

ESG Investing in a Better World

Manager Call with Canterbury Consulting and Generation Investment Management

On March 29, 2018, Renee Beaumont of Generation Investment Management discussed the growing importance and prevalence of responsible and sustainable investing. Topics discussed included the different approaches to sustainable investing, current sustainability trends, how investors are incorporating the philosophy into their portfolios, and dispelling concerns that incorporating “ESG” practices does not necessarily come at the expense of performance.

TRENDS AND DRIVING FORCES BEHIND SUSTAINABLE INVESTING

- Innovation in products and services, and demographic trends are the key driving forces behind the demand for sustainable and “ESG” investing today. This is distinctly different from the long established approach of screening out companies that do not lineup with investors’ beliefs or philosophies. The three main sustainability trends are:
 - Companies’ use of technology to produce more with less;
 - Business model innovation that has enabled efficient and sustainable ways to use current products and services; and
 - Companies creating entirely new sustainable products and services for end-markets
- Recent advancements include
 - Efficiency gains in transportation and mobility
 - Efficiency in energy consumption including more energy efficient buildings (some buildings now produce energy versus consume it)
 - Healthier consumer products, particularly in the food space
 - Better integrated healthcare solutions
- Companies that do not move with the new trends will face a more uncertain economic future (coal mining companies is one easy example) and conversely, companies that do move with the trend will likely have more positive economic futures
- However, like with any large scale change, particularly when it happens quickly, there will be challenges. This will be felt the most in low skill, high volume sectors or verticals. One example is if trucking becomes fully or partially autonomous. The challenge here will be to retrain a large mature workforce that has all of a sudden found their skills to be obsolete

COMPANIES’ USE OF TECHNOLOGY TO PRODUCE MORE WITH LESS

- On a global basis, electric and hybrid electric cars went from being only several thousand in 2011 to over 2 million in 2017. This has been catalyzed by both government incentives and efficiency gains in the production and capacity of lithium ion batteries
- Solar capacity, like electric and hybrid car adoption, has ramped up geometrically and grown at a compounded rate of 50% a year over the last 8 years. The affordability of solar has come from both a reduction in unit costs and government incentives
- Alternative sources of protein are emerging as a replacement for animal based proteins. These protein products require fewer and less inputs than their animal based counterparts and as a result have less of an impact on the environment. Efficient sources of protein are necessary given the growing demand in the emerging markets, particularly in emerging Asia
- Emerging countries in many instances are able to leapfrog developed countries like the US. For example, they can skip traditional protein sources or be quicker to adopt more environmentally friendly initiatives such as electric cars, renewable energy sources, and the sharing economy

BUSINESS MODEL INNOVATION THAT HAS ENABLED MORE EFFICIENT AND SUSTAINABLE WAYS TO USE CURRENT PRODUCTS AND SERVICES

- Bike usage (one of the older forms of mobility) has gone up dramatically over the last six years in the US (one million trips in 2010 versus almost 30 million in 2016) and has been enabled by Uber-like sharing models
- Car and ride sharing companies such as Uber and Lyft have enabled greater utilization of cars, which historically have sat idle for 80 to 90 percent of the time. Perhaps the most obvious impact can be seen in the decline of 12th graders who have a driver's license or drove at all in the past year. Both statistics are down from 85%+ in the early 1980's to the low 70% in 2015/2016
- Car companies such as BMW have begun to offer car sharing services akin to a NetJets model where you pay for the use of the car by the hour or day
- In real estate, Airbnb and WeWork have increased the utilization of real estate assets by enabling owners to quickly and efficiently rent empty spaces
- The food space has seen a dramatic increase in business model changes, the most notable being the almost triple increase in the number of organic operations from 2002 to 2016. This has been at the behest of the consumer and enabled by certification schemes through the USDA

COMPANIES CREATING ENTIRELY NEW SUSTAINABLE PRODUCTS AND SERVICES FOR END-MARKETS

- The agriculture sector has been a rapid adopter of new technology and services to enhance yield and efficiency in crop farming. This includes the use of satellite imagery, soil sampling, and yield monitoring systems. This is particularly important given the continued growth of the global population
- As consumers realize the health side effects of too much sugar, there has been a move toward low sugar and/or no sugar drinks over the last 10 to 15 years. There has been a significant change in the products offered by conglomerates such as Nestle. That said, the overall population still consumes too much sugar
- While there has been progress in developing more efficient and better healthcare outcomes, there is still a big disparity in health between those at the top of the socioeconomic ladder and those at the bottom
- Emerging regions of the world such as Africa and parts of Asia have benefitted from the increase in availability of affordable renewable energy sources such as solar panel systems. This has helped reduce the use of inefficient and often times dangerous sources of energy such as kerosene fueled generators and lights. Additionally, increased availability of light sources has been shown to increase school participation rate in emerging countries

Renee Beaumont *Partner, Generation Investment Management*

Ms. Renée Beaumont is a Partner at Generation Investment Management, a firm that focuses on sustainable capitalism. Prior to joining Generation in 2015, Ms. Beaumont served as a Managing Director and Global Head of Business Development at Providence Equity Partners LLC where she oversaw all business development, marketing and investor relations activities globally across its private equity and credit platforms. Ms. Beaumont joined Providence after almost a decade at Goldman, Sachs & Co., where she was a Managing Director in its Merchant Banking Division. While in the Merchant Bank she lead the

division's institutional business development efforts and prior to that, Ms. Beaumont headed the Power & Energy Investing for the Infrastructure Fund at Goldman Sachs. Prior to Goldman Sachs, she was an attorney at Shearman & Sterling LLP in New York, NY. Ms. Beaumont clerked for the British Columbia Court of Appeals prior to joining Shearman & Sterling. She sits on the Board of Trustees of the Public Theater and sits on the advisory boards of Sakara Life, NYU Stern's Business and Human Rights program and Dash Radio..

[About Canterbury](#)

Canterbury Consulting is a leading investment advisory firm, overseeing more than \$18.6 billion for foundations, endowments, individuals, and families. Founded in 1988, the Company designs and manages custom investment programs aligned with each client's goals. Canterbury acts as the investment office for its diverse clients and provides objective investment advice, asset allocation, manager selection, risk management, implementation, and performance measurement. Canterbury Consulting strives to deliver performance and service that exceeds the needs and expectations of its clients. Learn more about Canterbury at www.canterburyconsulting.com.