

# Data in Infra

## Or: Does the wind blow in the right place?

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### ESG Integration

#### Strategy

Global Infrastructure

#### Theme

Data research



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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, fund managers in the Global Infrastructure strategy find themselves asking questions like ‘is the wind blowing in the right place at the right speed?’

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

Portfolio 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 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. The 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, portfolio managers 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. CO<sub>2</sub>-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, Van Lanschot Kempen has designed a framework in which different datasets on the decarbonisation (reducing CO<sub>2</sub> emissions) of companies, both planned or already achieved, are included.

## 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.

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



Jags Walia  
Head of Global Infrastructure

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.

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, the 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 company's 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.<sup>1</sup>

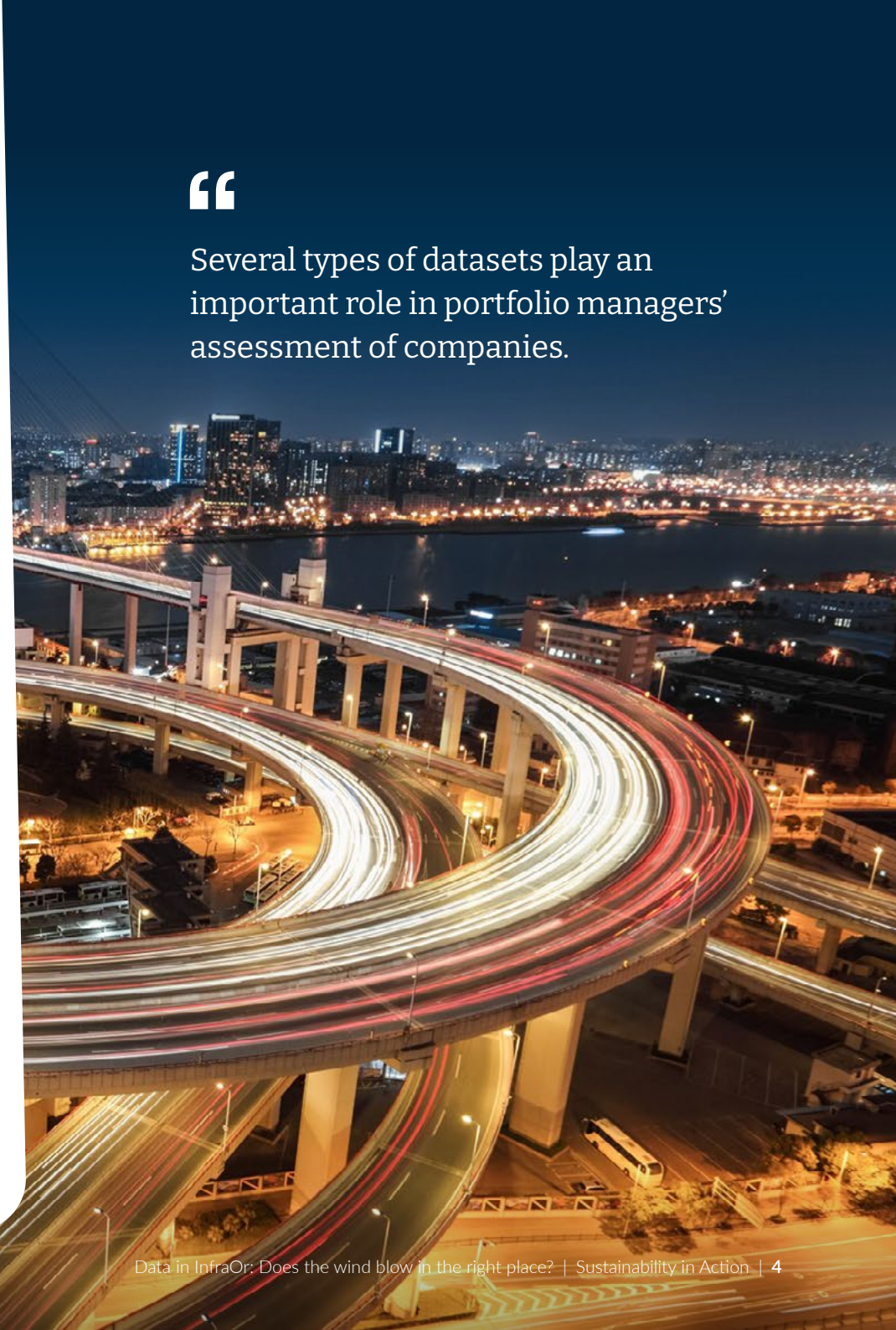
## The result

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 companies' earnings potential and valuation. Integrating ESG data and factors into the investment process therefore directly impacts the search for the long-term 'winners' in an investment portfolio.

<sup>1</sup> More information on CO<sub>2</sub>-pricing in this [whitepaper](#)

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