The Lønmodtagernes Dyrtidsfond Leaders Fund, managed by Impax, has a positive intention built into the investment process, and investors can now see this demonstrated with the addition of environmental impact reporting.

While the primary objective of the Fund remains the delivery of superior, risk-adjusted returns, these non-financial metrics are proving to be a useful tool for investors who wish to align their financial decisions with their values and environmental objectives.

Investing in environmental solutions providers

To be eligible for investment in the Fund, investee companies must have more than 20% of their underlying revenue generated by sales of environmental products or services. However, the weighted average environmental revenue exposure of the portfolio is currently much higher, at around 60%.

In 2016, a €10 million investment in the fund produced:

- 470 net tCO_2 avoided
- 1,600 megalitres of water provided/saved or treated
- 1,890 MWh of renewable electricity
- 1,860 tonnes of materials recovered/waste treated

A more sophisticated approach

Impax has developed a method of measuring net CO_2 emissions and other environmental metrics. Impax believes this to be a more sophisticated approach than "carbon footprinting", which many investors will be familiar with. While the increased focus on carbon risks in portfolios is a positive, carbon footprinting often relies on inconsistent, overly simplistic and backward-looking data. Importantly, it also does not take into account the CO_2 emissions avoided by the deployment of companies' products and services over their lifetimes. Companies which provide solutions to environmental challenges usually result in net CO_2 emissions.

Measuring net carbon emissions

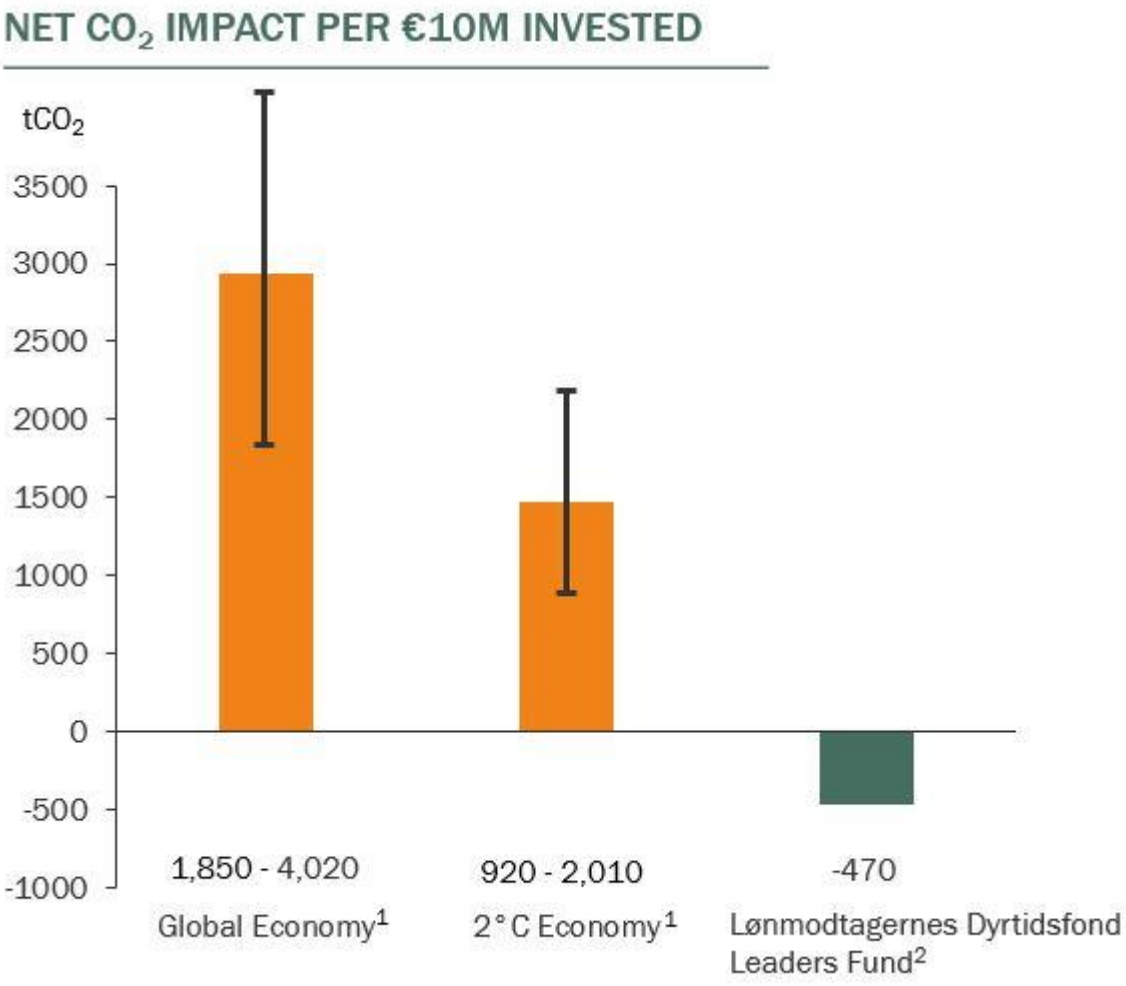
As an example of this more sophisticated approach, let's consider a manufacturer of high-efficiency insulation boards. The production and installation of these insulation boards saves energy and carbon emissions are avoided. Impax measures and nets-off the company's direct and indirect carbon emissions during one year with the carbon avoidance achieved through the energy savings in the same one year period. The company provides an attractive net carbon emission solution over time, but the CO_2 emitted during its manufacturing process could exclude it from "Low Carbon Indexes", which typically do not take carbon avoidance into account.

Contributing to the lower carbon economy

The global economy is currently producing an unsustainable level of CO_2 emissions. However, 194 countries have ratified the Paris Climate Agreement with the objective to limit the global temperature rise to well within 2^oC above pre-industrial levels.

A "2°C economy" would still emit CO_2, but at a significantly lower level than we produce today. A huge change in our energy use, and substantial investment in new environmental technologies are required if we are to meet these goals. But this shift is already well underway, driven by the rising adoption of energy efficiency, renewable energy and waste management, as well as changes in land use and farming practices around the world.

The Fund has a significant exposure to these low carbon "transition technologies". Comparing the portfolios' net CO_2 avoidance with the CO_2 emitted by the current economy is helpful in order to understand the significance of this positive impact.



1. Source: United Nations Framework Convention on Climate Change (UNFCCC), 2016. Aggregate effect of the intended nationally determined contributions: an update – synthesis report by the secretariat, McKinsey Global Institute, Haver, BIS, Deutsche Bank estimates, 2014, and IMF, National Central Banks and Statistical Offices, Thomson Reuters, 2014. Black bars reflect the range of estimates of value invested. [2] Impax Asset Management, 2017. For further explanation of Impax's impact methodology (which is based on equity value) please see http://www.impaxam.com/about-us/impact-investing

Saving water

Globally, clean water supply and demand imbalances persist. An ever-increasing gap between supply and demand, exacerbated by climate disruptions and extreme weather events, will require massive capital investments – from both private sector and governments – in water treatment technologies and distribution infrastructure.

These investment opportunities go beyond utilities and cover a diverse range of businesses including: water infrastructure providers, water treatment, pump and pipe manufacturers, GPS and filtration systems, water re-use and desalination technology, leak detection and flow measurement software, and water conservation and irrigation technologies. This broad spectrum of water consumers and end-markets, plus the Fund's geographical outlook, ensures ample diversification for investors.

One holding in the Fund is a company that designs, manufactures and sells smart meters, which are critical for the effective measuring and pricing of water. Water meters also help detect leaks. Measuring leakage rates and improving the reporting improves the efficiency of water infrastructure. It is estimated that installing water meters in properties, reduces the water use on average by 20%. In 2016, this company saved almost 400,000 megaliters of water through the manufacturing and installation of their water meters in properties.

Conclusion

The Lønmodtagernes Dyrtidsfond Leaders Fund's focus on high growth companies makes it a compelling opportunity for investors seeking strong, long-term financial returns, while its pure focus on environmental solutions providers allows for investment in the transition to a more sustainable economy. The additional impact metrics are reassuring and confirm and quantify the Fund's positive intention.