Responsible capitalism in the US:

Technology's role in a sustainable future (part two)

Rathbones
Look forward

Rathbone Global Sustainability Fund manager **David Harrison** explains how technology companies have become some of the biggest drivers towards a more sustainable world.

David joined Rathbones in June 2014 as a global equity analyst from private bank, Julius Baer. He is the lead fund manager and investment analyst of the Rathbone Global Sustainability Fund, supported by Liz Davis and Neil Smith.

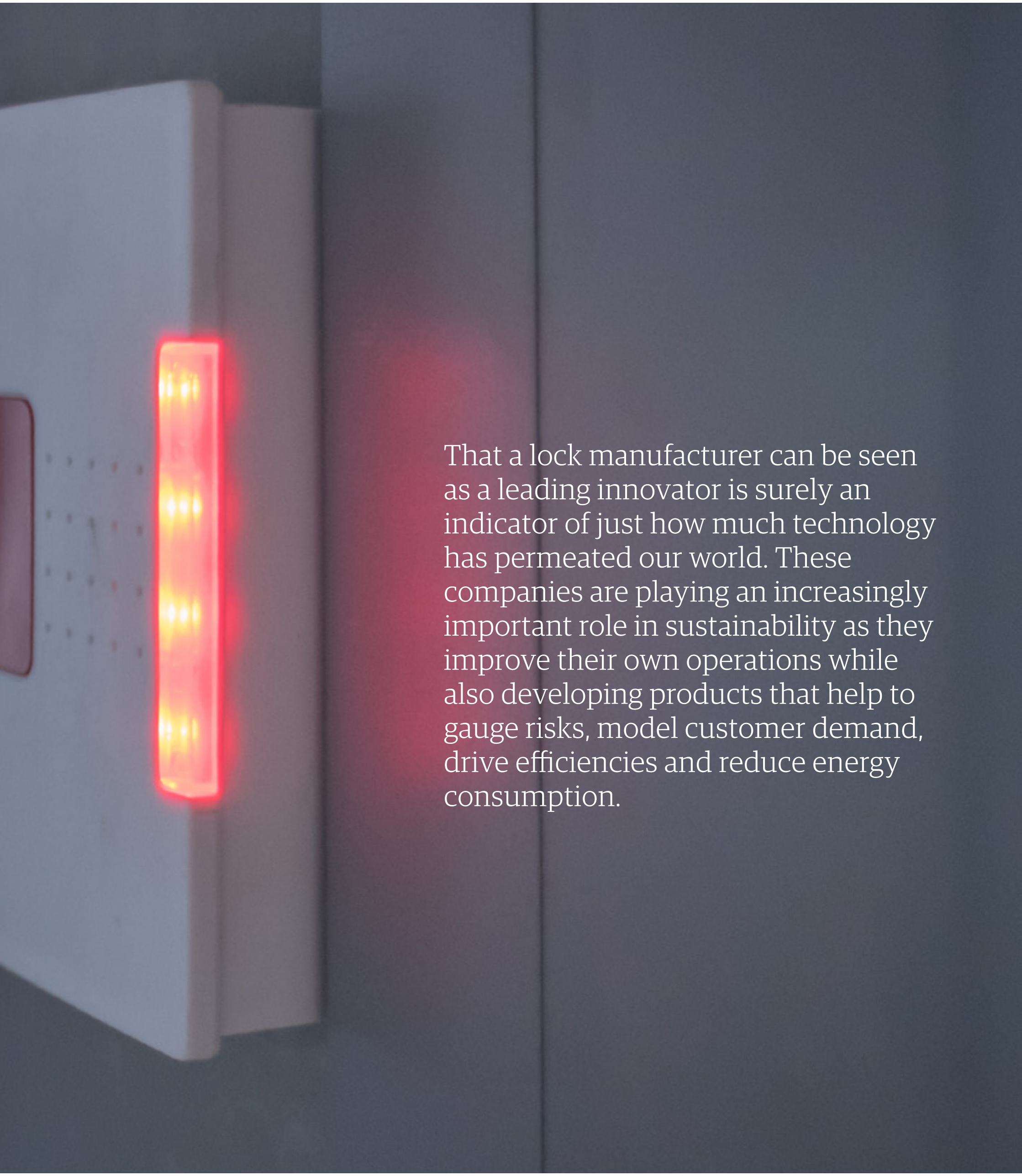
David has a wealth of fund management experience, and is currently one of the managers of our Rathbone Heritage Fund and Rathbone Income Fund. He also supports David Coombs' Rathbone Multi-Asset Portfolios (RMAPs), with direct equity selection. David has more than 14 years' experience in equity analysis and fund management, including positions at Hermes and Goldman Sachs.

David holds the Investment Management Certificate and a BSc (Hons) in Economics and Politics from the University of Southampton. He is a CFA charter-holder.

A door lock manufacturer is probably not the first company that comes to mind when seeking sustainable investments. After all, how much can a company that makes locks and access control systems contribute to sustainability?

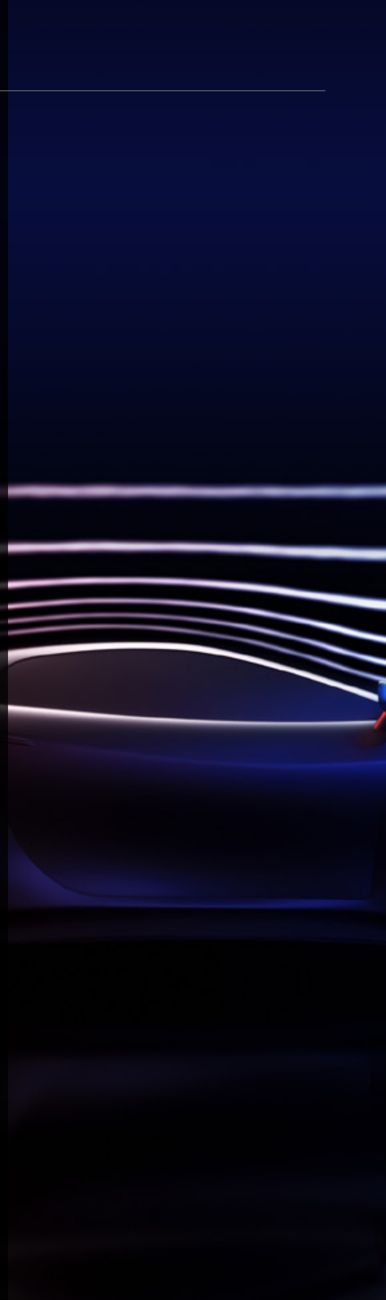
The answer is a lot. In increasingly connected homes and office buildings, doors can be opened wirelessly by a mobile phone. They can also be made to be more efficient, which reduces the amount of energy used to heat and cool buildings. Case in point: according to lock manufacturer Assa Abloy, the performance of doors and windows can influence up to 20% of a building's energy usage.[1]

1 Assa Abloy Sustainability Report 2018



That a lock manufacturer can be seen as a leading innovator is surely an indicator of just how much technology has permeated our world. These companies are playing an increasingly important role in sustainability as they improve their own operations while also developing products that help to gauge risks, model customer demand, drive efficiencies and reduce energy consumption.

When we think about technology as sustainability investments, we are casting a much wider net these days than we might have done in the past. As society pays closer attention to how our activities impact the environment, we are finding that sustainable technology now cuts across all sectors.

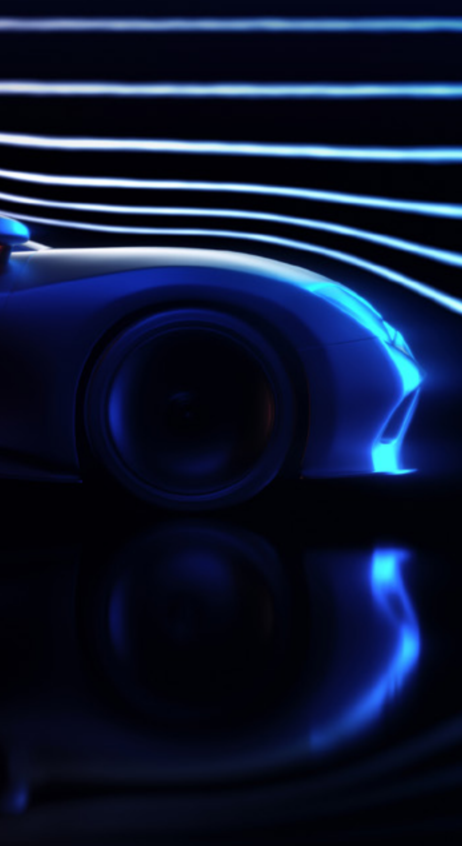


Rethinking sustainability

Another example of how sustainable technology can be put into practice comes from American software provider Ansys. The company develops simulation software that not only reduces consumption in the automotive and aerospace industries, but also helps consumer cosmetics manufacturers bring products to market more quickly by reducing the amount of time needed for physical testing.[2]

2 Ansys white paper

We not only view companies in terms of what they are producing, but also how they do it and how they treat their employees and engage with the world around them.



Industrial companies that operate in fairly mundane sectors are frequently investing more in the digital side of their market and solving a series of sustainable needs for their customers. For some companies in our portfolio, we have seen their earnings become steadier and less cyclical, and as a result they are benefiting from a re-rating by stock markets.

Of course, creating a product that purports to improve sustainability is not the only hurdle a company needs to clear to be included in the portfolio. We not only view companies in terms of what they are producing, but also how they do it and how they treat their employees and engage with the world around them. We are firm believers that businesses should do the right thing, and try to select companies that are making a positive impact in the world.

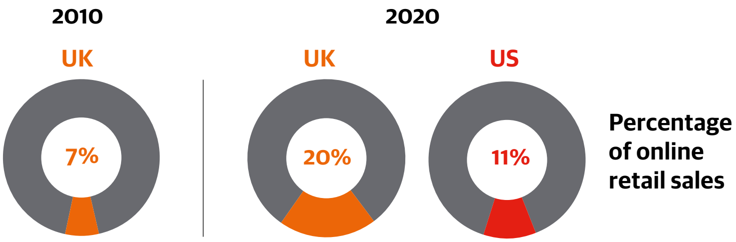
Reaching critical mass

It's because of the permeation of technology across society that I have such a high conviction in this area. While the tech companies of the late 1990s soared in value based only on hype and produced little in the way of tangible products, what we are seeing today is something completely different.

When we first launched the Rathbone Global Sustainability Fund, I had a healthy scepticism around the technology industry. It's easy to be wary given that many technology firms have higher valuations and are expensive to buy in the short term. However, my strong belief is that we have entered a multi-year structural change in the global economy, with the technology theme leading the way.

20% of all retail sales are online and that number rises with each passing year.

This is why around over 20% of the Rathbone Global Sustainability Fund's portfolio is currently tilted towards companies that offer a technology and innovation theme. Companies are under increased pressure to innovate and adapt, and there will be a clear divergence among those that are innovating, surviving and thriving, and those that are not.



One area where we are seeing this taking place is in online retailing. A decade ago, just 7% of retail sales in the UK were online. Fast forward to the present day and 20% of all retail sales are online and that number rises with each passing year.[3] The ratio is smaller in the US, around 11%, but the growth is rapid – to the tune of about 15% year-on-year.[4]

3 Retail Sales – Office for National Statistics

4 Retail growth – US Department of Commerce

The problem is that investors may be underestimating where things are moving over the long term. Many dominant technology companies with strong growth prospects are making a positive contribution towards environmental, social and governance factors yet are underappreciated by the market.

There are risks, of course. Tech firms that have multiple lines of business, such as the larger consumer software companies, can be more problematic because they try to do lots of things for lots of people. There is also the risk of not keeping pace with the rate of change or that their products will fall out of favour.

Hidden in plain sight

It would be hard to overestimate the contribution that technology is making towards the global economy generally and sustainability specifically. The pace of change is accelerating and we are seeing technology touching more of our daily lives than many of us ever thought it could. People talk about it frequently, but I firmly believe its impact is not fully understood.

When you look at the world around us, it becomes clear: work habits are changing, companies making consumer goods are seeking to become more efficient, and the industrial sector is making inroads into cutting emissions and energy consumption.

Technological advances are cascading into every market and sector and this is creating attractive opportunities for us as investors. These companies will have sensible management teams, a clear focus on sustainability in their operations and the products they provide, and a business model that offers solid revenue and durability of returns over the long term.

Get in touch

For more information, contact the team on 020 7399 0399, rutm@rathbones.com or visit rathbonefunds.com

1 https://www.assaabloy.com/Global/Sustainability/Sustainability-Report/2018/Sustainability%20Report%202018.pdf

2 https://www.ansys.com/resource-library/white-paper/designing-the-optimal-product-using-simulation-tools-to-innovate-and-reduce-time-to-market?p=Consumer%20Goods%3A%20Product%20Development%20Simulation%20%7C%20ANSYS%2CConsumer%20Goods%3A%20Product%20Development%20Simulation%20%7C%20ANSYS

3 https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi

4 https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

T3-IFA-USA1-03-20

Rathbones
Look forward

rathbonefunds.com
rathbones.com
@Rathbones1742
Rathbones professional advisers
Rathbone Brothers Plc