

Environmental Solutions

At Ravenscroft we believe innovation is one of the big forces driving our world, society and of course business. Innovation is most obvious in the world of technology with the current pandemic reminding us all of just how dependent our modern lives are on the internet and smart devices. What receives less coverage is the innovation that is going on in many other areas including, thankfully, the environmental space. While we face huge challenges in finding a sustainable way for nearly eight billion humans to live on planet Earth, the underlying trend of innovation is hard at work and we believe some of the associated firms deserve a place in investors' portfolios.



What is a trend?

We define a trend as a change in the world that meets the following criteria:

1. It has an impact over a period of decades
2. It is very hard to change
3. It presents a tailwind to select investments

The challenges we face around environmental sustainability firmly tick all these boxes. The impact of environmental damage is starting to be seen today and is set to continue for many decades to come.

While there are solutions to these challenges, there is no known change that would suddenly render the issue resolved. Even a miracle breakthrough in a clean technology such as fusion power would not be an instant fix to the myriad environmental issues we face.

Finally, it is easy to see how environmental challenges are going to create risks and opportunities for investors. Many asset prices today do not reflect sustainability risks. This creates an opportunity to find under-priced "clean assets" which, as always, comes down to careful research and analysis.

Environmental solutions in your portfolios

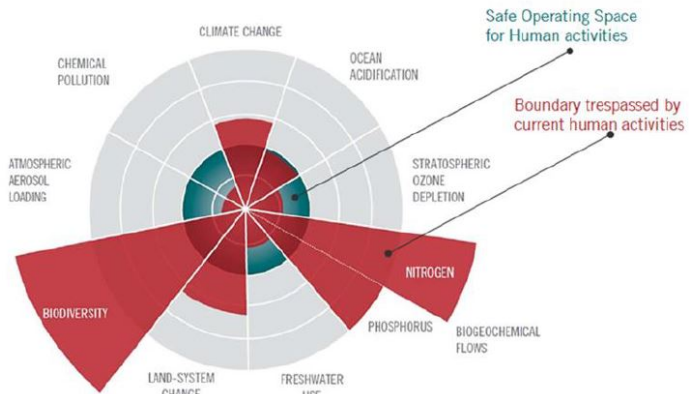
Our preferred route to gain exposure to this theme is via specialist funds. An example that we use is Pictet's Global Environmental Opportunities Fund. Affectionately known as Pictet "GEO". We like the Fund because it both has the core characteristics we look for, a high quality team with a proven process, and is a specialist in the space. The team look at the world in terms of what they call "planetary boundaries" which we can see in their graph below.



SMALL ENVIRONMENTAL FOOTPRINT

The Planetary Boundaries (PB) Framework

- > Developed in 2009 by the Stockholm Resilience Centre and a group of internationally renowned scientists
- > Nine quantitative boundaries within which humanity can continue to develop and thrive
- > Crossing these boundaries increases the risk of large-scale abrupt or irreversible environmental changes



Source: "The trajectory of the Anthropocene; the great acceleration". Steffan et al. Stockholm Resilience Centre, September 2009.

These are various natural resources which need to be managed in order to ensure that human activity on earth is sustainable. The Fund then looks to invest into companies that either operate within these boundaries or that help others to get back inside the boundaries. This leads then to invest into some fascinating businesses across a number of core areas:

- Water
- Energy efficiency
- Renewable energy
- Waste management & recycling
- Pollution control
- Sustainable agriculture
- The dematerialised economy

It also allows us to enjoy a win/win scenario of doing good while also helping us to achieve our financial goals. This can be seen in the fund's returns with the team at Pictet having produced strong returns over the decade or so they have been running the Fund.

Innovation in action

At a company level, a good example comes from the area of water, hygiene and infection prevention solutions. Companies operating in this space are helping other companies reach their sustainability goals and enabling them to operate more efficiently, reduce waste and maintain safe and clean environments.



One of the leading companies in this space, Ecolab, has helped reduce waste on a huge scale. Last year alone, 206 billion litres of water were saved, this equivalent to the yearly drinking water needs of 712 million people⁽¹⁾. Another number that is hard to comprehend is the greenhouse gas emissions that were prevented last year. Across their customer base, Ecolab's technologies saved 1.5 million metric tonnes which is the equivalent to the amount of CO₂ absorbed by tens of millions of trees over decades⁽¹⁾.



Everywhere It Matters.™

To focus on one success story, their technologies helped Archer Daniels Midland (ADM), one of the largest food and agriculture companies in the world, to develop a sustainable process to drive water management improvements across its global operations. This exercise reduced water usage, energy intensity and greenhouse gas emissions by 15%. When we are talking about a company of this size, these numbers are staggering. As a result of this partnership, the Company has been able to operate on a more efficient basis, while at the same time managing to conserve natural resources. This combination of significant cost savings and greener operations is a great example of the type of win-win outcomes we are looking for within the environmental solutions space.

For us, this is why we invest thematically. By building portfolios of carefully selected businesses that are backed by the big structural changes in our world, we can help clients to meet their investment goals while being on the right side of change.

References

1. Ecolab Corporate Sustainability Report



Disclaimer

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