*By **Alan Hsu**, Portfolio Manager*

Significant transformation within the energy industry that increasingly supports sustainable infrastructure is under way. Demand for clean energy is rising, driven by chronic underinvestment in infrastructure, new policy and regulation, more competitive costs of renewable fuels, efficiency technologies, and heightened consumer awareness. As demand grows for low-carbon transport, low-carbon electricity, energy efficiency, and efficient water and resource management, the value of sustainability-related assets should rise. We believe the market is underestimating this secular change.

By investing in companies that are creating sustainable solutions, our investment approach aims to capture this opportunity and deliver a double bottom line – promoting environmental stewardship while delivering competitive investment returns. We invest in companies for which environmental, social or corporate governance (ESG) solutions are sources of revenue, not costs. Many businesses are embracing sustainability by, for instance, purchasing electricity from solar- or wind-power producers. For these companies, efforts to promote sustainability represent costs. For the renewable power producers, however, they represent a source of revenue and return.

Overall, we see sustainability and environmental risk as presenting broader opportunities than investors seem to appreciate. Encompassing far more than just alternative energy, the global opportunity set comprises over 600 companies with an aggregate market capitalisation of over US$4 trillion, and includes businesses focused on renewable power, building materials, energy efficiency, water infrastructure, pollution remediation, recycling, and waste-management systems.

### ESG FOCUS

Wellington Management's experienced ESG specialists are integral to our research and risk management. They help us develop investment ideas, hone our research, and identify ESG-related opportunities and risks. Assessing a company's ESG efforts is a window into its motivations and values, and that information gives us a sense of the management attributes we care about, such as capital stewardship, employee relations and shareholder distribution.

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### AREAS OF GREATEST DISRUPTION

The many disruptive changes under way present opportunities in energy, electricity and resource infrastructure. The current inability to store electricity causes significant inefficiency on power grids and heating and cooling systems. Large-scale energy storage has the potential to fundamentally alter the energy sector and generate enormous value. Utility-scale batteries could enable wind farms and solar arrays to store electricity when demand and costs are low, and dispatch it when demand and costs rise.

Additionally, people are beginning to appreciate the cost savings gained by improving energy efficiency. Building-based energy usage represents approximately 35% of global consumption,[1] and lighting alone is the largest single demand driver. Many of the companies we invest in provide lighting and efficiency solutions that yield tremendous cost and energy savings.

As renewable energy becomes mainstream, the day is quickly approaching when wind and solar power may no longer be thought of as "alternative" energy. Industry watchers expect more than 50% of incremental electricity capacity to come from renewable sources over the next five years.[2] While this presents capital investment opportunities for renewable providers, it may pose challenges for incumbent power generators.

Finally, the management of scarce water will be one of the most pressing issues globally in the next few decades. By 2030, global water demand is set to surpass supply by 40%,[3] yet countries have underinvested in water management for decades. New infrastructure, including new pipelines, plumbing, meters and sanitisation facilities, will become critically important in many areas of the world.

As technologies advance, costs fall, and the world more fully embraces and demands sustainability, these types of opportunities should become broader and more attractive, supporting investors' ability to deliver a double bottom line for clients.

**FOOTNOTES**

1 International Energy Agency. Transition to Sustainable Buildings: Strategies and Opportunities to 2050, 2013.
2 Bloomberg New Energy Finance, June 2015.
3 UNESCO. UN World Water Development Report 2015, Water for a Sustainable World

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